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

FINANCIAL STATEMENTS – 31 DECEMBER 2015

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

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

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BOARD OF DIRECTORS

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

Mukhtar Malik Hussain
Non-Independent Executive Director/ Chief Executive Officer

Lee Choo Hock
Independent Non-Executive Director

Tan Kar Leng @ Chen Kar Leng
Independent Non-Executive Director

Tan Sri Dato' Tan Boon Seng @ Krishnan
Independent Non-Executive Director

Ching Yew Chye @ Chng Yew Chye *(resigned on 30 October 2015)*
Independent Non-Executive Director

Datuk Shireen Ann Zaharah Muhiudeen *(resigned on 2 February 2016)*
Independent Non-Executive Director

Choo Yoo Kwan @ Choo Yee Kwan *(appointed on 11 February 2016)*
Independent Non-Executive Director

PROFILE OF DIRECTORS

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

Mr Wong was appointed Chairman and Non-Independent Non-Executive Director on 5 February 2010.

He holds a Bachelor's degree in Computer Science, MBA in Marketing and Finance and MSc in Computer Science from Indiana University in the United States. He joined HSBC in 2005, and was Group General Manager and Executive Director, Hong Kong and Mainland China, before assuming the position of Chief Executive for Asia-Pacific in February 2010. He became Deputy Chairman of The Hongkong and Shanghai Banking Corporation in May 2013.

Mr Wong is currently the Deputy Chairman and 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. He is also Non-Executive Director of Hang Seng Bank Limited, Bank of Communications Co., Limited and an Independent Non-Executive Director of Cathay Pacific Airways Limited.

Mukhtar Malik Hussain
Non-Independent Executive Director/ Chief Executive Officer

Mr Mukhtar is the Chief Executive Officer of HSBC Bank Malaysia Berhad since December 2009. He is a member of the Nominating Committee of the Bank.

Mr Mukhtar graduated from University of Wales with a Bachelor of Science in Economics. He first joined HSBC Group in 1982 as a Graduate Trainee in Midland Bank International. After close to 11 years of working in the HSBC Group London offices, Mr Mukhtar left for Dubai. In Dubai he held numerous senior positions including Chief Executive Officer HSBC Financial Services (Middle East) Limited, and Chief Executive Officer Corporate and Investment where he assumed responsibility for the wholesale banking platform for HSBC Middle East and North Africa. He thereafter returned to London as Co-Head of Global Banking and Global Head of Principal Investments. In 2008, he moved back to Dubai and assumed the positions of Chief Executive Officer Global Banking and Markets, Middle East and North Africa, Deputy Chairman, HSBC Bank Middle East Limited and Global Chief Executive Officer of HSBC Amanah, a dual role with global responsibilities for Islamic Finance and HSBC's wholesale banking activities in the Middle East and North Africa before coming to Malaysia in 2009.

Mr Mukhtar is also a Non-Executive Director of HSBC Amanah Malaysia Berhad (HBMS). He is currently a HSBC Group General Manager and member of the Executive Committee of HSBC Asia Pacific.

Lee Choo Hock
Independent Non-Executive Director

Mr Lee was appointed on 5 December 2013. He is the Chairman of Audit Committee and a member of the Nominating Committee and Connected Party Transactions 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.

Tan Kar Leng @ Chen Kar Leng
Independent Non-Executive Director

Ms Chen was appointed on 2 April 2014. She serves as a member of the Risk Committee, Nominating Committee and Connected Party Transactions Committee of the Bank.

As a graduate from the University of Singapore (now the National University), she was called to the Malaysian Bar in January 1968 and Brunei Bar in May 1996. She has been appointed a partner of Skrine, Kuala Lumpur since January 1974 and Head of its Corporate Division on 31 December 2009. After her retirement, she has been retained as a consultant of the firm.

In addition to her current role, Ms Chen also sits on the Board of Eastern & Oriental Berhad. She is also a member of the Advocates & Solicitors Disciplinary Board appointed by the Chief Justice of Malaya.

Tan Sri Dato' Tan Boon Seng @ Krishnan
Independent Non-Executive Director

Tan Sri Dato' Krishnan Tan was appointed on 2 April 2014. He is the Chairman of both Nominating Committee and Risk Committee, a member of the Audit Committee and Connected Party Transactions Committee of the Bank.

He qualified as a Certified Public Accountant in 1978 after graduating with a Bachelor of Economics (Honours) degree from University of Malaya in 1975, and holds a Master's degree in Business Administration from Golden Gate University, San Francisco, USA.

Tan Sri Dato' Krishnan Tan is currently the Deputy Non-Executive Chairman of IJM Corporation Berhad and serves as a Director of IJM Plantations Berhad, and Grupo Concesionario del Oeste S.A., Argentina. He joined IJM as a Financial Controller in 1983 and was appointed Group Managing Director in 1997 and served in this position until 2010. He held the position of Executive Deputy Chairman from 2011 to 2013.

In addition to his current role, Tan Sri Dato' Krishnan sits on the Board of Malaysia Airlines Berhad, Malaysia Property Incorporated and Malaysian Community & Education Foundation and a member of the Olympic Council Trust Management Committee.

Datuk Shireen Ann Zaharah Muhiudeen
Independent Non-Executive Director

Datuk Shireen was appointed on 5 December 2013. She serves as a member of the Risk 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 March 2014, she was honoured by Forbes Asia as one of the 50 Asia's Power Businesswomen 2014.

In addition to her current role, Datuk Shireen is a member of the International Advisory Panel for Labuan International Business and Financial Centre.

PROFILE OF DIRECTORS (Cont'd)

Choo Yoo Kwan @ Choo Yee Kwan
Independent Non-Executive Director

Mr Choo was appointed on 11 February 2016. He serves as a member of the Audit Committee, Risk Committee and Nominating Committee of the Bank.

Mr Choo has honours degrees in economics and law from University of Malaya and University of London respectively, and is a Barrister-at-Law (of Lincoln's Inn) following his call to the Bar of England and Wales in 1984.

Mr Choo retired in July 2014 after having served the banking and risk management industry for 38 years. His last post was as Country Chief Risk Officer for OCBC Bank (Malaysia) Berhad, having first joined the OCBC Group in December 2007.

Prior to joining OCBC, he was the Chief Risk Officer for Maybank Group and Group Chief Risk Officer for Alliance Bank Malaysia Berhad. During his 14-year career at Maybank Group, he had served as Division Head for Credit Control; International Banking; Corporate Remedial Management; and Group Risk Management. He also served on the Corporate Debt Restructuring Committee (CDRC) set up under Bank Negara Malaysia. Before starting his career with Maybank, he had worked for the National Westminster Bank PLC of the United Kingdom in the areas of Global Specialised Industries; and Group Credit Control.

Mr Choo had served on the Education Committee of Asian Institute of Chartered Bankers (previously known as Institut Bank-Bank Malaysia) for 14 years (2000-2014). He was appointed as a member of the University Malaya Medical Centre (UMMC) Ethics Committee for two years (2014-2015). He is currently a Teaching Fellow in the Asian Banking School.

BOARD RESPONSIBILITY AND OVERSIGHT

BOARD OF DIRECTORS

Composition of the Board

At the date of this report, the Board consists of six (6) members; comprising one (1) Non-Independent Executive Director, one (1) Non-Independent Non-Executive Director and four (4) Independent Non-Executive Directors.

The concept of independence adopted by the Board is as defined in paragraph 2.26 of Bank Negara Malaysia (BNM)'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 of HSBC Bank Malaysia Berhad (the Bank) 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.

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 2015 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	Chief Executive Officer Non-Independent Executive Director	6/7
Lee Choo Hock	Independent Non-Executive Director	7/7
Tan Kar Leng @ Chen Kar Leng	Independent Non-Executive Director	7/7
Tan Sri Dato' Tan Boon Seng @ Krishnan	Independent Non-Executive Director	7/7
Ching Yew Chye @ Chng Yew Chye *(resigned on 30 October 2015)*	Independent Non-Executive Director	6/6
Datuk Shireen Ann Zaharah Muhiudeen *(resigned on 2 February 2016)*	Independent Non-Executive Director	5/7
Choo Yoo Kwan @ Choo Yee Kwan *(appointed on 11 February 2016)*	Independent Non-Executive Director	-

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 Committee
- Nominating Committee
- Connected Party Transactions Committee
- Executive Committee

Pursuant to the BNM guidelines on Corporate Governance for Licensed Institution, the Risk Committee and Nominating Committee were established in 2006 in addition to the existing Audit Committee which was established since 1994. The guideline 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 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:

- Lee Choo Hock (Chairman)
- Tan Sri Dato' Tan Boon Seng @ Krishnan
- Choo Yoo Kwan @ Choo Yee Kwan *(appointed on 11 February 2016)*

Frequency of the Meetings

A total of four (4) Audit Committee meetings were held during the financial year. The attendance of members at the Audit Committee meetings held in the financial year 2015 was as follows:

Name of members	Designation	Attendance / No. of meetings
Lee Choo Hock	Audit Committee Chairman	4/4
Tan Sri Dato' Tan Boon Seng @ Krishnan	Audit Committee Member	3/4
Ching Yew Chye @ Chng Yew Chye *(resigned on 30 October 2015)*	Audit Committee Member	4/4
Choo Yoo Kwan @ Choo Yee Kwan *(appointed on 11 February 2016)*	Audit Committee Member	-

Terms of Reference

The revised Terms of Reference as set out below were tabled at the Audit Committee and Board of Directors meetings held on 28 October 2015 and 29 October 2015 respectively with no major amendments.

Membership

1. The Committee shall comprise not less than three (3) members. All members shall be Independent Non-Executive Directors.

2. 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 The Hongkong and Shanghai Banking Corporation Limited (HBAP) Audit Committee.

3. 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.

4. The Chairman of the Committee shall be an independent director.

5. 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.

Meetings and Quorum

6. 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.

7. The quorum for meetings shall be two (2) Non-Executive Directors.

8. 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 person among themselves as chairman of the meeting.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Objective

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

Responsibilities of the Committee

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

10.1 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:
   (a) members of the Committee shall liaise with the Board, members of Senior Management, the external auditor and Head of Internal Audit;
   (b) the Committee shall consider any significant or unusual items that are, or may need to be, highlighted in the annual report and accounts and shall give due consideration to any matters raised by the Chief Financial Officer, Chief Risk Officer, Head of Internal Audit, Head of Regulatory Compliance or external auditor; and
   (c) 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.

10.2 To review the Bank's financial and accounting policies and practices.

10.3 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.

10.4 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.

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

10.6 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.

10.7 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.

10.8 To implement the HSBC Group policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and where required under that policy to approve in advance any non-audit services provided by the external auditor that are not prohibited by the Sarbanes-Oxley Act 2002 (in amounts to be pre-determined by the Group Audit Committee) and the fees for any such services; to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.

For this purpose "external auditor" shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally.

10.9 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 Committee as appropriate.

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

10.11 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).

10.12 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.

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

10.13 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.

10.14 To receive an annual report, and other reports from time to time as may be required by applicable laws and regulations, from the Chief Executive Officer and Chief Financial Officer to the effect that such persons have disclosed to the Committee and to the external auditor all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which could adversely affect the 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.

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

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

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

10.18 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 immediate holding company.

10.19 To agree with the Bank's policy for the employment of former employees of the external auditor, within the terms of the HSBC Group's policy.

10.20 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.

10.21 Where applicable to review the composition, powers, duties and responsibilities of subsidiaries' non-executive audit committee. The HSBC Group Audit Committee will review the core terms of reference for adoption by such committee and approve material deviations from such core terms.

10.22 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.

10.23 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.

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

10.25 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)

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

10.27 To review any related party transactions that may arise within the Bank and pursuant to the applicable laws and regulations.

10.28 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.

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

    Where there is a perceived overlap of responsibilities between this Committee and the 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 this Committee or the Risk Committee will be deemed by the Board to have been fulfilled providing it is dealt with by either the Committee.

12. 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

13. 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 COMMITTEE

Composition

The present members of the Risk Committee comprise:

- Tan Sri Dato' Tan Boon Seng @ Krishnan (Chairman*)*
- Tan Kar Leng @ Chen Kar Leng
- Datuk Shireen Ann Zaharah Muhiudeen *(resigned on 2 February 2016)*
- Choo Yoo Kwan @ Choo Yee Kwan *(appointed on 11 February 2016)*

Frequency of the Meetings

A total of four (4) Risk Committee meetings were held during the financial year 2015. The attendance of members at the Risk Committee meetings held in the financial year 2015 was as follows:

Name of members	Designation	Attendance / No. of meetings
Tan Sri Dato' Tan Boon Seng @ Krishnan	Risk Committee Chairman	4/4
Tan Kar Leng @ Chen Kar Leng	Risk Committee Member	4/4
Ching Yew Chye @ Chng Yew Chye *(resigned on 30 October 2015)*	Risk Committee Chairman	4/4
Datuk Shireen Ann Zaharah Muhiudeen *(resigned on 2 February 2016)*	Risk Committee Member	3/4
Choo Yoo Kwan @ Choo Yee Kwan *(appointed on 11 February 2016)*	Risk Committee Member	-

Terms of Reference

The revised Terms of Reference as set out below were tabled at the Risk Committee and Board of Directors meetings held on 28 October 2015 and 29 October 2015 respectively with no major amendments.

Membership

1. The Committee shall comprise not less than three (3) members. All members shall be independent Non-Executive Directors.

2. The Chairman of the Committee shall be appointed by the Board. Members of the Committee and the Chairman shall be subject to endorsement by HBAP Risk Committee.

3. 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.

4. 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.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Meetings and Quorum

5. 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.

6. The quorum for meetings shall be two (2) Non-Executive Directors.

7. At all meetings of the Committee, the Chairman of the Committee, if present, shall preside. If the Chairman is absent, the members present at the meeting shall elect a chairman of the meeting, who shall be an independent Non-Executive Director.

Objective

8. 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.

Responsibilities of the Committee

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

9.1 To oversee and advise the Board on all high-level risk related matters. In providing such oversight and preparing 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.

9.2 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 conforms to the Bank's strategy; (ii) seek such assurance as it may deem appropriate and take into account 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 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.

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

9.4 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.

9.5 To require regular risk management reports from management which:

9.5.1 enable the Committee to assess the risks involved in the Bank's business and how they are controlled and monitored by management; and

9.5.2 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 COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

9.6 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:

9.6.1 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;
9.6.2 satisfy itself that there are adequate procedures in place for requiring compliance with HSBC Group policies;
9.6.3 consider any material findings from regulatory reviews and interactions with regulators in relation to risk governance or risk assessment or management process;
9.6.4 discuss the internal control systems with management and satisfy itself that management has discharged its duty to have an effective internal control system. The Audit Committee of the Bank shall have primary responsibility in this regard in relation to internal financial controls;
9.6.5 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 Bank and is free from constraint by management or other restrictions; and
9.6.6 seek assurance from internal audit that internal control processes for risk management are adequate for the strategy determined by the Board.

9.7 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:

9.7.1 participates in the risk management and oversight process at the highest level on an enterprise-wide basis;
9.7.2 has satisfied himself or herself that risk originators in the business units are aware of and aligned with the Bank's risk appetite;
9.7.3 has a status of total independence from individual business units;
9.7.4 reports to the Committee alongside an internal functional reporting line to the Asia Pacific Chief Risk Officer;
9.7.5 cannot be removed from office without the prior agreement of the Board; and
9.7.6 has direct access to the chairman of the Committee in the event of need.

9.8 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.

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

9.10 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.

9.11 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.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

9.12 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.

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

9.14 The Committee shall meet alone with the Head of Internal Audit at least once each year to ensure that there are no unresolved issues or concerns.

9.15 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.

9.16 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.

9.17 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.

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

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

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

    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.

11. 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

12. 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' Tan Boon Seng @ Krishnan (Chairman)
- Mukhtar Malik Hussain
- Lee Choo Hock
- Tan Kar Leng @ Chen Kar Leng
- Choo Yoo Kwan @ Choo Yee Kwan *(appointed on 11 February 2016)*

Frequency of the Meetings

A total of five (5) meetings were held during the financial year 2015. The attendance of members at the Nominating Committee meetings held in the financial year 2015 was as follows:

Name of members	Designation	Attendance / No. of meetings
Tan Sri Dato' Tan Boon Seng @ Krishnan	Nominating Committee Chairman	5/5
Mukhtar Malik Hussain	Nominating Committee Member	5/5
Lee Choo Hock	Nominating Committee Member	5/5
Tan Kar Leng @ Chen Kar Leng	Nominating Committee Member	4/5
Ching Yew Chye @ Chng Yew Chye *(resigned on 30 October 2015)*	Nominating Committee Member	5/5
Choo Yoo Kwan @ Choo Yee Kwan *(appointed on 11 February 2016)*	Nominating Committee Member	-

Terms of Reference

The Terms of Reference as set out below were tabled at the Nominating Committee meeting for review and approved at the Board of Directors meeting held on 29 October 2015 with no major amendments.

<u>Membership</u>

1. 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 (CEO) of the Bank.

2. The Chairman of the Committee shall be an independent Non-Executive Director appointed by the Board. In order to avoid conflict of interest, a member of the Committee shall abstain from participating in discussions and decisions on matters involving him/her.

3. 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.

4. 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.

5. The quorum for meetings shall be three (3) directors, one (1) of which must be an Executive Director.

6. 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.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Meetings and Quorum

Objective

7. The Committee shall be responsible for ensuring that there are formal and transparent procedures for appointment and/or reappointment of Directors, CEO, Company Secretary and key Senior Management. In addition, the Committee shall be responsible for the assessment of the effectiveness of individual directors, board as a whole, Company Secretary and the performance of CEO and the key Senior Management of the Bank.

Responsibilities of the Committee

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

8.1 To establish the minimum requirements for the Board that is, required mix of skills, experience, qualification and other core competencies required of a Director. The Committee is also responsible for establishing minimum requirements for the CEO. The requirements and criteria should be approved by the full Board;

8.2 To assess and recommend the nominees for Directorship, Board Committees, as well as nominees for the CEO before an application is submitted to Bank Negara Malaysia for approval;

8.3 Before recommending, a nominee for Directorship, the Committee shall 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:

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

8.4 To oversee the overall composition of the Board, in terms of appropriate size and skills, and the balance between Executive Directors, Non-Executive Directors and Independent Directors through annual review. This includes giving 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;

8.5 To review annually the time required from Non-Executive Directors. Performance evaluation should be used to assess whether he/she are spending enough time to fulfil their duties;

8.6 To ensure that on appointment to the Board, the 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;

8.7 To recommend to the Board the re-election by shareholders of Directors retiring by rotation and the renewal of the terms of office of Directors;

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

8.8 To establish a mechanism for the formal assessment on 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 committee, the performance of the CEO, Company Secretary and key Senior Management of the Bank. Annual assessment should be conducted based on objective performance criteria and such performance criteria should be approved by the full Board;

8.9 To oversee the appointment, management succession planning and performance evaluation of key Senior Management. The Committee shall 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;

8.10 To review the list of key Senior Management and be satisfied that the list is comprehensive and has taken into account all key positions within the Bank;

8.11 In respect of expatriates employed in Senior Management, the Committee shall 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 and periodic assessments are deliberated on the performance and contribution of the expatriates to the overall development of the Bank;

8.12 To be responsible for conducting assessments of the fitness and propriety of Directors and CEO. For other key Senior Management, this function may be performed by the CEO or a designated committee under the delegated authority of the Board and the Committee;

8.13 To recommend to the Board the removal of any director, CEO or key Senior Management if he/she is ineffective, errant and negligent in discharging his/her responsibilities;

8.14 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 and the Company Secretary is not disqualified under Section 139C of the Companies Act, 1965;

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

9. 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:

9.1 Discuss, evaluate and provide input on strategies and policies to suit the local environment; and

9.2 Deliberate and make the necessary recommendations on such strategies and policies to assist the Board when approving major issues and strategies.

10. Where major decisions related to the objective of this Committee are made by the parent company, the Committee shall evaluate the issues before making recommendations to the Board for adoption.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

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

12. 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.

Written or Circulating Resolution

13. 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 members of the Committee.

Amendment

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

CONNECTED PARTY TRANSACTIONS COMMITTEE

Composition

The Committee shall consist of the following five (5) members:
- Tan Kar Leng @ Chen Kar Leng (Non-Executive Director) *(appointed on 31 October 2015)*
- Lee Choo Hock (Non-Executive Director)
- Tan Sri Dato' Tan Boon Seng @ Krishnan (Non-Executive Director)
- Ramnath Krishnan, Chief Risk Officer (CRO)
- Alvin Choo, Head of Wholesale Credit and Market Risk (Head of WCR)

Terms of Reference

The revised Terms of Reference as set out below were tabled at the Board of Directors meetings held on 29 October 2015 and to be effective from 31 October 2015.

Quorum

A minimum of three (3) members' authorisation shall constitute a quorum. The 3 members shall comprise of two Non-Executive Directors and either the CRO or Head of WCR.

Meetings and Chairman

The meetings of the Committee may be arranged in any form other than physical meetings, via teleconferencing, video-conferencing or emails.

The Chairman of the meeting shall be elected by the members who have 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 comprising of two Non-Executive Directors and either the CRO or the Head of WCR shall be as valid and effectual as if it had been passed at a meeting of the Committee duly called and constituted and may consist of several documents in the like form each signed by one or more of the members of the Committee.

Powers Delegated by the Board

The Committee is delegated with the authority of the Board to approve transactions with a connected party of the Bank as follows:

a) For any financing transactions to Connected Parties (CP) of up to RM100 million (increased from RM50 million), inclusive of existing financing facilities, shall be approved by the Connected Party Transactions Committee (CPTC) and subsequently to be presented to the Board on quarterly basis for notation. However, if the members of the CPTC are of the view that the transaction is of a material nature, the CPTC shall then recommend the transaction to the Board for approval, notwithstanding that the amount is below the RM100 million threshold; or

b) Transactional limit of RM16 million (c.USD5 million) for the approval of intra-group limits (for guarantee limits) and subsequently to be presented quarterly to the Board for notation. These are the most frequently requested limits for the purpose of issuance of guarantee against counter-guarantee from other HSBC offices. For clarity, the CPTC can approve transactions of up to RM16 million (c.USD5 million) notwithstanding that the cumulative exposures are above RM100 million; or

c) Revision on the tenor of the transaction up to 1 year with no change in exposure; or

CONNECTED PARTY TRANSACTIONS COMMITTEE (CONT'D)

Terms of Reference (Cont'd)

Powers Delegated by the Board (Cont'd)

d) Where there are no change in exposures, transactions of up to RM100 million where the limits are reallocated from (i) a funded facility (including guarantee) (Category A) to another Category A facility or (ii) Category A facility to a non-funded facility (excluding guarantee) (Category B); or

e) Transactions which are fully secured by cash or bank deposits.

The above authority limits may be reviewed or changed from time to time by the Board.

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

- HBMY Guidelines on Credit Transactions and Exposures with Connected Parties
- Business Instruction Manual – Volume 3 Credit
- Country Risk Plan
- Large Credit Exposure Policy
- Bank Negara Malaysia Guidelines on Single Counterparty Exposure 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 Bank and its subsidiaries (collectively know as "the Group"), key reports submitted to the Board during the financial 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 Results
- Credit Transactions and Exposures to Connected Parties
- Anti-Money Laundering and Counter Terrorist Financing Reports
- Capital Contingency Funding Plan
- 2015 People Plan

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, unauthorised activities or frauds. These risks are reported to and monitored by the respective Global Business/Functions Risk Review 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 Group Head Office Global functions.

The Bank's internal audit function assesses and monitors compliance with policies and standards and the operational effectiveness of internal control structures/frameworks across 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 the Head of Global Internal Audit, Asia Pacific and administratively to the Chief Executive Officer.

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

The 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 financial 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 as 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	May 2015	• Long term	AAA
		• Short term	P1
		• Subordinated liabilities	AA1
		• Outlook	Stable
Moody's Investors Service	January 2016	• Financial strength rating	C-
		• Foreign currency long term deposits	A3
		• Local currency long term deposits	A1
		• Foreign currency short term deposits	P-2
		• Local currency short term deposits	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	May 2015	• Long term	AAA
		• Short term	P1
		• Outlook	Stable
		• Multi-currency Sukuk Programme	AAA

DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of HSBC Bank Malaysia Berhad (the Bank) and its subsidiaries (the Group) for the financial year ended 31 December 2015.

Principal Activities

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

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

Results

	Group	Bank
	RM'000	RM'000
Profit for the financial year attributable to the owner of the Bank		
Profit before income tax expense	**1,480,453**	**1,327,292**
Income tax expense	**(376,938)**	**(345,839)**
Profit after income tax expense	**1,103,515**	**981,453**

Dividends

Since the end of the previous financial year, the Bank paid a final dividend for the financial year ended 2014 of RM1.31 per ordinary share amounting to RM300 million as proposed in the previous financial year's Directors' report. The dividend was paid on 16 April 2015.

The Directors do not recommend the payment of a final dividend for the financial year ended 2015.

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.

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 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 Bank 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 2015 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.

Significant and Subsequent Events

There were no significant events and events subsequent to the date of the statement of financial position that require disclosure or adjustments to the audited financial statements.

2015 Business Strategy

There were many challenges within the global economy in 2015 with Europe struggling to manage migrant and debt crises, Middle East and North Africa region suffering from geopolitical risks and China facing an economic slowdown. Amid the lacklustre backdrop, the Malaysian economy registered a moderate growth of 4.5% in 4Q 2015 (3Q2015: 4.7%) with year 2015 expanded by 5.0% (2014: 6.0%). The growth was mainly supported by the private sector demand.

The HSBC Bank Malaysia Berhad (the Bank) and its subsidiaries (Group or HSBC Malaysia) demonstrated resilience and was able to maintain a respectable performance in 2015 despite having to operate in an increasingly regulated banking landscape and challenging and yet competitive business environment. The Group remained strong in both liquidity and capital strength. This financial strength is recognised by external parties including RAM Ratings Services Berhad who has reaffirmed the Bank and its wholly owned subsidiary, HSBC Amanah Malaysia Berhad's long term and short term ratings of AAA and P1 ratings respectively, 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 2015.

2015 saw the banking industry pricing up customer deposits in response to the implementation of Basel III Liquidity Coverage Ratio by Bank Negara. As a result, Retail Banking and Wealth Management (RBWM) faced pricing competition on both assets and liabilities. Premier and Advance propositions were re-launched, to offer improved services for our customers, aiming to retain customers through better product proposition and services. Another challenge for RBWM was its card business that faced heighten regulations and increased competition. RBWM has overcome the challenge by securing a number of key partnership, launching of acquisition campaigns and nationwide spend campaigns, resulting in a 56% growth in new cards during 2015.

2015 was a year where there were capital outflows (similar to other emerging markets) in response to global economic developments including US normalising its interest rate. During the year, Ringgit weakened and bond yield rose. The Group's Global Banking & Markets (GBM) has worked closely with our corporate customers (both importers and exporters) to manage their exposure accordingly. GBM also took advantage of its debt capital market leadership and expertise to secure key deals, enhance cross border connectivity, seek opportunities with regionally identified business corridor initiatives with China and intra-ASEAN countries, to drive strategic themes e.g. Renminbi (RMB) as a settlement currency. HSBC Security Services (HSS) has once again asserted its market leadership position as leading custodian and fund administrator by securing its position as Best Sub-Custodian (8th consecutive year) and No.1 Sub Custodian (7th consecutive year).

Commercial Banking (CMB) has focused on Trade Corridors in identifying and developing plans to engage with businesses which operating in the key trading routes with Malaysia. China Desk also continues its ongoing focus on business opportunities arising from the internationalisation of the RMB. Payments and Cash Management (PCM) received the Euro Awards for "Best Domestic Cash Management Bank" for the 9th consecutive year, despite facing a very competitive liabilities market for 2015. In line with Global Standards adopted by the Group, strategic migration of manual transaction to e-payments continues to be one of the PCM's priorities in growing the businesses. Whilst there was margin compression coupled with weaker global demand, Global Trade and Receivables Finance (GTRF) have shown improvement in trade balances through ongoing focus on customers.

The Bank continues to invest in the long term future of the community in which we operate. We focus our investments around education, environmental and community development initiatives because we believe they provide the fundamental building blocks to driving economic development, helping to create thriving communities. 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. Being sustainable means building our business for the long term by living up to these responsibilities, and bringing us to Group's vision in becoming the world's leading international bank.

Performance Review 2015

Despite facing a challenging operating environment in which the Malaysia economy continued to experience headwinds both internally and externally, the Group recorded profit before tax of RM1,480.4 million for the year ended 31 December 2015, which is 0.4% or RM6.2 million marginally lower than prior year. The lower profit was due to higher operating expenses of RM209.6 million, higher loan/financing impairment charges of RM62.0 million which was partially offset by higher operating income of RM265.3 million.

The increase of operating expenses were mainly due to higher personnel expenses and intragroup recharges. This was partly due to higher regulatory compliance related costs, reflecting our commitment to invest in people and systems to detect, deter and protect the Group and the Bank against financial crime. The higher net loan/financing impairment charges for the year ended 31 December 2015 were due to higher net individual impairment allowances made (versus higher allowance release recorded in prior year) and higher collective impairment allowances against portfolio related loan/financing.

The higher operating income was primarily due to higher net trading income on gain from foreign exchange, interest rates, and debt securities. The continuous volatility in the market, in particular the USD/MYR movement in 2015 with high/low of 3.50/4.49 had resulted in both higher interbank and corporates volume of transactions as demand of foreign exchange related hedging activities increased particularly in the second half of 2015. The higher gain in debt securities was arising from revaluation gain made on government bonds portfolio following the decrease in average bond yield.

Total balance sheet size at 31 December 2015 stood at RM89.8 billion, RM6.8 billion higher compared against 31 December 2014 (RM83.0 billion) with recorded growth in loans, advances and financing of RM5.8 billion. The Group's capital and liquidity ratios remained strong and well above regulatory requirements.

Outlook for 2016

Malaysia's real Gross Domestic Product (GDP) is expected to grow between 4.5% and 5.5% for 2015, and between 4.0% and 4.5% for 2016. Domestic demand will remain the key driver of growth. While private consumption is expected to moderate as households adjust to the introduction of the Goods and Services Tax (GST), the still low unemployment rate at a circa of 3.2% would support household spending.

Inflationary pressure is envisaged to show a moderate increase to 3.0% for 2016 from the 2.3% projected for 2015, arising from the compounding impact of GST, toll rate hike, imported inflation and overall lesser subsidies. Despite increased volatility in international financial markets, interest rates in the domestic money market have remained stable with the Overnight Policy Rate (OPR) continued to be at 3.25% since its last revision on 10 July 2014. The current stance of monetary policy remains accommodative and is assessed to be appropriate.

The Ringgit continued to be driven by shifts in investor sentiments and portfolio investments amid weaker oil and commodity prices as well as strengthening of US dollar. Foreign exchange volatility will continue to be a major issue for emerging markets given the change in USD interest rate cycle, concern over further slowdown in China and uncertainties in the outlook for commodities market.

Despite challenges above, the increasing commitment towards the ASEAN Economic Community (AEC) amongst its members may fuel greater intra-ASEAN trade and investments flows. Usage of RMB may see a wider acceptance by corporates, coupled with increase in cross border investment flows which may compensate for lower international trade volumes.

As for the banking sector, challenges facing the industry include moderate loans growth, competition for liabilities, weak capital market activities, potential rising credit costs, escalation of costs of doing business and compliance costs, with headwinds coming from moderate increase in consumer spending and private investment following the GST implementation; narrowing spreads in 2016 due to rising funding costs with the implementation of Basel III liquidity ratio in mid-2015 and the implementation of additional capital buffer requirements.

The Group will focus on cross border inbound and outbound business opportunities with China and ASEAN countries in 2016. Leveraging on HSBC Group expertise, the Group will continue to provide holistic banking service solutions to our existing and new corporate customers.

Awards won during the financial year

HSBC Bank Malaysia

1. Best Sub-Custodian – The Asset Triple A: Asset Servicing Awards 2015 (8th consecutive year)

2. Best Foreign (Commercial) Bank in Malaysia – FinanceAsia Country Awards for Achievement 2015 (5th consecutive year)

3. No.1 Sub Custodian – Global Investor ISF 2013/2014 Sub-Custody Survey (7th consecutive year)

4. Best Domestic Cash Management Bank – Euromoney Cash Management Survey 2015 (9th consecutive year)

5. Best Bank in Malaysia – The Asset Triple A Country Awards 2015 (13th consecutive year)

6. Best Bond House (Global) - The Asset Triple A Country Awards 2015

7. Best Bank Bond – Maybank JPY 31.3Bn dual tranche Samurai Bond offering, in which HSBC acted as joint lead manager, The Asset Triple A Country Awards 2015

8. Best Malaysia Deal, Petronas $5 billion bond, in which HSBC acted as joint bookrunners, FinanceAsia Achievement Awards 2015

9. Best Investment Grade Corporate Bond, Petroliam Nasional (Petronas) $5bn conventional and sukuk bond, in which HSBC acted as joint bookrunners, GlobalCapital Asia Regional Capital Markets Awards 2015

10. Best Investment Grade Bond, Petronas $5 billion bond – FinanceAsia Achievement Awards 2015

11. Best Deal of the Year in Southeast Asia, Petronas' US$5 billion conventional bonds and global Sukuk, in which HSBC acted as joint bookrunners, Alpha Southeast Asia Deal & Solution Awards 2015

12. Best IPO for Retail Investors of the Year in Southeast Asia, Sunway Construction's RM550 (US$147 million) IPO in which HSBC acted as Joint Bookrunner, Alpha Southeast Asia Deal & Solution Awards 2015

HSBC Amanah Malaysia

1. Winning Deals, *Malaysia Airports Holdings MYR1 billion sukuk* - Euromoney Innovation in Islamic Finance Awards 2015.

2. Winning Deals, *Indonesia US$1.5 billion 10-year sukuk* - Euromoney Innovation in Islamic Finance Awards 2015.

3. The IFN Wakalah Deal of the Year, Government of Malaysia US$1.5 billion RegS/144A Sovereign Sukuk - Islamic Finance News Deals of the Year 2015

4. The Project & Infrastructure Finance Deal of the Year, Jimah East Power RM8.98 billion Commodity Murabahah Sukuk - Islamic Finance News Deals of the Year 2015

DIRECTORS' REPORT (Cont'd)

Awards won during the financial year (Cont'd)

HSBC Amanah Malaysia (Cont'd)

5. Best sovereign sukuk, *Republic of Indonesia US$1.5 billion ijara and wakala global sukuk,* in which HBMS has acted as one of the joint bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

6. Best quasi-sovereign sukuk, *Export-Import Bank of Malaysia US$300 million wakala sukuk,* in which HBMS has acted as one of the joint principal advisers, lead arrangers, bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

7. Best corporate sukuk, *Cagamas 70 million ringgit one-year and 930 million ringgit three-year sukuk,* in which HBMS has acted as one of the joint arrangers, The Asset Triple A Islamic Finance Awards 2015

8. Best corporate hybrid sukuk/ Best local currency sukuk, *Malaysia Airports Holdings 1 billion ringgit perpetual subordinated musharaka sukuk,* in which HBMS has acted as one of the joint Shariah advisers, lead arrangers, bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

9. Best new sukuk, *Hong Kong SAR US$1billion ijara sukuk,* in which HBMS has acted as the lead coordinator and one of the joint global coordinators, joint bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

10. Best Deals, Hong Kong, *Hong Kong SAR US$1billion ijara sukuk,* in which HBMS has acted as one of the joint global coordinator, bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

11. Best Deals, Indonesia, *Republic of Indonesia US$1.5 billion ijara and wakala global sukuk,* in which HBMS has acted as one of the joint bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

12. Best Deals, Malaysia, *Export-Import Bank of Malaysia US$300 million wakala sukuk,* in which HBMS has acted as one of joint principal advisers, lead arrangers, bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

13. Best Deals, Turkey, *Turkiye Finanas Katilim Bankasi 800 million ringgit murabaha sukuk*, in which HBMS has acted as one of the joint principal advisers, lead arrangers, bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

14. Best Islamic Finance House, FinanceAsia Achievement Awards 2015

15. Best Sovereign Bond, *The Government of Malaysia $1.5bn sukuk*, in which HBMS acted as joint bookrunner, GlobalCapital Asia Regional Capital Markets Awards 2015

16. Most Innovative Islamic Finance Deal of the Year in Southeast Asia, *Malaysia Airports Holdings' RM 1 billion (US$230 million) Perpetual Subordinated Sukuk,* in which HBMS has acted as joint principal advisers, joint lead arrangers, joint lead managers and joint bookrunners, Alpha Southeast Asia Deal & Solution Awards 2015

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
- Datuk Shireen Ann Zaharah Binti Muhiudeen
- Lee Choo Hock
- Tan Kar Leng @ Chen Kar Leng
- Tan Sri Dato' Tan Boon Seng @ Krishnan
- Ching Yew Chye *(resigned on 30 October 2015)*
- Choo Yoo Kwan @ Choo Yee Kwan *(appointed on 11 February 2016)*

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, Ms Tan Kar Leng @ Chen Kar Leng being above seventy years (70) of age, shall retire at the Annual General Meeting, and being eligible, offer herself 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 Bank) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of Shares			
	Balance at 1.1.2015	Bought	Sold	Balance at 31.12.2015
HSBC Holdings plc				
Ordinary shares of USD0.50				
Peter Wong Tung Shun [1]	1,198,579	1,365,276	(1,007,233)	1,556,622
Mukhtar Malik Hussain	1,034,253	47,757	-	1,082,010

	Number of Shares			
	Shares held at 1.1.2015	Shares issued during year [2]	Shares vested during the year	Shares held at 31.12.2015
HSBC Holdings plc				
HSBC Share Plan				
Peter Wong Tung Shun	1,091,027	518,732	(386,842)	1,222,917
Mukhtar Malik Hussain	385,636	246,698	(153,318)	479,016

[1] *Including the interest of spouse and UBS AG (as a chargor)*
[2] *Includes scrip dividends*

None of the other directors holding office at 31 December 2015 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

Directors' Benefits

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 accounts for the financial year ended 31 December 2015 has been audited by PricewaterhouseCoopers (PwC). A resolution to re-appoint PwC as auditor of the Group and the Bank will be proposed at the forthcoming Annual General Meeting.

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

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

Kuala Lumpur, Malaysia
01 March 2016

DIRECTORS' STATEMENT

In the opinion of the Directors:

I, Mukhtar Malik Hussain a director of HSBC Bank Malaysia Berhad, do hereby state on behalf of the Directors that, in our opinion, the financial statements set out on pages 37 to 156 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 2015 and of their financial performance and cash flows of the Group and of the Bank for the financial year then ended.

Signed at Kuala Lumpur, Malaysia this 01 March 2016.

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

……………………………………………
MUKHTAR MALIK HUSSAIN
Director

STATUTORY DECLARATION

I, Saw Say Pin, being the officer primarily responsible for the financial management of HSBC Bank Malaysia Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 37 to 156 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 01 March 2016.

....
SAW SAY PIN

BEFORE ME:

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

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of HSBC Bank Malaysia Berhad on pages 37 to 156 which comprise the statements of financial position as at 31 December 2015 of the Group and of the Bank, the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 47.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of 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 entity'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 entity'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.

INDEPENDENT AUDITORS' REPORT (Cont'd)

REPORT ON THE FINANCIAL STATEMENTS (Cont'd)

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 2015 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.

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 financial statements 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 financial statements 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.

PRICEWATERHOUSECOOPERS	SOO HOO KHOON YEAN
(No. AF: 1146)	2682/10/17(J)
Chartered Accountants	Chartered Accountant

Date: 01 March 2016

Kuala Lumpur

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

STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2015

		Group		*Bank*	
	Note	**31 Dec 2015 RM'000**	31 Dec 2014 RM'000 (Restated)	**31 Dec 2015 RM'000**	31 Dec 2014 RM'000
Assets					
Cash and short-term funds	*6*	**18,251,909**	7,839,057	**14,318,083**	8,077,960
Securities purchased under resale agreements		**6,553,754**	2,265,607	**6,553,754**	2,265,607
Deposits and placements with banks and other financial institutions	*7*	**-**	2,936,713	**2,635,204**	4,780,622
Financial assets held-for-trading	*8*	**1,497,358**	2,947,082	**1,486,866**	2,927,027
Financial investments available-for-sale	*9*	**7,013,509**	17,103,489	**5,312,266**	12,968,166
Loans, advances and financing	*10*	**51,222,193**	45,433,692	**39,253,976**	34,753,154
Derivative financial assets	*39*	**3,317,190**	1,799,701	**3,488,229**	1,831,403
Other assets	*12*	**280,200**	663,033	**258,731**	563,960
Statutory deposits with Bank Negara Malaysia	*13*	**1,174,110**	1,479,060	**844,448**	999,998
Investments in subsidiary companies	*14*	**-**	-	**660,021**	660,021
Property and equipment	*16*	**341,386**	351,502	**331,098**	335,288
Intangible assets	*17*	**64,702**	61,603	**64,702**	61,601
Tax recoverable		**26,012**	44,711	**20,850**	35,850
Deferred tax assets	*18*	**85,001**	71,653	**79,453**	63,896
Total assets		**89,827,324**	82,996,903	**75,307,681**	70,324,553
Liabilities					
Deposits from customers	*19*	**63,420,810**	61,308,233	**54,034,687**	50,332,073
Deposits and placements from banks and other financial institutions	*20*	**7,962,366**	8,278,959	**6,635,605**	8,259,316
Bills and acceptances payable		**337,218**	426,346	**322,314**	400,637
Derivative financial liabilities	*39*	**3,433,760**	1,606,375	**3,438,867**	1,634,302
Other liabilities	*21*	**3,401,386**	2,092,700	**2,146,153**	2,074,498
Provision for taxation		**52,100**	-	**52,100**	-
Multi-Currency Sukuk Programme	*22*	**1,749,823**	1,001,854	**-**	-
Subordinated liabilities	*23*	**1,621,340**	1,275,382	**1,621,340**	1,275,382
Total liabilities		**81,978,803**	75,989,849	**68,251,066**	63,976,208
Equity					
Share capital	*24*	**114,500**	114,500	**114,500**	114,500
Reserves	*25*	**7,734,021**	6,892,554	**6,942,115**	6,233,845
Total equity attributable to owner of the Bank		**7,848,521**	7,007,054	**7,056,615**	6,348,345
Total liabilities and equity		**89,827,324**	82,996,903	**75,307,681**	70,324,553
Commitments and Contingencies	*38*	**167,309,408**	138,441,341	**164,768,749**	135,592,425

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 FINANCIAL YEAR ENDED 31 DECEMBER 2015

		Group		Bank	
		31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Interest income	*26*	**2,501,491**	2,423,768	**2,569,985**	2,466,282
Interest expense	*26*	**(987,008)**	(905,086)	**(987,008)**	(905,086)
Net interest income	*26*	**1,514,483**	1,518,682	**1,582,977**	1,561,196
Fee and commission income	*27*	**486,177**	489,023	**486,207**	489,053
Fee and commission expense	*27*	**(50,680)**	(37,442)	**(50,681)**	(37,442)
Net fee and commission income	*27*	**435,497**	451,581	**435,526**	451,611
Net trading income	*28*	**615,017**	365,967	**629,203**	385,986
Income from Islamic banking operations	*29*	**558,379**	546,228	-	-
Other operating income	*30*	**61,983**	37,556	**185,250**	167,984
Operating income before impairment losses		**3,185,359**	2,920,014	**2,832,956**	2,566,777
Loans/financing impairment charges and other credit risk provisions	*31*	**(169,735)**	(107,709)	**(87,248)**	(39,120)
Net operating income		**3,015,624**	2,812,305	**2,745,708**	2,527,657
Other operating expenses	*32*	**(1,535,171)**	(1,325,591)	**(1,418,416)**	(1,222,821)
Profit before tax		**1,480,453**	1,486,714	**1,327,292**	1,304,836
Tax expense	*33*	**(376,938)**	(380,790)	**(345,839)**	(340,745)
Profit for the financial year		**1,103,515**	1,105,924	**981,453**	964,091
Other comprehensive income/(expense)					
Items that will subsequently be reclassified to profit or loss when specific conditions are met					
Revaluation reserve:					
Surplus on revaluation properties		**12,789**	14,231	**12,789**	14,231
Deferred tax adjustment on revaluation reserve		**(1,458)**	(1,730)	**(1,458)**	(1,730)
Cash flow hedge:					
Effective portion of changes in fair value		**-**	(64)	-	(64)
Income tax effect		**-**	16	-	16
Available-for-sale reserve:					
Change in fair value		**72,115**	5,792	**56,839**	6,382
Amount transferred to profit or loss		**(33,242)**	(11,071)	**(33,010)**	(11,071)
Income tax effect		**(9,329)**	1,175	**(5,719)**	1,113
Other comprehensive income for the financial year, net of income tax		**40,875**	8,349	**29,441**	8,877
Total comprehensive income for the financial year		**1,144,390**	1,114,273	**1,010,894**	972,968
Profit attributable to the owner of the Bank		**1,103,515**	1,105,924	**981,453**	964,091
Total comprehensive income attributable to the owner of the Bank		**1,144,390**	1,114,273	**1,010,894**	972,968
Basic earnings per RM0.50 ordinary share	*34*	**481.9 sen**	482.9 sen	**428.6 sen**	421.0 sen

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

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

Group (RM'000)	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*	*Regulatory reserve* [1]	*Retained profit*	*Total reserves*	*Total equity*
2015												
Balance at 1 January	**114,500**	**741,375**	**164,500**	**177,624**	**190,000**	**(10,975)**	**-**	**97,757**	**180,000**	**5,352,273**	**6,892,554**	**7,007,054**
Total comprehensive income for the financial year												
Profit for the financial year	-	-	-	-	-	-	-	-	-	**1,103,515**	**1,103,515**	**1,103,515**
Other comprehensive income, net of income tax												
Revaluation reserve:												
Transfer to retained profit upon realisation of depreciation	-	-	-	**(1,993)**	-	-	-	-	-	**1,993**	-	-
Surplus on revaluation of properties	-	-	-	**12,789**	-	-	-	-	-	-	**12,789**	**12,789**
Deferred tax adjustment on revaluation reserve	-	-	-	**(1,458)**	-	-	-	-	-	-	**(1,458)**	**(1,458)**
Available-for-sale reserve:												
Net change in fair value	-	-	-	-	-	**54,808**	-	-	-	-	**54,808**	**54,808**
Net amount transferred to profit or loss	-	-	-	-	-	**(25,264)**	-	-	-	-	**(25,264)**	**(25,264)**
Total other comprehensive income	-	-	-	***9,338***	-	***29,544***	-	-	-	***1,993***	***40,875***	***40,875***
Total comprehensive income for the financial year	-	-	-	**9,338**	-	**29,544**	-	-	-	**1,105,508**	**1,144,390**	**1,144,390**
Transfer relating to regulatory reserves	-	-	-	-	-	-	-	-	**104,000**	**(104,000)**	-	-
Transactions with the owner (the ultimate holding company), recorded directly in equity												
Share based payment transactions	-	-	-	-	-	-	-	**(1,804)**	-	**(1,119)**	**(2,923)**	**(2,923)**
Dividends paid to owner - 2014 final	-	-	-	-	-	-	-	-	-	**(300,000)**	**(300,000)**	**(300,000)**
Balance at 31 December	**114,500**	**741,375**	**164,500**	**186,962**	**190,000**	**18,569**	**-**	**95,953**	**284,000**	**6,052,662**	**7,734,021**	**7,848,521**
2014												
Balance at 1 January	114,500	741,375	164,500	166,049	190,000	(6,871)	48	95,470	-	4,974,062	6,324,633	6,439,133
Total comprehensive income for the financial year												
Profit for the financial year	-	-	-	-	-	-	-	-	-	1,105,924	1,105,924	1,105,924
Other comprehensive income, net of income tax												
Revaluation reserve:												
Transfer to retained profit upon realisation of depreciation	-	-	-	(926)	-	-	-	-	-	926	-	-
Surplus on revaluation of properties	-	-	-	14,231	-	-	-	-	-	-	14,231	14,231
Deferred tax adjustment on revaluation reserve	-	-	-	(1,730)	-	-	-	-	-	-	(1,730)	(1,730)
Cash flow hedge:												
Net amount transferred to profit or loss	-	-	-	-	-	-	(48)	-	-	-	(48)	(48)
Available-for-sale reserve:												
Net change in fair value	-	-	-	-	-	4,322	-	-	-	-	4,322	4,322
Net amount transferred to profit or loss on disposal	-	-	-	-	-	(8,426)	-	-	-	-	(8,426)	(8,426)
Total other comprehensive income	-	-	-	*11,575*	-	*(4,104)*	*(48)*	-	-	*926*	*8,349*	*8,349*
Total comprehensive income for the financial year	-	-	-	11,575	-	(4,104)	(48)	-	-	1,106,850	1,114,273	1,114,273
Transfer relating to regulatory reserves	-	-	-	-	-	-	-	-	180,000	(180,000)	-	-
Transactions with the owner (the ultimate holding company), recorded directly in equity												
Share based payment transactions	-	-	-	-	-	-	-	2,287	-	1,361	3,648	3,648
Dividends paid to owner - 2013 final	-	-	-	-	-	-	-	-	-	(300,000)	(300,000)	(300,000)
Dividends paid to owner - 2014 interim	-	-	-	-	-	-	-	-	-	(250,000)	(250,000)	(250,000)
Balance at 31 December	114,500	741,375	164,500	177,624	190,000	(10,975)	-	97,757	180,000	5,352,273	6,892,554	7,007,054

[1] The Group and the Bank maintain a regulatory reserve to meet local regulatory requirements; the effect of this requirement is to restrict the amount of reserves that can be distributed to shareholders.

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 FINANCIAL YEAR ENDED 31 DECEMBER 2015 (Cont'd)

Bank (RM'000)	*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*	*Regulatory reserve*[1]	*Retained profit*	*Total reserves*	*Total equity*
2015												
Balance at 1 January	**114,500**	**741,375**	**114,500**	**177,624**	**190,000**	**(4,487)**	**-**	**96,383**	**167,000**	**4,751,450**	**6,233,845**	**6,348,345**
Total comprehensive income for the financial year												
Profit for the financial year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**981,453**	**981,453**	**981,453**
Other comprehensive income, net of income tax												
Revaluation reserve:												
Transfer to retained profit upon realisation of depreciation	**-**	**-**	**-**	**(1,993)**	**-**	**-**	**-**	**-**	**-**	**1,993**	**-**	**-**
Surplus on revaluation of properties	**-**	**-**	**-**	**12,789**	**-**	**-**	**-**	**-**	**-**	**-**	**12,789**	**12,789**
Deferred tax adjustment on revaluation reserve	**-**	**-**	**-**	**(1,458)**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,458)**	**(1,458)**
Available-for-sale reserve:												
Net change in fair value	**-**	**-**	**-**	**-**	**-**	**43,198**	**-**	**-**	**-**	**-**	**43,198**	**43,198**
Net amount transferred to profit or loss	**-**	**-**	**-**	**-**	**-**	**(25,088)**	**-**	**-**	**-**	**-**	**(25,088)**	**(25,088)**
Total other comprehensive income	***-***	***-***	***-***	***9,338***	***-***	***18,110***	***-***	***-***	***-***	***1,993***	***29,441***	***29,441***
Total comprehensive income for the financial year	**-**	**-**	**-**	**9,338**	**-**	**18,110**	**-**	**-**	**-**	**983,446**	**1,010,894**	**1,010,894**
Transfer relating to regulatory reserves	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**83,000**	**(83,000)**	**-**	**-**
Transactions with the owner (the ultimate holding company), recorded directly in equity												
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,488)**	**-**	**(1,136)**	**(2,624)**	**(2,624)**
Dividends paid to owner - 2014 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(300,000)**	**(300,000)**	**(300,000)**
Balance at 31 December	**114,500**	**741,375**	**114,500**	**186,962**	**190,000**	**13,623**	**-**	**94,895**	**250,000**	**5,350,760**	**6,942,115**	**7,056,615**
2014												
Balance at 1 January	114,500	741,375	114,500	166,049	190,000	(911)	48	94,178	-	4,502,012	5,807,251	5,921,751
Total comprehensive income for the financial year												
Profit for the financial year	-	-	-	-	-	-	-	-	-	964,091	964,091	964,091
Other comprehensive income, net of income tax												
Revaluation reserve:												
Transfer to retained profit upon realisation of depreciation	-	-	-	(926)	-	-	-	-	-	926	-	-
Surplus on revaluation of properties	-	-	-	14,231	-	-	-	-	-	-	14,231	14,231
Deferred tax adjustment on revaluation reserve	-	-	-	(1,730)	-	-	-	-	-	-	(1,730)	(1,730)
Cash flow hedge:												
Net amount transferred to profit or loss	-	-	-	-	-	-	(48)	-	-	-	(48)	(48)
Available-for-sale reserve:												
Net change in fair value	-	-	-	-	-	4,850	-	-	-	-	4,850	4,850
Net amount transferred to profit or loss on disposal	-	-	-	-	-	(8,426)	-	-	-	-	(8,426)	(8,426)
Total other comprehensive income	-	-	-	*11,575*	-	*(3,576)*	*(48)*	-	-	*926*	*8,877*	*8,877*
Total comprehensive income for the financial year	-	-	-	11,575	-	(3,576)	(48)	-	-	965,017	972,968	972,968
Transfer relating to regulatory reserves	-	-	-	-	-	-	-	-	167,000	(167,000)	-	-
Transactions with the owner (the ultimate holding company), recorded directly in equity												
Share based payment transactions	-	-	-	-	-	-	-	2,205	-	1,421	3,626	3,626
Dividends paid to owner - 2013 final	-	-	-	-	-	-	-	-	-	(300,000)	(300,000)	(300,000)
Dividends paid to owner - 2014 interim	-	-	-	-	-	-	-	-	-	(250,000)	(250,000)	(250,000)
Balance at 31 December	114,500	741,375	114,500	177,624	190,000	(4,487)	-	96,383	167,000	4,751,450	6,233,845	6,348,345

[1] The Bank maintains a regulatory reserve to meet local regulatory requirements; the effect of this requirement is to restrict the amount of reserves that can be distributed to shareholders.

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 FINANCIAL YEAR ENDED 31 DECEMBER 2015

	Group	
	31 Dec 2015	31 Dec 2014
	RM'000	RM'000
Cash Flows from Operating Activities		
Profit before income tax expense	**1,480,453**	1,486,714
Adjustments for :		
Property and equipment written off	**31**	18
Intangible assets written off	**3,087**	-
Depreciation of property and equipment	**33,626**	35,717
Amortisation of intangible assets	**26,517**	22,532
Net (gains)/losses on disposal of property and equipment	**(78)**	460
Net upwards revaluation on property	**(22)**	(21)
Unrealised (losses)/gains on debt securities issued at fair value through profit or loss	**(2,031)**	1,854
Share-based payment transactions	**(17,157)**	(14,521)
Dividend income	**(1,450)**	(1,415)
Unrealised (gain)/ loss on revaluation of financial assets held-for-trading	**(18,523)**	(27,433)
Unrealised loss on revaluation of subordinated liabilities	**95,659**	20,272
Unrealised gain on revaluation of derivatives	**4,153**	92,361
Unrealised gain from dealing in foreign currency	**(163,357)**	(58,137)
Allowance for impairment losses on loans and financing	**272,115**	197,316
Operating profit before changes in operating assets and liabilities	**1,713,023**	1,755,717
(Increase)/Decrease in operating assets		
Securities purchased under resale agreements	**(4,288,147)**	611,663
Deposits and placements with banks and other financial institutions	**2,936,713**	901,691
Financial assets held-for-trading	**1,468,247**	(586,259)
Loans, advances and financing	**(6,060,746)**	(797,279)
Derivative financial assets	**(1,358,285)**	(513,781)
Other assets	**286,889**	37,874
Statutory deposits with Bank Negara Malaysia	**304,950**	(94,900)
Increase/(Decrease) in operating liabilities		
Deposits from customers	**2,112,577**	1,393,814
Deposits and placements from banks and other financial institutions	**(316,593)**	(18,869)
Bills and acceptances payable	**(89,128)**	(480,249)
Derivative financial liabilities	**1,827,385**	507,922
Other liabilities	**1,434,230**	535,355
Net cash (used in)/generated from operating activities	**(28,886)**	3,252,699
Income tax paid	**(330,275)**	(412,300)
Net cash (used in)/generated from operating activities	**(359,161)**	2,840,399
Cash Flows from Investing Activities		
Purchase of financial invetsment available for sale	**(21,621,047)**	(20,728,095)
Proceeds from disposal/redemption of financial investment available-for-sale	**31,845,846**	10,179,584
Purchase of property and equipment	**(10,774)**	(18,501)
Purchase of intangible assets	**(32,703)**	(28,783)
Proceeds from disposal of property and equipment	**122**	103
Dividends received	**1,450**	1,415
Net cash generated from/(used in) investing activities	**10,182,894**	(10,594,277)

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 FINANCIAL YEAR ENDED 31 DECEMBER 2015 (Cont'd)

		Group	
		31 Dec 2015	31 Dec 2014
		RM'000	RM'000
Cash Flows from Financing Activities			
Proceeds from subordinated liabilities		**250,299**	250,039
Interest paid on subordinated liabilities		**(56,357)**	(47,453)
Proceeds from Multi-Currency Sukuk Programme		**750,000**	500,000
Interest paid on Multi-Currency Sukuk Programme		**(54,823)**	(14,158)
Dividends paid		**(300,000)**	(550,000)
Net cash generated from financing activities		**589,119**	138,428
Net increase/(decrease) in Cash and Cash Equivalents		**10,412,852**	(7,615,450)
Cash and Cash Equivalents at beginning of the financial year		**7,839,057**	15,454,507
Cash and Cash Equivalents at end of the financial year		**18,251,909**	7,839,057
Analysis of Cash and Cash Equivalents			
Cash and short-term funds		**18,251,909**	7,839,057
Cash and cash equivalents comprise the following:			
Cash and short-term funds	*6*	**18,251,909**	7,839,057
Adjustment for cash collateral		**(1,356,436)**	(530,045)
Cash and cash equivalents		**16,895,473**	7,309,012

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 FINANCIAL YEAR ENDED 31 DECEMBER 2015 (Cont'd)

	Bank	
	31 Dec 2015	31 Dec 2014
	RM'000	RM'000
Cash Flows from Operating Activities		
Profit before income tax expense	**1,327,292**	1,304,836
Adjustments for :		
Property and equipment written off	**31**	18
Intangible assets written off	**3,087**	-
Depreciation of property and equipment	**26,520**	27,248
Amortisation of intangible assets	**26,515**	22,525
Net (gains)/losses on disposal of property and equipment	**(78)**	460
Net upwards revaluation on property	**(22)**	(21)
Share-based payment transactions	**(16,792)**	(13,851)
Dividend income	**(1,450)**	(1,415)
Unrealised (gain)/ loss on revaluation of financial assets held-for-trading	**(18,523)**	(27,433)
Unrealised loss on revaluation of subordinated liabilities	**95,659**	20,272
Unrealised gain on revaluation of derivatives	**12,416**	91,618
Unrealised gain from dealing in foreign currency	**(199,072)**	(52,108)
Allowance for impairment losses on loans and financing	**157,399**	97,914
Operating profit before changes in operating assets and liabilities	**1,412,982**	1,470,063
Decrease/(Increase) in operating assets		
Securities purchased under resale agreements	**(4,288,147)**	611,663
Deposits and placements with banks and other financial institutions	**2,145,418**	422,803
Financial assets held-for-trading	**1,458,684**	(655,863)
Loans, advances and financing	**(4,658,351)**	634,492
Derivative financial assets	**(1,470,170)**	(457,588)
Other assets	**231,027**	122,785
Statutory deposits with Bank Negara Malaysia	**155,550**	(6,400)
Increase/(Decrease) in operating liabilities		
Deposits from customers	**3,702,614**	1,448,197
Deposits and placements from banks and other financial institutions	**(1,623,711)**	(11,563)
Bills and acceptances payable	**(78,323)**	(494,986)
Derivative financial liabilities	**1,804,565**	474,235
Other liabilities	**142,310**	494,697
Net cash (used in)/generated from operating activities	**(1,065,552)**	4,052,535
Income tax paid	**(301,473)**	(377,264)
Net cash (used in)/generated from operating activities	**(1,367,025)**	3,675,271
Cash Flows from Investing Activities		
Purchase of financial investment available-for-sale	**(20,032,760)**	(16,648,725)
Proceeds from disposal/redemption of financial investment available-for-sale	**27,786,691**	8,886,560
Purchase of property and equipment	**(9,550)**	(16,611)
Purchase of intangible assets	**(32,703)**	(28,783)
Proceeds from disposal of property and equipment	**78**	103
Dividend received	**1,450**	1,415
Net cash generated from/(used in) investing activities	**7,713,206**	(7,806,041)

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 FINANCIAL YEAR ENDED 31 DECEMBER 2015 (Cont'd)

		Bank	
		31 Dec 2015	31 Dec 2014
		RM'000	RM'000
Cash Flows from Financing Activities			
Proceeds from subordinated liabilities		**250,299**	250,039
Interest paid on subordinated liabilities		**(56,357)**	(50,095)
Dividends paid		**(300,000)**	(550,000)
Net cash used in financing activities		**(106,058)**	(350,056)
Net increase/(decrease) in Cash and Cash Equivalents		**6,240,123**	(4,480,826)
Cash and Cash Equivalents at beginning of the financial year		**8,077,960**	12,558,786
Cash and Cash Equivalents at end of the financial year		**14,318,083**	8,077,960
Analysis of Cash and Cash Equivalents			
Cash and short-term funds		**14,318,083**	8,077,960
Cash and cash equivalents comprise the following:			
Cash and short-term funds	*6*	**14,318,083**	8,077,960
Adjustment for cash collateral		**(1,706,436)**	(530,045)
Cash and Cash Equivalents		**12,611,647**	7,547,915

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

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

NOTES TO THE FINANCIAL STATEMENTS

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.

The Bank is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 2, Leboh Ampang, 50100 Kuala Lumpur.

The immediate parent bank and the ultimate holding company during the financial year are The Hongkong and Shanghai Banking Corporation Limited (HBAP) and HSBC Holdings plc, respectively.

The financial statements were approved and authorised for issue by the Board of Directors on 17 February 2016.

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 requirements of 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.

(i) Standards and amendments to published standards that are effective and applicable to the Group and the Bank

The new accounting standards and amendments to published standards that are effective and applicable to the Group and the Bank for the financial year beginning on 1 January 2015 are as follows:

- Annual improvement to MFRSs 2010-2012 Cycle
- Annual improvement to MFRSs 2011-2013 Cycle
- Amendments to MFRS 119 "Defined Benefits Plans: Employee Contributions"

The adoption of the new accounting standards, amendments and improvements to published standards did not have a material impact on the financial statements of the Group and the Bank.

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective

The Group and the Bank will apply these standards, amendments to published standards from:

a. Financial year beginning on/ after 1 January 2016:

- Amendments to MFRS 116 'Property, plant and equipment' and MFRS 138 'Intangible assets' clarify that the use of revenue-based methods to calculate the depreciation of an item of property, plant and equipment is not appropriate. This is because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank but not yet effective (Cont'd)

a. Financial year beginning on/ after 1 January 2016 (Cont'd):

The amendments to MFRS 138 also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption can be overcome only in the limited circumstances where the intangible asset is expressed as a measure of revenue or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

b. Financial year beginning on/ after 1 January 2018:

- MFRS 9 'Financial Instruments' will replace MFRS 139 'Financial Instruments: Recognition and Measurement'.

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

  MFRS 9 introduces an expected credit loss model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

- MFRS 15 'Revenue from contracts with customers' replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

  Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The initial application of the above accounting standards, amendments and interpretation are not expected to have any material financial impacts to the current and prior year's financial statement of the Group and the Bank upon their first adoption, except for MFRS 9.

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 is currently assessing the financial impact that may arise from the adoption of MFRS 9.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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 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 the financial statements 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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 subsidiaries made up to 31 Dec 2015.

(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 that control commences until the date the control ceases.

The Group controls and consequently consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group and the Bank also 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.

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.

3 Significant Accounting Policies (Cont'd)

(a) Basis of Consolidation(Cont'd)

(iv) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises 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 recognised 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.

(v) 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. 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.

(vi) 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 financial 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.

(vii) 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(b) Foreign Currencies

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

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

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

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

(c) Revenue

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

(d) Interest income and expense / Islamic financing income and expense

Interest income and expense/Islamic financing income and expense for all financial instruments of the Group and the Bank, except those classified as held-for-trading are recognised in "interest income" and "interest expense" and "Income from Islamic Banking Operation" in the statement of comprehensive income using the effective interest/profit rate method. The effective interest/profit rate 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 expense/Islamic financing income or expense over the relevant period.

The effective interest/profit rate is the rate that exactly discounts estimated future cash 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/profit rate, the Group and the Bank estimates cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

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

Financing income and expense from Islamic Banking operations are recognised on an accrual basis in accordance with the principles of Shariah.

Interest/Financing income and expense of the Group and the Bank presented in the statement of comprehensive income include:

- interest/profit on financial assets and liabilities measured at amortised costs calculated on an effective interest/profit rate basis;
- interest/profit on available-for-sale investment securities calculated on an effective interest/profit rate basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest/profit cash flows, in the same period that the hedged cash flows affect interest/financing income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

3 Significant Accounting Policies (Cont'd)

(e) 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/financing income' Note 3 (d).

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

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.

Net income/ (expense) from financial instruments designated at fair value includes:

- all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss, including liabilities under investment contracts;
- all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities designated at fair value through profit or loss; and
- interest income, interest expense and dividend income in respect of:
  - financial assets and financial liabilities designated at fair value through profit or loss; and
  - derivatives managed in conjunction with the above,

except for interest arising from debt securities issued by the group and derivatives managed in conjunction with those debt securities, which is recognised in 'Interest income and expense/Islamic financing income and expense (Note 3(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 financial 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(f) Income tax (Cont'd)

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 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.

(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 (Note 3(l))
- financial investments
  - held to maturity (Note 3(k)(i)),
  - available-for-sale (Note 3(k)(ii)),
- trading assets (Note 3(j))

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

(iii) Derecognition of financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the Group and the Bank have transferred its contractual rights to receive the cash flows of the financial assets, and have transferred substantially all the risks and rewards of ownership; or where both control and substantially all the risks and rewards are not retained.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(g) Financial instruments (Cont'd)

(iv) Offsetting financial assets/liabilities and income/expenses

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is currently a legally enforceable right to offset the recognised amounts and the Group and the Bank intend to settle on a net basis, or realise the asset and settle the liability simultaneously.

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

(v) Amortised cost measurement

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

(vi) Fair value measurement

All financial instruments are recognised initially at fair value. 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 fair value of a financial instrument on initial recognition is generally its 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(b)(ii).

(h) Cash and cash equivalents

For the purpose of the statements 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. Such investments comprise cash at hand and bank balances, short term deposits and placements with banks maturing within one month.

(i) Sale 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 for the consideration received.

Securities purchased under commitments to re-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 income and recognised over the life of the agreement.

(j) Trading assets and trading liabilities

Treasury bills, loans, advances and financing to and from customers, placings with and by banks, debt securities, structured deposits, equity securities, debt securities in issue, certain deposits and short positions in securities which have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or are 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 are classified as held-for-trading. 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 within 'Net trading income (Note 3(e))'.

In order to conform with the BNM presentation of the balance sheet to present financial instruments by types rather than by measurement, trading liabilities are not disclosed as a separate item on the face of the balance sheet. They are included into the respective types of financial liabilities instrument categories.

Structured investment/Islamic structured placement is classified as trading liabilities as they are initiated by trading desk for trading and not for funding purpose and the market risk of the embedded derivative is actively managed as part of the trading portfolio.

(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. They are recognised on trade date when the Group and the Bank enter into contractual arrangements to purchase those instruments, and are normally derecognised when either the securities are sold or redeemed.

(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 intends and is able to hold until maturity. These investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest/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 reserve – change in fair value' until they 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 'Disposal of financial investments available-for-sale'.

Interest/financing income is recognised on available-for-sale debt securities using the effective interest/profit rate method, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of dated investment securities are included in the calculation of their effective interest/profit rates. 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 and 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.

(k) Financial investments (Cont'd)

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

Impairment losses for available-for-sale debt securities are recognised within 'Loan/Financing 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 reporting date, the Group and the Bank consider all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer.

  These types of specific event and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

- *Available-for-sale equity securities*
  Objective evidence of impairment for available-for sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

  A significant or prolonged decline in the fair value of the asset below its cost is also objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost at initial recognition.

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

- *Available-for-sale debt security*
  A subsequent decline in the fair value of the instrument is recognised in the profit or loss if, and only if, there is 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 directly 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 to the extent of the increase in fair value. 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 directly 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 less cumulative impairment to date of the equity security.

(l) Loans, advances and financing

Loans, advances and financing to customers and placing with banks include financing and advances that originated from the Group and the Bank, which are not classified as either held-for-trading or designated at fair value. They are recognised when cash is advanced to borrowers and 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.

For financing under the SIAF/IAA or PSIA arrangements, the Group and Bank recognise the financing to the extent that the financing qualify for derecognition by HBMS. Refer to accounting policy Note 3(g)(iii) on derecognition of financial assets.

(m) Impairment of loans, advances and financing

Losses for impaired loans, advances and financing are promptly recognised 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.

(i) 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, the number of loans in the portfolio, and the importance of the individual loan 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 a collective assessment.

Loans/financing considered as individually significant are typically to corporate and commercial customers are for larger amounts, which are managed on an individual 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 to identify whether objective evidence of impairment exists based on the following criteria:

- 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/profit 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

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

(i) Individually assessed loans, advances and financing (Cont'd)

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.

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.

(ii) Collectively assessed loans, advances and financing

Impairment is assessed collectively to cover losses which have been incurred but have not yet been identified on loans /financing subject to individual assessment or for homogeneous groups of loans, advances and financing that are not considered individually significant.

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 a collective impairment assessments. These credit risk characteristics may include country of origination, type of business involved, type of products offered, security obtained or other relevant factors. This assessment captures 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. When information becomes available which identifies losses on individual loans/financing within the group, those loans/financing are removed from the group and assessed individually.

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.

3 Significant Accounting Policies (Cont'd)

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

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

The period between a loss occurring and its identification is estimated by local management for each identified portfolio based on economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. 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 for homogeneous groups of loans, advances and financing not considered individually significant. Losses in these groups of loans/financing are recorded individually when individual loans/financing are removed from the group and written off. Two methods that are used to calculate collective allowances are:

- When appropriate empirical information is available, the Group and the Bank uses roll-rate methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably 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 individually. Individual loans/financing are grouped using ranges past due days; statistical analysis is then used to estimate the likelihood that loans/financing in each range will progress through the various stages of delinquency, and become irrecoverable. Additionally, individual loans/financing are segmented based on 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 adopt 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 in portfolio risk factors 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 items 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

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

(iii) 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.

(iv) Reversals 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.

(v) 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 12 monthly payments 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 remain as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future contractual payments, and there are no other indicators of impairment. The renegotiated Loans/Financing will only be reclassified as unimpaired when restructured payment is received and observed for a minimum period of 12 months.

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 carried at their revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and any accumulated impairment losses.

Revaluations on land and buildings are performed annually by professional qualified valuers, on a market basis, to ensure that the net carrying amount does not differ materially from the fair value. Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each financial year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from revaluation reserve to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(n) Property and equipment (Cont'd)

(i) Property (Cont'd)

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" 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.

The land and buildings of the Group and the Bank are valued annually at fair value based on market value determined by independent qualified valuers. The fair value are within level 2 of the fair value hierarchy. The fair value have been derived using the sales comparison approach.

(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 7 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" in the profit or loss.

Equipment is subject to review for impairment 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)

(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 'Establishment related 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 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.

(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. 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 liabilities of the Bank are measured at amortised cost using the effective interest method, except for the portions which are fair value hedged, which are adjusted for the fair value gains or losses attributable to the hedged risks. Interest expense on subordinated bonds of the Bank is recognised on an accrual basis.

(s) Provisions

Provisions for liabilities and charges are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation arising from past events and 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 unless the probability of settlement is remote.

(t) Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance 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 recognised 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, recognised in the profit or loss upon discharge of the guarantee.

(u) Derivative financial instruments and hedge accounting

Derivatives are initially recognised, 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. Derivative assets and liabilities arising from different transactions are only offset for accounting purposes if the offsetting criteria are met.

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 (bifurcated) when their economic characteristics and risks are not clearly and closely related to those of the host non-derivative 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.

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.

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

(i) 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 require documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest/Profit on designated qualifying hedges is included in 'Net interest income'.

- ***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 that contain the hedged risk. If a hedging relationship no longer meets the criteria for hedge accounting, the hedge accounting is discontinued: the cumulative adjustment to the carrying amount of the hedged item is amortised to profit and loss 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.

- ***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) Financial instruments designated at fair value

Financial instruments, other than those held for trading, are classified in this category if they meet the criteria set out below and are so designated irrevocably by management on initial recognition. The Group and the Bank may designate financial instruments at fair value when the designation:

- eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial instruments, or recognising the gains and losses different bases from related positions. Under this criterion, the main class of financial instruments designated by the Group and the Bank are:

  Long-term debt issues - the interest/ profit payable on certain fixed-rate long-term debt securities issued has been matched with the interest/ profit on 'receive fixed/pay variable' interest/ profit swaps as part of a documented interest/ profit rate risk management strategy. An accounting mismatch would arise if the debt securities issued were accounted for at amortised cost, because the related derivatives are measured at fair value with changes in the fair value recognised in the profit or loss. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt will also be recognised in the profit or loss;

3 Significant Accounting Policies (Cont'd)

(v) Financial instruments designated at fair value (Cont'd)

- applies to a groups of financial instruments are managed and their performance evaluated, on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that groups of financial instruments is reported to management on that basis. The Group and the Bank has documented risk management and investment strategies designed to manage and monitor market risk of those assets on net basis, after considering non-linked liabilities. Fair value measurement is also consistent with the regulatory reporting requirements under the appropriate regulations for these insurance operations; and

- relates to financial instruments containing one or more non-closely related embedded derivatives.

Designated financial assets are recognised at fair value when the Group and the Bank enter into contracts with counterparties, which is generally on trade date, and are normally derecognised when sold. Subsequent changes in fair values are recognised in the profit or loss in 'Net gain/(loss) from financial instruments fair value through profit and loss'.

(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 Bank's ultimate holding company operates a number of equity-settled share based payment arrangements with the Bank's employees as compensation for services provided by the 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 equity. The credit to equity is treated as capital contribution as the ultimate holding company is compensating the Bank's employees with no expense to the Bank. 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 market prices or 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(x) Share based payments (Cont'd)

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 remaining vesting period.

Where the ultimate holding company recharges the Bank for the equity instruments granted, the recharge is recognised over the vesting period.

(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.

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 and Board Risk Committee (constituted by Non-Executive Directors), 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 Board Risk 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 Management 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, capital market transactions, foreign exchange derivatives 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 have 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 Management Committee, Executive Committee, Board Risk Committee and the Board, covering:

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

- well defined credit risk appetite on business with growth, maintain and shrink .
- risk concentrations and exposures by industry (main sectors exposures) and portfolio/business.
- Single counterparty exposure limit.
- portfolio management exposures by Customer Risk Rating (asset quality by CRR);
- large impaired accounts and impairment allowances;
- early risk identification 'Worry & Watch and Monitor" List trend and Top 10 Distressed names; and
- rescheduled and restructured loan/financing.

The Group and the Bank have systems in place to control and monitor the 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 rating, 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)(xi).

(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 rating system. Refer Note 4 (b)(xi) 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 3(k)(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.

(ii) 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.

b) Credit risk management (Cont'd)

(iii) 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.

(iv) Write-off of loans, advances and financing

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

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; and
- 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).

(v) 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 financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for impaired loans, advances and financing for the Group and the Bank as at 31 Dec 2015 are 70.9% (2014: 62.6%) and 77.9% (2014: 66.3%) respectively, The financial effect of collateral held for other remaining on-balance sheet financial assets is not significant.

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

(vi) 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 the Group's and the Bank's financial assets is shown in Note 4 (b)(ii).

(vii) Financial assets held-for-trading

The Group and Bank hold financial assets held-for-trading of RM1,497 million (2014: RM2,947 million) and RM1,487 million (2014: RM2,927 million) 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.

(viii) 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 wide range of 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.

(ix) 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 recognised amounts and there is an intention to settle on a net basis, or realize the asset and liability simultaneously (the offset criteria). During the financial 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:

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(ix) Offsetting financial assets and liabilities (Cont’d)

	(i)	(ii)	(iii) = (i) + (ii)	(iv)a	(iv)b	(v) = (iii) - (iv)
				Gross amounts not offset in the statement of financial position		
Description	**Gross amounts of recognised assets RM'000**	**Gross amounts offset in the statement of financial position RM'000**	**Net amount of assets presented in the statement of financial position RM'000**	**Financial instruments RM'000**	**Cash collateral received RM'000**	**Net amount RM'000**
2015						
Group						
Securities purchased under resale agreements	**6,553,754**	-	**6,553,754**	**6,553,754**	-	-
Derivative financial assets	**3,317,190**	-	**3,317,190**	-	**1,360,929**	**1,956,261**
Derivative financial liabilities	**3,433,760**	-	**3,433,760**	-	**1,361,932**	**2,071,828**
Bank						
Securities purchased under resale agreements	**6,553,754**	-	**6,553,754**	**6,553,754**	-	-
Derivative financial assets	**3,488,229**	-	**3,488,229**	-	**1,360,929**	**2,127,300**
Derivative financial liabilities	**3,438,867**	-	**3,438,867**	-	**1,361,932**	**2,076,935**
2014						
Group						
Securities purchased under resale agreements	2,265,607	-	2,265,607	2,265,607	-	-
Derivative financial assets	1,799,701	-	1,799,701	-	536,499	1,263,202
Derivative financial liabilities	1,606,375	-	1,606,375	-	435,205	1,171,170
Bank						
Securities purchased under resale agreements	2,265,607	-	2,265,607	2,265,607	-	-
Derivative financial assets	1,831,403	-	1,831,403	-	536,499	1,294,904
Derivative financial liabilities	1,634,302	-	1,634,302	-	435,205	1,199,097

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk

Group	31 Dec 2015 Loans, advances and financing to customers RM'000	Placement with banks [1] RM'000	Other financial assets [2] RM'000
Carrying amount	**51,222,193**	**24,805,663**	**11,811,149**
Assets at amortised cost			
Individually impaired:			
Gross amount	**941,081**	**-**	**-**
Allowance for impairment	**(230,297)**	**-**	**-**
Carrying amount	**710,784**	**-**	**-**
Past due but not impaired:			
Carrying amount	**3,257,179**	**-**	**-**
Past due comprises:			
up to 29 days	**2,372,793**	**-**	**-**
30 - 59 days	**670,812**	**-**	**-**
60 - 89 days	**213,574**	**-**	**-**
	3,257,179	**-**	**-**
Neither past due nor impaired:			
Strong	**27,264,553**	**24,792,742**	**-**
Medium-good	**11,171,262**	**12,921**	**-**
Medium-satisfactory	**8,601,963**	**-**	**-**
Substandard	**660,686**	**-**	**-**
Carrying amount	**47,698,464**	**24,805,663**	**-**
of which includes accounts with renegotiated terms	***168,507***	**-**	**-**
Collective allowance for impairment	**(444,234)**	**-**	**-**
Carrying amount-amortised cost	**51,222,193**	**24,805,663**	**-**
Other financial assets			
Neither past due nor impaired:			
Strong	**-**	**-**	**10,962,916**
Medium-good	**-**	**-**	**645,113**
Medium-satisfactory	**-**	**-**	**199,385**
Sub-standard	**-**	**-**	**3,735**
Carrying amount[3]	**-**	**-**	**11,811,149**
Carrying amount-fair value	**-**	**-**	**11,811,149**

In addition to the above, the Group had entered into lending commitments and contingencies of RM50,075.7 million. The Group had also issued financial guarantee contracts for which the maximum amount payable by the Group, assuming all guarantees are called on, is RM12,712.2 million.

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

[2] Consists of derivative financial assets, financial assets held-for-trading and financial investments available-for-sale. Financial investments available-for-sale excludes equity securities.

[3] No available-for-sale accounts were renegotiated during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk (Cont'd)

Group	31 Dec 2014 Loans, advances and financing to customers RM'000	Placement with banks [1] RM'000	Other financial assets [2] RM'000
Carrying amount	45,433,692	13,041,377	21,833,364
Assets at amortised cost			
Individually impaired:			
Gross amount	688,245	-	-
Allowance for impairment	(234,520)	-	-
Carrying amount	453,725	-	-
Past due but not impaired:			
Carrying amount	3,347,448	-	-
Past due comprises:			
up to 29 days	2,522,126	-	-
30 - 59 days	644,614	-	-
60 - 89 days	180,708	-	-
	3,347,448	-	-
Neither past due nor impaired:			
Strong	24,533,221	13,040,677	-
Medium-good	8,999,372	700	-
Medium-satisfactory	7,153,469	-	-
Substandard	1,334,517	-	-
Carrying amount	42,020,579	13,041,377	-
of which includes accounts with renegotiated terms	*156,120*	-	-
Collective allowance for impairment	(388,060)	-	-
Carrying amount-amortised cost	45,433,692	13,041,377	-
Other financial assets			
Neither past due nor impaired:			
Strong	-	-	20,430,211
Medium-good	-	-	750,918
Medium-satisfactory	-	-	649,680
Sub-standard	-	-	2,555
Carrying amount[3]	-	-	21,833,364
Carrying amount-fair value	-	-	21,833,364

In addition to the above, the Group had entered into lending commitments and contingencies of RM41,552.2 million. The Group had also issued financial guarantee contracts for which the maximum amount payable by the Group, assuming all guarantees are called on, is RM10,206.4 million.

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

[2] Consists of derivative financial assets, financial assets held-for-trading and financial investments available-for-sale. Financial investments available-for-sale excludes equity securities.

[3] No available-for-sale accounts were renegotiated during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk (Cont'd)

Bank	31 Dec 2015 Loans, advances and financing to customers RM'000	Placement with banks [1] RM'000	Other financial assets [2] RM'000
Carrying amount	39,253,976	23,507,041	10,270,453
Assets at amortised cost			
Individually impaired:			
Gross amount	705,802	-	-
Allowance for impairment	(161,650)	-	-
Carrying amount	544,152	-	-
Past due but not impaired:			
Carrying amount	2,480,422	-	-
Past due comprises:			
up to 29 days	1,839,712	-	-
30 - 59 days	491,713	-	-
60 - 89 days	148,997	-	-
	2,480,422	-	-
Neither past due nor individually impaired:			
Strong	21,062,416	23,494,120	-
Medium-good	9,115,113	12,921	-
Medium-satisfactory	5,781,046	-	-
Substandard	574,797	-	-
Carrying amount	36,533,372	23,507,041	-
of which includes accounts with renegotiated terms	*137,928*	-	-
Collective allowance for impairment	(303,970)	-	-
Carrying amount-amortised cost	39,253,976	23,507,041	-
Other financial assets			
Neither past due nor impaired:			
Strong	-	-	9,665,448
Medium-good	-	-	413,510
Medium-satisfactory	-	-	187,858
Sub-standard	-	-	3,637
Carrying amount[3]	-	-	10,270,453
Carrying amount-fair value	-	-	10,270,453

In addition to the above, the Bank had entered into lending commitments and contingencies of RM41,660.9 million. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM10,827.8 million.

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

[2] Consists of derivative financial assets, financial assets held-for-trading and financial investments available-for-sale. Financial investments available-for-sale excludes equity securities.

[3] No available-for-sale accounts were renegotiated during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk (Cont'd)

Bank	31 Dec 2014 Loans, advances and financing to customers RM'000	Placement with banks [1] RM'000	Other financial assets [2] RM'000
Carrying amount	34,753,154	15,124,189	17,709,688
Assets at amortised cost			
Individually impaired:			
Gross amount	526,018	-	-
Allowance for impairment	(190,699)	-	-
Carrying amount	335,319	-	-
Past due but not impaired:			
Carrying amount	2,621,637	-	-
Past due comprises:			
up to 29 days	2,004,097	-	-
30 - 59 days	486,549	-	-
60 - 89 days	130,991	-	-
	2,621,637	-	-
Neither past due nor individually impaired:			
Strong	19,057,565	15,123,489	-
Medium-good	7,064,009	700	-
Medium-satisfactory	5,116,867	-	-
Substandard	821,000	-	-
Carrying amount	32,059,441	15,124,189	-
of which includes accounts with renegotiated terms	*138,294*	-	-
Collective allowance for impairment	(263,243)	-	-
Carrying amount-amortised cost	34,753,154	15,124,189	-
Other financial assets			
Neither past due nor impaired:			
Strong	-	-	16,361,813
Medium-good	-	-	696,780
Medium-satisfactory	-	-	649,304
Sub-standard	-	-	1,791
Carrying amount[3]	-	-	17,709,688
Carrying amount-fair value	-	-	17,709,688

In addition to the above, the Bank had entered into lending commitments and contingencies of RM34,582.5 million. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM8,326.6 million.

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

[2] Consists of derivative financial assets, financial assets held-for-trading and financial investments available-for-sale. Financial investments available-for-sale excludes equity securities.

[3] No available-for-sale accounts were renegotiated during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk (Cont'd)

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

Credit quality of the Group's debt securities and other bills	Internal Credit Rating[1]
Strong	A- and above
Good	BBB+ to BBB-
Satisfactory	BB+ to B and unrated
Sub-standard	B- and C
Impaired	D

Credit quality of the Group's corporate lending/derivative financial assets/ securities purchased under resale agreements/ deposits and placements with banks and other financial institutions	Internal Credit Rating
Strong	CRR1 - CRR2
Good	CRR3
Satisfactory	CRR4 - CRR5
Sub-standard	CRR6 - CRR8
Impaired	CRR9 - CRR10

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

[1] 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xii) Concentration by sector and by location [1]

Group	31 Dec 2015 Placement with banks [2] RM'000	31 Dec 2015 Other financial assets [3] RM'000	31 Dec 2014 Placement with banks [2] RM'000	31 Dec 2014 Other financial assets [3] RM'000
Carrying amount	**24,805,663**	**11,811,149**	13,041,377	21,833,364
By Sector				
Agricultural, hunting, forestry and fishing	-	**15,016**	-	7,232
Mining and quarrying	-	**2,291**	-	4,349
Manufacturing	-	**229,229**	-	259,274
Electricity, gas and water	-	**10,192**	-	62,758
Construction	-	**28,326**	-	27,491
Real estate	-	**55,359**	-	17,980
Wholesale & retail trade, restaurants & hotels	-	**154,714**	-	76,165
Transport, storage and communication	-	**45,946**	-	83,111
Finance, insurance and business services	**24,805,663**	**3,043,978**	13,041,377	2,700,421
Household-retail	-	**1,938**	-	1,343
Others	-	**8,224,160**	-	18,593,240
	24,805,663	**11,811,149**	13,041,377	21,833,364
By geographical location				
Within Malaysia	**23,533,749**	**10,860,983**	12,100,414	21,370,895
Outside Malaysia	**1,271,914**	**950,166**	940,963	462,469
	24,805,663	**11,811,149**	13,041,377	21,833,364

[1] 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.

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

[3] Consists of derivative financial assets, financial assets held-for-trading and financial investments available-for-sale. Financial investments available-for-sale excludes equity securities.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xii) Concentration by sector and by location [1] (Cont'd)

Bank	**31 Dec 2015** Placement with banks [2] RM'000	Other financial assets [3] RM'000	31 Dec 2014 Placement with banks [2] RM'000	Other financial assets [3] RM'000
Carrying amount	**23,507,041**	**10,270,453**	15,124,189	17,709,688
By Sector				
Agricultural, hunting, forestry and fishing	-	**15,016**	-	7,232
Mining and quarrying	-	**2,291**	-	4,349
Manufacturing	-	**213,957**	-	253,763
Electricity, gas and water	-	**10,192**	-	62,758
Construction	-	**18,305**	-	7,436
Real estate	-	**51,889**	-	17,980
Wholesale & retail trade, restaurants & hotels	-	**154,691**	-	76,163
Transport, storage and communication	-	**45,848**	-	83,111
Finance, insurance and business services	**23,507,041**	**3,291,142**	15,124,189	2,540,202
Household-retail	-	**1,938**	-	1,343
Others	-	**6,465,184**	-	14,655,351
	23,507,041	**10,270,453**	15,124,189	17,709,688
By geographical location				
Within Malaysia	**22,235,127**	**9,533,187**	14,427,246	17,311,608
Outside Malaysia	**1,271,914**	**737,266**	696,943	398,080
	23,507,041	**10,270,453**	15,124,189	17,709,688

[1] 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.

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

[3] Consists of derivative financial assets, financial assets held-for-trading and financial investments available-for-sale. Financial investments available-for-sale excludes equity securities.

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 Group'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 BNM's New Liquidity Framework; and practices and limits set by ALCO and regional Head Office. The Group and the Bank maintain strong liquidity positions and manage the liquidity profile of the 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;
- 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 which are important tools in HSBC Group'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; and
- maintaining liabilities of appropriate term relative to asset base.

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

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

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

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 2015					
Non-derivative liabilities					
Deposits from customers	**37,295,634**	**17,636,904**	**8,435,586**	**440,653**	**-**
Deposits and placements of banks and other financial institutions	**-**	**4,833,494**	**1,017,597**	**1,916,253**	**440,075**
Bills and acceptances payable	**337,218**	**-**	**-**	**-**	**-**
Other liabilities	**70,262**	**1,955,013**	**66,969**	**3,194**	**-**
Multi Currency Sukuk Programme	**-**	**19,870**	**41,247**	**1,896,361**	**-**
Subordinated liabilities	**-**	**4,037**	**59,617**	**676,264**	**1,235,408**
Loans and other credit-related commitments	**31,257,073**	**578,338**	**5,325,316**	**202,776**	**-**
Financial guarantees and similiar contracts	**5,145,093**	**1,725,055**	**2,824,659**	**2,674,033**	**343,338**
	74,105,280	**26,752,711**	**17,770,990**	**7,809,535**	**2,018,821**
Derivative liabilities					
- Gross settled derivatives					
Outflow	**-**	**18,511,401**	**6,767,987**	**7,060,599**	**1,250,875**
Inflow	**-**	**(17,653,594)**	**(6,324,978)**	**(5,525,786)**	**(936,703)**
- Net settled derivatives	**-**	**12,140**	**62,986**	**86,707**	**10,478**

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 2014					
Non-derivative liabilities					
Deposits from customers	33,350,023	19,017,286	8,944,207	402,600	-
Deposits and placements of banks and other financial institutions	-	7,918,200	21,243	442,237	-
Bills and acceptances payable	426,346	-	-	-	-
Other liabilities	53,417	874,839	66,352	2,719	-
Multi Currency Sukuk Programme	-	9,349	9,349	528,099	-
Subordinated liabilities	-	1,660	52,057	660,941	878,104
Loans and other credit-related commitments	21,713,653	4,567,611	3,391,467	1,673,072	-
Financial guarantees and similiar contracts	2,076,042	1,339,594	2,329,409	3,266,654	1,194,746
	57,619,481	33,728,539	14,814,084	6,976,322	2,072,850
Derivative liabilities					
- Gross settled derivatives					
Outflow	-	12,974,463	6,246,705	5,171,371	1,482,433
Inflow	-	(12,494,760)	(6,133,338)	(4,722,129)	(1,342,027)
- Net settled derivatives	-	12,310	63,886	83,486	12,104

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 2015					
Non-derivative liabilities					
Deposits from customers	**33,708,570**	**13,253,919**	**6,995,671**	**390,808**	**-**
Deposits and placements of banks and other financial institutions	**-**	**4,345,792**	**989,889**	**991,015**	**440,075**
Bills and acceptances payable	**322,314**	**-**	**-**	**-**	**-**
Other liabilities	**31,864**	**569,286**	**56,980**	**2,881**	**-**
Subordinated liabilities	**-**	**4,037**	**59,617**	**676,264**	**1,235,408**
Loans and other credit-related commitments	**25,326,522**	**445,229**	**4,862,797**	**198,587**	**-**
Financial guarantees and similiar contracts	**4,429,984**	**1,669,739**	**2,113,809**	**2,273,597**	**340,645**
	63,819,254	**20,288,002**	**15,078,763**	**4,533,153**	**2,016,128**
Derivative liabilities					
- Gross settled derivatives					
Outflow	**-**	**19,633,831**	**6,775,091**	**7,097,022**	**1,250,875**
Inflow	**-**	**(18,771,321)**	**(6,324,978)**	**(5,525,786)**	**(936,703)**
- Net settled derivatives	**-**	**12,957**	**64,998**	**87,578**	**10,478**

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 2014					
Non-derivative liabilities					
Deposits from customers	28,456,404	14,332,026	7,517,440	356,779	-
Deposits and placements of banks and other financial institutions	-	7,892,818	1,983	389,614	-
Bills and acceptances payable	400,637	-	-	-	-
Other liabilities	29,561	782,249	56,926	2,445	-
Subordinated liabilities	-	1,660	52,057	660,941	878,104
Loans and other credit-related commitments	18,666,115	3,896,173	2,977,339	716,258	-
Financial guarantees and similiar contracts	1,920,304	1,222,591	1,527,191	2,650,677	1,005,882
	49,473,021	28,127,517	12,132,936	4,776,714	1,883,986
Derivative liabilities					
- Gross settled derivatives					
Outflow	-	13,625,210	6,265,569	5,197,521	1,475,801
Inflow	-	(13,124,023)	(6,133,338)	(4,722,129)	(1,342,027)
- Net settled derivatives	-	13,188	66,710	87,609	12,104

d) Market risk management

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

There were no significant changes to our policies and practices for the management of market risk in 2015.

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 designated as 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 product 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 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:

- historical market rates and prices are calculated with reference to foreign exchange rates and commodity prices, interest rates, equity prices and the associated volatilities;
- potential market movements utilised for VAR are calculated with reference to data from the past two years; and

d) Market risk management (Cont'd)

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

- VAR is calculated to a 99 per cent confidence level and use a one-day holding period scaled to 10 days. 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.

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:

HSBC Bank Malaysia Bhd (RM'000)	**At 31 Dec 2015**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**313**	**567**	**1,833**	**105**
Interest rate risk	**4,552**	**4,889**	**10,846**	**1,773**
Credit spread risk	**111**	**165**	**574**	**48**
Overall	**4,102**	**4,694**	**10,332**	**1,636**
	At 31 Dec 2014	Average	Maximum	Minimum
Foreign currency risk	399	652	4,038	187
Interest rate risk	2,140	5,661	14,138	2,080
Credit spread risk	118	487	1,177	94
Overall	1,836	5,673	14,218	1,836

HSBC Amanah Malaysia Berhad (RM'000)	**At 31 Dec 2015**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**299**	**50**	**321**	**8**
Profit rate risk	**387**	**235**	**408**	**36**
Credit spread risk	**8**	**-**	**16**	**-**
Overall	**436**	**242**	**459**	**37**
	At 31 Dec 2014	Average	Maximum	Minimum
Foreign currency risk	74	56	187	7
Profit rate risk	34	39	108	18
Credit spread risk	-	-	-	-
Overall	60	68	203	22

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

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

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

The Group and the Bank recognise these limitations by augmenting its VAR limits with other position and sensitivity limit structures. Stress tests are produced on a monthly basis based on the HSBC Group's stress-testing parameters, and on a half-yearly 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

(ii) Exposure to interest/profit rate risk – non trading portfolios (Cont'd)

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.

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 profit rates of:

	Group (RM'000)			
	31-Dec-15		31-Dec-14	
Basis point parallel shift in yield curve	**+100bps**	**-100bps**	+100bps	-100bps
RM	**274,428**	**(274,913)**	263,006	(262,946)
USD	**88,970**	**(77,975)**	34,275	(18,468)
Others	**3,980**	**(2,428)**	3,568	(70)
	367,378	**(355,316)**	300,849	(281,484)

	Bank (RM'000)			
	31-Dec-15		31-Dec-14	
Basis point parallel shift in yield curve	**+100bps**	**-100bps**	+100bps	-100bps
RM	**229,336**	**(229,856)**	250,699	(250,660)
USD	**80,009**	**(71,097)**	29,325	(16,337)
Others	**173**	**506**	3,887	(419)
	309,518	**(300,447)**	283,911	(267,416)

The increase or decline in economic value for upward and downward rate shocks for measuring interest rate risk/rate of return risk in the banking book are as follows:

Change in projected economic value of equity arising from a shift in profit rates of :

	Group (RM'000)			
	31-Dec-15		31-Dec-14	
Basis point parallel shift in yield curve	**+200bps**	**-200bps**	+200bps	-200bps
RM	**302,393**	**(345,592)**	272,154	(268,187)
USD	**99,358**	**(95,037)**	118,937	(97,284)
Others	**43,199**	**(30,239)**	80,285	(48,114)
	444,950	**(470,868)**	471,376	(413,585)

(iii) Sensitivity of projected Net Interest/Finance Income (Cont'd)

	Bank (RM'000)			
	31-Dec-15		31-Dec-14	
Basis point parallel shift in yield curve	**+200bps**	**-200bps**	+200bps	-200bps
RM	**341,272**	**(384,471)**	342,958	(352,573)
USD	**120,957**	**(103,677)**	111,168	(91,304)
Others	**34,559**	**(25,919)**	72,857	(44,566)
	496,788	**(514,067)**	526,983	(488,443)

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

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.

	Group (RM'000)			
	31-Dec-15		31-Dec-14	
Basis point parallel shift in yield curve	**+100bps**	**-100bps**	+100bps	-100bps
RM	**(129,935)**	**129,935**	(123,280)	123,280
USD	**(1,296)**	**1,296**	-	-
	(131,231)	**131,231**	(123,280)	123,280

	Bank (RM'000)			
	31-Dec-15		31-Dec-14	
Basis point parallel shift in yield curve	**+100bps**	**-100bps**	+100bps	-100bps
RM	**(99,586)**	**99,586**	(88,343)	88,343
USD	**(1,296)**	**1,296**	-	-
	(100,882)	**100,882**	(88,343)	88,343

(v) 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.

	Group (RM'000)			
	31-Dec-15		31-Dec-14	
Appreciation/depreciation	**+1%**	**-1%**	+1%	-1%
Impact to profit after income tax expense	**899**	**(899)**	(385)	385

	Bank (RM'000)			
	31-Dec-15		31-Dec-14	
Appreciation/depreciation	**+1%**	**-1%**	+1%	-1%
Impact to profit after income tax expense	**795**	**(795)**	(312)	312

Change in foreign exchange rate has no impact to other comprehensive income as at the reporting date (2014: NIL).

d) Market risk management (Cont'd)

(v) Foreign exchange risk (Cont'd)

The Group and the Bank measure the foreign exchange sensitivity based on the foreign exchange net open positions (including foreign exchange structural position) under an adverse movement in all foreign currencies against the functional currency – RM. The result implies that the Group and the Bank may be subject to additional translation (losses)/gains if the RM appreciates against other currencies and vice versa.

(vi) 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.

(vii) 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.

e) Operational risk management

The Group Operational Risk function and the operational risk management framework (ORMF) assist business management in discharging their responsibilities. The ORMF defines minimum standards and processes, and the governance structure for operational risk and internal control across the group.

(i) Three lines of defence

The Three Lines of Defence model is essential to delivering strong risk management within the bank. It defines who is responsible to do what to identify, assess, measure, manage, monitor, and mitigate operational risks, encouraging collaboration and enabling efficient coordination of risk and control activities.

- The first line of defence is accountable for managing and monitoring operational risk in the business.
- The second line is responsible for providing risk oversight, challenge, advice and insights to the business.
- The third line of defence independently assures that the Bank is managing operational risk effectively.

Having a strong Three Lines of Defence model in operation across the bank enables us to identify and effectively manage operational risks.

Activity to strengthen our operational risk culture and to better embed the use of our ORMF continued in 2015. In particular, we continued to streamline our operational risk management processes, procedures and tool sets to provide more forward-looking risk insights and more effective operation of the ORMF.

Articulating our risk appetite for material operational risks helps business understand the level of risk our organisation is willing to accept. Monitoring operational risk exposure against risk appetite on a regular basis and implementing our risk acceptance process drives risk awareness in a more forward-looking manner. It assists management in determining whether further action is required.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

e) Operational risk management (Cont'd)

(ii) Other featured operational risks

- *Challenges to achieving our strategy in a downturn*: businesses and countries have prioritised strategy and annual operating plans to reflect current economic conditions amid increased geo-political risk. Performance against plan is monitored through a number of means including the use of risk consideration and performance reporting at all relevant management committees.
- *Fraud and financial crime*: the threat of fraud perpetrated by or against our customers, especially in retail and commercial banking, may increase during adverse economic conditions. We have increased monitoring, root cause analysis and review of internal controls to enhance our defences against external attacks and reduce the level of loss in these areas. In addition, HSBC Group Security and Fraud Risk is working closely with the global businesses to continually assess these threats as they evolve and adapt our controls to mitigate them. The Bank is also exposed to potential criminal activities and has invested heavily in improving its customer due diligence and transaction monitoring and screening controls.
- *Third party risks:* the Bank has procedures in place to conduct due diligence and monitor the performance of third party suppliers and service providers in so far as they may affect the Bank's ability service its customers.
- *Regulatory compliance:* our ability to respond to increasing demands or changes in regulatory requirements in the markets in which we operate remains a critical focus for the Bank. A Global Standards programme is being rolled out to ensure implementation of critical regulatory and financial crime compliance requirements. Various conduct and values initiatives have also been initiated to ensure that exposures to mis-selling or market conduct abuses are minimised.
- *Level of change creating operational complexity*: operational stresses may occur during periods of growth as well as during volatile periods in a market downturn. The Operational Risk function engages with business management in business transformation initiatives to ensure the resilience of the internal control environment. This may involve thematic reviews of new initiatives and analysis of loss or indicator trends, as well as participation and discussion of issues or concerns at relevant governance or management committees
- *Information security*: the security of our information and technology infrastructure is crucial for maintaining our banking applications and processes while protecting our customers and the HSBC brand. A failure of our defences against such attacks could result in financial loss, loss of customer data and other sensitive information which could undermine both our reputation and our ability to retain the trust of our customers.
- *People Risk*: attracting and retaining staff with appropriate skills and expertise across the markets in which we operate remains a challenge. Significant investment is made in training and management development initiatives to equip our staff for the business changes we face and for the implementation of global standards.

In operationalising the operational risk management framework, the Group and the Bank operates 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.

e) Operational risk management (Cont'd)

(ii) Other featured operational risks (Cont'd)

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 Risk Management Committee, the Board Risk 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

Our approach to capital management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which we operate.

It is our objective to maintain a strong capital base to support the development of our business and to meet regulatory capital requirements at all times. The policy on capital management is underpinned by a capital management framework, which enables us to manage our capital in a consistent manner.

Our capital management process is articulated in our annual capital plan which is approved by the Board. The plan is drawn up with the objective of maintaining both an appropriate amount of capital and an optimal mix between the different components of capital.

In accordance with Capital Management Framework, capital generated by subsidiaries in excess of planned requirements is returned to the parent companies, normally by way of dividends.

The Bank is primarily the provider of capital to its subsidiaries and these investments are substantially funded by the Bank's own capital issuance and profit retention. As part of its capital management process, the Bank seeks to maintain a prudent balance between the composition of its capital and that of its investment in subsidiaries.

The principal forms of capital are included in the following balances on the consolidated balance sheet: share capital, other equity instruments, retained profits, other reserves, and subordinated liabilities.

4 Financial risk management (Cont'd)

f) Capital management (Cont'd)

(i) Externally imposed capital requirements

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

- Tier 1 capital is divided into Common Equity Tier 1 (CET1) Capital and Additional Tier 1 Capital. CET1 Capital 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. The Group and the Bank does not have any Additional Tier 1 Capital as at 31 December 2015.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances (excluding collective impairment allowances attributable to loans/financing classified as impaired), regulatory reserve, and the element of the fair value reserve relating to revaluation of property.

(ii) Basel III

Since December 2010, the Basel Committee has developed a comprehensive set of reform measures covering additional capital and liquidity requirements, commonly referred to as 'Basel III'.

The Basel III capital rules set out the minimum common equity tier 1 (CET1) requirement of 4.5% and a minimum total capital requirement of 8% from 1 January 2015.

In addition to the criteria detailed in the Basel III proposals, the Basel Committee issued further minimum requirements in January 2011 to ensure that all classes of capital instruments fully absorb losses at the point of non-viability before taxpayers are exposed to loss. Instruments issued on or after 1 January 2013 may only be included in regulatory capital if the new requirements are met. The capital treatment of securities issued prior to this date will be phased out over a 10-year period commencing on 1 January 2013.

BNM's updated guidelines on Capital Adequacy Framework Capital Components) came into effect in 2015 to implement Basel III capital buffer requirements. The changes include the phasing-in from 2016 to 2019 of the Capital Conservation Buffer (CCB), which is intended to build up capital buffers by individual banking institutions during normal times that can be drawn down during stress periods, and the Countercyclical Capital Buffer (CCyB) which is intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive.

In addition, the Group and the Bank will be required to set further buffers to reflect risks not included in the regulatory capital calculation, arising from internal assessment of risks and the results of stress tests.

As a consequence of the developments outlined above, there remains uncertainty over the timing and trajectory of implementation of the full Basel III capital requirements and residual uncertainty as to the minimum levels of capital that the group will be required to hold.

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 3 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.

a) 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

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

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.

b) 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**
2015	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial Assets Held-for-Trading (Note 8)	**1,374,391**	**122,967**	**-**	**1,497,358**
Financial Investments Available-for-Sale[1] (Note 9)	**6,881,644**	**114,957**	**-**	**6,996,601**
Derivative financial assets (Note 39)	**3,049**	**3,270,504**	**43,637**	**3,317,190**
	8,259,084	**3,508,428**	**43,637**	**11,811,149**
Trading liabilities[2]	**63,560**	**3,947,629**	**851,737**	**4,862,926**
Derivative financial liabilities (Note 39)	**2,493**	**3,415,097**	**16,170**	**3,433,760**
	66,053	**7,362,726**	**867,907**	**8,296,686**
2014				
Financial Assets Held-for-Trading (Note 8)	706,635	2,240,447	-	2,947,082
Financial Investments Available-for-Sale[1] (Note 9)	7,545,872	9,540,709	-	17,086,581
Derivative financial assets (Note 39)	2,085	1,766,630	30,986	1,799,701
	8,254,592	13,547,786	30,986	21,833,364
Trading liabilities[2]	68,148	3,755,664	1,065,035	4,888,847
Derivative financial liabilities (Note 39)	2,529	1,587,821	16,025	1,606,375
	70,677	5,343,485	1,081,060	6,495,222

[1] *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.*

[2] *Trading liabilities consist of structured investments, Islamic structured products, 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 Islamic structured products, net short position in securities form part of the balance reported under Note 21 (Other Liabilities).*

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

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

	Bank			
	Level 1	**Level 2**	**Level 3**	**Total**
2015	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial Assets Held-for-Trading (Note 8)	**1,363,899**	**122,967**	**-**	**1,486,866**
Financial Investments Available-for-Sale[3] (Note 9)	**5,180,401**	**114,957**	**-**	**5,295,358**
Derivative financial assets (Note 39)	**3,049**	**3,435,856**	**49,324**	**3,488,229**
	6,547,349	**3,673,780**	**49,324**	**10,270,453**
Trading liabilities[4]	**63,560**	**2,770,469**	**760,239**	**3,594,268**
Derivative financial liabilities (Note 39)	**2,392**	**3,420,305**	**16,170**	**3,438,867**
	65,952	**6,190,774**	**776,409**	**7,033,135**
2014				
Financial Assets Held-for-Trading (Note 8)	686,580	2,240,447	-	2,927,027
Financial Investments Available-for-Sale[3] (Note 9)	6,124,231	6,827,027	-	12,951,258
Derivative financial assets (Note 39)	2,085	1,793,750	35,568	1,831,403
	6,812,896	10,861,224	35,568	17,709,688
Trading liabilities[4]	68,148	2,321,814	772,654	3,162,616
Derivative financial liabilities (Note 39)	2,529	1,613,186	18,587	1,634,302
	70,677	3,935,000	791,241	4,796,918

[3] *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.*

[4] *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 form part of the balance reported under Note 21 (Other Liabilities).*

(i) Control framework

Fair values are subject to a control framework designed 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 utilised. 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

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

(i) Control framework(Cont'd)

For fair values determined using valuation models, 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.

(ii) Determination of fair value

Fair values are determined according to the following hierarchy:

- Level 1 – Valuation technique using 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.

- 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.

- 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, the fair value of the total holding of financial instrument is calculated as the product of the number of units and quoted price. In the event that the market for a financial instrument is not active, a valuation technique is used.

  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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

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

(iii) 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 on the instrument type and available market data. More sophisticated 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 utilises 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 on more than one market factor, and in these cases it will typically be necessary to consider how movements in one market factor may affect 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. An instrument in its entirety is classified as valued using significant unobservable inputs 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. '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.

(iv) 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'. The majority of these adjustments are related to Global Banking and Markets.

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.

- **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.

5 Use of estimates and judgements (Cont'd)

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

(iv) Fair value adjustments (Cont'd)

- **Risk-related adjustments (Cont'd)**

(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 (OTC) 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 OTC 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.

(v) Funding fair value adjustment

The funding fair value adjustment is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are fully uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available. The expected future funding exposure is adjusted for events that may terminate the exposure such as the default of the group or the counterparty. The funding fair value adjustment and debit valuation adjustment are calculated independently.

- **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. The accounting for inception profit adjustment is discussed in Note 3 (g)(vi)

5 Use of estimates and judgements (Cont'd)

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

(iv) Fair value adjustments (Cont'd)

- **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.

  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 do not net these adjustments across the Group and the Bank's entities. The Group and the Bank review and refine the CVA and DVA methodologies on an ongoing basis.

- **Valuation of uncollateralised derivatives**

  In line with evolving industry practice, Funding fair value adjustment (FFVA) reflects the funding of uncollateralised derivative exposure at rates other than overnight interest rate (OIS). As at 31 December 2015, the FFVA was +RM10.8 million for the Group (2014: +RM2.7 million) and +RM15.7 million for the Bank (2014: +RM3.7 million), which has a one-off impact on trading revenue. This is an area in which a full industry consensus has not yet emerged. The Group will continue to monitor industry evolution and refine the calculation methodology as necessary.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

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

(v) 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:

	2015			2014		
	Derivative financial assets	**Derivative financial liabilities**	**Trading Liabilities**	Derivative financial assets	Derivative financial liabilities	Trading Liabilities
Group (RM'000)						
Balance at 1 January	**30,985**	**16,025**	**1,065,035**	80,183	25,012	1,390,073
Total gains or losses:						
-in profit or loss	**26,581**[1]	**21,445**[2]	**42,239**[2]	(11,791)[2]	(6,796)[1]	7,595[2]
Issues	**-**	**-**	**105,525**	-	-	223,545
Settlements	**-**	**(4)**	**(332,534)**	(851)	(69)	(405,639)
Transfer out of Level 3	**(13,929)**	**(21,296)**	**(28,527)**	(36,556)	(2,122)	(150,539)
Balance at 31 December	**43,637**	**16,170**	**851,738**	30,985	16,025	1,065,035

	2015			2014		
	Derivative financial assets	**Derivative financial liabilities**	**Trading Liabilities**	Derivative financial assets	Derivative financial liabilities	Trading Liabilities
Bank (RM'000)						
Balance at 1 January	**35,568**	**18,587**	**772,654**	90,689	25,012	1,189,755
Total gains or losses:						
-in profit or loss	**48,966**[1]	**18,883**[2]	**60,421**[2]	(17,714)[2]	(4,229)[1]	(801)[1]
Issues	**-**	**-**	**20,000**	-	-	4,833
Settlements	**-**	**(4)**	**(92,836)**	(851)	(69)	(275,107)
Transfer out of Level 3	**(35,209)**	**(21,296)**	**-**	(36,556)	(2,127)	(146,026)
Balance at 31 December	**49,325**	**16,170**	**760,239**	35,568	18,587	772,654

[1] Denotes gains in the Profit or Loss
[2] Denotes losses in the Profit or Loss

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)

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

(v) 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:

2015 Group (RM'000)	**Derivative financial assets**	**Derivative financial liabilities**	**Trading liabilities**
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	**(12,724)**[2]	**(2,858)** [1]	**60,211** [2]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	**39,305**[1]	**24,303**[2]	**(17,973)**[1]
2014 Group (RM'000)	Derivative financial assets	Derivative financial liabilities	Trading liabilities
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	(36,810) [2]	(22,452) [1]	(14,709) [1]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	25,019[1]	15,656[2]	22,304[2]
2015 Bank (RM'000)	**Derivative financial assets**	**Derivative financial liabilities**	**Trading liabilities**
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	**(12,725)** [2]	**(5,419)** [1]	**53,928** [2]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	**61,690**[1]	**24,302**[2]	**6,493**[2]
2014 Bank (RM'000)	Derivative financial assets	Derivative financial liabilities	Trading liabilities
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	(47,149) [2]	(22,452) [1]	(20,655) [1]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	29,435[1]	18,223[2]	19,854[2]

[1] Denotes gains in the Profit or Loss
[2] Denotes losses in the Profit or Loss

5 Use of estimates and judgements (Cont'd)

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

(vi) 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	**2015 : 4.91% - 19.88%** 2014 : 4.37% - 14.73%
Trading liabilities	Option model	Foreign currency volatility	**2015 : 4.91% - 20.47%** 2014 : 3.63% - 19.14%
		Long term equity volatility	**2015 : 12.18% - 30.96%** 2014 : 12.04% - 29.49%
		Equity/Equity Index Correlation	**2015 : 0.69** 2014 : N/A

(vii) 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 have purchased options), while the Group and the Bank's short option positions (i.e. the positions in which the Group and the Bank have 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 to 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)

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

(vii) Key unobservable inputs to Level 3 financial instruments (Cont'd)

- *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.

(ix) Sensitivity of fair values to reasonably possible alternative assumptions

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:

	2015 Effect on profit or loss		2014 Effect on profit or loss	
	Favourable changes	**Unfavourable changes**	Favourable changes	Unfavourable changes
Group (RM'000)				
Derivative financial assets	**1,967**	**(1,967)**	3,397	(3,397)
Derivative financial liabilities	**457**	**(457)**	950	(950)
Trading liabilities	**337**	**(337)**	245	(245)
	2,761	**(2,761)**	4,592	(4,592)

Favourable and unfavourable changes are determined on the sensitivity analysis. The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data. When the available data is not amenable to statistical analysis, the quantification of uncertainty is judgemental, but remains guided by the 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 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Cash and balances with banks and other financial institutions	**1,576,991**	1,354,154	**1,207,981**	1,183,220
Money at call and interbank placements maturing within one month	**16,674,918**	6,484,903	**13,110,102**	6,894,740
	18,251,909	7,839,057	**14,318,083**	8,077,960

Included in cash and short term funds of the Group and the Bank are cash collateral pledged on derivative contracts subject to an enforceable master netting arrangement amounting to RM1,356.4 million (31 December 2014: RM530.0 million) and RM1,706.4 million (31 December 2014: RM530.0 million) respectively.

7 Deposits and Placements with Banks and Other Financial Institutions

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000 (Restated)	**RM'000**	RM'000
Licensed banks	**-**	936,713	**2,635,204**	2,780,622
Bank Negara Malaysia	**-**	2,000,000	**-**	2,000,000
	-	2,936,713	**2,635,204**	4,780,622

8 Financial Assets Held-for-Trading

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
At fair value	**RM'000**	RM'000	**RM'000**	RM'000
Money market instruments:				
Malaysian Government treasury bills	**4,662**	96,088	**4,662**	96,088
Bank Negara Malaysia bills and notes	**32,459**	569,163	**32,459**	569,163
Bank Negara Malaysia Islamic bills and notes	**-**	1,451,961	**-**	1,451,961
Malaysian Government securities	**1,160,876**	479,451	**1,160,876**	479,451
Malaysian Government Islamic bonds	**194,887**	194,577	**194,397**	174,522
Islamic fixed rate bonds	**8,951**	8,827	**8,951**	8,827
Cagamas bonds and notes	**2,422**	7,283	**2,422**	7,283
	1,404,257	2,807,350	**1,403,767**	2,787,295
Unquoted securities:				
Private and Islamic debt securities (including commercial paper)	**93,101**	139,732	**83,099**	139,732
	1,497,358	2,947,082	**1,486,866**	2,927,027

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.

	Rating	Group		Bank	
		31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
		RM'000	RM'000	**RM'000**	RM'000
Money market instruments:					
Malaysian Government treasury bills	*A+ to A-*	**4,662**	96,088	**4,662**	96,088
Bank Negara Malaysia bills and notes	*A+ to A-*	**32,459**	569,163	**32,459**	569,163
Bank Negara Malaysia Islamic bills	*A+ to A-*	**-**	1,451,961	**-**	1,451,961
Malaysian Government securities	*A+ to A-*	**1,160,876**	479,451	**1,160,876**	479,451
Malaysian Government Islamic bonds	*A+ to A-*	**194,887**	194,577	**194,397**	174,522
Islamic fixed rate bonds	*A+ to A-*	**8,951**	8,827	**8,951**	8,827
Cagamas bonds and notes	- [1]	**2,422**	7,283	**2,422**	7,283
Unquoted securities:					
Private debt securities	A+ to A-	**50**	2,431	**50**	2,431
(including commercial paper)	BBB+ to BBB-	**1,650**	25,327	**1,650**	25,327
	- [1]	**91,401**	111,974	**81,399**	111,974
		1,497,358	2,947,082	**1,486,866**	2,927,027

[1] Rated separately by another rating agency.

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 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
At fair value	**RM'000**	RM'000	**RM'000**	RM'000
Money market instruments:				
Bank Negara Malaysia bills and notes	**-**	2,237,917	**-**	2,237,917
Bank Negara Malaysia Islamic bills	**-**	5,981,313	**-**	3,496,504
Malaysian Government securities	**2,684,851**	4,336,360	**2,684,851**	4,336,360
Malaysian Government Islamic bonds	**3,695,010**	3,129,628	**1,993,767**	1,707,988
Islamic fixed rate Sukuk	**501,409**	-	**501,409**	**-**
Cagamas bonds and notes	**114,860**	229,750	**114,860**	229,750
Negotiable instruments of deposit	**-**	808,944	**-**	580,070
Bankers' acceptance and Islamic accepted bills	**-**	362,198	**-**	362,198
	6,996,130	17,086,110	**5,294,887**	12,950,787
Unquoted securities:				
Shares[2]	**16,908**	16,908	**16,908**	16,908
Private debt securities (including commercial paper)	**471**	471	**471**	471
	17,379	17,379	**17,379**	17,379
	7,013,509	17,103,489	**5,312,266**	12,968,166

[2] 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

9 Financial Investments Available-for-Sale (Cont'd)

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

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Maturing within one year	**608,040**	12,229,175	**436,330**	9,415,649
More than one year to three years	**3,677,058**	3,847,847	**2,366,184**	3,164,356
More than three years to five years	**1,797,261**	803,859	**1,578,602**	165,553
Over five years	**913,771**	205,229	**913,771**	205,229
	6,996,130	17,086,110	**5,294,887**	12,950,787

10 Loans, Advances and Financing

(i) By type

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
At amortised cost	**RM'000**	RM'000 (Restated)	**RM'000**	RM'000
Overdrafts/ cash line	**1,147,624**	1,145,597	**1,057,224**	1,052,389
Term loans/ financing:				
Housing loans/ financing	**19,167,843**	18,036,318	**14,959,077**	14,215,572
Factoring receivables	**272,248**	202,751	**272,248**	202,751
Hire purchase receivables	**229,552**	234,709	**-**	179
Lease receivables	**4,103**	5,373	**-**	-
Other term loans/ financing[1]	**14,572,062**	12,124,505	**9,748,971**	7,533,131
Bills receivable	**3,521,886**	2,311,721	**3,521,886**	2,311,721
Trust receipts	**1,681,763**	2,051,102	**1,078,082**	1,692,511
Claims on customers under acceptance credits	**2,914,765**	2,679,153	**2,080,795**	2,059,895
Staff loans/ financing	**164,549**	271,252	**157,040**	263,215
Credit/ charge cards	**2,827,815**	2,761,988	**2,258,457**	2,262,168
Revolving credit	**5,387,012**	4,226,563	**4,580,314**	3,608,324
Other loans/ financing	**5,502**	5,240	**5,502**	5,240
Gross loans, advances and financing	**51,896,724**	46,056,272	**39,719,596**	35,207,096
Less: Allowance for impaired loans, advances and financing				
- Collectively assessed	**(444,234)**	(388,060)	**(303,970)**	(263,243)
- Individually assessed	**(230,297)**	(234,520)	**(161,650)**	(190,699)
Total net loans, advances and financing	**51,222,193**	45,433,692	**39,253,976**	34,753,154

[1] Included in the loans, advances and financing of the Bank at 31 December 2015 are financing which are disclosed as "Asset under Management" in the financial statements of HSBC Amanah Malaysia Berhad. These details are as follows:

	Bank	
	31 Dec 2015	31 Dec 2014
	RM'000	RM'000
Under SIAF/IAA arrangement	**1,130,134**	-
Under RPSIA arrangement	**19,918**	415,743
	1,150,052	415,743

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Loans, Advances and Financing (Cont'd)

(i) By type (Cont'd)

The Restricted Profit Sharing Investment Account (RPSIA) is with the Bank's fully owned subsidiary, HBMS, and the contract is based on the Mudharabah principle where the Bank provides the funds, whilst the assets are managed by HBMS. 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. Effective 31 March 2015, Syndicated Investment Account for Financing/Investment Agency Account (SIAF/IAA) replaces RPSIA for new advances and financing.

SIAF/IAA arrangement is with the Bank's fully owned subsidiary, HBMS, and the contract is based on the Wakalah principle where the Bank, solely or together with other financial institutions provide the funds, whilst the assets are managed by HBMS (as the Wakeel or agent). However, in the arrangement, the profits of the underlying assets are recognised by the Bank propotionately in relation to the funding it provides in the syndication arrangement . At the same time, risks on the financing are also proportionately borne by the Bank. Hence, the underlying assets and allowances for impairment arising thereon, if any, are proportionately recognised and accounted for by the Bank.

The recognition and derecognition treatments of the above are in accordance to Note 3(g) on financial instruments.

(ii) By type of customer

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000 (Restated)	**RM'000**	RM'000
Domestic non-bank financial institutions	**694,721**	441,157	**24,423**	48,218
Domestic business enterprises:				
Small medium enterprises	**8,223,786**	8,792,820	**6,219,138**	6,834,808
Others	**14,469,283**	10,401,256	**11,524,779**	8,185,015
Government and statutory bodies	**13,566**	15,898	**-**	-
Individuals	**22,308,675**	21,475,960	**16,877,437**	16,544,176
Other domestic entities	**7,374**	7,569	**5,806**	5,912
Foreign entities	**6,179,319**	4,921,612	**5,068,013**	3,588,967
	51,896,724	46,056,272	**39,719,596**	35,207,096

(iii) By residual contractual maturity

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000 (Restated)	**RM'000**	RM'000
Maturity within one year	**21,355,694**	19,008,204	**16,822,828**	14,296,962
More than one year to three years	**3,319,943**	2,462,824	**2,677,241**	2,060,725
More than three years to five years	**3,891,796**	2,575,614	**2,401,563**	1,702,259
More than five years	**23,329,291**	22,009,630	**17,817,964**	17,147,150
	51,896,724	46,056,272	**39,719,596**	35,207,096

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Loans, Advances and Financing (Cont'd)

(iv) By interest/ profit rate sensitivity

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
		(Restated)		(Restated)
Fixed rate:				
Housing loans/ financing	**2,252**	3,180	**1,117**	824
Hire purchase receivables	**229,552**	234,709	**-**	179
Other fixed rate loans/ financing	**12,318,223**	11,138,950	**9,478,120**	8,799,429
Variable rate:				
BR/BLR/BFR plus	**24,212,548**	23,177,661	**18,934,600**	18,334,179
Cost-plus	**15,134,149**	11,501,772	**11,305,759**	8,072,485
	51,896,724	46,056,272	**39,719,596**	35,207,096

(v) By sector

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
		(Restated)		
Agricultural, hunting, forestry and fishing	**1,720,576**	1,059,841	**1,096,316**	793,502
Mining and quarrying	**479,285**	426,246	**272,991**	258,451
Manufacturing	**7,521,846**	6,944,964	**6,215,602**	5,711,852
Electricity, gas and water	**22,666**	85,730	**7,894**	9,540
Construction	**2,729,566**	2,329,628	**2,132,411**	1,627,031
Real estate	**2,837,599**	1,698,471	**2,444,665**	1,460,445
Wholesale & retail trade and restaurants & hotels	**4,272,413**	3,154,948	**3,183,647**	2,361,583
Transport, storage and communication	**273,544**	351,263	**107,101**	137,821
Finance, insurance and business services	**3,004,155**	3,149,171	**1,968,693**	2,460,050
Household-retail	**25,630,503**	24,441,387	**19,556,780**	18,913,944
Others	**3,404,571**	2,414,623	**2,733,496**	1,472,877
	51,896,724	46,056,272	**39,719,596**	35,207,096

(vi) By purpose

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
		(Restated)		
Purchase of property:				
Residential	**19,271,634**	18,308,549	**15,059,601**	14,485,372
Non residential	**1,744,138**	1,653,267	**903,557**	857,020
Purchase of securities	**6,862**	7,714	**6,862**	7,714
Purchase of transport vehicles	**35,792**	42,309	**33,670**	39,950
Purchase of fixed assets excluding land & building	**3,706**	12,716	**-**	-
Consumption credit	**5,723,729**	5,457,907	**4,135,358**	4,008,147
Construction	**2,169,570**	2,329,628	**1,583,287**	1,627,031
Working capital	**20,059,671**	16,259,428	**15,598,026**	12,951,649
Other purpose	**2,881,622**	1,984,754	**2,399,235**	1,230,213
	51,896,724	46,056,272	**39,719,596**	35,207,096

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Loans, Advances and Financing (Cont'd)

(vii) By geographical distribution

	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000 (Restated)	**RM'000**	RM'000 (Restated)
Northern Region	**7,152,739**	6,950,812	**5,703,936**	5,581,975
Southern Region	**7,065,940**	6,397,801	**5,427,271**	4,868,264
Central Region	**34,509,511**	29,046,138	**25,900,380**	21,577,292
Eastern Region	**3,168,534**	3,661,521	**2,688,009**	3,179,565
	51,896,724	46,056,272	**39,719,596**	35,207,096

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

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.

11 Impaired Loans, Advances and Financing

(i) Movements in impaired loans, advances and financing

	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Balance at 1 January	**688,245**	792,365	**526,018**	625,459
Classified as impaired during the financial year	**1,181,396**	1,042,144	**861,773**	776,210
Reclassified as performing	**(452,339)**	(556,075)	**(342,958)**	(423,343)
Amount recovered	**(240,611)**	(374,863)	**(185,717)**	(310,591)
Amount written off	**(235,610)**	(215,326)	**(153,314)**	(141,717)
Balance at 31 December	**941,081**	688,245	**705,802**	526,018

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
Collective allowance for impairment	**RM'000**	RM'000	**RM'000**	RM'000
Balance at 1 January	**388,060**	382,316	**263,243**	263,026
Made during the financial year	**400,892**	281,197	**248,706**	162,585
Amount released	**(161,354)**	(69,701)	**(103,044)**	(43,828)
Amount written off	**(183,364)**	(205,752)	**(104,935)**	(118,540)
Balance at 31 December	**444,234**	388,060	**303,970**	263,243

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
Individual allowance for impairment	**RM'000**	RM'000	**RM'000**	RM'000
Balance at 1 January	**234,520**	318,112	**190,699**	276,975
Made during the financial year	**115,782**	122,431	**69,953**	88,788
Amount released	**(93,421)**	(178,266)	**(65,704)**	(146,527)
Amount written off	**(26,584)**	(27,757)	**(33,298)**	(28,537)
Balance at 31 December	**230,297**	234,520	**161,650**	190,699

(iii) By sector

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Agricultural, hunting, forestry and fishing	**125,667**	964	**125,667**	964
Manufacturing	**44,890**	48,174	**23,797**	34,582
Electricity, gas and water	**-**	3	**-**	-
Construction	**44,467**	44,512	**44,263**	43,730
Real estate	**700**	8	**700**	8
Wholesale & retail trade, restaurants & hotels	**58,603**	71,742	**48,931**	68,801
Transport, storage and communication	**8,668**	6,440	**3,225**	770
Finance, insurance and business services	**5,531**	1,596	**4**	971
Household-retail	**651,902**	513,716	**459,215**	375,699
Others	**653**	1,090	**-**	493
	941,081	688,245	**705,802**	526,018

(iv) By purpose

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Purchase of property:				
Residential	**402,093**	304,763	**307,109**	248,800
Non residential	**22,768**	23,649	**12,513**	16,463
Purchase of securities	**-**	1	**-**	1
Purchase of transport vehicles	**688**	872	**555**	576
Purchase of fixed assets excluding land & building	**358**	-	**-**	-
Consumption credit	**237,962**	187,622	**142,192**	112,948
Construction	**44,782**	44,512	**44,578**	43,730
Working capital	**232,430**	126,140	**198,855**	103,500
Other purpose	**-**	686	**-**	-
	941,081	688,245	**705,802**	526,018

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

(v) By geographical distribution

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Northern Region	**168,686**	142,255	**114,584**	108,391
Southern Region	**107,824**	91,696	**77,557**	70,451
Central Region	**464,794**	386,431	**323,030**	288,451
Eastern Region	**199,777**	67,863	**190,631**	58,725
	941,081	688,245	**705,802**	526,018

12 Other Assets

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Settlements	**38,819**	377,411	**38,819**	377,411
Interest/profit receivable	**94,452**	123,964	**93,111**	115,109
Other receivables, deposits and prepayments	**146,929**	161,658	**126,801**	71,440
	280,200	663,033	**258,731**	563,960

13 Statutory Deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia (BNM) 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 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	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 2015	31 Dec 2014
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.

15 Investment in a Joint Venture

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. As the joint arrangement is immaterial, no further disclosure is made in this financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Property and equipment

	Group									
2015	*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 at 1 January	**113,088**	**16,717**	**5,074**	**122,362**	**11,163**	**3,526**	**238,372**	**115,346**	**3,192**	**628,840**
Additions	**-**	**-**	**-**	**-**	**-**	**-**	**6,151**	**4,324**	**299**	**10,774**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(12)**	**(175)**	**(383)**	**(570)**
Written off	**-**	**-**	**-**	**-**	**-**	**-**	**(2,199)**	**(67)**	**-**	**(2,266)**
Adjustments for revaluation	**8,480**	**50**	**100**	**20**	**-**	**-**	**-**	**-**	**-**	**8,650**
Balance at 31 December	**121,568**	**16,767**	**5,174**	**122,382**	**11,163**	**3,526**	**242,312**	**119,428**	**3,108**	**645,428**
Representing items at:										
Cost	**-**	**-**	**-**	**-**	**-**	**-**	**242,312**	**119,428**	**3,108**	**364,848**
Valuation - 2015	**121,568**	**16,767**	**5,174**	**122,382**	**11,163**	**3,526**	**-**	**-**	**-**	**280,580**
	121,568	**16,767**	**5,174**	**122,382**	**11,163**	**3,526**	**242,312**	**119,428**	**3,108**	**645,428**
Accumulated depreciation										
Balance at 1 January	**-**	**-**	**-**	**-**	**-**	**-**	**188,547**	**87,220**	**1,571**	**277,338**
Charge for the financial year	**-**	**493**	**130**	**3,138**	**309**	**91**	**18,623**	**10,259**	**583**	**33,626**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(12)**	**(175)**	**(339)**	**(526)**
Written off	**-**	**-**	**-**	**-**	**-**	**-**	**(2,168)**	**(67)**	**-**	**(2,235)**
Reclassification/other movements	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Adjustments for revaluation	**-**	**(493)**	**(130)**	**(3,138)**	**(309)**	**(91)**	**-**	**-**	**-**	**(4,161)**
Balance at 31 December	**-**	**-**	**-**	**-**	**-**	**-**	**204,990**	**97,237**	**1,815**	**304,042**
Net book value at 31 December	**121,568**	**16,767**	**5,174**	**122,382**	**11,163**	**3,526**	**37,322**	**22,191**	**1,293**	**341,386**
Carrying amounts that would have been recognised if land and building were stated at cost	**5,203**	**1,035**	**1,257**	**50,162**	**6,665**	**2,275**	**37,322**	**22,191**	**1,293**	**127,403**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Property and equipment (Cont'd)

	Group									
2014	*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 at 1 January	104,218	15,717	4,674	122,342	11,163	3,526	236,490	114,256	2,883	615,269
Additions	-	-	-	64	-	-	5,042	13,082	313	18,501
Disposals	-	-	-	-	-	-	(76)	(1,849)	-	(1,925)
Written off	-	-	-	-	-	-	(3,084)	(10,143)	(4)	(13,231)
Adjustments for revaluation	8,870	1,000	400	(44)	-	-	-	-	-	10,226
Balance at 31 December	113,088	16,717	5,074	122,362	11,163	3,526	238,372	115,346	3,192	628,840
Representing items at:										
Cost	-	-	-	-	-	-	238,372	115,346	3,192	356,910
Valuation - 2014	113,088	16,717	5,074	122,362	11,163	3,526	-	-	-	271,930
	113,088	16,717	5,074	122,362	11,163	3,526	238,372	115,346	3,192	628,840
Accumulated depreciation										
Balance at 1 January	-	-	-	-	-	-	170,456	88,708	1,058	260,222
Charge for the financial year	-	455	117	3,065	301	88	21,245	9,929	517	35,717
Disposals	-	-	-	-	-	-	(76)	(1,286)	-	(1,362)
Written off	-	-	-	-	-	-	(3,077)	(10,132)	(4)	(13,213)
Reclassification/other movements	-	-	-	-	-	-	(1)	1	-	-
Adjustments for revaluation	-	(455)	(117)	(3,065)	(301)	(88)	-	-	-	(4,026)
Balance at 31 December	-	-	-	-	-	-	188,547	87,220	1,571	277,338
Net book value at 31 December	113,088	16,717	5,074	122,362	11,163	3,526	49,825	28,126	1,621	351,502
Carrying amounts that would have been recognised if land and building were stated at cost	5,203	1,069	1,293	52,572	6,999	2,351	49,825	28,126	1,621	149,059

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NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Property and equipment (Cont'd)

	Bank									
2015	***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 at 1 January	**113,088**	**16,717**	**5,074**	**122,362**	**11,163**	**3,526**	**203,434**	**97,714**	**2,971**	**576,049**
Additions	**-**	**-**	**-**	**-**	**-**	**-**	**6,020**	**3,530**	**-**	**9,550**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(12)**	**(175)**	**(162)**	**(349)**
Written off	**-**	**-**	**-**	**-**	**-**	**-**	**(2,199)**	**(67)**	**-**	**(2,266)**
Adjustments for revaluation	**8,480**	**50**	**100**	**20**	**-**	**-**	**-**	**-**	**-**	**8,650**
Balance at 31 December	**121,568**	**16,767**	**5,174**	**122,382**	**11,163**	**3,526**	**207,243**	**101,002**	**2,809**	**591,634**
Representing items at:										
Cost	**-**	**-**	**-**	**-**	**-**	**-**	**207,243**	**101,002**	**2,809**	**311,054**
Valuation - 2015	**121,568**	**16,767**	**5,174**	**122,382**	**11,163**	**3,526**	**-**	**-**	**-**	**280,580**
	121,568	**16,767**	**5,174**	**122,382**	**11,163**	**3,526**	**207,243**	**101,002**	**2,809**	**591,634**
Accumulated depreciation										
Balance at 1 January	**-**	**-**	**-**	**-**	**-**	**-**	**163,466**	**75,893**	**1,402**	**240,761**
Charge for the financial year	**-**	**493**	**130**	**3,138**	**309**	**91**	**13,697**	**8,147**	**515**	**26,520**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(12)**	**(175)**	**(162)**	**(349)**
Written off	**-**	**-**	**-**	**-**	**-**	**-**	**(2,168)**	**(67)**	**-**	**(2,235)**
Adjustments for revaluation	**-**	**(493)**	**(130)**	**(3,138)**	**(309)**	**(91)**	**-**	**-**	**-**	**(4,161)**
Balance at 31 December	**-**	**-**	**-**	**-**	**-**	**-**	**174,983**	**83,798**	**1,755**	**260,536**
Net book value at 31 December	**121,568**	**16,767**	**5,174**	**122,382**	**11,163**	**3,526**	**32,260**	**17,204**	**1,054**	**331,098**
Carrying amounts that would have been recognised if land and building were stated at cost	**5,203**	**1,035**	**1,257**	**50,162**	**6,665**	**2,275**	**32,260**	**17,204**	**1,054**	**117,115**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Property and equipment (Cont'd)

	Bank									
2014	*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 at 1 January	104,218	15,717	4,674	122,342	11,163	3,526	202,714	97,096	2,662	564,112
Additions	-	-	-	64	-	-	3,880	12,354	313	16,611
Disposals	-	-	-	-	-	-	(76)	(1,849)	-	(1,925)
Written off	-	-	-	-	-	-	(3,084)	(9,887)	(4)	(12,975)
Adjustments for revaluation	8,870	1,000	400	(44)	-	-	-	-	-	10,226
Balance at 31 December	113,088	16,717	5,074	122,362	11,163	3,526	203,434	97,714	2,971	576,049
Representing items at:										
Cost	-	-	-	-	-	-	203,434	97,714	2,971	304,119
Valuation - 2014	113,088	16,717	5,074	122,362	11,163	3,526	-	-	-	271,930
	113,088	16,717	5,074	122,362	11,163	3,526	203,434	97,714	2,971	576,049
Accumulated depreciation										
Balance at 1 January	-	-	-	-	-	-	151,624	79,301	933	231,858
Charge for the financial year	-	455	117	3,065	301	88	14,996	7,753	473	27,248
Disposals	-	-	-	-	-	-	(76)	(1,286)	-	(1,362)
Written off	-	-	-	-	-	-	(3,077)	(9,876)	(4)	(12,957)
Reclassification	-	-	-	-	-	-	(1)	1	-	-
Adjustments for revaluation	-	(455)	(117)	(3,065)	(301)	(88)	-	-	-	(4,026)
Balance at 31 December	-	-	-	-	-	-	163,466	75,893	1,402	240,761
Net book value at 31 December	113,088	16,717	5,074	122,362	11,163	3,526	39,968	21,821	1,569	335,288
Carrying amounts that would have been recognised if land and building were stated at cost	5,203	1,069	1,293	52,572	6,999	2,351	39,968	21,821	1,569	132,845

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Intangible Assets

Computer software	***Group***	***Bank***
2015	**RM'000**	**RM'000**
Cost		
Balance at 1 January	**244,651**	**239,558**
Additions	**32,703**	**32,703**
Written off	**(20,727)**	**(20,687)**
Balance at 31 December	**256,627**	**251,574**
Accumulated depreciation		
Balance at 1 January	**183,048**	**177,957**
Charge for the financial year	**26,517**	**26,515**
Written off	**(17,640)**	**(17,600)**
At 31 December	**191,925**	**186,872**
Accumulated depreciation	***186,758***	***181,705***
Accumulated impairment loss	***5,167***	***5,167***
Net book value at 31 December	**64,702**	**64,702**
2014	**RM'000**	**RM'000**
Cost		
Balance at 1 January	**216,424**	**211,331**
Additions	**28,783**	**28,783**
Disposal	**(118)**	**(118)**
Written off	**(438)**	**(438)**
Balance at 31 December	**244,651**	**239,558**
Accumulated depreciation		
Balance at 1 January	**161,072**	**155,988**
Charge for the financial year	**22,532**	**22,525**
Disposal	**(118)**	**(118)**
Written off	**(438)**	**(438)**
At 31 December	**183,048**	**177,957**
Accumulated depreciation	***177,881***	***172,790***
Accumulated impairment loss	***5,167***	***5,167***
Net book value at 31 December	**61,603**	**61,601**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Deferred tax assets	**135,795**	122,808	**128,214**	113,742
Deferred tax liabilities	**(50,794)**	(51,155)	**(48,761)**	(49,846)
	85,001	71,653	**79,453**	63,896

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

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Deferred tax assets:				
- settled more than 12 months	**5,386**	6,027	**2,586**	1,973
- settled within 12 months	**130,409**	116,781	**125,628**	111,769
Deferred tax liabilities:				
- settled more than 12 months	**(46,043)**	(43,707)	**(44,313)**	(42,777)
- settled within 12 months	**(4,751)**	(7,448)	**(4,448)**	(7,069)
	85,001	71,653	**79,453**	63,896

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

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Property and equipment				
Capital allowances	**(14,902)**	(21,942)	**(14,453)**	(20,669)
Revaluation	**(30,007)**	(29,177)	**(30,007)**	(29,177)
Available-for-sale reserve	**(5,863)**	3,466	**(4,301)**	1,417
Provision for accrued expenses	**134,933**	117,268	**127,476**	110,274
Others temporary differences	**862**	2,074	**738**	2,051
Lease receivables	**(22)**	(36)	**-**	-
	85,001	71,653	**79,453**	63,896

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deferred Tax Assets (Cont'd)

Movement in temporary differences during the financial year

	Group						
	As at 1 Jan 14	*Recognised in profit or loss*	*Recognised in other comprehensive income*	***As at 31 Dec 2014 / Jan 15***	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***As at 31 Dec 2015***
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Available-for-sale reserve	2,291	-	1,175	**3,466**	-	(3,466)	**-**
Cash flow hedge reserve	(16)	-	16	**-**	-	-	**-**
Provision for accrued expenses	129,329	(12,061)	-	**117,268**	17,665	-	**134,933**
Other temporary differences	1,536	538	-	**2,074**	(1,212)	-	**862**
Deferred Tax Assets	133,140	(11,523)	1,191	**122,808**	**16,453**	**(3,466)**	**135,795**
Property and equipment							
- capital allowances	(19,398)	(2,544)	-	**(21,942)**	7,040	-	**(14,902)**
- revaluation	(26,704)	(743)	(1,730)	**(29,177)**	629	(1,459)	**(30,007)**
Lease receivables	(62)	26	-	**(36)**	14	-	**(22)**
Available-for-sale reserve	-	-	-	**-**	-	(5,863)	**(5,863)**
Deferred Tax Liabilities	(46,164)	(3,261)	(1,730)	**(51,155)**	**7,683**	**(7,322)**	**(50,794)**
Net Deferred Tax Assets	86,976	(14,784)	(539)	**71,653**	**24,136**	**(10,788)**	**85,001**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deferred Tax Assets (Cont'd)

Movement in temporary differences during the financial year (Cont'd)

	Bank						
	As at 1 Jan 14	*Recognised in profit or loss*	*Recognised in other comprehensive income*	***As at 31 Dec 2014 / Jan 15***	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***As at 31 Dec 2015***
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Available-for-sale reserve	304	-	1,113	**1,417**	**-**	**(1,417)**	**-**
Cash flow hedge reserve	(16)	-	16	**-**	**-**	**-**	**-**
Provision for accrued expenses	122,290	(12,016)	-	**110,274**	**17,202**	**-**	**127,476**
Other temporary differences	1,520	531	-	**2,051**	**(1,313)**	**-**	**738**
Deferred Tax Assets	124,098	(11,485)	1,129	**113,742**	**15,889**	**(1,417)**	**128,214**
Property and equipment							
- capital allowances	(17,511)	(3,158)	-	**(20,669)**	**6,216**	**-**	**(14,453)**
- revaluation	(26,704)	(743)	(1,730)	**(29,177)**	**629**	**(1,459)**	**(30,007)**
Available-for-sale reserve	-	-	-	**-**	**-**	**(4,301)**	**(4,301)**
Deferred Tax Liabilities	(44,215)	(3,901)	(1,730)	**(49,846)**	**6,845**	**(5,760)**	**(48,761)**
Net Deferred Tax Assets	79,883	(15,386)	(601)	**63,896**	**22,734**	**(7,177)**	**79,453**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Deposits from Customers

(i) By type of deposit	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
At amortised cost				
Demand deposits	**20,391,898**	16,422,923	**18,534,667**	14,873,978
Savings deposits	**13,232,616**	11,884,375	**11,643,195**	10,533,204
Fixed / Investment deposits	**25,627,793**	27,235,752	**19,828,734**	21,153,190
Repurchase agreements	**140,412**	205,055	**-**	-
Wholesale money market deposits	**497,383**	722,480	**497,383**	722,480
Negotiable instruments of deposit	**759,821**	1,565,790	**759,821**	884,379
	60,649,923	58,036,375	**51,263,800**	48,167,231
At fair value				
Structured investments [1]	**2,770,887**	3,271,858	**2,770,887**	2,164,842
	63,420,810	61,308,233	**54,034,687**	50,332,073

[1] Effective 1 July 2015, Islamic structured products are classified in Other Liabilities (refer to Note 21)

Structured investments and negotiable instruments of deposits (included as customer deposits) are measured at fair value over the life of the instruments. Structured investments are deposits with embedded derivatives, of which both interest paid and fair valuation on the structured investments are recorded in net trading income, as per the accounting policy in Note 3(j), and respective fair value on trading liabilities is shown in Note 5(b)(ii).

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

Due within six months	**20,002,882**	21,491,012	**15,096,219**	16,212,088
More than six months to one year	**5,241,926**	5,749,002	**4,393,641**	4,764,425
More than one year to three years	**1,088,277**	1,067,139	**1,046,214**	997,257
More than three years to five years	**54,529**	494,389	**52,481**	63,799
	26,387,614	28,801,542	**20,588,555**	22,037,569

(ii) By type of customer	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Government and statutory bodies	**40,167**	73,212	**31,319**	61,658
Business enterprises	**22,005,082**	19,796,380	**19,625,098**	17,632,658
Individuals	**28,564,864**	30,838,842	**23,498,950**	24,049,006
Others	**12,810,697**	10,599,799	**10,879,320**	8,588,751
	63,420,810	61,308,233	**54,034,687**	50,332,073

20 Deposits and Placements from Banks and Other Financial Institutions

	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Licensed banks	**1,139,449**	434,025	**1,139,470**	434,025
Bank Negara Malaysia	**49,614**	19,643	**-**	-
Other financial institutions	**6,773,303**	7,825,291	**5,496,135**	7,825,291
	7,962,366	8,278,959	**6,635,605**	8,259,316

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Other Liabilities

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
At amortised cost				
Settlements	**191,926**	589,530	**191,926**	589,530
Interest/profit payable	**266,260**	253,984	**197,348**	193,687
Other creditors and accruals	**1,674,543**	1,249,186	**1,756,879**	1,291,281
	2,132,729	2,092,700	**2,146,153**	2,074,498
At fair value				
Islamic structured products [1]	**1,268,657**	-	**-**	-
	3,401,386	2,092,700	**2,146,153**	2,074,498

[1] Effective 1 July 2015, Islamic structured products are being reclassified from Deposit from Customers (refer to Note19). Islamic structured products are measured at fair value over the life of the instruments. Islamic structured products are deposits with embedded derivatives, of which both profit paid and fair valuation on the Islamic structured products are recorded in net trading income, as per accounting policy in Note 3(e), and respective fair value on trading liabilities is shown in Note 5(b)(ii) .

22 Multi-Currency Sukuk Programme

	Group	
	31 Dec 2015	31 Dec 2014
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	**1,749,823**	1,001,854

HSBC Amanah Malaysia Berhad, a subsidiary of the Bank, issued the following series of 5-year Sukuk under its RM3 billion MCSP:

Issuance under MCSP	**Nominal Value (RM'000)**	**Issue Date**	**Maturity Date**	**Carrying Value (RM'000) 31 Dec 2015**	**Carrying Value (RM'000)** 31 Dec 2014
At amortised cost					
1st series at amortised cost	500,000	28 Sep 2012	28 Sep 2017	**500,000**	500,000
At fair value					
2nd series	500,000	16 Oct 2014	16 Oct 2019	**500,641**	501,854
3rd series	750,000	27 Mar 2015	27 Mar 2020	**749,182**	-
	1,250,000			**1,249,823**	501,854
Total	1,750,000			**1,749,823**	1,001,854

Movement in MCSP	**2nd series**		**3rd series**	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Balance at 1 January	**501,854**	-	**-**	-
New issuance during the financial year	**-**	500,000	**750,000**	-
Change in fair value other than from own credit risk	**1,374**	4,482	**(7,020)**	-
Change in fair value from own credit risk	**(2,587)**	(2,628)	**6,202**	-
Balance at 31 December	**500,641**	501,854	**749,182**	-

	Group	
	31 Dec 2015	31 Dec 2014
	RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk	**3,615**	(2,628)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Subordinated Liabilities

		Group		Bank	
		31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
		RM'000	RM'000	**RM'000**	RM'000
	Subordinated Liabilities	**1,621,340**	1,275,382	**1,621,340**	1,275,382
(i)	Subordinated liabilities, at par	**1,000,000**	1,000,000	**1,000,000**	1,000,000
	Fair value changes arising from fair value hedge	**2,879**	3,746	**2,879**	3,746
		1,002,879	1,003,746	**1,002,879**	1,003,746

(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 unsecured subordinated liabilities qualify as a component of Tier 2 capital of the Bank. Under the Capital Adequacy Framework (Capital Components), the par value of the subordinated liabilities 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.

		Group		Bank	
		31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
		RM'000	RM'000	**RM'000**	RM'000
(ii)	Subordinated term loan				
	- First tranche issued on 25 June 2014	**333,515**	271,636	**333,515**	271,636
	- Second tranche issued on 30 June 2015	**284,946**	-	**284,946**	-
		618,461	271,636	**618,461**	271,636

The subordinated term loans comprised two tranches of Basel III compliant Tier 2 subordinated loans of USD equivalent of RM250 million each from the Bank's immediate holding company, HBAP. The tenor for both the subordinated term loans is 10 years from the utilisation date with interest payable quarterly in arrears.

The subordinated term loans constitute direct, unsecured and subordinated obligations of the Bank. The Bank further invested a similar amount into HBMS.

24 Share Capital

	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	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				
At 1 January/31 December	**114,500**	114,500	**114,500**	114,500

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Reserves

	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	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	**186,962**	177,624	**186,962**	177,624
Capital redemption reserve	**190,000**	190,000	**190,000**	190,000
Available-for-sale reserve	**18,569**	(10,975)	**13,623**	(4,487)
Capital contribution reserve	**95,953**	97,757	**94,895**	96,383
Regulatory reserve	**284,000**	180,000	**250,000**	167,000
Retained profits (exclude proposed dividends)	**6,052,662**	5,352,273	**5,350,760**	4,751,450
	7,734,021	6,892,554	**6,942,115**	6,233,845

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 capital contribution reserve is maintained to record the amount relating to share options granted to employees of the Group and the Bank directly by HSBC Holding Plc.

The regulatory reserve is maintained in compliance with paragraph 13 of BNM's policy document on Classification and Impairment Provisions for Loans/ Financing and subsequent circular issued on 4 February 2014, to maintain, in aggregate, collective impairment allowance and regulatory reserve of no less than 1.2% of gross loans, advances, and financing, net of individual impairment allowance. The regulatory reserve is debited against retained profit.

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

26 Net Interest Income

	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	**1,656,735**	1,586,775	**1,656,735**	1,586,775
- Interest income recognised from impaired loans	**39,104**	57,070	**39,104**	57,070
Money at call and deposit placements with financial institutions	**493,598**	535,582	**562,092**	578,096
Financial investments available-for-sale	**312,054**	244,341	**312,054**	244,341
	2,501,491	2,423,768	**2,569,985**	2,466,282
Interest expense				
Deposits and placements of banks and other financial institutions	**(115,172)**	(110,008)	**(115,172)**	(110,008)
Deposits from customers	**(804,365)**	(738,726)	**(804,365)**	(738,726)
Subordinated liabilities	**(56,357)**	(47,453)	**(56,357)**	(47,453)
Others	**(11,114)**	(8,899)	**(11,114)**	(8,899)
	(987,008)	(905,086)	**(987,008)**	(905,086)
Net interest income	**1,514,483**	1,518,682	**1,582,977**	1,561,196

27 Net Fee and Commission Income

	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Fee and commission income				
Credit cards	**162,851**	175,700	**162,851**	175,700
Service charges and fees	**177,427**	192,474	**177,427**	192,474
Fees on credit facilities	**44,927**	38,879	**44,927**	38,879
Agency fee	**62,694**	64,390	**62,694**	64,390
Others	**38,278**	17,580	**38,308**	17,610
	486,177	489,023	**486,207**	489,053
Fee and commission expense				
Interbank and clearing fees	**(1,403)**	(1,496)	**(1,403)**	(1,496)
Brokerage	**(2,323)**	(2,589)	**(2,323)**	(2,589)
Others	**(46,954)**	(33,357)	**(46,955)**	(33,357)
	(50,680)	(37,442)	**(50,681)**	(37,442)
Net fee and commission income	**435,497**	451,581	**435,526**	451,611

28 Net Trading Income

	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Realised gains on financial assets/liabilities held-for-trading and other financial instruments	**122,907**	50,830	**122,907**	50,830
Net interest (expense)/income from financial assets held-for-trading	**(23,815)**	36,020	**(23,815)**	36,020
Net unrealised gains on revaluation of financial assets held-for-trading	**18,523**	27,433	**18,523**	27,433
Net realised gains arising from dealing in foreign currency	**286,257**	218,702	**275,947**	246,879
Net unrealised gains from dealing in foreign currency	**163,357**	58,137	**199,072**	52,108
Net realised gains arising from dealing in derivatives	**51,768**	67,444	**48,812**	64,572
Net unrealised losses on revaluation of derivatives	**(4,153)**	(92,361)	**(12,416)**	(91,618)
Gains/(losses) arising from fair value hedges	**173**	(238)	**173**	(238)
	615,017	365,967	**629,203**	385,986

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 Income from Islamic Banking operations

	Group	
	31 Dec 2015	31 Dec 2014
	RM'000	RM'000
Income derived from investment of depositor funds and others	**732,672**	662,117
Income derived from investment of shareholders funds [1]	**132,722**	131,598
Income attributable to the depositors	**(307,015)**	(247,487)
	558,379	546,228
[1] Included in income derived from investment of shareholders funds of the Group at 31 December are net losses on financial instruments designated at fair value through profit or loss	**(1,839)**	(4,546)

30 Other Operating Income

	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Disposal of financial investments available-for-sale	**28,228**	10,038	**28,228**	10,038
Dividend income from financial investments available-for-sale				
- Unquoted in Malaysia	**1,450**	1,415	**1,450**	1,415
Rental income	**6,569**	6,982	**6,569**	6,982
Net gains/(loss) on disposal of property and equipment	**78**	(460)	**78**	(460)
Net upwards revaluation on property	**22**	21	**22**	21
Other operating income	**25,636**	19,560	**148,903**	149,988
	61,983	37,556	**185,250**	167,984

31 Loans/ Financing Impairment Charges and other Credit Risk Provisions

	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Impairment charges on loans and financing:				
(a) Individual allowance for impairment				
- Made during the financial year	**115,782**	122,431	**69,953**	88,788
- Written back	**(93,421)**	(178,266)	**(65,704)**	(146,527)
(b) Collective allowance for impairment				
- Made during the financial year	**400,892**	281,197	**248,706**	162,585
- Written back	**(161,354)**	(69,701)	**(103,044)**	(43,828)
Impaired loans and financing				
- Recovered during the financial year	**(102,380)**	(89,607)	**(70,151)**	(58,794)
- Written off	**10,086**	42,485	**7,358**	37,726
Impairment charges on other credit related items				
- Made during the financial year	**130**	(830)	**130**	(830)
	169,735	107,709	**87,248**	39,120

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Other Operating Expenses

	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Personnel expenses	**732,360**	634,284	**685,226**	591,165
Promotion and marketing related expenses	**106,831**	106,297	**83,347**	81,343
Establishment related expenses	**164,778**	152,127	**143,885**	129,702
General administrative expenses	**531,202**	432,883	**505,958**	420,611
	1,535,171	1,325,591	**1,418,416**	1,222,821
Personnel expenses				
Salaries, allowances and bonuses	**551,613**	481,896	**513,902**	446,962
Employees Provident Fund contributions	**90,595**	80,437	**84,129**	74,726
Others	**90,152**	71,951	**87,195**	69,477
	732,360	634,284	**685,226**	591,165
Promotion and marketing related expenses	**106,831**	106,297	**83,347**	81,343
Establishment related expenses				
Depreciation of property and equipment	**33,626**	35,717	**26,520**	27,248
Amortisation of intangible assets	**26,517**	22,532	**26,515**	22,525
Intangible assets written off	**3,087**	-	**3,087**	-
Information technology costs	**17,159**	13,906	**14,248**	11,593
Hire of equipment	**9,525**	9,299	**9,525**	9,279
Rental of premises	**43,758**	42,045	**35,595**	33,747
Property and equipment written off	**31**	18	**31**	18
General repairs and maintenance	**8,658**	7,272	**8,658**	7,272
Utilities	**15,592**	15,583	**13,712**	13,590
Others	**6,825**	5,755	**5,994**	4,430
	164,778	152,127	**143,885**	129,702
General administrative expenses				
Group recharges	**373,351**	295,155	**372,364**	298,441
Auditors' remuneration				
Statutory audit fees	**425**	505	**325**	385
Audit related fees	**451**	540	**293**	370
Other services	**509**	-	**440**	-
Professional fees	**12,236**	9,839	**9,402**	8,308
Communication	**20,800**	22,180	**19,453**	20,746
Others	**123,430**	104,664	**103,681**	92,361
	531,202	432,883	**505,958**	420,611

Included in personnel expenses comprise remuneration paid to the Shariah Committee members of HBMS:

	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Shariah Committee members	**399**	427	**-**	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Tax expense

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Malaysian income tax				
- Current year	**394,952**	366,144	**362,120**	324,999
- Prior years	**6,122**	(49)	**6,453**	360
Total current tax recognised in profit or loss	**401,074**	366,095	**368,573**	325,359
Deferred tax				
Origination and reversal of temporary differences				
- Current year	**(24,136)**	14,695	**(22,734)**	15,386
Total Tax expense	**376,938**	380,790	**345,839**	340,745

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

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Profit before income tax	**1,480,453**	1,486,714	**1,327,292**	1,304,836
Income tax using Malaysian tax rates (25%)	**370,113**	371,679	**331,823**	326,209
Non-deductible expenses	**9,475**	13,621	**7,926**	11,674
Tax exempt income	**(8,772)**	(7,555)	**(363)**	(354)
Impact on change of tax rates	**-**	3,094	**-**	2,856
Underprovision/(overprovision) in respect of prior years	**6,122**	(49)	**6,453**	360
Tax expense	**376,938**	380,790	**345,839**	340,745

The corporate tax rate will be reduced to 24% with effect Year of Assessment 2016. 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 financial year and 229,000,000 (2014: 229,000,000) ordinary shares of RM0.50 each in issue during the financial 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 :

i. 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

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

The related parties of the Group and the Bank comprise:

i the Bank's immediate holding bank and ultimate holding company (hereinafter collectively referred to as parent);

ii the Bank's subsidiaries;

iii associated companies of the Bank's ultimate holding company;

iv 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 (including close family members).

(a) The significant transactions and outstanding balances of the Group and the Bank with its related parties are as follows:

	Group					
	2015			2014		
	Parent	***Other related companies***	***Key management personnel***	*Parent*	*Other related companies*	*Key management personnel*
	RM'000	**RM'000**	**RM'000**	RM'000	RM'000	RM'000
Income						
Interest/finance income on deposits and placements with banks and other financial institutions	**884**	**436**	**-**	1,128	208	-
Interest/finance income on deposits from customers	**-**	**-**	**20**	-	-	20
Fees and commission	**23,965**	**29,878**	**-**	17,452	35,759	-
Other income	**5,295**	**15,123**	**-**	3,926	12,976	-
	30,144	**45,437**	**20**	22,506	48,943	20
Expenditure						
Interest/finance expense on deposits and placements from banks and other financial institutions	**35,527**	**9,058**	**-**	19,273	13,691	-
Interest/finance expense on deposits from customers	**-**	**-**	**113**	-	-	110
Fees and commission	**5,204**	**7,675**	**-**	506	6,511	-
Operating expenses	**306,030**	**67,321**	**-**	240,007	55,148	-
	346,761	**84,054**	**113**	259,786	75,350	110
Amount due from						
Deposits and placements with banks and other financial institutions	**1,094,138**	**534,461**	**-**	434,402	454,120	-
Loans, advances and financing	**-**	**-**	**8**	-	-	3,606
Derivative financial assets	**463,961**	**199,873**	**-**	242,170	126,156	-
Other assets	**2,198**	**21,959**	**-**	4,843	79,311	-
	1,560,297	**756,293**	**8**	681,415	659,587	3,606
Amount due to						
Deposit and placements from banks and other financial institutions	**5,206,001**	**729,212**	**-**	3,570,584	1,018,523	-
Deposit from customers	**-**	**-**	**5,622**	-	-	4,666
Derivative financial liabilities	**1,378,453**	**119,047**	**-**	542,884	70,459	-
Other liabilities	**297,446**	**60,521**	**-**	703,041	79,344	-
	6,881,900	**908,780**	**5,622**	4,816,509	1,168,326	4,666

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	Bank			
	2015			
	Parent	***Subsidiary bank***	***Other related companies***	***Key management personnel***
	RM'000	**RM'000**	**RM'000**	**RM'000**
Income				
Interest/finance income on deposits and placements with Banks and other financial institutions	**884**	**68,494**	**436**	**-**
Interest/finance income on deposits from customers	**-**	**-**	**-**	**1**
Fees and commission	**19,397**	**30**	**22,826**	**-**
Other income	**5,295**	**123,267**	**15,118**	**-**
	25,576	**191,791**	**38,380**	**1**
Expenditure				
Interest/finance expense on deposits and placements from Banks and other financial institutions	**27,117**	**-**	**6,516**	**-**
Interest/finance expense on deposits from customers	**-**	**-**	**-**	**62**
Fees and commission	**5,199**	**1**	**7,480**	**-**
Operating expenses	**306,030**	**3,297**	**63,037**	**-**
	338,346	**3,298**	**77,033**	**62**
Amount due from				
Deposits and placements with banks and other financial institutions	**1,088,235**	**3,451,768**	**260,159**	**-**
Loans, advances and financing	**-**	**-**	**-**	**8**
Derivative financial assets	**463,961**	**461,566**	**198,520**	**-**
Other assets	**1,462**	**10,784**	**21,653**	**-**
	1,553,658	**3,924,118**	**480,332**	**8**
Amount due to				
Deposit and placements from banks and other financial institutions	**3,928,833**	**-**	**647,487**	**-**
Deposit from customers	**-**	**-**	**-**	**3,380**
Derivative financial liabilities	**1,378,453**	**16,773**	**119,047**	**-**
Other liabilities	**296,380**	**209,358**	**59,262**	**-**
	5,603,666	**226,131**	**825,796**	**3,380**

All transactions of the Group and Bank and its related parties are made in the ordinary course of business .

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	Bank			
	2014			
	Parent	*Subsidiary bank*	*Other related companies*	*Key management personnel*
	RM'000	RM'000	RM'000	RM'000
Income				
Interest/finance income on deposits and placements with Banks and other financial institutions	1,128	42,514	208	-
Interest/finance income on deposits from customers	-	-	-	-
Fees and commission	11,419	30	23,430	-
Other income	3,926	130,428	12,324	-
	16,473	172,972	35,962	-
Expenditure				
Interest/finance expense on deposits and placements from Banks and other financial institutions	19,273	-	11,138	-
Interest/finance expense on deposits from customers	-	-	-	21
Fees and commission	502	-	6,305	-
Operating expenses	240,007	3,559	54,875	-
	259,782	3,559	72,318	21
Amount due from				
Deposits and placements with banks and other financial institutions	430,095	2,753,746	388,086	-
Loans, advances and financing	-	-	-	-
Derivative financial assets	241,179	123,498	126,093	-
Other assets	4,843	4,799	77,377	-
	676,117	2,882,043	591,556	-
Amount due to				
Deposit and placements from banks and other financial institutions	3,570,584	-	907,455	-
Deposit from customers	-	-	-	1,691
Derivative financial liabilities	542,884	32,046	70,459	-
Other liabilities	703,027	135,415	78,812	-
	4,816,495	167,461	1,056,726	1,691

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

(b) Key management personnel compensation

The key management personnel compensation are as follow:

	Group		*Bank*	
	31 Dec 2015 RM'000	31 Dec 2014 RM'000	**31 Dec 2015 RM'000**	31 Dec 2014 RM'000
Directors of the Bank:				
- Fees	**1,165**	1,188	**650**	714
- Remuneration	**6,029**	8,034	**4,246**	5,850
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	**1,929**	9,376	**1,198**	8,713
Total short-term employee benefits	**9,123**	18,598	**6,094**	15,277
- Share-based payments	**6,744**	3,463	**5,922**	3,106
	15,867	22,061	**12,016**	18,383

Detail of Directors' remuneration of the Group and Bank during the financial year are as follow:

2015

Group (RM'000)	**Salaries and bonuses**	**Other short term employee benefits**	**Benefits-in kind**	**Fees**	**Total**
Executive Directors of the Bank					
Mukhtar Malik Hussain (CEO)	**4,246**	**810**	**388**	**-**	**5,444**
Executive Director of subsidiary					
Mohamed Rafe Bin Mohamed Haneef	**1,783**	**579**	**152**	**-**	**2,514**
Non Executive Directors of the Bank and subsidiary					
Lee Choo Hock	**-**	**-**	**-**	**135**	**135**
Tan Kar Leng @ Chen Kar Leng	**-**	**-**	**-**	**127**	**127**
Tan Sri Dato' Tan Boon Seng @ Krishnan	**-**	**-**	**-**	**149**	**149**
Mohamed Ross bin Mohd Din	**-**	**-**	**-**	**113**	**113**
Azlan bin Abdullah	**-**	**-**	**-**	**99**	**99**
Mohamed Ashraf Bin Mohamed Iqbal	**-**	**-**	**-**	**102**	**102**
Seow Yoo Lin	**-**	**-**	**-**	**113**	**113**
Adil Ahmad	**-**	**-**	**-**	**88**	**88**
Ching Yew Chye[1]	**-**	**-**	**-**	**123**	**123**
Datuk Shireen Ann Zaharah Muhiudeen [2]	**-**	**-**	**-**	**116**	**116**
	6,029	**1,389**	**540**	**1,165**	**9,123**

[1] Resigned on 30 October 2015

[2] Resigned on 2 February 2016

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

(b) Key management personnel compensation (Cont'd)

2014

Group (RM'000)	Salaries and bonuses	Other short term employee benefits	Benefits-in kind	Fees	Total
Executive Directors of the Bank					
Mukhtar Malik Hussain (CEO)	4,632	7,469	458	-	12,559
Baldev Singh s/o Gurdial Singh[1]	1,218	786	-	-	2,004
Executive Director of subsidiary					
Mohamed Rafe Bin Mohamed Haneef	2,184	511	152	-	2,847
Non Executive Directors of the Bank and subsidiary					
Datuk Shireen Ann Zaharah Muhiudeen	-	-	-	115	115
Lee Choo Hock	-	-	-	141	141
Tan Kar Leng @ Chen Kar Leng[2]	-	-	-	93	93
Tan Sri Dato' Tan Boon Seng @ Krishnan[2]	-	-	-	108	108
Tan Sri Dato' Sulaiman bin Sujak[3]	-	-	-	42	42
Dato' Henry Sackville Barlow[3]	-	-	-	43	43
Datuk Ramli bin Ibrahim[3]	-	-	-	43	43
Mohamed Ross bin Mohd Din	-	-	-	112	112
Azlan bin Abdullah	-	-	-	97	97
Mohamed Ashraf Bin Mohamed Iqbal	-	-	-	101	101
Seow Yoo Lin[4]	-	-	-	99	99
Adil Ahmad[5]	-	-	-	52	52
Ching Yew Chye	-	-	-	142	142
	8,034	8,766	610	1,188	18,598

[1] Retired on 9 November 2014
[2] Appointed on 2 April 2014
[3] Retired on 15 April 2014
[4] Appointed on 12 February 2014
[5] Appointed on 5 May 2014

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

(b) Key management personnel compensation (Cont'd)

2015

Bank (RM'000)	Salaries and bonuses	Other short term employee benefits	Benefits-in kind	Fees	Total
Executive Directors of the Bank					
Mukhtar Malik Hussain (CEO)	4,246	810	388	-	5,444
Non Executive Directors of the Bank					
Lee Choo Hock	-	-	-	135	135
Tan Kar Leng @ Chen Kar Leng	-	-	-	127	127
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	149	149
Ching Yew Chye [1]	-	-	-	123	123
Datuk Shireen Ann Zaharah Muhiudeen [2]	-	-	-	116	116
	4,246	810	388	650	6,094

2014

Bank (RM'000)	Salaries and bonuses	Other short term employee benefits	Benefits-in kind	Fees	Total
Executive Directors of the Bank					
Mukhtar Malik Hussain (CEO)	4,632	7,469	458	-	12,559
Baldev Singh s/o Gurdial Singh[3]	1,218	786	-	-	2,004
Non Executive Directors of the Bank					
Datuk Shireen Ann Zaharah Muhiudeen	-	-	-	115	115
Lee Choo Hock	-	-	-	128	128
Tan Kar Leng @ Chen Kar Leng[4]	-	-	-	93	93
Tan Sri Dato' Tan Boon Seng @ Krishnan[4]	-	-	-	108	108
Tan Sri Dato’ Sulaiman bin Sujak[5]	-	-	-	42	42
Dato’ Henry Sackville Barlow[5]	-	-	-	43	43
Datuk Ramli bin Ibrahim[5]	-	-	-	43	43
Ching Yew Chye	-	-	-	142	142
	5,850	8,255	458	714	15,277

[1] Resigned on 30 October 2015
[2] Resigned on 2 February 2016
[3] Retired on 9 November 2014
[4] Appointed on 2 April 2014
[5] Retired on 15 April 2014

36 Credit exposure to connected parties

	Group		Bank	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
	RM'000	RM'000	**RM'000**	RM'000
Aggregate value of outstanding credit exposures to connected parties	**5,179,948**	5,822,356	**4,632,190**	4,909,114
As a percentage of total credit exposures	**6.7%**	8.9%	**7.5%**	9.4%
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 2015	31 Dec 2014
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	**114,500**	114,500
Share premium	**741,375**	741,375
Retained profits (including proposed dividend)	**6,052,662**	5,352,272
Other reserves	**975,854**	824,618
Regulatory adjustments	**(721,699)**	(558,088)
Total Common Equity Tier 1 (CET 1) and Tier 1 capital	**7,162,692**	6,474,677
Tier 2 capital		
Subordinated liabilities	**700,000**	800,000
Subordinated term loan	**618,461**	271,636
Collective impairment allowance (unimpaired portion) & regulatory reserves	**613,313**	485,231
Regulatory adjustments	**97,636**	93,061
Total Tier 2 capital	**2,029,410**	1,649,928
Capital base	**9,192,102**	8,124,605
Inclusive of proposed dividend		
CET 1 and Tier 1 Capital ratio	**12.099%**	12.229%
Total Capital ratio	**15.527%**	15.345%
Net of proposed dividend		
CET 1 and Tier 1 Capital ratio	**12.099%**	11.662%
Total Capital ratio	**15.527%**	14.778%

The total capital and capital adequacy ratios of the Group have been computed based on Standardised Approach in accordance with the Capital Adequacy Framework (Capital Components).

For HSBC Amanah Malaysia Berhad (HBMS) a fully owned subsidiary of the Bank, the total capital and capital adequacy ratios have been computed in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB). HBMS has adopted 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 2015		31 Dec 2014	
	Principal	**Risk-weighted**	Principal	Risk-weighted
	RM'000	**RM'000**	RM'000	RM'000
Total RWA for credit risk	**106,377,180** [1]	**51,974,803** [1]	96,267,040 [1]	45,497,242 [1]
Total RWA for market risk	**-**	**1,376,626**	-	1,738,308
Total RWA for operational risk	**-**	**5,848,312**	-	5,711,241
	106,377,180	**59,199,741**	96,267,040	52,946,791

[1] The principal and risk weighted amount for credit risk relating to the SIAF/IAA/RPSIA (refer Note 10(i) for more details) are as follows:

	Group	
	31 Dec 2015	31 Dec 2014
	RM'000	RM'000
Under SIAF/IAA arrangement	**1,166,189**	-
Under RPSIA arrangement	**191,638**	415,743
	1,357,827	415,743

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Capital Adequacy (Cont'd)

	Bank 31 Dec 2015 RM'000	31 Dec 2014 RM'000
Tier 1 capital		
Paid-up ordinary share capital	**114,500**	114,500
Share premium	**741,375**	741,375
Retained profits (including proposed dividend)	**5,350,760**	4,751,450
Other reserves	**884,289**	768,781
Regulatory adjustments	**(948,068)**	(674,418)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	**6,142,856**	5,701,688
Tier 2 capital		
Subordinated liabilities	**700,000**	800,000
Subordinated term loan	**618,461**	271,636
Collective impairment allowance (unimpaired portion) & regulatory reserves	**495,101**	388,542
Regulatory adjustments	**(916,838)**	(706,592)
Total Tier 2 capital	**896,724**	753,586
Capital base	**7,039,580**	6,455,274
Inclusive of proposed dividend		
CET 1 and Tier 1 Capital ratio	**12.659%**	13.272%
Total Capital ratio	**14.507%**	15.026%
Net of proposed dividend		
CET 1 and Tier 1 Capital ratio	**12.659%**	12.573%
Total Capital ratio	**14.507%**	14.327%

The total capital and capital adequacy ratios have been computed based on Standardised Approach in accordance with the Capital Adequacy Framework (Capital Components).

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

	Bank 31 Dec 2015 Principal RM'000	31 Dec 2015 Risk-weighted RM'000	31 Dec 2014 Principal RM'000	31 Dec 2014 Risk-weighted RM'000
Total RWA for credit risk	**88,419,583** [1]	**41,979,027** [1]	80,460,467 [1]	36,254,715 [1]
Total RWA for market risk	-	**1,272,252**	-	1,627,955
Total RWA for operational risk	-	**5,272,799**	-	5,079,063
	88,419,583	**48,524,078**	80,460,467	42,961,733

[1] The principal and risk weighted amount for credit risk relating to the SIAF/IAA/RPSIA (refer Note 10(i) for more details) are as follows:

	Bank 31 Dec 2015 RM'000	31 Dec 2014 RM'000
Under SIAF/IAA arrangement	**1,166,189**	-
Under RPSIA arrangement	**191,638**	415,743
	1,357,827	415,743

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Commitments and Contingencies

The table below shows the contracts or underlying principal amounts, 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.

These commitments and contingencies are not secured over the assets of the Group.

31 Dec 2015	Group		
	Credit Principal amount RM'000	Credit equivalent amount [1] RM'000	Risk weighted amount [1] RM'000
Direct credit substitutes	2,384,512	2,384,512	1,928,255
Transaction-related contingent items	8,872,513	4,436,257	3,304,298
Short-term self-liquidating trade-related contingencies	1,455,152	291,030	138,712
Irrevocable commitments to extend credit:			
- Maturity not exceeding one year	16,054,397	3,210,879	2,846,299
- Maturity exceeding one year	12,663,457	6,331,728	4,312,715
Unutilised credit card lines	8,645,649	1,729,130	1,296,847
Foreign exchange related contracts:			
- Less than one year	49,565,637	2,149,591	876,381
- Over one year to less than five years	12,445,384	2,218,167	857,875
- Over five years	3,219,454	711,933	197,836
Interest/profit rate related contracts:			
- Less than one year	10,102,027	26,334	8,192
- Over one year to less than five years	34,908,531	905,032	286,276
- Over five years	3,587,992	271,571	110,251
Gold and other precious metals contracts:			
- Less than one year	3,341	-	-
Equity related contracts:			
- Less than one year	286,480	17,358	3,175
- Over one year to less than five years	3,114,882	249,611	46,021
	167,309,408	24,933,133	16,213,133

of which the amount related to SIAF/IAA/RPSIA arrangement (refer Note 10(i) for more detail) are as below:

Irrevocable commitments to extend credit:			
Maturity not exceeding one year			
- SIAF/IAA arrangement	180,273	36,055	36,055
- RPSIA arrangement	858,598	171,720	171,720
	1,038,871	207,775	207,775

[1] The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per BNM guidelines. The credit conversion factors and risk weighting rules for the Bank were based on the guidelines of the Capital Adequacy Framework on the Standardised Approach. The credit conversion factors and risk weighting rules for HSBC Amanah Malaysia Berhad were based on the Basel II Capital Adequacy Framework for Islamic Bank (CAFIB).

38 Commitments and Contingencies (Cont'd)

The table below shows the contracts or underlying principal amounts, 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.

These commitments and contingencies are not secured over the assets of the Group.

31 Dec 2014	Group		
	Credit Principal amount RM'000	Credit equivalent amount [1] RM'000	Risk weighted amount [1] RM'000
Direct credit substitutes	2,388,301	2,388,301	1,830,575
Transaction-related contingent items	7,448,338	3,724,169	2,868,474
Short-term self-liquidating trade-related contingencies	369,806	73,961	62,613
Irrevocable commitments to extend credit:			
- Maturity not exceeding one year	15,443,433	3,088,687	2,796,855
- Maturity exceeding one year	7,947,673	3,973,837	3,484,516
Unutilised credit card lines	7,954,697	1,590,939	1,193,205
Foreign exchange related contracts:			
- Less than one year	41,149,393	1,503,850	831,571
- Over one year to less than five years	9,513,564	1,251,056	601,533
- Over five years	3,354,844	528,333	264,683
Interest/profit rate related contracts:			
- Less than one year	8,790,160	24,310	9,349
- Over one year to less than five years	28,640,942	790,728	298,274
- Over five years	2,568,230	217,844	90,586
Gold and other precious metals contracts:			
- Less than one year	11,978	-	-
Equity related contracts:			
- Less than one year	491,934	32,357	6,471
- Over one year to less than five years	2,368,048	197,487	39,497
	138,441,341	19,385,859	14,378,202

[1] The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per BNM guidelines. The credit conversion factors and risk weighting rules for the Bank were based on the guidelines of the Capital Adequacy Framework on the Standardised Approach. The credit conversion factors and risk weighting rules for HSBC Amanah Malaysia Berhad were based on the Basel II CAFIB.

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

38 Commitments and Contingencies (Cont'd)

The table below shows the contracts or underlying principal amounts, 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.

These commitments and contingencies are not secured over the assets of the Bank.

31 Dec 2015	**Bank**		
	Credit Principal amount RM'000	**Credit equivalent amount [1] RM'000**	**Risk weighted amount [1] RM'000**
Direct credit substitutes	**1,761,656**	**1,761,656**	**1,607,450**
Transaction-related contingent items	**7,783,118**	**3,891,559**	**2,969,203**
Short-term self-liquidating trade-related contingencies	**1,283,000**	**256,600**	**106,765**
Irrevocable commitments to extend credit:			
- Maturity not exceeding one year	**13,020,561**	**2,604,111**	**2,330,763**
- Maturity exceeding one year	**10,845,443**	**5,422,722**	**3,732,209**
Unutilised credit card lines	**6,967,131**	**1,393,426**	**1,045,070**
Foreign exchange related contracts:			
- Less than one year	**50,882,189**	**2,150,305**	**874,003**
- Over one year to less than five years	**12,445,384**	**2,206,499**	**611,833**
- Over five years	**3,219,453**	**711,933**	**197,836**
Interest rate related contracts:			
- Less than one year	**11,267,026**	**30,609**	**8,954**
- Over one year to less than five years	**37,159,700**	**980,081**	**296,111**
- Over five years	**3,587,992**	**271,571**	**110,251**
Gold and other precious metals contracts:			
- Less than one year	**3,341**	**-**	**-**
Equity related contracts:			
- Less than one year	**479,203**	**98,704**	**19,445**
- Over one year to less than five years	**4,063,552**	**414,784**	**79,055**
	164,768,749	**22,194,560**	**13,988,948**

of which the amount related to SIAF/IAA/RPSIA arrangement (refer Note 10(i) for more detail) are as below:

Irrevocable commitments to extend credit:			
Maturity not exceeding one year			
- SIAF/IAA arrangement	**180,273**	**36,055**	**36,055**
- RPSIA arrangement	**858,598**	**171,720**	**171,720**
	1,038,871	**207,775**	**207,775**

[1] The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per BNM guidelines. The credit conversion factors and risk weighting rules were based on the guidelines of the Capital Adequacy Framework on the Standardised Approach.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Commitments and Contingencies (Cont'd)

The table below shows the contracts or underlying principal amounts, 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.

These commitments and contingencies are not secured over the assets of the Bank.

31 Dec 2014	Bank		
	Credit Principal amount RM'000	Credit equivalent amount [1] RM'000	Risk weighted amount [1] RM'000
Direct credit substitutes	1,556,077	1,556,077	1,370,266
Transaction-related contingent items	6,435,174	3,217,587	2,523,191
Short-term self-liquidating trade-related contingencies	335,394	67,079	59,376
Irrevocable commitments to extend credit:			
- Maturity not exceeding one year	13,011,194	2,602,239	2,381,215
- Maturity exceeding one year	6,640,810	3,320,405	2,848,654
Unutilised credit card lines	6,603,881	1,320,776	990,582
Foreign exchange related contracts:			
- Less than one year	41,875,669	1,507,112	830,287
- Over one year to less than five years	9,513,565	1,242,873	520,639
- Over five years	3,354,844	528,333	264,683
Interest rate related contracts:			
- Less than one year	8,820,160	24,330	9,359
- Over one year to less than five years	30,962,201	904,896	325,418
- Over five years	2,568,230	217,844	90,586
Gold and other precious metals contracts:			
- Less than one year	11,978	-	-
Equity related contracts:			
- Less than one year	546,306	37,976	11,193
- Over one year to less than five years	3,356,942	297,729	81,664
	135,592,425	16,845,256	12,307,113

[1] The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per BNM guidelines. The credit conversion factors and risk weighting rules were based on the guidelines of the Capital Adequacy Framework on the Standardised Approach.

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

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:

Group	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
At 31 Dec 2015	Up to 1 Year RM'000	> 1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	> 1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	> 1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
Trading derivatives:												
Foreign exchange contracts												
- Forwards	46,610,644	577,746	-	47,188,390	1,153,334	42,829	-	1,196,163	929,907	2,126	-	932,033
- Swaps	2,596,721	11,607,215	3,219,454	17,423,390	317,988	1,260,260	332,485	1,910,733	383,219	1,186,173	252,989	1,822,381
- Options	358,272	260,423	-	618,695	24,855	19,850	-	44,705	203	2,425	-	2,628
Interest/profit rate related contracts												
- Futures	21,465	-	-	21,465	85	-	-	85	184	-	-	184
- Options	47,302	645,805	96,250	789,357	95	11,255	292	11,642	1,575	140	-	1,715
- Swaps	10,033,260	32,627,726	2,965,893	45,626,879	8,047	104,032	31,556	143,635	7,626	111,577	42,480	161,683
Equity related contracts												
- Options	286,480	3,114,882	-	3,401,362	84	324	-	408	88,844	421,417	-	510,261
Precious metal contracts												
- Options	3,341	-	-	3,341	-	-	-	-	15	-	-	15
Sub- total	59,957,485	48,833,797	6,281,597	115,072,879	1,504,488	1,438,550	364,333	3,307,371	1,411,573	1,723,858	295,469	3,430,900
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	-	1,635,000	525,849	2,160,849	-	7,331	2,488	9,819	-	1,007	1,853	2,860
Sub- total	-	1,635,000	525,849	2,160,849	-	7,331	2,488	9,819	-	1,007	1,853	2,860
Total	59,957,485	50,468,797	6,807,446	117,233,728	1,504,488	1,445,881	366,821	3,317,190	1,411,573	1,724,865	297,322	3,433,760

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 Dec 2014	**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	37,403,278	545,277	-	37,948,555	708,822	19,763	-	728,585	636,207	5,986	-	642,193
- Swaps	2,905,579	8,785,595	3,354,844	15,046,018	147,588	539,932	168,296	855,816	136,946	462,798	121,306	721,050
- Options	840,536	182,692	-	1,023,228	25,012	12,620	-	37,632	5,490	-	-	5,490
Interest/profit rate related contracts												
- Options	100,000	661,623	-	761,623	-	14,111	-	14,111	-	5,753	-	5,753
- Swaps	8,350,160	26,384,319	2,568,230	37,302,709	8,212	94,342	33,132	135,686	12,195	114,699	37,326	164,220
Equity related contracts												
- Options	491,934	2,368,048	-	2,859,982	2,581	6,584	-	9,165	22,110	45,512	-	67,622
Precious metal contracts												
- Options	11,978	-	-	11,978	20	-	-	20	47	-	-	47
Sub- total	50,103,465	38,927,554	5,923,074	94,954,093	892,235	687,352	201,428	1,781,015	812,995	634,748	158,632	1,606,375
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	340,000	1,595,000	-	1,935,000	1,752	16,934	-	18,686	-	-	-	-
Sub- total	340,000	1,595,000	-	1,935,000	1,752	16,934	-	18,686	-	-	-	-
Total	50,443,465	40,522,554	5,923,074	96,889,093	893,987	704,286	201,428	1,799,701	812,995	634,748	158,632	1,606,375

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 Dec 2015	**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	47,888,895	577,746	-	48,466,641	1,149,258	42,829	-	1,192,087	930,497	2,126	-	932,623
- Swaps	2,596,721	11,607,215	3,219,453	17,423,389	317,988	1,264,250	332,485	1,914,723	383,219	1,186,173	252,989	1,822,381
- Options	396,573	260,423	-	656,996	25,852	18,854	-	44,706	1,200	1,429	-	2,629
Interest rate related contracts												
- Futures	21,465	-	-	21,465	85	-	-	85	184	-	-	184
- Options	47,302	896,696	96,250	1,040,248	95	14,163	292	14,550	1,575	989	-	2,564
- Swaps	11,198,259	34,628,004	2,965,893	48,792,156	9,709	109,862	31,556	151,127	9,749	112,732	42,480	164,961
Equity related contracts												
- Options	479,203	4,063,552	-	4,542,755	70,702	90,430	-	161,132	88,927	421,723	-	510,650
Precious metal contracts												
- Options	3,341	-	-	3,341	-	-	-	-	15	-	-	15
Sub- total	62,631,759	52,033,636	6,281,596	120,946,991	1,573,689	1,540,388	364,333	3,478,410	1,415,366	1,725,172	295,469	3,436,007
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	-	1,635,000	525,849	2,160,849	-	7,331	2,488	9,819	-	1,007	1,853	2,860
Sub- total	-	1,635,000	525,849	2,160,849	-	7,331	2,488	9,819	-	1,007	1,853	2,860
Total	62,631,759	53,668,636	6,807,445	123,107,840	1,573,689	1,547,719	366,821	3,488,229	1,415,366	1,726,179	297,322	3,438,867

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):

Bank	**Contract / Notional Amount**				**Positive Fair Value**				**Negative Fair Value**			
At 31 Dec 2014	**Up to 1 Year RM'000**	**> 1 - 5 Years RM'000**	**> 5 Years RM'000**	**Total RM'000**	**Up to 1 Year RM'000**	**> 1 - 5 Years RM'000**	**> 5 Years RM'000**	**Total RM'000**	**Up to 1 Year RM'000**	**> 1 - 5 Years RM'000**	**> 5 Years RM'000**	**Total RM'000**
Trading derivatives:												
Foreign exchange contracts												
- Forwards	38,112,437	545,277	-	38,657,714	708,075	19,763	-	727,838	650,580	5,986	-	656,566
- Swaps	2,905,578	8,785,596	3,354,844	15,046,018	147,588	534,150	168,296	850,034	136,946	462,798	121,306	721,050
- Options	857,654	182,692	-	1,040,346	25,335	12,620	-	37,955	7,452	-	-	7,452
Interest rate related contracts												
- Options	100,000	1,037,884	-	1,137,884	-	20,742	-	20,742	-	5,753	-	5,753
- Swaps	8,380,160	28,329,317	2,568,230	39,277,707	8,213	100,089	33,132	141,434	12,207	121,932	37,326	171,465
Equity related contracts												
- Options	546,306	3,356,942	-	3,903,248	4,891	29,803	-	34,694	23,549	48,420	-	71,969
Precious metal contracts												
- Options	11,978	-	-	11,978	20	-	-	20	47	-	-	47
Sub- total	50,914,113	42,237,708	5,923,074	99,074,895	894,122	717,167	201,428	1,812,717	830,781	644,889	158,632	1,634,302
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	340,000	1,595,000	-	1,935,000	1,752	16,934	-	18,686	-	-	-	-
Sub- total	340,000	1,595,000	-	1,935,000	1,752	16,934	-	18,686	-	-	-	-
Total	51,254,113	43,832,708	5,923,074	101,009,895	895,874	734,101	201,428	1,831,403	830,781	644,889	158,632	1,634,302

	Group		*Bank*	
	31 Dec 2015	31 Dec 2014	**31 Dec 2015**	31 Dec 2014
Included in the net non-profit income is the net gains/(losses) arising from fair value hedges during the financial year as follows:	**RM'000**	RM'000	**RM'000**	RM'000
Loss on hedging instruments	**(5,477)**	(2,596)	**(5,477)**	(2,596)
Gain on the hedged items attributable to the hedged risk	**5,650**	2,358	**5,650**	2,358
	173	(238)	**173**	(238)

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 Dec 2015	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	17,751,869	-	-	-	-	500,040	-	18,251,909	2.77
Securities purchased under resale agreements	5,220,332	1,333,422	-	-	-	-	-	6,553,754	3.23
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-	2.90
Financial assets held-for-trading	-	-	-	-	-	-	1,497,358	1,497,358	3.61
Financial investments available-for-sale	-	25,005	583,035	5,474,319	914,242	16,908	-	7,013,509	3.54
Loans, advances and financing									
- performing	15,014,022	33,102,212	1,473,674	1,271,039	94,696	-	-	50,955,643	4.74
- impaired [1]	-	-	-	-	-	710,784	-	710,784	-
- collective allowance	-	-	-	-	-	(444,234)	-	(444,234)	-
Derivative financial assets	-	-	-	7,331	2,488	-	3,307,371	3,317,190	-
Other assets	-	-	-	-	-	216,609	-	216,609	-
Total Financial Assets	37,986,223	34,460,639	2,056,709	6,752,689	1,011,426	1,000,107	4,804,729	88,072,522	
LIABILITIES AND EQUITY									
Deposits from customers	31,406,808	6,651,750	8,233,177	389,347	-	13,209,020	3,530,708	63,420,810	2.06
Deposits and placements from banks and other financial institutions	4,328,885	435,352	979,676	1,786,684	386,370	45,399	-	7,962,366	1.62
Bills and acceptances payable	-	-	-	-	-	337,218	-	337,218	-
Multi-Currency Sukuk Programme	-	-	-	1,749,823	-	-	-	1,749,823	4.00
Subordinated liabilities	-	-	-	502,879	1,118,461	-	-	1,621,340	3.56
Derivative financial liabilities	-	-	-	1,007	1,853	-	3,430,900	3,433,760	-
Other liabilities	-	-	-	-	-	2,095,438	-	2,095,438	-
Total Financial Liabilities	35,735,693	7,087,102	9,212,853	4,429,740	1,506,684	15,687,075	6,961,608	80,620,755	
Total interest/profit sensitivity gap	2,250,530	27,373,537	(7,156,144)	2,322,949	(495,258)	(14,686,968)	(2,156,879)	7,451,767	

[1] This is arrived at after deducting individual impairment allowance from impaired loans/financing.

40 Interest/ Profit Rate Risk (Cont'd)

Group 31 Dec 2014	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	7,427,079	-	-	-	-	411,978	-	7,839,057	2.83
Securities purchased under resale agreements	2,265,607	-	-	-	-	-	-	2,265,607	3.24
Deposits and placements with banks and other financial institutions	-	2,936,713	-	-	-	-	-	2,936,713	2.60
Financial assets held-for-trading	-	-	-	-	-	-	2,947,082	2,947,082	3.58
Financial investments available-for-sale	1,237,506	4,482,313	6,509,356	4,651,706	205,700	16,908	-	17,103,489	3.40
Loans, advances and financing									
- performing	16,190,574	26,524,083	1,114,511	1,426,141	112,718	-	-	45,368,027	5.03
- impaired [1]	-	-	-	-	-	453,725	-	453,725	-
- collective allowance	-	-	-	-	-	(388,060)	-	(388,060)	-
Derivative financial assets	-	-	1,752	16,934	-	-	1,781,015	1,799,701	-
Other assets	-	-	-	-	-	601,217	-	601,217	-
Total Financial Assets	27,120,766	33,943,109	7,625,619	6,094,781	318,418	1,095,768	4,728,097	80,926,558	
LIABILITIES AND EQUITY									
Deposits from customers	30,160,555	5,943,491	8,729,106	355,654	-	11,281,780	4,837,647	61,308,233	2.08
Deposits and placements from banks and other financial institutions	7,185,726	750,544	1,775	340,914	-	-	-	8,278,959	1.13
Bills and acceptances payable	-	-	-	-	-	426,346	-	426,346	-
Multi-Currency Sukuk Programme	-	-	-	1,001,854	-	-	-	1,001,854	3.98
Subordinated liabilities	-	-	-	503,746	771,636	-	-	1,275,382	4.23
Derivative financial liabilities	-	-	-	-	-	-	1,606,375	1,606,375	-
Other liabilities	-	-	-	-	-	997,327	-	997,327	-
Total Financial Liabilities	37,346,281	6,694,035	8,730,881	2,202,168	771,636	12,705,453	6,444,022	74,894,476	
Total interest/profit sensitivity gap	(10,225,515)	27,249,074	(1,105,262)	3,892,613	(453,218)	(11,609,685)	(1,715,925)	6,032,082	

[1] This is arrived at after deducting individual impairment allowance from impaired loans/financing.

40 Interest/ Profit Rate Risk (Cont'd)

Bank 31 Dec 2015	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	13,905,908	-	-	-	-	412,175	-	14,318,083	2.67
Securities purchased under resale agreements	5,220,332	1,333,422	-	-	-	-	-	6,553,754	3.23
Deposits and placements with banks and other financial institutions	-	306,092	1,679,300	31,352	618,460	-	-	2,635,204	2.90
Financial assets held-for-trading	-	-	-	-	-	-	1,486,866	1,486,866	3.62
Financial investments available-for-sale	-	25,006	411,324	3,944,786	914,242	16,908	-	5,312,266	3.54
Loans, advances and financing									
- performing	12,071,119	25,504,032	1,043,328	334,195	61,120	-	-	39,013,794	4.58
- impaired [1]	-	-	-	-	-	544,152	-	544,152	-
- collective allowance	-	-	-	-	-	(303,970)	-	(303,970)	-
Derivative financial assets	-	-	-	7,331	2,488	-	3,478,410	3,488,229	-
Other assets	-	-	-	-	-	184,356	-	184,356	-
Total Financial Assets	31,197,359	27,168,552	3,133,952	4,317,664	1,596,310	853,621	4,965,276	73,232,734	
LIABILITIES AND EQUITY									
Deposits from customers	26,223,835	4,674,340	6,827,525	345,237	-	12,433,042	3,530,708	54,034,687	1.95
Deposits and placements from banks and other financial institutions	4,324,691	6,052	979,676	938,816	386,370	-	-	6,635,605	1.39
Bills and acceptances payable	-	-	-	-	-	322,314	-	322,314	-
Subordinated liabilities	-	-	-	502,879	1,118,461	-	-	1,621,340	3.89
Derivative financial liabilities	-	-	-	1,007	1,853	-	3,436,007	3,438,867	-
Other liabilities	-	-	-	-	-	661,011	-	661,011	-
Total Financial Liabilities	30,548,526	4,680,392	7,807,201	1,787,939	1,506,684	13,416,367	6,966,715	66,713,824	
Total interest sensitivity gap	648,833	22,488,160	(4,673,249)	2,529,725	89,626	(12,562,746)	(2,001,439)	6,518,911	

[1] This is arrived at after deducting individual impairment allowance from impaired loans/financing.

40 Interest/ Profit Rate Risk (Cont'd)

Bank 31 Dec 2014	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	7,836,916	-	-	-	-	241,044	-	8,077,960	2.80
Securities purchased under resale agreements	2,265,607	-	-	-	-	-	-	2,265,607	3.24
Deposits and placements with banks and other financial institutions	-	2,936,713	1,039,650	532,623	271,636	-	-	4,780,622	2.60
Financial assets held-for-trading	-	-	-	-	-	-	2,927,027	2,927,027	3.58
Financial investments available-for-sale	1,237,506	2,424,258	5,753,885	3,329,909	205,700	16,908	-	12,968,166	3.44
Loans, advances and financing									
- performing	13,738,504	19,518,258	836,316	491,506	96,494	-	-	34,681,078	4.83
- impaired [1]	-	-	-	-	-	335,319	-	335,319	-
- collective allowance	-	-	-	-	-	(263,243)	-	(263,243)	-
Derivative financial assets	-	-	1,752	16,934	-	-	1,812,717	1,831,403	-
Other assets	-	-	-	-	-	497,286	-	497,286	-
Total Financial Assets	25,078,533	24,879,229	7,631,603	4,370,972	573,830	827,314	4,739,744	68,101,225	
LIABILITIES AND EQUITY									
Deposits from customers	24,724,312	4,368,296	7,336,799	315,176	-	10,538,270	3,049,220	50,332,073	2.02
Deposits and placements from banks and other financial institutions	7,166,083	750,544	1,775	340,914	-	-	-	8,259,316	0.72
Bills and acceptances payable	-	-	-	-	-	400,637	-	400,637	-
Subordinated liabilities	-	-	-	503,746	771,636	-	-	1,275,382	4.23
Derivative financial liabilities	-	-	-	-	-	-	1,634,302	1,634,302	-
Other liabilities	-	-	-	-	-	871,181	-	871,181	-
Total Financial Liabilities	31,890,395	5,118,840	7,338,574	1,159,836	771,636	11,810,088	4,683,522	62,772,891	
Total interest sensitivity gap	(6,811,862)	19,760,389	293,029	3,211,136	(197,806)	(10,982,774)	56,222	5,328,334	

[1] This is arrived at after deducting individual impairment allowance from impaired loans/financing.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Contractual maturity/behavioural profile

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 Dec 2015	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	18,251,909	-	-	-	-	-	-	18,251,909
Securities purchased under resale agreements	5,220,332	1,333,422	-	-	-	-	-	6,553,754
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-
Financial assets held-for-trading	-	-	-	-	-	-	1,497,358	1,497,358
Financial investments available-for-sale	-	25,005	583,035	5,474,319	914,242	16,908	-	7,013,509
Loans, advances and financing	10,994,769	6,925,771	3,182,552	7,082,117	23,036,984	-	-	51,222,193
Derivative financial assets	-	-	-	7,331	2,488	-	3,307,371	3,317,190
Others	12,289	1,704	4,275	55,364	19,756	1,838,667	39,356	1,971,411
Total Assets	34,479,299	8,285,902	3,769,862	12,619,131	23,973,470	1,855,575	4,844,085	89,827,324
LIABILITIES AND EQUITY								
Deposits from customers	44,615,828	6,651,750	8,233,177	389,347	-	-	3,530,708	63,420,810
Deposits and placements from banks and other financial institutions	4,328,885	435,352	979,676	1,786,684	386,370	45,399	-	7,962,366
Bills and acceptances payable	337,218	-	-	-	-	-	-	337,218
Multi-Currency Sukuk Programme	-	-	-	1,749,823	-	-	-	1,749,823
Subordinated liabilities	-	-	-	502,879	1,118,461	-	-	1,621,340
Derivative financial liabilities	-	-	-	1,007	1,853	-	3,430,900	3,433,760
Others	166,472	57,947	91,064	47,700	6,436	1,672,625	1,411,242	3,453,486
Total Liabilities	49,448,403	7,145,049	9,303,917	4,477,440	1,513,120	1,718,024	8,372,850	81,978,803
Equity	-	-	-	-	-	7,848,521	-	7,848,521
Total Liabilities and Equity	49,448,403	7,145,049	9,303,917	4,477,440	1,513,120	9,566,545	8,372,850	89,827,324
Net maturity mismatches	(14,969,104)	1,140,853	(5,534,055)	8,141,691	22,460,350	(7,710,970)	(3,528,765)	-
Off-balance sheet liabilities	59,067,539	19,150,380	28,595,102	53,345,605	7,150,782	-	-	167,309,408

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Contractual maturity/behavioural profile (Cont'd)

Group 31 Dec 2014	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	7,839,057	-	-	-	-	-	-	7,839,057
Securities purchased under resale agreements	2,265,607	-	-	-	-	-	-	2,265,607
Deposits and placements with banks and other financial institutions	-	2,936,713	-	-	-	-	-	2,936,713
Financial assets held-for-trading	-	-	-	-	-	-	2,947,082	2,947,082
Financial investments available-for-sale	1,237,506	4,482,313	6,509,356	4,651,706	205,700	16,908	-	17,103,489
Loans, advances and financing	10,569,587	6,328,078	1,665,103	5,008,692	21,862,232	-	-	45,433,692
Derivative financial assets	-	-	1,752	16,934	-	-	1,781,015	1,799,701
Others	26,884	8,507	35,576	44,067	1,874	2,170,094	384,560	2,671,562
Total Assets	21,938,641	13,755,611	8,211,787	9,721,399	22,069,806	2,187,002	5,112,657	82,996,903
LIABILITIES AND EQUITY								
Deposits from customers	41,442,335	5,943,491	8,729,106	355,654	-	-	4,837,647	61,308,233
Deposits and placements from banks and other financial institutions	7,185,726	750,544	1,775	340,914	-	-	-	8,278,959
Bills and acceptances payable	426,346	-	-	-	-	-	-	426,346
Multi-Currency Sukuk Programme	-	-	-	1,001,854	-	-	-	1,001,854
Subordinated liabilities	-	-	-	503,746	771,636	-	-	1,275,382
Derivative financial liabilities	-	-	-	-	-	-	1,606,375	1,606,375
Others	94,966	64,753	93,501	24,539	65,958	1,075,818	673,165	2,092,700
Total Liabilities	49,149,373	6,758,788	8,824,382	2,226,707	837,594	1,075,818	7,117,187	75,989,849
Equity	-	-	-	-	-	7,007,054	-	7,007,054
Total Liabilities and Equity	49,149,373	6,758,788	8,824,382	2,226,707	837,594	8,082,872	7,117,187	82,996,903
Net maturity mismatches	(27,210,732)	6,996,823	(612,595)	7,494,692	21,232,212	(5,895,870)	(2,004,530)	-
Off-balance sheet liabilities	37,016,632	21,973,423	26,871,186	45,462,280	7,117,820	-	-	138,441,341

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Contractual maturity/behavioural profile (Cont'd)

Bank 31 Dec 2015	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	**14,318,083**	**-**	**-**	**-**	**-**	**-**	**-**	**14,318,083**
Securities purchased under resale agreements	**5,220,332**	**1,333,422**	**-**	**-**	**-**	**-**	**-**	**6,553,754**
Deposits and placements with banks and other financial institutions	**-**	**306,092**	**1,679,300**	**31,352**	**618,460**	**-**	**-**	**2,635,204**
Financial assets held-for-trading	**-**	**-**	**-**	**-**	**-**	**-**	**1,486,866**	**1,486,866**
Financial investments available-for-sale	**-**	**25,006**	**411,324**	**3,944,786**	**914,242**	**16,908**	**-**	**5,312,266**
Loans, advances and financing	**9,106,186**	**5,286,356**	**2,227,797**	**4,978,970**	**17,654,667**	**-**	**-**	**39,253,976**
Derivative financial assets	**-**	**-**	**-**	**7,331**	**2,488**	**-**	**3,478,410**	**3,488,229**
Others	**16,659**	**2,501**	**7,760**	**45,321**	**19,894**	**2,127,812**	**39,356**	**2,259,303**
Total Assets	**28,661,260**	**6,953,377**	**4,326,181**	**9,007,760**	**19,209,751**	**2,144,720**	**5,004,632**	**75,307,681**
LIABILITIES AND EQUITY								
Deposits from customers	**38,656,877**	**4,674,340**	**6,827,525**	**345,237**	**-**	**-**	**3,530,708**	**54,034,687**
Deposits and placements from banks and other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
financial institutions	**4,324,691**	**6,052**	**979,676**	**938,816**	**386,370**	**-**	**-**	**6,635,605**
Bills and acceptances payable	**322,314**	**-**	**-**	**-**	**-**	**-**	**-**	**322,314**
Subordinated liabilities	**-**	**-**	**-**	**502,879**	**1,118,461**	**-**	**-**	**1,621,340**
Derivative financial liabilities	**-**	**-**	**-**	**1,007**	**1,853**	**-**	**3,436,007**	**3,438,867**
Others	**359,887**	**45,698**	**75,051**	**23,133**	**6,436**	**1,545,463**	**142,585**	**2,198,253**
Total Liabilities	**43,663,769**	**4,726,090**	**7,882,252**	**1,811,072**	**1,513,120**	**1,545,463**	**7,109,300**	**68,251,066**
Equity	**-**	**-**	**-**	**-**	**-**	**7,056,615**	**-**	**7,056,615**
Total Liabilities and Equity	**43,663,769**	**4,726,090**	**7,882,252**	**1,811,072**	**1,513,120**	**8,602,078**	**7,109,300**	**75,307,681**
Net maturity mismatches	**(15,002,509)**	**2,227,287**	**(3,556,071)**	**7,196,688**	**17,696,631**	**(6,457,358)**	**(2,104,668)**	**-**
Off-balance sheet liabilities	**53,764,775**	**19,127,241**	**28,587,824**	**56,140,820**	**7,148,090**	**-**	**-**	**164,768,749**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Contractual maturity/behavioural profile (Cont'd)

Bank 31 Dec 2014	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	8,077,960	-	-	-	-	-	-	8,077,960
Securities purchased under resale agreements	2,265,607	-	-	-	-	-	-	2,265,607
Deposits and placements with banks and other financial institutions	-	2,936,713	1,039,650	532,623	271,636	-	-	4,780,622
Financial assets held-for-trading	-	-	-	-	-	-	2,927,027	2,927,027
Financial investments available-for-sale	1,237,506	2,424,258	5,753,885	3,329,909	205,700	16,908	-	12,968,166
Loans, advances and financing	8,034,975	4,522,762	1,418,644	3,742,274	17,034,499	-	-	34,753,154
Derivative financial assets	-	-	1,752	16,934	-	-	1,812,717	1,831,403
Others	26,209	8,507	37,770	33,800	1,987	2,228,705	383,636	2,720,614
Total Assets	19,642,257	9,892,240	8,251,701	7,655,540	17,513,822	2,245,613	5,123,380	70,324,553
LIABILITIES AND EQUITY								
Deposits from customers	35,262,582	4,368,296	7,336,799	315,176	-	-	3,049,220	50,332,073
Deposits and placements from banks and other financial institutions	7,166,083	750,544	1,775	340,914	-	-	-	8,259,316
Bills and acceptances payable	400,637	-	-	-	-	-	-	400,637
Subordinated liabilities	-	-	-	503,746	771,636	-	-	1,275,382
Derivative financial liabilities	-	-	-	-	-	-	1,634,302	1,634,302
Others	206,192	53,318	78,336	14,384	66,071	991,413	664,784	2,074,498
Total Liabilities	43,035,494	5,172,158	7,416,910	1,174,220	837,707	991,413	5,348,306	63,976,208
Equity	-	-	-	-	-	6,348,345	-	6,348,345
Total Liabilities and Equity	43,035,494	5,172,158	7,416,910	1,174,220	837,707	7,339,758	5,348,306	70,324,553
Net maturity mismatches	(23,393,237)	4,720,082	834,791	6,481,320	16,676,115	(5,094,145)	(224,926)	-
Off-balance sheet liabilities	34,268,741	21,537,391	25,657,694	47,199,643	6,928,956	-	-	135,592,425

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 2015 RM'000	31 Dec 2014 RM'000	**31 Dec 2015 RM'000**	31 Dec 2014 RM'000
Carrying amount of assets and collateral pledged				
- Sold under repurchase agreements	**140,412**	205,055	**-**	-
- Collateral pledged on derivative contracts (ISDA[1])	**1,360,929**	536,499	**1,360,929**	536,499
Fair value of assets and collateral accepted				
- Securities bought under reverse repurchase agreement	**6,553,754**	2,265,607	**6,553,754**	2,265,607
- Securities sold under regulated short selling	**63,560**	68,148	**63,560**	68,148
- Collateral accepted on derivative contracts (ISDA[1])	**1,361,932**	435,205	**1,361,932**	435,205

[1] *ISDA: International Swaps and Derivatives Association*

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

The fair value of each financial asset and liabilities presented in the statements of financial position of the Group and the Bank approximates the carrying amount as at reporting date, except for the following:

	Group			
	31 Dec 2015 Carrying amount RM'000	**31 Dec 2015 Fair Value RM'000**	31 Dec 2014 Carrying amount RM'000	31 Dec 2014 Fair Value RM'000
Financial Assets				
Loans, advances and financing	**51,222,193**	**51,381,071**	45,433,692	44,955,278
Financial Liabilities				
Deposits from customers	**63,420,810**	**63,452,790**	61,308,233	61,244,425
Deposits and placements from banks and other financial institutions	**7,962,366**	**7,960,847**	8,278,959	8,252,966
Multi-Currency Sukuk Programme	**1,749,823**	**1,747,423**	1,001,854	999,631
Subordinated liabilities	**1,621,340**	**1,634,590**	1,275,382	1,299,586

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

The fair value of each financial asset and liabilities presented in the statements of financial position of the Group and the Bank approximates the carrying amount as at reporting date, except for the following (Cont'd):

	Bank			
	31 Dec 2015 Carrying amount RM'000	**31 Dec 2015 Fair Value RM'000**	31 Dec 2014 Carrying amount RM'000	31 Dec 2014 Fair Value RM'000
Financial Assets				
Loans, advances and financing	**39,253,976**	**39,398,352**	34,753,154	34,439,022
Financial Liabilities				
Deposits from customers	**54,034,687**	**54,066,524**	50,332,073	50,300,623
Deposits and placements from banks and other financial institutions	**6,635,605**	**6,634,784**	8,259,316	8,259,253
Bills and acceptances payable	**322,314**	**322,314**	400,637	400,637
Subordinated liabilities	**1,621,340**	**1,634,590**	1,275,382	1,299,586

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 or reprice to current market rates frequently.

(i) 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. The fair value of a loan reflects loan impairments at the balance sheet date. 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.

(ii) 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. The fair value of a deposit repayable on demand is approximated by its carrying value.

(iii) Subordinated liabilities
Multi-Currency Sukuk Programme

The fair value of subordinated liabilities and the Multi-Currency Sukuk Programme issued at cost 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 but for which fair value is derived, and analyses them by the level in the fair value hierarchy into which each fair value measurement is

			Group		
31 December 2015					**Total**
RM'000	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**carrying amount**
Financial Assets					
Loans, advances and financing	**-**	**-**	**51,381,071**	**51,381,071**	**51,222,193**
Financial Liabilities					
Deposits from customers	**-**	**63,452,790**	**-**	**63,452,790**	**63,420,810**
Deposits and placements from banks and other financial institutions	**-**	**7,960,847**	**-**	**7,960,847**	**7,962,366**
Multi-Currency Sukuk Programme	**-**	**1,747,423**	**-**	**1,747,423**	**1,749,823**
Subordinated liabilities	**-**	**1,634,590**	**-**	**1,634,590**	**1,621,340**

			Group		
31 December 2014					**Total**
RM'000	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**carrying amount**
Financial Assets					
Loans, advances and financing	-	-	44,955,278	44,955,278	45,433,692
Financial Liabilities					
Deposits from customers	-	61,244,425	-	61,244,425	61,308,233
Deposits and placements from banks and other financial institutions	-	8,252,966	-	8,252,966	8,278,959
Multi-Currency Sukuk Programme	-	999,631	-	999,631	1,001,854
Subordinated liabilities	-	1,299,586	-	1,299,586	1,275,382

			Bank		
31 December 2015					**Total**
RM'000	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**carrying amount**
Financial Assets					
Loans, advances and financing	**-**	**-**	**39,398,352**	**39,398,352**	**39,253,976**
Financial Liabilities					
Deposits from customers	**-**	**54,066,524**	**-**	**54,066,524**	**54,034,687**
Deposits and placements from banks and other financial institutions	**-**	**6,634,784**	**-**	**6,634,784**	**6,635,605**
Subordinated liabilities	**-**	**1,634,590**	**-**	**1,634,590**	**1,621,340**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

			Bank		
31 December 2014 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	-	-	34,439,022	34,439,022	34,753,154
Financial Liabilities					
Deposits from customers	-	50,300,623	-	50,300,623	50,332,073
Deposits and placements from banks and other financial institutions	-	8,259,253	-	8,259,253	8,259,316
Subordinated liabilities	-	1,299,586	-	1,299,586	1,275,382

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 2015 RM'000	31 Dec 2014 RM'000	**31 Dec 2015 RM'000**	31 Dec 2014 RM'000
Less than one year	**35,384**	35,639	**28,529**	29,965
Between one and three years	**14,917**	25,234	**9,332**	20,391
Between three and five years	**69**	5	**52**	-
	50,370	60,878	**37,913**	50,356

45 Capital Commitments

	Group		*Bank*	
	31 Dec 2015 RM'000	31 Dec 2014 RM'000	**31 Dec 2015 RM'000**	31 Dec 2014 RM'000
Capital expenditure commitments:				
Property and equipment				
- Authorised and contracted, but not provided for	**1,068**	3,334	**1,068**	3,131
- Authorised but not contracted for	**2,123**	1,607	**1,473**	1,607
	3,191	4,941	**2,541**	4,738

46 Equity-based Compensation

The Group and the Bank participated in the following equity 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, is a long-term incentive plan between 2000 and 2005 during which certain HSBC employees, based on performance criteria and potential, were awarded share options to acquire HSBC Holdings ordinary shares. This plan ceased in May 2005. 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

	2015		2014	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Balance at 1 January	**1,612**	**6.91**	1,612	6.91
Balance at 31 December	**1,612**	**6.91**	1,612	6.91
Options vested at 31 December	**-**		-	

	2015	2014
	RM'000	RM'000
Compensation cost recognised during the financial year	**-**	-

Bank

	2015		2014	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Balance at 1 January	**1,612**	**6.91**	1,612	6.91
Balance at 31 December	**1,612**	**6.91**	1,612	6.91
Options vested at 31 December	**-**		-	

	2015	2014
	RM'000	RM'000
Compensation cost recognised during the financial 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.

46 Equity-based Compensation (Cont'd)

b. *Savings-Related Share Option Schemes*

The Savings-Related Share Option Schemes aims to align the interests of all employees with the creation of shareholder value. under which eligible HSBC employees are granted options to acquire HSBC Holdings ordinary shares. Employees may make monthly contributions up to £250 (or its equivalent in RM) over a period of one, three or five years with the option to use the savings to acquire shares. Alternatively the employee may elect to have the savings repaid in cash. The last grant of options under this plan was in 2012. 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, respectively. The exercise price is set at a 20% discount to the market value immediately preceding the date of invitation. 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

	2015		2014	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Balance at 1 January	**1,271**	**6.54**	2,752	4.85
Exercised in the financial year	**(343)**	**4.17**	(1,451)	3.38
Lapsed in the financial year	**(2)**	**3.70**	(30)	4.13
Balance at 31 December	**926**	**7.42**	1,271	6.54
Options vested at 31 December	**343**		1,451	

	2015 RM'000	2014 RM'000
Compensation cost recognised during the financial year	**310**	(566)

Bank

	2015		2014	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Balance at 1 January	**1,255**	**6.54**	2,729	4.84
Exercised in the financial year	**(339)**	**4.17**	(1,445)	3.38
Lapsed in the financial year	**-**	**-**	(29)	4.12
Balance at 31 December	**916**	**7.41**	1,255	6.54
Options vested at 31 December	**339**		1,445	

	2015 RM'000	2014 RM'000
Compensation cost recognised during the financial year	**313**	(559)

The weighted average remaining contractual life for the share options is 1.29 years.

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. An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. Deferred share awards generally vest over a period of three years. Vested shares may be subject to a retention requirement (restriction) post-vesting. 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.

	Group		*Bank*	
	2015	2014	**2015**	2014
	Number ('000)	Number ('000)	**Number ('000)**	Number ('000)
Balance at 1 January	**5,802**	4,217	**5,789**	4,200
Additions during the financial year	**421**	1,911	**398**	1,901
Released in the financial year	**(464)**	(326)	**(437)**	(312)
Balance at 31 December	**5,759**	5,802	**5,750**	5,789
	2015	2014	**2015**	2014
	RM'000	RM'000	**RM'000**	RM'000
Compensation cost recognised during the financial year	**15,839**	15,087	**15,506**	14,410

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan is £6.24 (2014: £6.82). The weighted average fair value of the HSBC share at 31 December 2015 for the share granted during the year was £5.36 (2014: £6.09). The weighted average remaining vesting period as at 31 December 2015 was 2.83 years (2014: 2.47 years).

d. *Savings-Related Share Match Schemes*

The Savings-Related Share Match Schemes was first introduced in Malaysia in 2014. Eligible HSBC employees will acquire HSBC Holdings ordinary shares. Shares are purchased in the market each quarter up to a maximum value of £250 or the equivalent in local currency over a period of one year. Matching awards are added at a ratio of one free share for every three purchased. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

	Group		*Bank*	
	2015		**2015**	
	Number ('000)	**Weighted average exercise price (£)**	**Number ('000)**	**Weighted average exercise price (£)**
Balance at 1 January	**-**	**-**	**-**	**-**
Additions during the financial year	**81**	**6.03**	**78**	**6.03**
Lapsed in the financial year	**(8)**	**6.03**	**(7)**	**6.03**
Balance at 31 December	**73**	**6.03**	**71**	**6.03**
	2015		**2015**	
	RM'000		**RM'000**	
Compensation cost recognised during the financial year	**1,008**		**973**	

The weighted average fair value of the HSBC share at 31 December for the shares granted during the year was £6.03.

The fair value of a share award is based on the quoted share price at the date of grant.

47 Comparative Figures

The presentation and classification of items in the financial statements are consistent with the previous financial year except those listed below. The restatement of 31 Dec 2014 financial data is a result of an initiative rolled out by the Group and the Bank during the year to align financial reporting data with Central Credit Reference Information System (CCRIS) data. Similar reclassification is made to 31 Dec 2014 data so that they are comparable to 31 Dec 2015 data. The Group's and the Bank's prior period profit and loss and retained earning brought forward are not affected by these reclassifications.

		Group		Bank	
		RM'000	RM'000	RM'000	RM'000
	Statement of Financial Position at 31 December 2014	As restated	As previously stated	As restated	As previously stated
(a)	**Loans, advances and financing**	45,433,692	45,260,697	-	-
	(of which the affected components are disclosed below) :				
	By type				
	Term loans/ financing:				
	Housing loans/ financing	18,036,318	17,524,631	-	-
	Other term loans/ financing	12,124,505	12,423,345	-	-
	Staff loans/ financing	271,252	311,104	-	-
	By type of customer				
	Foreign entities	4,921,612	4,748,617	-	-
	By interest/ profit rate sensitivity				
	Fixed rate:				
	Housing loans/ financing	3,180	128,471	824	121,524
	Other fixed rate loans/ financing	11,138,950	4,060,557	8,799,429	2,149,926
	Variable rate:				
	BLR/BFR plus	23,177,661	34,467,990	18,334,179	27,064,976
	Cost-plus	11,501,772	4,229,562	8,072,485	3,608,323
	By sector				
	Others	2,414,623	2,241,628	-	-
	By purpose				
	Purchase of property:				
	Residential	18,308,549	17,517,122	-	-
	Non residential	1,653,267	1,183,472	-	-
	Consumption credit	5,457,907	6,249,334	-	-
	Working capital	16,259,428	16,729,223	-	-
	Other purpose	1,984,754	1,811,759	-	-
	By geographical distribution				
	Northern Region	6,950,812	7,516,532	5,581,975	6,147,695
	Southern Region	6,397,801	6,363,471	4,868,264	4,833,934
	Central Region	29,046,138	28,340,052	21,577,292	21,044,201
	Eastern Region	3,661,521	3,663,222	3,179,565	3,181,266
		46,056,272	45,883,277	35,207,096	35,207,096
(b)	**Deposits and placements with banks and other financial institutions**	2,936,713	3,109,649	-	-
	(of which the affected components are disclosed below) :				
	Licensed banks	936,713	1,109,649	-	-
(c)	**Other Assets**	663,033	663,092	-	-
	(of which the affected components are disclosed below)				
	Income receivable	123,964	124,023	-	-