HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

FINANCIAL STATEMENTS – 31 DECEMBER 2021

Domiciled in Malaysia
Registered Office:
Level 21, Menara IQ
Lingkaran TRX
55188 Tun Razak Exchange
Kuala Lumpur
Malaysia

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
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CONTENTS

BOARD OF DIRECTORS

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

Stuart Paterson Milne
Non-Independent Executive Director/Chief Executive Officer

Mukhtar Malik Hussain
Non-Independent Non-Executive Director
(Re-designated on 1 August 2021)

Lee Choo Hock
Independent Non-Executive Director

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

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

Datuk Kamaruddin bin Taib
Independent Non-Executive Director
(Appointed on 1 January 2022)

Zuraida binti Jamaluddin
Independent Non-Executive Director
(Appointed on 1 February 2022)

Datin Che Teh Ija binti Mohd Jalil
Independent Non-Executive Director
(Resigned with effect from 1 January 2022)

CORPORATE GOVERNANCE DISCLOSURES

The corporate governance practices set out on pages 2 to 15 and the information referred to therein constitute the Corporate Governance Report of HSBC Bank Malaysia Berhad (the Bank). As a banking institution licensed under the Financial Services Act 2013, the Bank complies with the corporate governance standards set out in the Bank Negara Malaysia (BNM) Policy Document on Corporate Governance (BNM Corporate Governance Policy).

Directors

The Directors serving as at the date of this report are:

Tan Sri Dato' Tan Boon Seng @ Krishnan, 70
Independent Non-Executive Chairman
Member of the Nominations and Remuneration Committee
Appointed to the Board: April 2014
Independent Non-Executive Chairman since March 2017

Tan Sri Dato' Krishnan Tan has been appointed as Independent Non-Executive Chairman of the Bank on 15 March 2017. He was previously appointed as Independent Non-Executive Director on 2 April 2014. He is a member of the Nominations and Remuneration Committee of the Bank.

Tan Sri Dato' Krishnan Tan 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.

After graduation Tan Sri Dato' Krishnan Tan served the Selangor State economic arm, Kumpulan Perangsang Selangor Berhad for seven years, last designation held was Group Financial Controller. He joined IJM Corporation Berhad as 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 of IJM Corporation Berhad from 2011 to 2013 and Non-Executive Deputy Chairman thereafter till August 2019.

He is currently the Non-Executive Chairman of IJM Corporation Berhad and a Director of Grupo Concesionario del Oeste S.A., Argentina, Malaysia Airlines Berhad, and Malaysia Aviation Group Berhad. He is also a member of the Board of Directors of the Malaysian Community & Education Foundation and a member of the Olympic Council Trust Management Committee.

Tan Sri Krishnan does not have any shareholding in the Bank.

Stuart Paterson Milne, 62
Non-Independent Executive Director and Chief Executive Officer
Appointed to the Board: May 2018

Mr Milne was appointed as the Non-Independent Executive Director and Chief Executive Officer (CEO) on 24 May 2018.

Mr Milne graduated from the University of Durham, United Kingdom with a Bachelor of Arts (Honours) in Oriental Studies (Modern Arabic Studies). He joined HSBC in 1981. Since then, he has worked in a variety of businesses in the United Arab Emirates, Hong Kong, the Philippines, France, United States, Japan and India.

Prior to his appointment in Malaysia, he was the CEO of HSBC Japan and HSBC India respectively.

Mr Milne is a Non-Independent Executive Director of HSBC Amanah Malaysia Berhad.

Mr Milne does not have any shareholding in the Bank. His interest in the Bank's related corporation is as disclosed in the Directors' Report on page 18.

Directors (Cont'd)

Mukhtar Malik Hussain, 62
Non-Independent Non-Executive Director
Member of Audit Committee and Risk Committee
Appointed to the Board**:** December 2009

Mr Mukhtar was appointed as Non-Independent Executive Director on 15 December 2009 and subsequently re-designated to Non-Independent Non-Executive Director on 1 August 2021. He is a member of the Audit Committee and Risk Committee of the Bank (effective 1 January 2022).

Mr Mukhtar graduated from the University of Wales with a Bachelor of Science in Economics. He first joined the HSBC Group in 1982 as a graduate trainee in Midland Bank International. He was then appointed as Assistant Director in Samuel Montagu in 1991. After more than 10 years of working in the HSBC Group's London offices, Mr Mukhtar held numerous posts in Dubai, including CEO of HSBC Financial Services (Middle East) Limited from 1995 to 2003. He established the initiative to create the first foreign investment bank in Saudi Arabia for HSBC.

In 2003, Mr Mukhtar assumed the position of CEO, Corporate and Investment Banking. He then headed back to London as the Co-Head of Global Banking in 2006. He was the Global Head of Principal Investments in London from 2006 to 2008. Between 2008 to 2009, he was the Deputy Chairman of HSBC Bank Middle East Limited and Global CEO of HSBC Amanah Malaysia Berhad. He was also the CEO, Global Banking and Markets for Middle East and North Africa before assuming his role as the CEO of the Bank from 2009 to 2018. Mr Mukhtar was HSBC Group General Manager and Head of Belt & Road Initiatives for HSBC Asia Pacific until his retirement on 30 July 2021.

Mr Mukhtar is a Non-Independent Non-Executive Director of HSBC Amanah Malaysia Berhad.

Mr Mukhtar does not have any shareholding in the Bank. His interest in the Bank's related corporation is as disclosed in the Directors' Report on page 18.

Lee Choo Hock, 69
Independent Non-Executive Director
Chairman of the Audit Committee and member of the Nominations and Remuneration Committee
Appointed to the Board: December 2013

Mr Lee was appointed as Independent Non-Executive Director of the Bank on 5 December 2013. He is Chairman of the Audit Committee and a member of the Nominations and Remuneration 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 Malayan Banking Berhad (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 Maybank until he retired in 2008 and his 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 Maybank.

He is a Director of Kossan Rubber Industries Berhad, a member of the Board of Trustees of Yayasan Kossan and a Non-Independent Non-Executive Director of HSBC Amanah Malaysia Berhad.

Mr Lee does not have any shareholding in the Bank.

Directors (Cont'd)

Tan Kar Leng @ Chen Kar Leng, 78
Independent Non-Executive Director
Chairman of the Nominations and Remuneration Committee and member of the Risk Committee
Appointed to the Board: April 2014

Ms Chen was appointed as Independent Non-Executive Director of the Bank on 2 April 2014. She is Chairman of the Nominations and Remuneration Committee and a member of the Risk Committee of the Bank.

Ms Chen was a graduate from the University of Singapore (now known as the National University of Singapore) and she was called to the Malaysian Bar in January 1968 and Brunei Bar in May 1996. She became a partner of the law firm of SKRINE, Kuala Lumpur in January 1974 and was the senior partner and Head of its Corporate Division on her retirement as a partner in December 2009. After her retirement, she has been retained as a consultant of the firm.

She is a member of the Board of Trustees of The Tun Dr Lim Chong Eu Foundation. She is also a member of several committees of the Malaysian Bar Council.

Ms Chen does not have any shareholding in the Bank.

Choo Yoo Kwan @ Choo Yee Kwan, 69
Independent Non-Executive Director
Chairman of the Risk Committee and member of the Audit Committee and Nominations and Remuneration Committee
Appointed to the Board: February 2016

Mr Choo was appointed as Independent Non-Executive Director of the Bank on 11 February 2016. He is Chairman of the Risk Committee and a member of the Audit Committee and Nominations and Remuneration 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.

He retired in July 2014 after having served the banking and risk management industry for 38 years. His last position was as Country Chief Risk Officer for OCBC Bank (Malaysia) Berhad (OCBC), 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 years' 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 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 for 14 years, between 2000 and 2014; and was re-appointed to Education Committee in June 2016. He was appointed as a member of the University Malaya Medical Centre Ethics Committee for 2 years from 2014 to 2015. He is a Chartered Banker and currently serves as a Teaching Facilitator in the Asian Banking School.

He was also appointed as an Independent Director of Danajamin Nasional Berhad since May 2018 and has been a member of Finance Accreditation Agency Accreditation Council since 2019.

Mr Choo does not have any shareholding in the Bank.

Directors (Cont'd)

Datuk Kamaruddin bin Taib, 65
Independent Non-Executive Director
Member of Risk Committee
Appointed to the Board**:** January 2022

Datuk Kamaruddin bin Taib was appointed as Independent Non-Executive Director and member of Risk Committee of the Bank on 1 January 2022.

Datuk Kamaruddin holds a Bachelor of Science Degree in Mathematics from the University of Salford, United Kingdom.

Datuk Kamaruddin was the Chairman of DNV Malaysia Sdn Bhd (formerly known as DNV GL Malaysia Sdn Bhd), part of the Global DNV GL Group. He has been with the DNV GL Group since 1995, and was a substantial shareholder until December 2016. He retired as the Executive Chairman in June 2017. He retired from the Board in November 2021.

Datuk Kamaruddin has significant experience in investment banking, corporate finance, mergers and acquisitions. His career started in 1980 with a leading Investment Bank in Malaysia. Subsequently, he served as a Director of several private companies and companies listed on Bursa Malaysia. He has personal experience in listing several companies on Bursa Malaysia. Apart from his vast experience of serving on the board of companies listed on Bursa Malaysia, his experience included serving on the board of companies listed on the Stock Exchange of India as well as listed on Nasdaq.

Datuk Kamaruddin is currently the Chairman of GHL Systems Berhad. Datuk Kamaruddin is also a Director of Great Eastern General Insurance (Malaysia) Berhad, FIDE Forum, Fraser & Neave Holdings Berhad, Malaysia Smelting Corporation Berhad, RAM Holdings Berhad and Boost Holdings Sdn Bhd (subsidiary of Axiata Group Berhad).

Datuk Kamaruddin does not have any shareholding in the Bank.

Zuraida binti Jamaluddin, 58
Independent Non-Executive Director
Appointed to the Board: February 2022

Puan Zuraida was appointed as Independent Non-Executive Director of the Bank on 1 February 2022. She holds a Bachelor of Science in Electrical Engineering from George Washington University, Washington D.C., USA.

Puan Zuraida has significant experience in the areas of Business Development, Consulting, Regulatory, Compliance, Stakeholder Engagement, Public Affairs and Corporate Communications. She began her career as a Systems Engineer with Mesiniaga Berhad and held several key positions before heading the Sales Division as its Director of Sales. She is currently the Chief Corporate Officer for Digital Nasional Berhad (DNB), after spending the last 7 years in the telecommunications industry. Prior to DNB, Puan Zuraida served as the Chief Corporate Officer and Chief Regulatory and Societal Development Officer at Celcom Axiata Berhad (CELCOM), until March 2021. She also served as a Board Member of several Celcom subsidiary companies.

Before joining Celcom, she was the Managing Director of Renoir Consulting (Malaysia) where she successfully grew Renoir's presence and management consultancy business in Malaysia and Brunei across various sectors including Oil & Gas, Utilities, Telecommunications and Transportation & Logistics. Her other experience included being on the Executive Committee of the Malaysian Oil and Gas Services Council (MOGSC) and Ampang Puteri Hospital Planetree Advisory. She is an Alumni of the International Centre for Leadership in Finance (ICLIF) and INSEAD and has also participated in a Digital Transformation program with the IMD Business School.

Puan Zuraida does not have any shareholding in the Bank.

BOARD RESPONSIBILITY AND OVERSIGHT

Board of Directors

The management structure of the Bank is headed by the Board of Directors and led by the Independent Non-Executive Chairman. The objectives of the Board are to deliver sustainable value to shareholders and promote a culture of openness and debate. The Board is responsible for overseeing the management of the Bank and reviewing the Bank's strategic plans and key policies. Although the Board delegates the day-to-day management of the Bank's business and implementation of strategy to the Executive Committee, certain matters, including financial resource plans, risk appetite and performance targets, procedures for monitoring and controlling operations, approval of credit or market risk limits, specified senior appointments and any substantial change in balance sheet management policy are reserved by the Board for approval.

The Board meets regularly to review reports on performance against financial and other strategic objectives, key business challenges, risk, business developments, and investor and external relations. All Directors have full and timely access to all relevant information and are encouraged to have free and open contact with management at all levels. Directors may take independent professional advice, if necessary, at the Bank's expense.

At the date of this report, the Board consists of eight (8) members; comprising one (1) Independent Non-Executive Chairman, one (1) Non-Independent Executive Directors, one (1) Non-Independent Non-Executive Director and five (5) Independent Non-Executive Directors. The names of the Directors serving at the date of this report and brief biographical particulars for each of them are set out on pages 2 to 5.

Appointments to the Board are based on merit, and candidates are selected based on agreed criteria to ensure the Board's diversity. The Nominations and Remuneration Committee will oversee the rigorous selection process to ensure the agreed requirements, including those guidelines prescribed under the BNM Corporate Governance Policy, are strictly adhered to.

All Directors, including those appointed by the Board to fill a casual vacancy, are subjected to annual re-election by shareholder at the Bank's Annual General Meeting. Non-Executive Directors are appointed for an initial three-year term and, subject to re-election by shareholder at Annual General Meetings, are typically expected to serve two three-year terms. Any term beyond six (6) years is subject to rigorous review. Tenure of Independent Non-Executive Directors shall not exceed a cumulative term of nine (9) years.

The terms and conditions of appointment of Non-Executive Directors are set out in a letter of appointment, which include the expectations required of them and the time estimated for them to meet their commitment to the Bank. The current anticipated minimum time of commitment, which is subject to periodic review and adjustment by the Board, is 30 days per year and with appointment in not more than five (5) public listed companies. Time devoted to the Bank could be considerably more, particularly if serving on Board committees. All Non-Executive Directors have confirmed that they can meet this requirement.

Independent Non-Executive Directors are not HSBC employees and do not participate in the daily business management of the Bank. Instead, they provide views from an external perspective, challenge constructively as well as help the management in the development of the Bank's strategy. They also scrutinise the performance of management in meetings, and monitor the risk profile and reporting of performance of the Bank. The Board has determined that each Non-Executive Director is independent in character and judgement, and there are no relationships or circumstances likely to affect the judgement of the Independent Non-Executive Directors.

The roles of the Independent Chairman/Chairperson and CEO are separate, with a clear division of responsibilities between the running of the Board and executive responsibility for running the Bank's business.

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

Board and Committee Meetings

Eight (8) Board meetings were held in 2021. The table below shows each Director's attendance (including attendance via video conferencing) at meetings of all Board and Committees' meetings during 2021. All Directors have complied with the Bank Negara Malaysia requirements that Directors must attend at least 75% of Board meetings held in the financial year.

2021 Board and Committee meeting attendance	Board	Audit Committee	Risk Committee	Nominations and Remuneration Committee
Total number of meetings held	**8**	**4**	**6**	**7**
Independent Non-Executive Chairman				
Tan Sri Dato' Tan Boon Seng @ Krishnan	8	-	-	7
Non-Independent Non-Executive Directors				
Mukhtar Malik Hussain	8	-	-	-
Non-Independent Executive Directors				
Stuart Paterson Milne	8	-	-	-
Independent Non-Executive Directors				
Lee Choo Hock	8	4	-	7
Tan Kar Leng @ Chen Kar Leng	8	-	6	7
Choo Yoo Kwan @ Choo Yee Kwan	8	4	6	7
Datin Che Teh Ija binti Mohd Jalil [1]	8	4	6	-

[1] Resigned as Independent Non-Executive Director and ceased as member of Audit Committee and Risk Committee with effect from 1 January 2022.

Directors' Emoluments

Details of the emoluments of the Directors of the Bank for 2021, disclosed in accordance with the Companies Act 2016, are shown in Note 39(b) to the financial statements.

Training and Development

Formal, induction programmes are tailored for newly appointed Directors. The programmes consist of a series of meetings with senior executives to enable new Directors to familiarise themselves with the Bank's business. Directors also receive comprehensive guidance from the Company Secretary on Directors' duties and responsibilities.

Directors are provided continuous training and their development requirements are reviewed regularly by the Nominations and Remuneration Committee with the support of the Company Secretary. Executive Directors develop and refresh their skills and knowledge through day-to-day interactions and briefings with senior management of the Bank's businesses and functions. Non-Executive Directors have access to external training and development resources under the Directors' training and development framework that is approved by the Board.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Training and Development (Cont'd)

During the year, Directors attended talks, dialogue sessions and focus group sessions organised by Financial Institutions Directors' Education (FIDE) Forum, and received refresher training and courses related to New/Existing Products Approval and Development Process, Climate Risk, Governance on Data Analytics, Internal Liquidity Adequacy Assessment, Managing Cyber Risk, Cybersecurity updates and Clouds application. In addition, they attended the HSBC Group's Non-Executive Directors Summit held in July 2021.

They were also kept updated with current development/ issues relating to emerging technologies, financial crime compliance, regulatory initiatives and other business developments via awareness and discussion sessions that were conducted by senior executives and subject matter experts.

Board Committees

The Board has established a number of committees, which members comprise Independent Non-Executive Directors who have the skills, knowledge and experience relevant to the responsibilities of the committees. The Board and each Board committee have terms of reference that document their responsibilities and governance procedures. The details of the Board Charter comprising the Board committees' Terms of Reference are available at http://www.about.hsbc.com.my/hsbc-in-malaysia/management-team.

The key roles of the Board committees are described in the paragraph below. The Chairman of each Board committee reports to each subsequent Board meeting on the activities of the Board committee. Each Board committee will evaluate its terms of reference and its own effectiveness annually.

As at the date of this report, the following are the principal Board committees:

1. Audit Committee

The Audit Committee is accountable to the Board and has a non-executive responsibility for oversight of and advice to the Board on financial reporting related matters including Pillar 3 Disclosures and internal financial controls. The Audit Committee reviews the financial statements of the Bank before submission to the Board. It also monitors and reviews the effectiveness of the internal audit function and the Bank's financial and accounting policies and practices. The Audit Committee advises the Board on the appointment of the external auditors and is responsible for the oversight of the external auditors.

The Audit Committee reviews and approves internal audit's annual plan and also discuss on the internal audit resources.

The Audit Committee meets regularly with the senior management of the Bank's finance and internal audit department as well as the external auditor to consider, inter alia, the Bank's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control relating to financial reporting.

The current members of the Audit Committee, all being Independent Non-Executive Directors, are:
- Lee Choo Hock (Chairman)
- Choo Yoo Kwan @ Choo Yee Kwan
- Mukhtar Malik Hussain (appointed with effect from 1 January 2022)
- Datin Che Teh Ija binti Mohd Jalil (resigned with effect from 1 January 2022)

During 2021, the Audit Committee held 4 meetings. The attendance is set out in the table on page 7.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

2. Risk Committee

The Risk Committee is accountable to the Board and has a non-executive responsibility for oversight of and advice to the Board on risk related matters impacting the Bank, risk governance and internal control systems (other than internal financial control systems).

The Risk Committee meets regularly with the Bank's senior financial, risk, internal audit and compliance management to consider, inter alia, risk reports and the effectiveness of compliance.

The Board and the Risk Committee oversee the maintenance and development of a strong risk management framework by continually monitoring the risk environment, top and emerging risks facing the Bank and mitigation actions planned and taken. The Risk Committee recommends the approval of the Bank's risk appetite statement to the Board and monitors performance against the key performance/risk indicators included within the statement. The Risk Committee monitors the risk profiles for all of the risk categories within the Bank's business.

The current members of the Risk Committee, all being Independent Non-Executive Directors, are:
- Choo Yoo Kwan @ Choo Yee Kwan (Chairman)
- Tan Kar Leng @ Chen Kar Leng
- Datuk Kamaruddin bin Taib (appointed with effect from 1 January 2022)
- Mukhtar Malik Hussain (appointed with effect from 1 January 2022)
- Datin Che Teh Ija binti Mohd Jalil (resigned with effect from 1 January 2022)

During 2021, the Risk Committee held 6 meetings. The attendance is set out in the table on page 7.

3. Nominations and Remuneration Committee

The combined Nominations and Remuneration Committee is accountable to the Board and has a non-executive responsibility (i) to lead the process for Board appointments, i.e. to identify and nominate candidates for the approval by the Board; (ii) to review the candidates for appointment to the senior management team; and (iii) to support the Board in overseeing the operation of the Bank's remuneration system and review the remuneration of Directors on the Board.

The Nominations and Remuneration Committee also consider plans for orderly succession to the Board by taking into consideration the appropriate balance of skills, knowledge and experience on the Board. The Nominations and Remuneration Committee assists the Board in the evaluation of the Board's own effectiveness and that of its committees annually. The findings of the performance evaluation and the actions to be taken to address the gaps, are reported to the Board during 2021.

CEO's performance evaluation is undertaken as part of the performance management process for all employees. The results will be considered by the Nominations and Remuneration Committees when reviewing the variable pay awards.

The current members of the Nominations and Remuneration Committee, all being Independent Non-Executive Directors, are:
- Tan Kar Leng @ Chen Kar Leng (Chairman)
- Choo Yoo Kwan @ Choo Yee Kwan
- Lee Choo Hock
- Tan Sri Dato' Tan Boon Seng @ Krishnan

During 2021, the Nominations and Remuneration Committee held 7 meetings. The attendance is set out in the table on page 7.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

Delegations by the Board

Connected Party Transactions Committee

The Connected Party Transactions Committee is delegated with the authority of the Board to approve transactions with connected parties of the Bank.

The current members of the Connected Party Transactions Committee are:
- Lee Choo Hock
- Tan Kar Leng @ Chen Kar Leng
- Tan Sri Dato' Tan Boon Seng @ Krishnan
- Chief Risk Officer
- Head of Wholesale Credit and Market Risk

Executive Committee

The Executive Committee which consists of key senior management members, meets regularly and operates as a general management committee under the direct authority of the Board. The committee exercises all power, authorities and discretions of the Board in the management and day-to-day running of the Bank and these are performed in accordance with the policies and directions set by the Board. The Bank's CEO, Stuart Paterson Milne, chairs the Executive Committee.

To strengthen the governance framework in anticipation of structural and regulatory changes that affect the Bank, the following sub-committees of the Executive Committee are established:

(i) Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible for the efficient management of the Bank's balance sheet and the prudent management of risks pertaining to capital, liquidity and funding as well as interest rate risk, structural foreign exchange and structural/strategic equity risk.

(ii) Risk Management Meeting

The Risk Management Meeting is responsible for the oversight of the risk framework. Regular Risk Management Meetings (RMM) which are chaired by the Chief Risk Officer are held to establish, maintain and periodically review the policy and guidelines for the management of risk within the Bank. It serves as the governance body for enterprise-wide risk management with particular focus on risk culture, risk appetite, risk profile and integration of risk management into the Bank's strategic objectives including the management of all financial crime risks.

(iii) IT Steering Committee

The IT Steering Committee is responsible for the oversight of the implementation and development of IT strategy. The Committee is accountable for reviewing, challenging and approving the financial planning and IT performance.

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

Conflicts of Interest and Indemnification of Directors

The Board has adopted policy and procedures relating to Directors' conflicts of interest. Where conflicts of interest arise, the Board has the power to authorise them. A review of those conflicts which have been authorised, and the terms of those authorisations, is undertaken by the Audit Committee annually.

The Group and the Bank, maintain on a group basis, a Directors' and Officers' Liability and Company Reimbursement Insurance which provides adequate insurance cover for the Directors and Officers of the Group and the Bank against any legal liability incurred by the Directors and officers in the discharge of their duties while holding office for the Group and the Bank. The Directors and officers shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them. During the financial year, the limit of indemnity of the Directors' and Officers' Liability and Company Reimbursement Insurance of the Group was USD25,000,000 for any one claim and in the aggregate for all claims. The amount of insurance premium paid by the Group and the Bank for the Directors and Officers Liability and Company Reimbursement Insurance for the financial year 2021 was RM341,000.

During the year, none of the Directors had any material interest, directly or indirectly, in any contract of significance with the Group and the Bank. All Directors are regularly reminded of their obligations in respect of disclosure of conflicts or potential conflicts of interest in any transactions with the Group and the Bank.

MANAGEMENT REPORTS

The Board and Board Committee 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 known as the Group), key reports submitted to the Board and Board Committees during the financial year include:

- Minutes of the Board Committees
- Financial Resource Plan (FRP) (formerly known as Annual Operating Plan)
- CEO Updates
- Capital Plan
- Credit Transactions and Exposures to Connected Parties
- Financial Crime Compliance, Anti-Money Laundering and Counter Terrorist Financing Reports
- Quarterly and Annual Financial Statements
- Quarterly Internal Audit Progress Reports
- Internal Capital Adequacy Assessment Process
- Risk Appetite Statement
- Risk and Compliance Reports
- Stress Testing Results
- Human Resource Update

INTERNAL CONTROL FRAMEWORK

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems, and for approving the aggregate levels and types of risks the Group and the Bank are willing to take in achieving their strategic objectives.

To meet this requirement and to discharge its obligations, procedures have been designed: for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for ensuring the reliability and usefulness of financial information used within the business or for publication.

These procedures provide reasonable assurance against material misstatement, errors, losses or fraud. They are designed to provide effective internal control within the Group and the Bank. The procedures have been in place throughout the year and up to 11 February 2022, the date of approval of the audited financial statements of the Group and the Bank for the financial year ended 31 December 2021.

The key risk management and internal control procedures include the following:

- **Group's Global Principles**
  The Global Principles set an overarching standard for all other policies and procedures throughout the HSBC Group and are fundamental to the Group and the Bank's risk management structure. They inform and connect, our purpose, values, strategy and risk management principles, guiding on what is right and the manner to treat our customers and our colleagues fairly at all times.

- **Risk management framework (RMF)**
  The RMF supports our Global Principles. It outlines the key principles and practices that we employ in managing material risk. It applies to all categories of risk, and supports a consistent approach in identifying, assessing, managing and reporting the risks we accept and incur in our activities.

- **Delegation of authority within limits set by the Board**
  Subject to certain matters reserved for the Board, the Group and the Bank's Chief Executive Officer, Chief Risk Officer and other authorised persons, have been delegated authority limits and powers within which to manage the day-to-day affairs of the Group, including the right to sub-delegate those limits and powers. Each relevant Executive Committee member or Executive Director has delegated authority within which to manage the day-to-day affairs of the business or function for which he or she is accountable.

  Delegation of authority from the Board requires those individuals to maintain a clear and appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control that are appropriate to their business or function. Authorities to enter into credit and market risk exposures are delegated with limits to line management of the Bank. However, credit proposals with specified higher-risk characteristics require the concurrence of the appropriate regional and global function. Credit and market risks are measured and reported at subsidiary company level and aggregated for risk concentration analysis on a Group-wide basis.

- **Risk identification and monitoring**
  Systems and procedures are in place to identify, assess, control and monitor the material risk types facing the Group and the Bank as set out in the enterprise-wide risk framework. The Group and the Bank's risk measurement and reporting systems are designed to help ensure that material risks are captured with all the attributes necessary to support well-founded decisions, that those attributes are accurately assessed and that information is delivered in a timely manner for those risks to be successfully managed and mitigated.

INTERNAL CONTROL FRAMEWORK (Cont'd)

- **Changes in market conditions/practices**
  Processes are in place to identify new risks arising from changes in market conditions/practices or customer behaviours, which could expose the Group and the Bank to heightened risk of loss or reputational damage. The Group and the Bank employ a top and emerging risks framework, which contains an aggregate of all current and forward-looking risks and enables it to take action that either prevents these risk from materialising or to limit their impact.

  During 2021, due to the prolonged impact of the COVID-19 pandemic on the economy, banks continued to play an expanded role to support society and customers. The pandemic and its impact on the economy have impacted many of our customers' business models and income, requiring significant levels of support from both governments and banks. To meet the additional challenges, we supplemented our existing approach to risk management with additional tools and practices and these continue to be in place. We continue our focus on the quality and timeliness of the data used to inform management decisions, through measures such as early warning indicators, prudent active risk management of our risk appetite, and ensuring regular communication with our Board and other key stakeholders.

- **Responsibility for risk management**
  All employees are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model, which is an activity-based model to delineate management accountabilities and responsibilities for risk management and the control environment. The second line of defence sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and challenges the first line of defence (the risk owners) on effective risk management.

  The Board delegated authority to the Audit Committee (AC) and it reviewed the independence, autonomy and effectiveness of the firm's policies and procedures on whistleblowing, including the procedures for the protection of staff who raise concerns of detrimental treatment.

- **Strategic plans**
  Strategic plans are prepared for global businesses, global functions and geographical region within the framework of the HSBC Group's overall strategy. Financial resource plan, informed by detailed analysis of risk appetite describing the types and quantum of risk that the Bank is prepared to take in executing its strategy, are prepared and adopted, and set out the key business initiatives and the likely financial effects of those initiatives.

- **Internal control over financial reporting**
  As subsidiaries of HSBC, the Group and the Bank are required to comply with section 404 of the US Sarbanes- Oxley Act of 2002 and assess its effectiveness of internal control over financial reporting at 31 December 2021. In 2014, HSBC Group Audit Committee (GAC) endorsed the adoption of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) 2013 framework for the monitoring of risk management and internal control systems to satisfy the requirements of section 404 of the Sarbanes-Oxley Act.

  The key risk management and internal control procedures over financial reporting include the following:

  - **Entity level controls**
    The primary mechanism through which comfort over risk management and internal control systems is achieved is through assessments of the effectiveness of entity level controls, and the reporting of risk and control issues on a regular basis through the various risk management and risk governance forums. Entity level controls are internal controls that have a pervasive influence over the entity as a whole. They include controls related to the control environment, such as the Group and the Bank's values and ethics, the promotion of effective risk management and the overarching governance exercised by the Board and its non-executive committees.

INTERNAL CONTROL FRAMEWORK (Cont'd)

- **Internal control over financial reporting (Cont'd)**

  - **Entity level controls (Cont'd)**
    The design and operational effectiveness of entity level controls are assessed annually as part of the assessment of the effectiveness of internal controls over financial reporting. If issues are significant to the Bank, they are escalated to the Audit Committee for financial reporting issues and/or the Risk Committee for all other risk types.

  - **Process level transactional controls**
    Key process level controls that mitigate the risk of financial misstatement are identified, recorded and monitored in accordance with the risk framework. This includes the identification and assessment of relevant control issues, against which action plans are tracked through to remediation. The Audit Committee and Risk Committee have continued to receive regular updates on the Group and the Bank's ongoing activities for improving the effective oversight of 'end-to-end' business processes, which continues to identify opportunities for enhancing key controls, such as through the use of automation technologies.

  - **Financial reporting**
    The Group and the Bank's financial reporting process for preparing the financial statements is in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards, Companies Act 2016 in Malaysia and guidelines issued by Bank Negara Malaysia. The financial reporting process is further supported by documented accounting policies and reporting formats with detailed instructions and guidance on the reporting requirements issued by Global Finance to the Group and the Bank in advance of each reporting period end, as well as analytical review procedure. The financial reports of the Group and the Bank are subjected to certification by the Chief Financial Officer and Board's approval.

  - **Subsidiary Certifications**
    Half yearly confirmations are provided to the parent bank's Audit Committee from the Audit Committee of the Bank regarding whether the financial statements have been prepared in accordance with HSBC Group policies, present fairly the state of affairs of the relevant principal subsidiary and are prepared on a going concern basis.

    Half yearly confirmations are also provided to the parent bank's Risk Committee from the Risk Committee of the Bank regarding the Committee's oversight activities that are consistent with and in alignment to the HSBC Risk Management Framework (RMF), and the effectiveness of the risk management and internal control systems within the scope of the Committee.

During 2021, the Group and the Bank continued to focus on operational resilience and invest in the non-financial risk infrastructure. There was a particular focus on material and emerging risks and areas undergoing strategic growth. In response to the prolonged COVID-19 pandemic, our business continuity responses have been successfully implemented and the majority of service level agreements continue to be maintained.

The annual review of the effectiveness of the Group and the Bank's system of risk management and internal control over financial reporting was conducted with reference to the COSO 2013 framework, and is reviewed regularly by the Board, the Risk Committee and the Audit Committee. The Risk Committee and the Audit Committee have received confirmation that executive management has taken or is taking the necessary actions to remedy any failings or weaknesses identified through the operation of the framework of controls.

REMUNERATION POLICY

Our pay strategy is designed to attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience. We aim to attract and motivate the very best people who are committed to maintaining a long-term career with us and to performing their role in the long-term interests of stakeholders. The following key principles guide our remuneration decisions.

We aim to:

- Focus on total compensation with a strong link between pay and performance.
- Judge not only what is achieved, but also how it is achieved, and whether it is in line with the HSBC Values.
- Operate a thorough performance management and HSBC Values assessment process.
- Recognise and reward our employees for outstanding positive behavior.
- Design our policy to align compensation with long-term stakeholder interests.
- Apply consequence management to strengthen the alignment between risk and reward.

The Group and the Bank adopt the remuneration policy of HSBC Holdings plc. Please refer to the HSBC remuneration practices and governance at http://www.hsbc.com/our-approach/remuneration for more details of the governance structure and the remuneration strategy of the HSBC Group.

In recognition to local regulations, the materiality of definition needs to be taken into consideration to ensure a robust corporate governance framework is duly applied for the Group and the Bank.

Quantitative disclosures on remuneration of the Group and the Bank's key management and other material risk takers are in Note 39 to the financial statements.

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	July 2021	• Long term	AAA
		• Short term	P1
		• Subordinated liabilities	AA1
		• Outlook	Stable
Moody's Investors Service	June 2021	• Foreign currency long term deposits	A1
		• Local currency long term deposits	A1
		• Foreign currency short term deposits	P-1
		• 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	July 2021	• Long term	AAA
		• Short term	P1
		• Multi-currency Sukuk Programme	AAA
		• Outlook	Stable

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 2021.

DIRECTORS

The Directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

- Tan Sri Dato' Tan Boon Seng @ Krishnan
- Stuart Paterson Milne
- Mukhtar Malik Hussain
- Lee Choo Hock
- Tan Kar Leng @ Chen Kar Leng
- Choo Yoo Kwan @ Choo Yee Kwan
- Datuk Kamaruddin bin Taib (appointed on 1 January 2022)
- Zuraida binti Jamaluddin (appointed on 1 February 2022)
- Datin Che Teh Ija Binti Mohd Jalil (resigned with effect from 1 January 2022)

In accordance with Rule 21.6 of the Constitution, all Directors shall retire from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

PRINCIPAL ACTIVITIES

The principal activities of the Group and the Bank are banking and related financial services, which also include Islamic banking operations. There have been no significant changes in these activities during the financial year.

FINANCIAL RESULTS

	Group	Bank
	RM'000	RM'000
Profit for the financial year attributable to the owner of the Bank		
Profit before tax	**447,300**	**443,307**
Tax expense	**(44,498)**	**(38,884)**
Profit for the financial year	**402,802**	**404,423**

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

There were no issues of shares or debentures during the financial year under review.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than the benefits shown under Directors' Remuneration) by reason of a contract made by the Bank or by a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither during nor at the end of the financial year was the Bank or any of its subsidiaries a party to any arrangements whose object was to enable 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.

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Bank or its subsidiaries or its holding company or subsidiaries of the holding company during the financial year except as follows:

	Number of Ordinary Shares			
	As at 1.1.2021	Acquired	Disposed	As at 31.12.2021
HSBC Holdings plc				
Ordinary shares of USD0.50				
Stuart Paterson Milne [1]	279,378	117,215	-	396,593
Mukhtar Malik Hussain	1,713,853	-	-	1,713,853

	Number of Shares			
	Shares held at 1.1.2021	Shares issued during the year [2]	Shares vested during the year	Shares held at 31.12.2021
HSBC Holdings plc				
HSBC Share Plan				
Stuart Paterson Milne [1]	130,517	40,481	-	170,998
Mukhtar Malik Hussain	182,681	-	-	182,681

[1] *Including the interest of spouse*
[2] *Including scrip dividends.*

None of the other Directors holding office at 31 December 2021 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

DIVIDENDS

Since the end of the previous financial year, the Bank paid a final dividend of 82.2 sen per ordinary share amounting to RM188.2 million in respect of the financial year ended 31 December 2020. The dividend was paid on 27 April 2021.

The Board of Directors via a resolution on 11 February 2022, has approved the payment of a final dividend of 105.96 sen per ordinary share, amounting to net dividend payment of RM242.7 million in respect of the financial year ended 31 December 2021. The dividend will be accounted for in the shareholder's equity as an appropriation of retained earnings in the subsequent financial year.

HOLDING COMPANIES

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

OTHER STATUTORY INFORMATION

Before the financial statements of the Group and of the Bank were prepared, the Directors took reasonable steps:

i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

ii) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the value of current assets as shown in the accounting records of the Group and of the Bank had been written down to an amount which the current assets might be expected so to realise.

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

i) which would render the amount written off for bad debts, or the amount of the provision for doubtful debts inadequate to any substantial extent, or

ii) which would render the values attributed to current assets in the financial statements of the Group and of the Bank misleading, or

iii) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.

OTHER STATUTORY INFORMATION (Cont'd)

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

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

ii) any contingent liability in respect of the Group and of the Bank which has arisen since the end of the financial year.

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.

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

In the opinion of the Directors:

i) the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

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

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 adjustment to the audited financial statements.

SUBSIDIARIES

Details of subsidiaries are set out in Note 17 to the financial statements.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 39(b) to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 36 to the financial statements.

PERFORMANCE REVIEW, BUSINESS HIGHLIGHTS AND OUTLOOK

Performance Review

The Group recorded profit before tax (PBT) of RM447.3 million for the financial year ended 31 December 2021, a decrease of RM49.4 million or 10.0% compared to the prior year. The decrease was mainly due to lower operating income by RM154.9 million primarily driven by the spillover impact of the rate cuts in both USD and MYR in 2020 and higher impairment allowance/ provision of RM81.2 million, partly cushioned by lower operating expenses of RM186.7 million.

Despite lower PBT, total balance sheet size as at 31 December 2021 has grown by 3.8% or RM3.3 billion to RM89.6 billion (31 December 2020: RM86.3 billion). The Group's capital and liquidity ratios have remained strong and well above regulatory requirements.

Business Highlights during the Year 2021

The year of 2021 was an especially challenging year for Malaysia as the country battled with the surge of COVID-19 cases that peaked in August 2021. The rapid spread of the highly infectious virus has put tremendous pressure on the healthcare system and the nationwide movement restrictions implemented to control the situation have heavily affected the economy. Malaysia has finally emerged from that wave and the economy has reopened gradually according to the National Recovery Plan towards Q421.

During this unprecedented journey, the Government and Bank Negara Malaysia (BNM) have further implemented various relief actions and economic stimulus packages to alleviate the people's burden by supporting household income, safeguarding jobs as well as spurring the economy. Both the Government and BNM have adopted a balanced fiscal and monetary policy approach whereby the Overnight Policy Rate remained unchanged after a 125 basis point reduction in 2020.

On a full year basis, the gross domestic product (GDP) growth is expected to be between 3% and 4% for 2021 compared to a contraction of 5.6% in 2020.

HSBC Malaysia has continued to support the Government and BNM's initiatives with specific emphasis on those most vulnerable to the current conditions, helping them build financial resilience. In the meantime, HSBC Malaysia has continued its investment plan and introduced many innovative products and propositions as well as digital solutions.

On the retail front, Wealth and Personal Banking (WPB) has automated transactional banking processes, optimised self-service channels and reduced carbon footprint through branch transformation and streamlined operations, such as the following:

- launched the EZInvest and Wealth on Mobile, where customers can conveniently access and monitor their wealth products including unit trust, structured investment and bonds on mobile.

- launched the Amundi SMART Portfolio 2025 (the "Fund") in April 2021. The Fund subscribes to a new approach in determining its multi-asset investment strategy which combines Artificial Intelligence (AI) techniques and time-tested diversification strategies to balance risk and return.

- being the first credit card issuer in Asia to launch Visa Instalment, a Buy Now Pay Later (BNPL) payment service.

PERFORMANCE REVIEW, BUSINESS HIGHLIGHTS AND OUTLOOK (CONT'D)

Business Highlights during the Year 2021 (Cont'd)

On the wholesale banking front, in addition to supporting the customers impacted by COVID-19, Commercial Banking (CMB) and Global Banking (GB) rolled out various initiatives, including the following:

- launched a new proposition ("HSBC Corporate ReINVENT") to support the Malaysia's corporates in navigating the journey of building resilience, business scalability and sustainability.
- becoming the first international bank in Malaysia to launch the DuitNow Request for its business customers – a real time payment service which allows streamlining the collection of repetitive payments from multiple customers.
- launched HSBC Global Wallet - an international payment and multi-currency account solution.
- implemented Digital Service Request, deployed LiveChat, enhanced on-boarding and credit & lending journey through Application Program Interface (API) and robotic process automation.
- focused on sustainability initiatives through technology proposition and data analytics.

Markets and Securities Services (MSS), together with WPB, launched Sophis - a new system which re-introduces the equity-linked quanto structured products to our retail customers. During the year, MSS has also enhanced our offshore FX capability via expansion of product offerings, improved our FX e-banking penetration rate and maintained our market volume leadership for FX Forwards/Dynamic Hedging activities. On Direct Custody and Clearing services, we continued to offer new products and services through collaboration with product partners, financial institutions group, and customer segments to increase our market share.

HSBC Malaysia's strong liquidity and capital position amidst the ongoing impacts of COVID-19 was well recognised by external parties including RAM Ratings Services Berhad. In 2021, RAM reaffirmed the Bank and its subsidiary, HSBC Amanah Malaysia Berhad (HBMS)'s long and short term ratings of AAA and P1 ratings respectively.

HSBC Malaysia has maintained its market leadership position in various areas, evident through the numerous awards won in 2021, including the 'Best International Bank in Malaysia' (2nd consecutive year) by The FinanceAsia Country Awards and the 'Digital Bank of the Year' by The Asset Triple A Digital Awards 2021. These are a testament to our leading digital, cash management and trade capabilities as well as our commitment to sustainable finance and best-in-class customer services. Awards and recognitions are disclosed on page 24 to 25 under Directors' Report section.

PERFORMANCE REVIEW, BUSINESS HIGHLIGHTS AND OUTLOOK (CONT'D)

Business Highlights during the Year 2021 (Cont'd)

Regarding sustainability, we have completed several Environmental, Social and Governance (ESG) initiatives primarily through our subsidiary (HBMS), including the following:

- HSBC Amanah Credit Card was launched with a charity feature whereby for every donation made by cardholders, HSBC will match 1% of the spend to donate to selected charities/ non-profit organisations.

- new credit cards issued by HSBC Amanah are produced using 85% recycled PVC materials. This makes HBMS the first Islamic international bank in Malaysia to link a charity feature with its recycled plastic credit cards.

- HBMS issued Green Bank Guarantee to a biogas-to-energy player in Malaysia alongside Green Trade Financing facilities for two companies to source sustainable cocoa in Malaysia and acquire stake in a solar project in Vietnam.

- HBMS was the first bank in Malaysia to publish the Task Force on Climate-Related Financial Disclosures (TCFD) report in April 2021, demonstrating its commitment to transparency in reporting climate-related financial risks.

- in August 2021, HBMS was awarded the highly coveted "Islamic ESG Bank of the Year" for the 2nd consecutive year, from The Asset Triple A Islamic Finance Awards 2021, in addition to multiple sustainability awards which can be seen on page 24 to 25 under Directors' Report section.

2021 was also a landmark year for HSBC Malaysia as we commenced the relocation of our head office from Leboh Ampang to the brand new Menara IQ building at Tun Razak Exchange. The building, designed according to LEED Gold Standard (Leadership in Energy and Environmental Design), upholds our commitment to providing the best environment for our customers as well as employees.

Outlook for 2022

Progress in vaccination, booster coverage and relaxation of containment measures, along with the expected expansion in global demand and higher private sector expenditure will support overall growth prospects for Malaysia in 2022.

HSBC Malaysia remains committed to serving our customers, creating even better digital solutions and investing in our employees, aligning with HSBC Group's vision to build "A bank fit for the future". We will also continue to support HSBC Group's strategy to become the leading wealth manager in Asia.

With a key focus on sustainability and ESG initiatives, we endeavour to help customers in their sustainability transition journey.

We are creating a culture that enables us to be at our best and deliver exceptional outcomes for our customers – a culture that promotes flexibility, collaboration, learning and wellbeing in both the physical and virtual workplace. We will continue to support our people by developing their skills for the changing world around us.

Malaysia is uniquely positioned to capture increasing opportunities arising from supply chains that are moving to the ASEAN region. The high vaccination rate and robust external engine will allow the economy to outperform, while allowing the country to continue opening up. The positive outlook, together with our strong capital position, enables us to continue executing our transformation plans and growth initiatives in 2022 and beyond.

Awards won during the financial year:

HSBC Bank Malaysia Berhad

1. **Best International Bank in Malaysia** – FinanceAsia Country Awards 2021 (2nd consecutive year)

2. **Digital Bank of the Year** – The Asset Triple A Digital Awards 2021

3. **Market Leader for Trade Finance in Malaysia** – Euromoney Trade Finance Survey 2021

4. **Best Service for Trade Finance in Malaysia** – Euromoney Trade Finance Survey 2021

5. **Best Retail Digital Payments Experience** – The Asset Triple A Digital Awards 2021

6. **Best Retail Online Banking Experience** – The Asset Triple A Digital Awards 2021

7. **Best Renminbi Bank, Malaysia** – The Asset Triple A Treasury, Trade, SSC and Risk Management Awards 2021 (4th consecutive year)

8. **Best Supply Chain Solution, Malaysia for Proton** – The Asset Triple A Treasury, Trade, SSC and Risk Management Awards 2021

9. **Best Service Provider, Cash Management in Malaysia** - The Asset Triple A Treasury, Trade, SSC and Risk Management Awards 2021 (2nd consecutive year)

10. **Best in Treasury and Working Capital – MNCs/LLCs** - The Asset Triple A Treasury, Trade, SSC and Risk Management Awards 2021

11. **Best Payments & Collections Solution for Sports Direct** - The Asset Triple A Treasury, Trade, SSC and Risk Management Awards 2021

12. **Best Payments & Collections Solution for DPO International** - The Asset Triple A Treasury, Trade, SSC and Risk Management Awards 2021

13. **Best Payments & Collections Solution for Agile Property** - The Asset Triple A Treasury, Trade, SSC and Risk Management Awards 2021

14. **Best Liquidity and Investments Solution for Silverlake Axis Group** - The Asset Triple A Treasury, Trade, SSC and Risk Management Awards 2021

15. **Outstanding Customer Experience – Contact Center** – Digital CX Awards 2021

16. **Outstanding Innovation in Digital CX Product/Service – Islamic Banking** - Digital CX Awards 2021

17. **Contribution to HR Community** – Asia HRD Awards 2021

18. **2021/2022 Most Preferred Graduate Employers to Work With – Banking** – Graduates Choice Award

19. **Best New Product Launch of the Year – Cards** – Global Retail Banking Innovation Awards 2021

20. **Best New Wealth Management Product** – Global Retail Banking Innovation Awards 2021

21. **Best Domestic Cash Manager in Malaysia as voted by Corporates** – Euromoney Cash Management Survey 2021 – Market Leader (5th consecutive year)

Awards won during the financial year (Cont'd):

HSBC Bank Malaysia Berhad (Cont'd)

22. **#1 Domestically for Overall Services in Malaysia** – Euromoney Cash Management Survey 2021 – Best Service

23. **Top 50 Most Popular Graduate Employers of 2021** – Malaysia's 100 Leading Graduate Employers Awards 2021

HSBC Amanah Malaysia Berhad

1. **ESG Islamic Bank of the Year** – The Asset Triple A Islamic Finance Awards 2021 (2nd consecutive year)

2. **Best Islamic Trade Finance Bank** – The Asset Triple A Islamic Finance Awards 2021 (4th consecutive year)

3. **Best ASEAN Sustainability SRI Sukuk - Quasi-Sovereign** – The Asset Triple A Islamic Finance Awards 2021

4. **Best ASEAN Green SRI Sukuk - Renewable Energy** – The Asset Triple A Islamic Finance Awards 2021

5. **Best ASEAN Sustainability SRI Sukuk - Quasi-Sovereign (Malaysia**) – The Asset Triple A Islamic Finance Awards 2021

6. **Best ASEAN Green SRI Sukuk - Renewable Energy (Malaysia**) – The Asset Triple A Islamic Finance Awards 2021

7. **Best Green Financing (Malaysia)** – The Asset Triple A Islamic Finance Awards 2021

8. **Best Local Currency Sukuk (Malaysia)** – The Asset Triple A Islamic Finance Awards 2021

9. **Outstanding Credit Card Initiative of the Year – Malaysia** - Asian Banking and Finance (ABF) Retail Banking Awards 2021

10. **Best Islamic Finance Deal Award for the Government of Malaysia's Dual Tranche Issuance** – FinanceAsia Achievement Awards 2021

DIRECTORS' REPORT (Cont'd)

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors. A resolution to re-appoint PricewaterhouseCoopers PLT as auditor of the Group and the Bank will be proposed at the forthcoming Annual General Meeting.

This report was approved by the Board of Directors on 11 February 2022.

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

………………………………………………	………………………………………………
STUART PATERSON MILNE	**LEE CHOO HOCK**
Director	Director

Kuala Lumpur, Malaysia
11 February 2022

STATEMENT BY DIRECTORS PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, Stuart Paterson Milne and Lee Choo Hock, two of the Directors of HSBC Bank Malaysia Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 34 to 192 are drawn up so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2021 and financial performance of the Group and of the Bank for the financial year ended 31 December 2021 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 11 February 2022.

……………………..……………….……..….	……………………..……………….……..….
STUART PATERSON MILNE	**LEE CHOO HOCK**
Director	Director

Kuala Lumpur, Malaysia
11 February 2022

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

STATUTORY DECLARATION PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT 2016

I, Sun Wenyun, 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 34 to 192 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 abovenamed

at Kuala Lumpur, Malaysia on 11 February 2022.

....
SUN WENYUN

BEFORE ME:

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HSBC BANK MALAYSIA BERHAD
(Incorporated in Malaysia)
Registration No. 198401015221 (127776-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of HSBC Bank Malaysia Berhad ("the Bank") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2021, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Bank, which comprise the statements of financial position as at 31 December 2021 of the Group and of the Bank, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 34 to 192.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

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

Independence and other ethical responsibilities

We are independent of the Group and of the Bank in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The Directors of the Bank are responsible for the other information. The other information comprises the Board of Directors, Corporate Governance Disclosures, Rating by External Rating Agencies and Directors' Report, but does not include the financial statements of the Group and of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Bank does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Bank, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Bank or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Bank are responsible for the preparation of the financial statements of the Group and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Bank, the Directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors’ responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Bank as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Group and of the Bank, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s and of the Bank’s internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s or on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements of the Group and of the Bank or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Bank, including the disclosures, and whether the financial statements of the Group

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

and of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER MATTERS

This report is made solely to the members of the Bank, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT	WILLIAM MAH JIN CHIEK
LLP0014401-LCA & AF 1146	03085/07/2023 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur
18 February 2022

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

		Group		*Bank*	
		31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Assets					
Cash and short-term funds	*7*	**12,351,813**	12,663,196	**8,638,234**	9,441,441
Securities purchased under resale agreements		**6,047,670**	6,826,369	**6,047,670**	6,826,369
Deposits and placements with banks and other financial institutions	*8*	**150,000**	48,204	**1,425,508**	1,403,411
Financial assets at fair value through profit and loss (FVTPL)	*9*	**1,759,108**	1,089,673	**1,759,108**	1,089,673
Financial investments at fair value through other comprehensive income (FVOCI)	*10*	**15,712,400**	10,827,545	**13,459,449**	9,527,730
Financial investments at amortised cost	*11*	**199,174**	199,743	**199,174**	199,743
Loans, advances and financing	*12*	**50,008,904**	50,752,784	**37,152,838**	37,260,208
Derivative financial assets	*43*	**924,507**	2,033,429	**938,382**	2,037,229
Other assets	*15*	**1,000,939**	588,905	**1,131,323**	605,867
Statutory deposits with Bank Negara Malaysia	*16*	**48,659**	55,511	**28,798**	30,009
Investments in subsidiary companies	*17*	**-**	-	**660,021**	660,021
Property and equipment	*19*	**999,804**	900,381	**992,899**	891,297
Intangible assets	*20*	**26,353**	29,099	**26,353**	29,099
Tax recoverable		**102,224**	172,190	**88,964**	169,872
Deferred tax assets	*21*	**270,801**	130,069	**221,455**	102,309
Total assets		**89,602,356**	86,317,098	**72,770,176**	70,274,278
Liabilities					
Deposits from customers	*22*	**67,975,693**	63,410,436	**55,184,012**	51,263,508
Deposits and placements from banks and other financial institutions	*23*	**2,815,266**	2,858,341	**2,066,904**	2,135,227
Bills payable		**100,527**	169,111	**87,660**	121,104
Derivative financial liabilities	*43*	**947,581**	1,840,252	**986,699**	1,899,404
Structured liabilities designated at fair value through profit and loss	*24*	**2,909,026**	3,748,193	**1,720,927**	2,634,940
Other liabilities	*25*	**2,814,291**	2,368,130	**2,549,376**	2,188,958
Multi-Currency Sukuk Programme	*26*	**515,333**	523,841	**-**	-
Subordinated liabilities	*27*	**500,000**	500,000	**500,000**	500,000
Total liabilities		**78,577,717**	75,418,304	**63,095,578**	60,743,141
Equity					
Share capital	*28*	**1,045,875**	1,045,875	**1,045,875**	1,045,875
Other equity and reserves	*29*	**9,978,764**	9,852,919	**8,628,723**	8,485,262
Total equity attributable to owner of the Bank		**11,024,639**	10,898,794	**9,674,598**	9,531,137
Total liabilities and equity		**89,602,356**	86,317,098	**72,770,176**	70,274,278
Commitments and contingencies	*42*	**175,099,018**	182,549,756	**165,754,192**	173,674,916

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

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

STATEMENTS OF PROFIT OR LOSS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

		Group		*Bank*	
		31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Interest income	*30*	**1,615,233**	1,912,201	**1,634,703**	1,937,807
Interest expense	*30*	**(415,831)**	(574,664)	**(415,831)**	(574,664)
Net interest income	*30*	**1,199,402**	1,337,537	**1,218,872**	1,363,143
Fee and commission income	*31*	**426,190**	397,595	**425,466**	396,480
Fee and commission expense	*31*	**(61,692)**	(71,069)	**(61,692)**	(71,069)
Net fee and commission income	*31*	**364,498**	326,526	**363,774**	325,411
Net trading income	*32*	**347,713**	768,973	**488,535**	630,588
Income from Islamic banking operations	*33*	**685,202**	423,788	**-**	-
Net income/(expenses) from financial liabilities designated at fair value		**39,019**	(75,980)	**39,019**	(75,980)
Other operating income	*34*	**70,489**	80,335	**267,230**	268,037
Operating income before impairment losses		**2,706,323**	2,861,179	**2,377,430**	2,511,199
Impairment allowance/provision	*35*	**(556,931)**	(475,692)	**(340,045)**	(311,440)
Net operating income		**2,149,392**	2,385,487	**2,037,385**	2,199,759
Other operating expenses	*36*	**(1,702,092)**	(1,888,762)	**(1,594,078)**	(1,774,323)
Profit before tax		**447,300**	496,725	**443,307**	425,436
Tax expense	*37*	**(44,498)**	(139,157)	**(38,884)**	(111,835)
Profit for the financial year		**402,802**	357,568	**404,423**	313,601
Profit attributable to the owner of the Bank		**402,802**	357,568	**404,423**	313,601
Basic earnings per RM0.50 ordinary share	*38*	**175.9 sen**	156.1 sen	**176.6 sen**	136.9 sen
Dividends per RM0.50 ordinary share (net)					
- final dividend paid in respect of prior year		**82.2 sen**	79.9 sen	**82.2 sen**	79.9 sen

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

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

		Group		*Bank*	
		31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Profit for the financial year		**402,802**	357,568	**404,423**	313,601
Other comprehensive income/(expense)					
Items that will not be reclassified to profit or loss					
Revaluation reserve:					
Deficit on revaluation properties		**(14,477)**	(14,200)	**(14,477)**	(14,200)
Income tax effect		**2,418**	1,982	**2,418**	1,982
Own credit reserve:					
Change in fair value		**89**	16,439	**1,497**	7,052
Income tax effect		**(21)**	(3,945)	**(359)**	(1,692)
Fair value through other comprehensive income reserve (equity instruments):					
Change in fair value		**11,771**	16,982	**11,771**	16,982
Income tax effect		**(2,825)**	(4,076)	**(2,825)**	(4,076)
Items that will subsequently be reclassified to profit or loss when specific conditions are met					
Fair value through other comprehensive income reserve (debt instruments):					
Change in fair value		**(95,499)**	148,428	**(78,552)**	124,992
Amount transferred to profit or loss		**3,541**	(110,389)	**6,095**	(94,271)
Impairment charges		**535**	302	**433**	290
Income tax effect		**22,072**	(9,128)	**17,392**	(7,372)
Other comprehensive (expenses)/income for the financial year, net of income tax		**(72,396)**	42,395	**(56,607)**	29,687
Total comprehensive income attributable to the owner of the Bank		**330,406**	399,963	**347,816**	343,288

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

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

Group (RM'000)	*Non-distributable*							*Distributable*	
	Share capital	*Other equity instrument*	*Revaluation reserve*	*FVOCI reserve*	*Own credit reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total equity*
2021									
Balance at 1 January	**1,045,875**	**500,000**	**190,751**	**215,792**	**(5,685)**	**103,790**	**298,100**	**8,550,171**	**10,898,794**
Profit for the financial year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**402,802**	**402,802**
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	**-**	**-**	**(2,262)**	**-**	**-**	**-**	**-**	**2,262**	**-**
Deficit on revaluation of properties	**-**	**-**	**(14,477)**	**-**	**-**	**-**	**-**	**-**	**(14,477)**
Deferred tax adjustment on revaluation reserve	**-**	**-**	**2,418**	**-**	**-**	**-**	**-**	**-**	**2,418**
FVOCI reserve/Own credit reserve									
Net change in fair value	**-**	**-**	**-**	**(63,631)**	**68**	**-**	**-**	**-**	**(63,563)**
Net amount transferred to profit or loss	**-**	**-**	**-**	**2,691**	**-**	**-**	**-**	**-**	**2,691**
Transfer to retained profit upon realisation of unquoted investments	**-**	**-**	**-**	**(9)**	**-**	**-**	**-**	**9**	**-**
Impairment charges	**-**	**-**	**-**	**535**	**-**	**-**	**-**	**-**	**535**
Total other comprehensive (expense)/income	***-***	***-***	***(14,321)***	***(60,414)***	***68***	***-***	***-***	***2,271***	***(72,396)***
Total comprehensive income for the financial year	**-**	**-**	**(14,321)**	**(60,414)**	**68**	**-**	**-**	**405,073**	**330,406**
Net change in regulatory reserves	**-**	**-**	**-**	**-**	**-**	**-**	**88,300**	**(88,300)**	**-**
Transactions with the owner, recorded directly in equity									
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**(3,717)**	**-**	**2,667**	**(1,050)**
Dividends paid to owner - 2020 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(188,161)**	**(188,161)**
Discretionary coupon on other equity instrument issued	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(15,350)**	**(15,350)**
Balance at 31 December	**1,045,875**	**500,000**	**176,430**	**155,378**	**(5,617)**	**100,073**	**386,400**	**8,666,100**	**11,024,639**

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

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (Cont'd)

Group (RM'000)	*Non-distributable*							*Distributable*	
	Share capital	*Other equity instrument*	*Revaluation reserve*	*FVOCI reserve*	*Own credit reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total equity*
2020									
Balance at 1 January	1,045,875	500,000	205,363	173,673	(18,179)	100,010	486,200	8,201,963	10,694,905
Profit for the financial year	-	-	-	-	-	-	-	357,568	357,568
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	-	-	(2,394)	-	-	-	-	2,394	-
Deficit on revaluation of properties	-	-	(14,200)	-	-	-	-	-	(14,200)
Deferred tax adjustment on revaluation reserve	-	-	1,982	-	-	-	-	-	1,982
FVOCI reserve/Own credit reserve									
Net change in fair value	-	-	-	125,713	12,494	-	-	-	138,207
Net amount transferred to profit or loss	-	-	-	(83,896)	-	-	-	-	(83,896)
Impairment charges	-	-	-	302	-	-	-	-	302
Total other comprehensive (expense)/income	-	-	*(14,612)*	*42,119*	*12,494*	-	-	*2,394*	*42,395*
Total comprehensive income for the financial year	-	-	(14,612)	42,119	12,494	-	-	359,962	399,963
Net change in regulatory reserves	-	-	-	-	-	-	(188,100)	188,100	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	3,780	-	1,720	5,500
Dividends paid to owner - 2019 final	-	-	-	-	-	-	-	(183,000)	(183,000)
Discretionary coupon on other equity instrument issued	-	-	-	-	-	-	-	(18,574)	(18,574)
Balance at 31 December	1,045,875	500,000	190,751	215,792	(5,685)	103,790	298,100	8,550,171	10,898,794

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

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (Cont'd)

Bank (RM'000)	*Non-distributable*							*Distributable*	
	Share capital	*Other equity instrument*	*Revaluation reserve*	*FVOCI reserve*	*Own credit reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total equity*
2021									
Balance at 1 January	**1,045,875**	**500,000**	**190,751**	**203,924**	**(4,562)**	**103,013**	**292,000**	**7,200,136**	**9,531,137**
Profit for the financial year	-	-	-	-	-	-	-	**404,423**	**404,423**
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	-	-	**(2,262)**	-	-	-	-	**2,262**	-
Deficit on revaluation of properties	-	-	**(14,477)**	-	-	-	-	-	**(14,477)**
Deferred tax adjustment on revaluation reserve	-	-	**2,418**	-	-	-	-	-	**2,418**
FVOCI reserve/Own credit reserve									
Net change in fair value	-	-	-	**(50,751)**	**1,138**	-	-	-	**(49,613)**
Net amount transferred to profit or loss	-	-	-	**4,632**	-	-	-	-	**4,632**
Transfer to retained profit upon realisation of unquoted investments	-	-	-	**(9)**	-	-	-	**9**	-
Impairment charges	-	-	-	**433**	-	-	-	-	**433**
Total other comprehensive (expense)/income	-	-	***(14,321)***	***(45,695)***	***1,138***	-	-	***2,271***	***(56,607)***
Total comprehensive income for the financial year	-	-	**(14,321)**	**(45,695)**	**1,138**	-	-	**406,694**	**347,816**
Net change in regulatory reserves	-	-	-	-	-	-	**47,600**	**(47,600)**	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	**(3,451)**	-	**2,607**	**(844)**
Dividends paid to owner - 2020 final	-	-	-	-	-	-	-	**(188,161)**	**(188,161)**
Discretionary coupon on other equity instrument issued	-	-	-	-	-	-	-	**(15,350)**	**(15,350)**
Balance at 31 December	**1,045,875**	**500,000**	**176,430**	**158,229**	**(3,424)**	**99,562**	**339,600**	**7,358,326**	**9,674,598**

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

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (Cont'd)

Bank (RM'000)	*Non-distributable*							*Distributable*	
	Share capital	*Other equity instrument*	*Revaluation reserve*	*FVOCI reserve*	*Own credit reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total equity*
2020									
Balance at 1 January	1,045,875	500,000	205,363	167,379	(9,922)	99,473	433,100	6,942,952	9,384,220
Profit for the financial year	-	-	-	-	-	-	-	313,601	313,601
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	-	-	(2,394)	-	-	-	-	2,394	-
Deficit on revaluation of properties	-	-	(14,200)	-	-	-	-	-	(14,200)
Deferred tax adjustment on revaluation reserve	-	-	1,982	-	-	-	-	-	1,982
FVOCI reserve/Own credit reserve									
Net change in fair value	-	-	-	107,901	5,360	-	-	-	113,261
Net amount transferred to profit or loss	-	-	-	(71,646)	-	-	-	-	(71,646)
Impairment charges	-	-	-	290	-	-	-	-	290
Total other comprehensive (expense)/income	-	-	*(14,612)*	*36,545*	*5,360*	-	-	*2,394*	*29,687*
Total comprehensive income for the financial year	-	-	(14,612)	36,545	5,360	-	-	315,995	343,288
Net change in regulatory reserves	-	-	-	-	-	-	(141,100)	141,100	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	3,540	-	1,663	5,203
Dividends paid to owner - 2019 final	-	-	-	-	-	-	-	(183,000)	(183,000)
Discretionary coupon on other equity instrument issued	-	-	-	-	-	-	-	(18,574)	(18,574)
Balance at 31 December	1,045,875	500,000	190,751	203,924	(4,562)	103,013	292,000	7,200,136	9,531,137

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

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	Group	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
Cash Flows from Operating Activities		
Profit before tax	**447,300**	496,725
Adjustments for :		
Property and equipment written off	**1,836**	6,999
Depreciation of property and equipment	**24,112**	28,676
Depreciation of Right of Use assets	**18,088**	26,777
Impairment of Right of Use assets	**587**	-
Amortisation of intangible assets	**7,708**	11,796
Impairment of intangible assets	**1,110**	681
Net gains on disposal of property and equipment	**-**	(10)
Net upwards revaluation on property	**(10,545)**	-
Revaluation loss on property	**-**	137,802
Share-based payment transactions	**8,802**	9,907
Dividend income	**(1,415)**	(1,591)
Net (income)/expenses on financial instrument at FVTPL	**(34,854)**	125,347
Unrealised losses on revaluation of financial assets at FVTPL	**9,889**	3,974
Unrealised losses/(gains) on revaluation of derivatives	**154,352**	(53,204)
Unrealised losses/(gains) from dealing in foreign currency	**16,738**	(141,588)
Allowance for impairment losses	**667,434**	571,294
Modification (gains)/losses on loans, advances and financing, net of unwinding	**(14,442)**	5,961
Operating profit before changes in operating assets and liabilities	**1,296,700**	1,229,546
Decrease/(Increase) in operating assets		
Securities purchased under resale agreements	**778,699**	(181,071)
Deposits and placements with banks and other financial institutions	**(101,841)**	90,955
Financial assets at FVTPL	**(679,324)**	298,331
Loans, advances and financing	**116,947**	(39,505)
Derivative financial assets	**937,832**	(398,442)
Other assets	**(280,134)**	(195,611)
Statutory deposits with Bank Negara Malaysia	**6,852**	936,840
Total decrease in operating assets	**779,031**	511,497
Increase/(Decrease) in operating liabilities		
Deposits from customers	**4,565,257**	4,003,245
Deposits and placements from banks and other financial institutions	**(43,075)**	(825,343)
Structured liabilities designated at FVTPL	**(812,732)**	(1,213,647)
Bills payable	**(68,584)**	(7,541)
Derivative financial liabilities	**(892,671)**	557,983
Other liabilities	**448,756**	(40,261)
Total increase in operating liabilities	**3,196,951**	2,474,436
Cash generated from operating activities	**5,272,682**	4,215,479
Income tax paid	**(93,622)**	(253,437)
Net cash generated from operating activities	**5,179,060**	3,962,042

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

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (Cont'd)

	Group	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
Cash Flows from Investing Activities		
Purchase of financial investment at FVOCI	**(22,004,861)**	(19,584,973)
Proceeds from disposal/redemption of financial investment at FVOCI	**17,089,298**	20,732,571
Purchase of financial investment at amortised cost	**(200,000)**	(200,000)
Purchase of property and equipment	**(129,355)**	(254,256)
Purchase of intangible assets	**(6,072)**	(2,722)
Proceeds from disposal of property and equipment	**-**	364
Dividends received	**1,415**	1,591
Net cash (used in)/generated from investing activities	**(5,249,575)**	692,575
Cash Flows from Financing Activities		
Redemption of subordinated liabilities	**-**	(589,612)
Interest paid on subordinated liabilities	**(25,250)**	(43,739)
Redemption of Multi-Currency Sukuk Programme	**-**	(750,000)
Profits paid on Multi-Currency Sukuk Programme	**(12,107)**	(30,458)
Dividends paid	**(188,161)**	(183,000)
Discretionary coupon paid on other equity instrument issued	**(15,350)**	(18,574)
Net cash used in financing activities	**(240,868)**	(1,615,383)
Net (decrease)/increase in Cash and Cash Equivalents	**(311,383)**	3,039,234
Cash and Cash Equivalents at beginning of the financial year	**12,663,196**	9,623,962
Cash and Cash Equivalents at end of the financial year	**12,351,813**	12,663,196
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**12,351,813**	12,663,196

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

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (Cont'd)

	Bank	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
Cash Flows from Operating Activities		
Profit before tax	**443,307**	425,436
Adjustments for :		
Property and equipment written off	**1,715**	6,734
Depreciation of property and equipment	**21,669**	26,540
Depreciation of Right of Use assets	**11,535**	19,513
Impairment of Right of Use assets	**458**	-
Amortisation of intangible assets	**7,708**	11,796
Impairment of intangible assets	**1,110**	681
Net gains on disposal of property and equipment	**-**	(10)
Net upwards revaluation on property	**(10,545)**	-
Revaluation loss on property	**-**	137,802
Share-based payment transactions	**8,734**	9,654
Dividend income	**(51,415)**	(51,591)
Net (income)/expenses on financial instrument at FVTPL	**(39,019)**	75,980
Unrealised (gains)/losses on revaluation of financial assets at FVTPL	**(6,756)**	3,264
Unrealised losses on revaluation of derivatives	**155,320**	6,665
Unrealised gains from dealing in foreign currency	**(104,410)**	(19,680)
Allowance for impairment losses	**395,354**	360,882
Operating profit before changes in operating assets and liabilities	**834,765**	1,013,666
Decrease/(Increase) in operating assets		
Securities purchased under resale agreements	**778,699**	(181,071)
Deposits and placements with banks and other financial institutions	**(22,148)**	(391,834)
Financial assets at FVTPL	**(662,679)**	299,041
Loans, advances and financing	**(268,675)**	626,703
Derivative financial assets	**1,047,937**	(584,158)
Other assets	**(410,965)**	(226,393)
Statutory deposits with Bank Negara Malaysia	**1,211**	632,680
Total decrease in operating assets	**463,380**	174,968
Increase/(Decrease) in operating liabilities		
Deposits from customers	**3,920,504**	5,176,630
Deposits and placements from banks and other financial institutions	**(68,323)**	364,300
Structured liabilities designated at FVTPL	**(873,497)**	(999,474)
Bills payable	**(33,444)**	(33,512)
Derivative financial liabilities	**(912,705)**	571,321
Other liabilities	**357,833**	32,187
Total increase in operating liabilities	**2,390,368**	5,111,452
Cash generated from operating activities	**3,688,513**	6,300,086
Income tax paid	**(60,497)**	(203,929)
Net cash generated from operating activities	**3,628,016**	6,096,157

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

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (Cont'd)

	Bank	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
Cash Flows from Investing Activities		
Purchase of financial investment at FVOCI	**(20,528,197)**	(18,467,393)
Proceeds from disposal/redemption of financial investment at FVOCI	**16,609,362**	18,201,004
Purchase of financial investment at amortised cost	**(200,000)**	(200,000)
Purchase of property and equipment	**(128,970)**	(249,872)
Purchase of intangible assets	**(6,072)**	(2,722)
Proceeds from disposal of property and equipment	**-**	364
Dividends received	**51,415**	51,591
Net cash used in investing activities	**(4,202,462)**	(667,028)
Cash Flows from Financing Activities		
Redemption of subordinated liabilities	**-**	(589,612)
Interest paid on subordinated liabilities	**(25,250)**	(43,739)
Dividends paid	**(188,161)**	(183,000)
Discretionary coupon paid on other equity instrument issued	**(15,350)**	(18,574)
Net cash used in financing activities	**(228,761)**	(834,925)
Net (decrease)/increase in Cash and Cash Equivalents	**(803,207)**	4,594,204
Cash and Cash Equivalents at beginning of the financial year	**9,441,441**	4,847,237
Cash and Cash Equivalents at end of the financial year	**8,638,234**	9,441,441
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**8,638,234**	9,441,441

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

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (Cont'd)

Change in liabilities arising from financing activities

Group (RM'000)

	At 1 Jan	Cash outflow	Foreign exchange adjustment	Fair value movement	Interest/ Profit accrual	At 31 Dec
2021						
Multi-Currency Sukuk Programme	**523,841**	**-**	**-**	**(8,508)**	**-**	**515,333**
Subordinated liabilities	**500,000**	**-**	**-**	**-**	**-**	**500,000**
Other liabilities of which:						
Profit paid on Multi-Currency Sukuk Programme	**5,360**	**(12,107)**	**-**	**-**	**11,989**	**5,242**
Interest paid on Subordinated liabilities	**4,151**	**(25,250)**	**-**	**-**	**25,250**	**4,151**
	1,033,352	**(37,357)**	**-**	**(8,508)**	**37,239**	**1,024,726**
2020						
Multi-Currency Sukuk Programme	1,265,929	(750,000)	-	7,912	-	523,841
Subordinated liabilities	1,089,612	(589,612)	-	-	-	500,000
Other liabilities of which:						
Profit paid on Multi-Currency Sukuk Programme	13,724	(30,458)	-	-	22,094	5,360
Interest paid on Subordinated liabilities	4,292	(43,739)	-	-	43,598	4,151
	2,373,557	(1,413,809)	-	7,912	65,692	1,033,352

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

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (Cont'd)

Change in liabilities arising from financing activities (Cont'd)

Bank (RM'000)

	At 1 Jan	Cash outflow	Foreign exchange adjustment	Fair value movement	Interest accrual	At 31 Dec
2021						
Subordinated liabilities	**500,000**	**-**	**-**	**-**	**-**	**500,000**
Other liabilities of which:						
Interest paid on Subordinated liabilities	**4,151**	**(25,250)**	**-**	**-**	**25,250**	**4,151**
	504,151	**(25,250)**	**-**	**-**	**25,250**	**504,151**
2020						
Subordinated liabilities	1,089,612	(589,612)	-	-	-	500,000
Other liabilities of which:						
Interest paid on Subordinated liabilities	4,292	(43,739)	-	-	43,598	4,151
	1,093,904	(633,351)	-	-	43,598	504,151

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

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

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

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

The Bank is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Bank is located at Level 21, Menara IQ, Lingkaran TRX, 55188 Tun Razak Exchange, Kuala Lumpur.

The immediate holding company 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 11 February 2022.

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 2016 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

The amendments to published standards that are effective and applicable to the Group and the Bank for the financial year beginning on 1 January 2021 are as follows:

- Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16 "Interest Rate Benchmark (IBOR) Reform - Phase 2"

  The Phase 1 amendments, which was effective on 1 January 2020, provided temporary reliefs from applying specific hedge accounting requirements to relationships affected by uncertainties arising as a result of IBOR reform. The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.

  The Phase 2 amendments provide practical expedient allowing entities to update the effective interest rate (for instruments measured at amortised cost, lessees and insurers applying the temporary exemption from MFRS 9) to account for any required changes in contractual cash flows that is a direct consequence of IBOR reform. This results in no immediate gain or loss recognised in profit or loss.

  The Phase 2 amendments require entities to update the hedge documentation to reflect the changes required by the IBOR replacement. These amendments also provide reliefs that enable and require entities to continue hedge accounting in circumstances when changes in hedged items and hedging instruments are solely due to IBOR reform.

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

(i) Standards and amendments to published standards that are effective (Cont'd)

- Amendments to MFRS 16 "COVID-19-Related Rent Concessions"

  In 2020, MFRS 16 "Leases" was amended to provide an optional practical expedient to the lessees on accounting for COVID-19-related rent concessions, such as rent holidays and temporary rent reductions of which payments are originally due on or before 30 June 2021.

The adoption of the above accounting standards, annual improvements and amendments does not give rise to any material financial impact to the Group and the Bank.

(ii) Standards and amendments to published standards that have been issued but not yet effective

A number of new standards and amendments to standards and interpretations have been issued that are applicable to the Group and the Bank but are not yet effective.

<u>Effective for annual periods commencing on or after 1 April 2021</u>

- Amendments to MFRS 16 "COVID-19-Related Rent Concessions beyond 30 June 2021"

  The 2021 amendment extends the applicable period of the practical expedient by one year to cover rent concessions that reduce lease payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendments shall be applied prospectively.

<u>Effective for annual periods commencing on or after 1 January 2022</u>

- Amendments to MFRS 116 "Proceeds before Intended Use"

  The amendments prohibit an entity from deducting from the cost of a property, plant and equipment the proceeds received from selling items produced by the property, plant and equipment before it is ready for its intended use. The sales proceeds should instead be recognised in profit or loss. The amendments also clarify that testing whether an asset is functioning properly refers to assessing the technical and physical performance of the property, plant and equipment. The amendments shall be applied retrospectively.

- Amendments to MFRS 3 "Reference to the Conceptual Framework"

  The amendments replace the reference to Framework for Preparation and Presentation of Financial Statements with 2018 Conceptual Framework. The amendments did not change the current accounting for business combinations on acquisition date. The amendments provide an exception for the recognition of liabilities and contingent liabilities should be in accordance with the principles of MFRS 137 'Provisions, contingent liabilities and contingent assets' and IC Interpretation 21 'Levies' when falls within their scope. It also clarifies that contingent assets should not be recognised at the acquisition date. The amendments shall be applied prospectively.

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

(ii) Standards and amendments to published standards that have been issued but not yet effective (Cont'd)

Effective for annual periods commencing on or after 1 January 2022 (Cont'd)

- Annual Improvements to MFRSs (2018 - 2020 cycle) effective for annual periods beginning on or after 1 January 2022 as follows:

  - Amendment to Illustrative Example accompanying MFRS 16 Leases: Lease Incentives.
  - Amendment to MFRS 9 Financial Instruments: Fees in the '10 per cent' Test for Derecognition of Financial Liabilities.

- Amendments to MFRS 137 "Onerous Contracts – Cost of Fulfilling a Contract"

  The amendments clarify that direct costs of fulfilling a contract include both the incremental cost of fulfilling the contract as well as an allocation of other costs directly related to fulfilling contracts. The amendments also clarify that before recognising a separate provision for an onerous contract, impairment loss that has occurred on assets used in fulfilling the contract should be recognised. The amendments shall be applied retrospectively.

Effective for annual periods commencing on or after 1 January 2023

- Amendments to MFRS 101 "Classification of liabilities as current or non-current"

  The amendments clarify that a liability is classified as non-current if an entity has a substantive right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. If the right to defer settlement of a liability is subject to the entity complying with specified conditions (for example, debt covenants), the right exists at the end of the reporting period only if the entity complies with those conditions at that date. The amendments further clarify that the entity must comply with the conditions at the end of the reporting period even if the lender does not test compliance until a later date.

  The assessment of whether an entity has the right to defer settlement of a liability at the reporting date is not affected by expectations of the entity or events after the reporting date.

  In addition, the amendments clarify that when a liability could be settled by the transfer of an entity's own equity instruments (e.g. a conversion option in a convertible bond), conversion option that is not an equity instrument as defined in MFRS 132 'Financial Instruments: Presentation' is considered in the current or non-current classification of the convertible instrument.

  The amendments shall be applied retrospectively.

- Amendments to MFRS 101, MFRS Practice Statement 2 and MFRS 108 on disclosure of accounting policies and definition of accounting estimates

  - Amendments on disclosure of accounting policies

    The amendments to MFRS 101 require companies to disclose material accounting policies rather than significant accounting policies. Entities are expected to make disclosure of accounting policies specific to the entity and not generic disclosures on MFRS applications. The amendment explains an accounting policy is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Also, accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements.

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

(ii) Standards and amendments to published standards that have been issued but not yet effective (Cont'd)

Effective for annual periods commencing on or after 1 January 2023 (Cont'd)

- Amendments to MFRS 101, MFRS Practice Statement 2 and MFRS 108 on disclosure of accounting policies and definition of accounting estimates (Cont'd)

  - Amendments on disclosure of accounting policies (Cont'd)

    Accordingly, immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. MFRS Practice Statement 2 was amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

  - Amendments on definition of accounting estimates

    The amendments to MFRS 108, redefined accounting estimates as 'monetary amounts in financial statements that are subject to measurement uncertainty'. To distinguish from changes in accounting policies, the amendments clarify that effects of a change in an input or measurement technique used to develop an accounting estimate is a change in accounting estimate, if they do not arise from prior period errors. Examples of accounting estimates include expected credit losses; net realisable value of inventory; fair value of an asset or liability; depreciation for property, plant and equipment; and provision for warranty obligations.

- Amendments to MFRS 112 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

  The amendments clarify that the initial exemption rule does not apply to transactions where both an asset and a liability are recognised at the same time such as leases and decommissioning obligations. Accordingly, entities are required to recognise both deferred tax assets and liabilities for all deductible and taxable temporary differences arising from such transactions.

None of the above is expected to have a significant effect on the financial statements of the Group and the Bank.

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:

- Structured liabilities
- Financial investments
- Property and equipment
- Derivatives and hedge accounting
- Financial liabilities designated at fair value through profit and loss

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The results of the Group and the Bank are sensitive to the accounting policies, assumptions and estimates that underline the preparation of the financial statements. The significant accounting policies are described in Note 3. 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 (refer to Note 6). There are no other significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed above.

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

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 December 2021.

(i) Subsidiaries

Subsidiaries are all entities, including structured entities, controlled by the Group. 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 to direct activities over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group and the Bank also consider having 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. They are deconsolidated from the date that control ceases.

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.

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.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

(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 an associate, joint venture or financial asset.

In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets and liabilities. This may mean the amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(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 direct 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 as described in MFRS 128.

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

(b) Foreign currencies

Transactions in foreign currencies are translated to the 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 FVOCI equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

(c) 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 financial instruments designated at fair value through profit or loss (FVTPL) are recognised in "interest income" and "interest expense" and "Income from Islamic Banking Operation" in the statement of profit or loss 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 estimate 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 profit and loss include:

- interest/profit on financial assets and liabilities measured at amortised costs calculated on an effective interest/profit rate basis;
- interest/profit on FVOCI 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.

(d) 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(c).

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 approve the dividend for unlisted equity securities.

(d) Fees and commission, net trading income and other operating income (Cont'd)

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities FVTPL, together with the related interest income and expense; and it also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.

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/profit income, interest/profit 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/profit arising from debt securities issued by the Group and the Bank and derivatives managed in conjunction with those debt securities, which is recognised in 'Interest income and expense/Islamic financing income and expense' (Note 3(c)).

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Group and the Bank manage a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the offsetting criteria.

(e) 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 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.

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 FVOCI 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.

3 Significant Accounting Policies (Cont'd)

(f) 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. Cash and cash equivalents comprise cash at hand and bank balances, short term deposits and placements with banks maturing within one month.

(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.

(ii) Financial instruments categories and subsequent measurement

The Group and the Bank categorise financial instruments as follows:

- financial instruments measured at amortised cost (Note 3(h));
- financial assets measured at fair value through other comprehensive income (FVOCI) (Note 3(i));
- equity securities measured at fair value with fair value movements presented in OCI (Note 3(j)); or
- financial instruments designated at fair value through profit or loss (FVTPL) (Note 3(k)).

The Group and the Bank classify their financial liabilities, as measured at amortised cost or designated at fair value through profit or loss (See Notes 3(h) and 3(k)).

(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 their 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.

(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 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

The 'Gross amounts not offset in the statement of financial position' for derivatives and securities purchased under resale agreements and similar arrangements include transactions where:

- the counterparty has an offsetting exposure with the Group and the Bank and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- cash and non-cash collaterals are received and pledged in respect of the transactions described above.

(g) Financial instruments (Cont'd)

(iv) Offsetting financial assets/liabilities and income/expenses (Cont'd)

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) Valuation of financial instruments

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). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the Group and the Bank recognise the difference as a trading gain or loss at inception ("day 1 gain or loss"). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction when the inputs become observable, the transaction matures or is closed out, or when the Group and the Bank enter into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Group and the Bank manage a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the MFRSs offsetting criteria.

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 Note 6(b)(ii).

(vi) Derivative financial instruments and hedge accounting

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis. Where the derivatives are managed with debt securities issued by the Group and the Bank that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes, they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. The Group and the Bank uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to accounting for the risk being hedged.

- *Fair value hedge*

  Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued and the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

3 Significant Accounting Policies (Cont'd)

(g) Financial instruments (Cont'd)

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

Hedge accounting (Cont'd)

- *Cash flow hedge*

  The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income and the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net Trading Income'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

- *Hedging Instruments impacted by Inter-Bank Offered Rates (IBOR) Reform*

  The first set of amendments (Phase 1) to MFRS 9 and MFRS 139, which came into effect from 1 January 2020 (with early adoption allowed from 1 January 2019) primarily allowed the assumption that the interbank offered rates (IBORs) are to continue unaltered for the purposes of forecasting hedged cash flows until such time as the uncertainty of transitioning to risk free rates (RFRs) is resolved.

  The second set of amendments (Phase 2), which was effective from 1 January 2021 allows for modification of hedge documentation to reflect the components of hedge relationships which have transitioned to RFRs on an economically equivalent basis as a direct result of the IBOR transition. The Phase 2 amendments address issues arising during the IBOR reform, including specifying when the Phase 1 amendments will cease to apply, when hedge designations and documentation should be updated, and when hedges of the alternative benchmark rate as the hedged risk are permitted.

  On 24 September 2021, Bank Negara Malaysia announced the launch of the Malaysia Overnight Rates (MYOR) as the new alternative reference rate for Malaysia. The MYOR will run in parallel to the existing KLIBOR rates. The publication of the 2- and 12-month KLIBOR tenors will be discontinued on 1 January 2023. The remaining 1-, 3- and 6-month KLIBOR tenors will be reviewed in the second half of 2022. A new Islamic benchmark rate to replace the Kuala Lumpur Islamic Reference Rate will be announced by the first half of 2022.

  The Group and the Bank have adopted Phase 1 for hedging relationships since 1 January 2019. Phase 2 has not been adopted yet as the Group and the Bank are still closely monitoring the regulators' announcement on the alternative benchmark rates and discontinuation of publication of KLIBOR for the relevant tenures.

  As at 31 December 2021, RM1.1 billion (31 December 2020: RM1.5 billion) of the notional amounts of the interest rate derivatives designated in hedge accounting relationships are exposed to MYR KLIBOR.

(h) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans, advances and financing to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

The Group and the Bank may commit to underwrite loans, advances and financing on fixed contractual terms for specified periods of time. When the loans, advances and financing arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the Group and the Bank intend to hold the loans, advances and financing, the related commitment is included in the impairment calculations set out in Note 3(l). They are derecognised when either the borrower repays its obligations, or the loans, advances and financing are sold or written off, or substantially all the risks and rewards of ownership are transferred.

For financing under the Syndicated Investment Account for Financing/Investment Agency Account (SIAF/IAA) arrangements, the Group and Bank recognise the financing to the extent that the financing qualifies for derecognition by the subsidiary of the Bank, HBMS. Refer to accounting policy Note 3(g)(iii) on derecognition of financial assets.

(i) Sale and repurchase agreements

When debt securities are sold subject to a commitment to repurchase them at a predetermined price (repos), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell (reverse repos) are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement. Contracts that are economically equivalent to reverse repurchase or repurchase agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repurchase or repurchase agreements.

(ii) Financial liabilities measured at amortised cost

Financial liabilities that are not classified as fair value through profit or loss fall into this category and are measured at amortised cost. The financial liabilities measured at amortised cost are deposits from customers, deposits and placement from banks and other financial institutions, repurchase agreement, bills payable, other liabilities and subordinated liabilities.

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 Group and the Bank are measured at amortised cost using the effective interest/profit rate 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/profits payable on subordinated liabilities of the Group and the Bank are recognised on an accrual basis.

(i) Financial assets measured at fair value through other comprehensive income (FVOCI)

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on the trade date when the Group and the Bank enter into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Other Operating Income'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

(j) Equity securities measured at fair value with fair value movements presented in Other Comprehensive Income (OCI)

The equity securities for which fair value movements are shown in OCI are business facilitation and other similar investments where the Group and the Bank hold the investments other than to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. Dividend income is recognised in profit or loss.

(k) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:
- the use of the designation removes or significantly reduces an accounting mismatch;
- when a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- where the financial liability contains one or more non-closely related embedded derivatives

Designated financial assets are recognised when the Group and the Bank enter into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the Group and the Bank enter into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income/(expenses) from financial liabilities designated at fair value' except for the effect of changes in the liabilities' credit risk which is presented in OCI, unless that treatment would create or enlarge an accounting mismatch in profit or loss.

Under the above criterion, the main classes of financial instruments designated by the Group and the Bank are:

- Debt instruments for funding purposes that are designated to reduce an accounting mismatch (including Multi-currency sukuk programme)

  The interest/profit and/or foreign exchange exposure on certain fixed rate debt securities issued has been matched with the interest/profit and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.

- Structured liabilities designated at fair value through profit or loss

  Structured liabilities of the Group and the Bank which are designated at fair value are recognised in the balance sheet in 'Structured Liabilities Designated at Fair Value'. Please refer to Note 24.

(l) Impairment of amortised cost and FVOCI financial assets

Expected credit losses (ECL) are recognised for placements and advances to banks, loans, advances and financing to customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, debt instruments measured at amortised cost and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) (12-month ECL). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired are in 'stage 3'.

(i) Credit-impaired (stage 3)

The Group and the Bank determine that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- Quantitative criteria
  - contractual payments of either principal or interest/profit are past due for more than 90 days.

- Qualitative criteria
  - there are other indications that the borrower is unlikely to pay such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
  - the loan, advance and financing is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans, advances and financing which are considered defaulted or otherwise credit-impaired. Interest/financing income is recognised by applying the effective interest/profit rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

(ii) Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans, advances and 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.

(iii) Renegotiation

Loans, advances and financing are identified as renegotiated and classified as credit-impaired when the contractual payment terms are modified due to significant credit distress of the borrower. Renegotiated loans, advances and financing remain classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

(l) Impairment of amortised cost and FVOCI financial assets (Cont'd)

(iii) Renegotiation (Cont'd)

A loans, advances and financing that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loans, advances and financing is a substantially different financial instrument. The renegotiated loans, advances and financing may be reclassified as unimpaired when restructured payment is received and observed for a minimum period of 12 months.

Other than originated credit-impaired loans, advances and financing, all other modified loans, advances and financing could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, advances and financing, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period, and there are no other indicators of impairment. These loans, advances and financing could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed. For details of the risk management process on renegotiated loans, please refer to 'Renegotiated loans and forbearance' in Note 4(b)(iii).

(iv) Loans, advances and financing modifications other than renegotiated loans, advances and financing

Loans, advances and financing modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan, advance and financing contract) such that the Group and the Bank's rights to the cash flows under the original contract have expired, the old loans, advances and financing is derecognised and the new loans, advances and financing is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

Mandatory and general offer of loans, advances and financing modifications that are not borrower-specific, for example market-wide customer relief programmes, have not been classified as renegotiated loans, advances and financing, and generally have not resulted in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy.

Changes made to these financial instruments, including loans, advances and financing that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change of the interest rate benchmark.

(l) Impairment of amortised cost and FVOCI financial assets (Cont'd)

(v) Significant increase in credit risk (Stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans, advances and financing that are individually assessed, and are included in the watch or worry list due to credit reason, are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default (PD) which encompasses a wide range of information including the obligor's customer risk rating, macroeconomic condition forecasts and credit transition probabilities. For origination CRRs up to 3.3, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at the reporting date. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1-1.2	15 bps
2.1-3.3	30 bps

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans, advances and financing originated prior to the implementation of MFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle (TTC) PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (Stage 2) (> or equal to)
0.1	5 notches
1.1-4.2	4 notches
4.3-5.1	3 notches
5.2-7.1	2 notches
7.2-8.2	1 notch
8.3	0 notch

(l) Impairment of amortised cost and FVOCI financial assets (Cont'd)

(v) Significant increase in credit risk (Stage 2) (Cont'd)

Please refer to Note 4(b)(iii) for the 23-grade scale used for CRR.

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by product. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans, advances and financing in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans, advances and financing with a PD higher than would be expected from loans, advances and financing that are performing as originally expected and higher than what would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

(vi) Unimpaired and without significant increase in credit risk – (stage 1)

ECL resulting from default events that are possible within the next 12 months (12-month ECL) is recognised for financial instruments that remain in stage 1.

(vii) Movement between stages

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, advances and financing, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans, advances and financing will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans, advances and financing that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans, advances and financing that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

(l) Impairment of amortised cost and FVOCI financial assets (Cont'd)

(viii) Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the Group and the Bank calculate ECL using three main components, a probability of default (PD), a loss given default (LGD) and the exposure at default (EAD).

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow (DCF) methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest/profit. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on the estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the economic scenarios applied more generally by the Group and the Bank and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies are approximated and applied as an adjustment to the most likely outcome.

(ix) Period over which ECL is measured

ECL is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Group and the Bank are exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Group and the Bank's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Group and the Bank remain exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan, advance and financing commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

(l) Impairment of amortised cost and FVOCI financial assets (Cont'd)

(x) Forward-looking economic inputs

The Group and the Bank apply multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of their view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. Additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' in Note 4(b)(v).

(m) Property and equipment

(i) Land and buildings

Land and buildings held for own use, comprising freehold land and buildings, and leasehold land and buildings including capital work-in-progress are carried at their revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses.

Revaluation are performed annually by independent professional qualified valuers, on a market basis, with sufficient regularity 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.

The gains or losses on disposal of land and buildings are determined by comparing the proceeds from disposal with the carrying amount of the land and buildings 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 and capital work-in-progress related to land and buildings are not depreciated. Depreciation of capital work-in-progress commences when the assets are ready for their intended use. Depreciation of all other land and buildings 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

3 Significant Accounting Policies (Cont'd)

(m) Property and equipment (Cont'd)

(i) Land and buildings (Cont'd)

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

The fair value is within level 2 of the fair value hierarchy. The fair value has 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. The related capital work-in-progress is stated at cost and is not depreciated. Depreciation of capital work-in-progress commences when the assets are ready for their intended use. Depreciation of all other equipment 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 7 years
Computer equipment	4 to 5 years
Motor vehicles	5 years

Additions to equipment costing RM2,000 and below are expensed to profit or loss in the month of purchase. For those assets costing more than RM2,000, it will be capitalised and depreciated accordingly.

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.

(n) Leases

Leases are recognised as a Right of Use (ROU) asset and a corresponding lease liability at the date at which the leased asset is made available for use. ROU asset is presented within "Other Assets" in the statement of financial position, and is depreciated, over the shorter of the ROU asset's useful economic life and the lease term, on a straight-line basis.

Lease liability is represented in the "Other Liabilities" in the statement of financial position. Lease payments are allocated between the liability and finance cost. The finance cost is charged to the statement of profit or loss as interest expense over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability.

In determining the lease term, all facts and circumstances that create an economic incentive to exercise an extension or termination option are considered.

Where the discount rate implicit in the lease is unavailable, the incremental borrowing rate is used. This is the rate that the Group and the Bank would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment at similar terms and conditions.

The Group and the Bank have elected not to recognise ROU assets and lease liabilities for short-term leases that have lease terms of 12 months or less and leases of low value leases. Lease payments relating to these leases are expensed to the statement of profit or loss on a straight-line basis over the lease term.

(o) 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. The useful lives of internally generated software are between 3 and 5 years in general except for core banking applications with useful life of 10 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.

(p) Bills payable

Bills payable represents bills payable to various beneficiaries arising from the sale of bank drafts, demand drafts, cashier's orders and certified cheques.

(q) Provisions, contingent liabilities and financial guarantees contracts

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

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Liabilities under financial guarantees contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

Financial guarantees contracts are subsequently measured at the higher of the amount determined in accordance with the expected credit loss model under MFRS 9 'Financial instruments' and the amount initially recognised less cumulative amount of income recognised in accordance with the principles of MFRS 15 'Revenue from Contracts with Customers', where appropriate.

(r) Employee benefits

(i) Short term employee benefits

Short term employee benefits obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured at the amounts expected to be paid when the liabilities are settled 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 profit or loss.

(iii) Termination benefits

Termination benefits where applicable are payable when employment is terminated by the Group or the Bank for mutual or voluntary separation. The Group and the Bank recognise termination benefits when the Group and the Bank recognise costs for a restructuring that is within the scope of MFRS 137 'Provisions, Contingent Liabilities and Contingent Assets' and involves the payment of termination benefits. In the case of voluntary separation, the termination benefits are estimated based on the number of employees expected to apply and be accepted for the separation.

(s) 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.

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.

(s) Share based payments (Cont'd)

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.

(t) Share capital and other equity instruments

Ordinary shares and other equity instruments with discretionary coupons are classified as equity according to the substance of the contractual arrangement of the particular instrument. Dividend distributions to holders of an equity instrument is recognised directly in equity.

(u) 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 year.

4 Risk

(a) Introduction and overview

(i) Risk appetite

The Group and the Bank recognise the importance of a strong culture, which refers to shared attitudes, values and standards that shape behaviours related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk, with the ultimate accountability residing with the Board.

We seek to build our business for the long term by balancing social, environmental and economic considerations in the decisions we make. Our strategic priorities are underpinned by our endeavour to operate in a sustainable way. This helps us to carry out our social responsibility and manage the risk profile of the business. We are committed to managing and mitigating climate related risks, both physical and transition, and continue to incorporate consideration of these into how we manage and oversee risks internally and with our customers.

The following principles guide our overarching risk appetite for risk and determine how our businesses and risks are managed.

<u>Financial position</u>

- Aim to maintain a strong capital position, defined by regulatory and internal capital ratios.
- Carry out liquidity and funding management for each operating entity, on a stand-alone basis.

<u>Operating model</u>

- Seek to generate returns in line with a conservative risk appetite and strong risk management capability.
- Aim to deliver sustainable earnings and consistent returns for shareholders.

<u>Business practice</u>

- Zero tolerance for any of the employees knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and/or mitigated.
- No appetite for deliberately or knowingly causing detriment to consumers, or incurring a breach of the letter or spirit of regulatory requirements.
- No appetite for inappropriate market conduct by any member of staff or by any group business.

<u>Enterprise-wide application</u>

The Group and the Bank's risk appetite encapsulate the considerations of financial and non-financial risks. They are applied across HSBC Group entities.

Financial risk is defined as the risk of a financial loss as a result of business activities. These types of risks are actively taken to maximise shareholder value and profits. Non-financial risk is the risk to achieving the Group and the Bank's strategy or objectives as the result of inadequate or failed internal processes, people and systems or from external events.

HSBC Group's risk appetite is expressed in both quantitative and qualitative terms and applied at the global business level and to material operating entities such as the Group and the Bank. It continues to evolve and expand its scope as part of its regular review process.

(a) Introduction and overview (Cont'd)

(i) Risk appetite (Cont'd)

Enterprise-wide application (Cont'd)

The Board reviews and approves the Group and the Bank's risk appetite to make sure it remains fit for purpose. The risk appetite is considered, developed and enhanced through:

- an alignment with our strategy, purpose, values and customer needs;
- trends highlighted in other group risk reports;
- communication with risk stewards on the developing risk landscape;
- strength of our capital, liquidity and balance sheet;
- compliance with applicable laws and regulations;
- effectiveness of the applicable control environment to mitigate risk, informed by risk ratings from risk control assessments;
- functionality, capacity and resilience of available systems to manage risk; and
- the level of available staff with the required competencies to manage risks.

The Group and the Bank formally articulate risk appetite through the risk appetite statement (RAS), which is approved by the Board on the recommendation of the Risk Committee (RC). Setting out risk appetite helps to make sure that suitable level of risk is agreed for the Group and the Bank. In this way, risk appetite informs financial planning process and helps senior management to allocate capital to business activities, services and products.

The RAS consists of qualitative statements and quantitative metrics, covering financial and non-financial risks. It is applied to the development of business line strategies, strategic and business planning, and remuneration.

The performance against the RAS is reported to the Risk Management Meeting (RMM) to support targeted insight and discussion on breaches of risk appetite and associated mitigating actions. This reporting allows risks to be promptly identified and mitigated, and informs risk-adjusted remuneration to drive a strong risk culture. All RASs and business activities are guided and underpinned by qualitative principles and/or quantitative metrics.

(ii) Risk management

The Group and the Bank recognise that the primary role of risk management is to protect the customers, business, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth. This is supported through our three lines of defence model as described in the commentary 'Responsibilities for risk management'. The implementation of our business strategy remains a key focus. As we implement change initiatives, we actively manage the execution risks. Periodic risk assessments are being performed, including against strategies to help ensure retention of key personnel for our continued safe operation.

A comprehensive risk management approach is aimed to be used across the organisation and across all risk types, underpinned by the Group and the Bank's risk culture and values. This is outlined in the Group and the Bank's risk management framework, including the key principles, policies and practices that is employed in managing material risks, both financial and non-financial.

The framework fosters continual monitoring, promotes risk awareness and encourages a sound operational and strategic decision making process. It also supports a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities. We continue to actively review and develop our risk management framework and enhance our approach to managing risk, through our activities with regard to: people and capabilities; governance; reporting and managing information; credit risk management models; and data.

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Risk management framework

The following diagram and descriptions summarise key aspects of the risk management framework, including governance, structure, risk management tools and risk culture, which together help align employee behaviour with the Group and the Bank's risk appetite.

Key components of our risk management framework

HSBC Values and risk culture		
Risk governance	**Non-executive risk governance**	The Board approves the risk appetite, plans and performance targets. It sets the 'tone from the top' and is advised by the Risk Committee.
	Executive risk governance	Executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the HSBC Group.
Roles and responsibilities	**Three lines of defence model**	The 'three lines of defence' model defines roles and responsibilities for risk management. An independent Risk function helps ensure the necessary balance in risk/return decisions.
Processes and tools	**Risk appetite** **Enterprise-wide risk** **Active risk management: identification/assessment, monitoring, management and reporting**	HSBC Group has several processes in place to identify/assess, monitor, manage and report risks to help ensure we remain within our risk appetite.
Internal controls	**Policies and procedures**	Policies and procedures define the minimum requirements for the controls required to manage risks.
	Control activities	Operational and resilience risk management framework defines minimum standards and processes for managing operational risks and internal controls.
	Systems and infrastructure	HSBC Group has systems and/or processes that support the identification, capture and exchange of information to support risk management activities.

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Risk governance

The Board has ultimate responsibility for the effective management of risk and approves our risk appetite. It is advised on risk-related matters by the Risk Committee.

The Chief Risk Officer, supported by the RMM, holds executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework.

The management of regulatory compliance risk and financial crime risk resides with the Chief Compliance Officer. Oversight is maintained by the Chief Risk Officer, in line with his enterprise risk oversight responsibilities, through the RMM.

The day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All our people have a role to play in risk management. These roles are defined using the three lines of defence model, which takes into account our business and functional structures as described in the following commentary, 'Responsibilities for risk management'.

A defined executive risk governance structure is used to help ensure there is appropriate oversight and accountability of risk, which facilitates reporting and escalation to the RMM.

Responsibilities for risk management

All our people are responsible for identifying and managing risk within the scope of their roles. Roles are defined using the three lines of defence model, which takes into account our business and functional structures as described below.

Three lines of defence

To create a robust control environment to manage risks, we use an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment.

The model underpins our approach to risk management by clarifying responsibility, and encouraging collaboration, as well as enabling efficient coordination of risk and control activities.

The three lines of defence are summarised below:
- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence challenges the first line of defence on effective risk management, and provides advice and guidance in relation to the risk.
- The third line of defence is the Internal Audit function, which provides independent assurance that risk management approach and processes are designed and operating effectively

Risk function

The Risk function, headed by the Chief Risk Officer, is responsible for the risk management framework. This responsibility includes establishing and monitoring of risk profiles, and identifying and managing the forward-looking risk. The Risk function is made up of sub-functions covering all risks to our business and forms part of the second line of defence. It is independent from the global businesses, including sales and trading functions, to provide challenge, appropriate oversight and balance in risk/return decisions.

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Responsibilities for risk management (Cont'd)

Risk function (Cont'd)

Responsibility for minimising both financial and non-financial risk lies with our people. They are required to manage the risks of the business and operational activities for which they are responsible.

Adequate oversight of risks is maintained through various specialist Risk Stewards, as well as the collective accountability held by Chief Risk Officer.

Non-financial risk is the risk to achieving our strategy or objectives as a result of failed internal processes, people and systems, or from external events. Sound non-financial risk management is central to achieving good outcomes for our customers.

We have continued to strengthen the control environment and our approach to the management of non-financial risk, as broadly set out in our risk management. The management of non-financial risk focuses on governance and risk appetite, and provides a single view of the non-financial risks that matter the most, and associated controls. It incorporates a risk management system designed to enable the active management of non-financial risk. Our ongoing focus is on simplifying our approach to non-financial risk management, while driving more effective oversight and better end-to-end identification and management of non-financial risks. This is overseen by the Operational and Resilience Risk function, headed by the HSBC Group Head of Operational and Resilience Risk.

Stress testing

The Group and the Bank operate a wide-ranging stress testing programme that supports risk management and capital and liquidity planning. Stress testing provides management with key insights into the impact of severely adverse events, and provides confidence to regulators on financial stability.

As well as undertaking regulatory-driven stress tests, we conduct our own internal stress tests, in order to understand the nature and level of all material risks, quantify the impact of such risks and develop plausible business as usual mitigating actions.

The stress testing programme assesses capital and liquidity strength through a rigorous examination of resilience to external shocks from a range of stress scenarios. They include potential adverse macroeconomic, geopolitical and operational risk events, and other potential events that are specific to the Group and the Bank. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the Group and the Bank are exposed and informs decisions about preferred capital or liquidity levels.

Separately, reverse stress tests are conducted at the Group and the Bank and, where required, subsidiary entity level in order to understand which potential extreme conditions would make the business model non-viable. Reverse stress testing identifies potential stresses and vulnerabilities which the Group and the Bank or its subsidiary entity might face, and helps inform early warning triggers, management actions and contingency plans designed to mitigate risks.

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Responsibilities for risk management (Cont'd)

Key developments in 2021

We continued to actively managed the risks resulting from the COVID-19 pandemic and its impacts on our customers and operations during 2021, as well as other key risks described in this section.

In addition, we enhanced our risk management in the following areas:

- We streamlined the articulation of our risk appetite framework, providing further clarity on how risk appetite interacts with strategic planning and recovery planning process.

- We continued to simplify our approach to non-financial risk management, with the implementation of more effective oversight tools and techniques to improve end-to-end identification and management of these risks.

- We accelerated the transformation of our approach to managing financial risks across the business and risk functions, including initiatives to enhance portfolio monitoring and analytics, credit risk, traded risk and treasury risk management, as well as the models used to manage financial risks.

- We continued to enhance our approach to portfolio and concentration risk management, through clearly defined roles and responsibilities, and improving our data and management information reporting capabilities.

- HSBC Group established a dedicated Climate Risk Oversight Forum to oversee our approach to climate risk and appointed a Group Head of Climate Risk in support of our climate change strategy and to oversee the development of our climate risk management capabilities. We leveraged on the HSBC Group's climate risk programme, which continues to drive the delivery of our enhanced climate risk management approach.

- We continued to improve the effectiveness of our financial crime controls with a targeted update of our fraud controls. We refreshed our financial crime policies, ensuring they remained up-to-date and addressed changing and emerging risks, and we continued to meet our regulatory obligations.

- We introduced enhanced governance and oversight around model adjustments and related processes for MFRS 9 models and Sarbanes-Oxley controls.

Top and emerging risks management

The Group and the Bank use a top and emerging risks process to provide a forward looking view of issues that have the potential to threaten the execution of strategy or operations over the medium to long term.

The Group and the Bank proactively assess the internal and external risk environment, as well as review the themes identified across regions and global businesses, for any risks that may require global escalation, updating top and emerging risks as necessary.

A Top Risk is defined as a risk that the Group and the Bank are currently managing, which if not managed and mitigated has the potential to have a material impact on the Group and the Bank. It may arise across any combination of risk types, countries or global businesses. The impact may be well understood by senior management and some mitigating actions may already be in place.

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Top and emerging risks management (Cont'd)

An Emerging Risk is defined as a risk that could have a material impact on the risk profile of the Group and the Bank, but is not under active management and is not immediate. Existing mitigation plans are likely to be minimal, reflecting the uncertain nature of these risks at this stage. Some high-level analysis and/or stress testing may have been carried out to assess the potential impact.

The Group and the Bank's current key top and emerging risks are as follows:
- COVID-19 pandemic
- Geopolitical risk
- System resilience, cyber threat and unauthorised access to systems
- Climate-related risk
- Third party risk management
- People risk

Area of Special Interest - Risks related to COVID-19

The COVID-19 pandemic and its effects on both the global and local economy have impacted our customers and our performance. The outbreak necessitated our government to respond at unprecedented levels to protect public health, the local economy and livelihoods. It has affected us at varying degrees as it has developed. The varying government measures in response to the pandemic have added challenges, given the rapid pace of change and significant operational demands. Although the situation has improved towards the end of 2021, there remains a risk of subsequent waves of infection which curtail or delay this recovery.

The Group and the Bank have implemented BNM-led measures to support our retail and small & medium enterprises (SMEs) through these challenging times. The industry sectors/ sub-sectors that were identified as most affected by COVID-19 were wholesale & retail trade, accommodation, food and beverage services/ restaurants, travel agencies/ tourism and airline aviation. As at 31 December 2021, the gross outstanding loans, advances and financing extended by the Group and the Bank to these sectors/ sub-sectors were approximately RM 4.0 billion and RM 3.1 billion respectively (31 December 2020: RM 3.5 billion and RM 2.8 billion respectively). Separately, the gross outstanding loans, advances and financing extended by the Group and the Bank to individuals under the targeted relief assistance programme were approximately RM4.5 billion and RM 3.0 billion respectively (2020: RM 1.6 billion and RM 1.1 billion respectively).

The rapid introduction and varying nature of the government support schemes, as well as rising customer expectations, have also led to risks, due to large scale implementation within a short period of time. Such risks include operational risks, reputational risk and fraud risk. These risks are likely to heighten further once the new schemes are rolled out as a result of unavailability of system readiness, insufficient testing at times and manual workarounds introduced during the challenging times.

The COVID-19 outbreak has also led to a weakening in GDP, a key input used for calculating ECL, and there remains the risk of more adverse economic scenarios given its ongoing impact. The impact will vary by sectors of the economy. The impact of the outbreak on the long-term prospects of businesses in these sectors is uncertain and may lead to significant ECL charges on specific exposures. In addition, in times of crisis, fraudulent activity is often more prevalent, leading to potentially significant ECL charges.

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Top and emerging risks management (Cont'd)

Area of Special Interest - Risks related to COVID-19 (Cont'd)

The significant changes in economic and market drivers, customer behaviours and government actions caused by COVID-19 have also impacted the performance of financial models. These include retail and wholesale credit models which required more ongoing monitoring and frequent testing. It also has resulted in the use of compensating controls as underlays/overlays, on top of model outputs, to provide a more appropriate assessment. By their nature, such compensating controls require a significant degree of management judgement and assumptions to be applied, and there is a risk that future actual results/performance may differ from such judgements and assumptions.

The performance and usage of models over the 12 months will continue to be impacted by the consequences of the COVID-19 outbreak and the models may need to be recalibrated.

Separately, the Group and the Bank have successfully implemented business continuity responses and managed to maintain majority of our service level agreements. The Group and the Bank have not experienced any major impacts to the supply chain from our third-party service providers due to COVID-19. The risk of damage or theft to our physical assets or criminal injury to our employees remains unchanged and no significant incidents have impacted our buildings or staff.

There remain significant uncertainties in assessing the duration of the COVID-19 outbreak and its impact. The actions taken by our Government and BNM provide an indication of the potential severity of the downturn and post-recovery environment, which from a commercial, regulatory and risk perspective could be significantly different to past crises. A prolonged period of significantly reduced economic activity as a result of the impact of the outbreak would have a materially adverse effect on our financial condition, results of operations, prospects, liquidity, capital position and credit ratings in Malaysia. This would, in turn, have an impact on our ability to meet our financial targets. Nevertheless, we will continue to monitor the situation closely and will undertake any additional mitigating action where necessary.

Area of Special Interest – Climate-related risks

Climate change can have an impact across HSBC's risk taxonomy through both transition and physical channels. Transition risk can arise from the move to a low-carbon economy, such as through policy, regulatory and technological changes. Physical risk can arise through increasing severity and/or frequency of severe weather or other climatic events, such as rising sea levels and flooding.

These have the potential to cause both idiosyncratic and systemic risks, resulting in potential financial and non-financial impacts for HSBC. Financial impacts could materialise if transition and physical risks impact the ability of borrowers to repay their loans. Non-financial impacts could materialise if our own assets or operations are impacted by extreme weather or chronic changes in weather patterns, or as a result of business decisions to achieve our climate ambition.

Climate risks increased over 2021 primarily as a result of the pace and volume of policy and regulatory changes. These impacted the group, both directly and indirectly through our customers.

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Top and emerging risks management (Cont'd)

Area of Special Interest – Climate-related risks (Cont'd)

- How climate change is impacting our customers

  We recognise that climate change could impact our customers in two main ways. Firstly, customer business models may fail to align to a low-carbon economy, which could mean, for example, that new climate-related regulation may have a material impact on their business. Secondly, extreme weather events or chronic changes in weather patterns may damage our customers' assets leaving them unable to operate their business or live in their home.

  One of the most valuable ways we can help our customers navigate the transition challenges and to become more resilient to the physical impacts of climate change is through financing and investment. To do this effectively, we must understand the risks they are facing.

  The table below summarises the key categories of transition, physical risk, with examples of how our customers might be affected financially by climate change and the shift to a low-carbon economy.

Key categories of transition and physical risk

Climate risk	Main causes of financial impact on customers	
Transition	**Policy and legal**	Mandates on, and regulation of, existing products and services. Litigation from parties who have suffered from the effects of climate change.
	Technology	Replacement of existing products with lower emission options.
	End-demand (market)	Changing consumer behavior.
	Reputational	Increased scrutiny following a change in stakeholder perceptions of climate-related action or inaction.
Physical	**Acute**	Increased frequency and severity of weather events.
	Chronic	Changes in precipitation patterns. Rising temperatures.

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Top and emerging risks management (Cont'd)

Area of Special Interest – Climate-related risks (Cont'd)

- Integrating climate risk into risk management

  Our approach to climate risk management is aligned to HSBC Group-wide risk management framework and three line of defence model to ensure robust oversight of climate risk. We follow five simple steps: define and enable, identify and assess, manage, aggregate and report and govern.

  We continue to evolve our risk appetite to reflect the risks from climate change, setting out the measures we intend to take to support our climate ambition and our commitments to regulators, investors and stakeholders.

  We have also integrated climate risk into the supporting policies, processes and controls for our key climate risks - wholesale credit risk, retail credit risk, strategic risk (reputational), resilience risk and regulatory compliance. For example, we have developed the first version of a climate risk scoring tool for our corporate portfolios. In addition, we have published and started to implement the new coal policy.

  We have provided tailored training sessions to our boards and delivered a suite of climate risk training to priority populations. The aim of this training is to increase awareness of the importance of climate risk, promote the right culture, bring uniformity and predictability to how decisions that concern climate risk are taken, and encourage challenge to ensure that climate risk is appropriately managed.

  HSBC Group's dedicated climate risk programme continues to accelerate the development of a best in class climate risk management capability. This includes the forthcoming evolution of our risk appetite and continuing to increase the availability and quality of data so that new metrics can be developed to strengthen how we assess and manage climate risk and opportunities.

- Wholesale credit risk

- Identification and assessment

  We have identified key sectors where our wholesale credit customers have the highest climate risk, based on their carbon dioxide (CO_2) emissions. These include oil and gas, building and construction, chemicals, automotive, power and utilities and metals and mining.

  We continue to roll out our CO_2 transition and physical risk questionnaire to our largest customers in high-risk sectors to assess and improve our understanding of the impact of climate change on their business models and any related transition strategies.

  We are developing our approach to climate stress testing.

- Management

  We continue to evolve our transition risk framework, with the focus on developing a methodology, data analytics and climate-related risk score for our customers and portfolios.

  This will enhance our management of transition and physical risk across our wholesale credit portfolio.

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Top and emerging risks management (Cont'd)

Area of Special Interest – Climate-related risks (Cont'd)

- Wholesale credit risk (Cont'd)

- Aggregation and reporting

We currently report our key sector exposure as part of the Environmental, Social and Governance (ESG) dashboard that is presented quarterly to the HSBC Group Executive Committee. Our reporting will evolve as our approach to climate risk management matures.

- How we measure wholesale credit risk

We capture our lending activity to customers within the six high risk sectors, including environmentally responsible and sustainable finance activities. Green financing for large companies that work in high transition sectors is also included.

Information submitted through the CO2 transition risk questionnaire is collated to build a deeper picture of corporate customer readiness to change, and it helps us to identify potential business opportunities to support the transition. It is also being used to support and supplement the management of transition risk in our credit risk management processes.

(iii) Material banking risks

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 have exposure to the following material risks from financial instruments:

- credit risk
- liquidity and funding risk
- market risks (includes foreign exchange, interest/profit rate, equity and basis risk)
- resilience risk
- regulatory compliance risk
- financial crime risk
- model risk

Note 4(b) to Note 4(h) presents information about the Group and the Bank's exposure to each of the above risks as well as the objectives, policies and processes for measuring and managing those risks.

(b) Credit risk

(i) Overview

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. Credit risk arises principally from direct lending, trade finance and leasing business, but also from other products, such as guarantees and credit derivatives.

(ii) Credit risk management framework

<u>Key developments in 2021</u>

There were no material changes to the policies and practices for the management of credit risk in 2021 except for those that are specially-mentioned in relation to COVID-19. We continued to apply the requirements of MFRS 9 'Financial Instruments' within Credit Risk.

<u>Governance and structure</u>

The Group and the Bank have established credit risk management and related MFRS 9 processes. The Group and the Bank continue to assess the impact of economic developments in key markets on specific customers, customer segments or portfolios. As credit conditions change, the Group and the Bank take mitigating action, including the revision of risk appetites or limits and tenors, as appropriate. In addition, the Group and the Bank continue to evaluate the terms under which credit facilities are provided within the context of individual customer requirements, the quality of the relationship, regulatory requirements, market practices and the Group and the Bank's market position.

(iii) Credit risk sub-function

Credit approval authorities are delegated by the Board to the Chief Risk Officer (CRO) together with the authority to sub-delegate them. The Credit Risk sub-function in Global Risk at HSBC Group is responsible for the key policies and processes for managing credit risk, which include formulating credit policies and risk rating frameworks, guiding the Group and the Bank's appetite for credit risk exposures, undertaking independent reviews and objective assessment of credit risk, and monitoring performance and management of portfolios.

The principal objectives of credit risk management are:
- to maintain a strong culture of responsible lending, and robust risk policies and control frameworks;
- to both partner and challenge businesses in defining, implementing and continually re-evaluating risk appetite under actual and scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their causes and their mitigation.

<u>Key risk management processes</u>

MFRS 9 'Financial Instruments' process

The MFRS 9 process comprises three main areas: modelling and data; implementation; and governance.

- Modelling and data

  To address the MFRS 9 requirements the Group and the Bank have established modelling and data processes which are subject to internal model risk governance including independent review of significant model developments.

- Implementation

  A centralised impairment engine performs the expected credit loss (ECL) calculation using data, which is subject to a number of validation checks and enhancements, from a variety of client, finance and risk systems. Where possible, these checks and processes are performed in a globally consistent and centralised manner.

(b) Credit risk (Cont'd)

(iii) Credit risk sub-function (Cont'd)

Key risk management processes (Cont'd)

MFRS 9 'Financial Instruments' process (Cont'd)

- Governance

  Management review forums are established both in regions and sites (which includes the Group and the Bank) in order to review and approve the impairment results. The management review forums have representatives from Credit Risk and Finance. The site and regional approvals are reported up to the global business impairment committee for final approval of the Group and the Bank's ECL for the period. Required members of the forum at site level are the Chief Risk Officer, head of Wholesale Credit and Market Risk, head of Wealth and Personal Banking Risk, as well as the Chief Financial Officer and the Financial Controller.

Concentration of exposure

Concentrations of credit risk arise when there are single material counterparty exposures or when there are a number of counterparties or exposures that have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. We use a number of controls and measures to minimise undue concentration of exposure in our portfolios across industries, countries and global businesses. These include portfolio and counterparty limits, approval and review controls, and stress testing.

We 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 Notes 12(v) and 12(vii). The analysis of concentration of credit risk from the Group and the Bank's financial assets is shown in Note 4(b)(vi).

Credit quality of financial instruments

The Group and the Bank's risk rating system facilitates the internal ratings-based approach under the adopted Basel framework to support the calculation of minimum credit regulatory capital requirement. The five credit quality classifications each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses, and the external ratings attributed by external agencies to debt securities. For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications based upon the mapping of related customer risk rating (CRR) to external credit rating.

- Wholesale lending

  The CRR 10-grade scale summarises a more granular underlying 23-grade scale of obligor probability of default (PD). All corporate customers are rated using the 10 or 23-grade scale, depending on the degree of sophistication of the Basel approach adopted for the exposure. Each CRR band is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time.

- Retail lending

  Retail lending credit quality is based on a 12-month point-in-time (PIT) probability-weighted PD.

4 Risk (Cont'd)

(b) Credit risk (Cont'd)

(iii) Credit risk sub-function (Cont'd)

Key risk management processes (Cont'd)

Credit quality of financial instruments (Cont'd)

- *Credit quality classification*

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

Credit quality of the corporate lending/ derivative financial assets/ securities purchased under resale agreements/ deposits and placements with banks and other financial institutions	Internal Credit Rating	12-month Basel probability of default %
Strong	CRR1 - CRR2	0.000–0.169
Good	CRR3	0.170–0.740
Satisfactory	CRR4 - CRR5	0.741–4.914
Sub-standard	CRR6 - CRR8	4.915–99.999
Impaired	CRR9 - CRR10	100

Credit quality of the retail lending	Internal Credit Rating	12-month probability of default %
Strong	Band 1 and 2	0.000–0.500
Good	Band 3	0.501–1.500
Satisfactory	Band 4 and 5	1.501–20.000
Sub-standard	Band 6	20.001-99.999
Impaired	Band 7	100

[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.

Quality classification definitions:

- *'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.*
- *'Good' exposures demonstrate a good capacity to meet financial commitments, with low default risk.*
- *'Satisfactory' exposures require closer monitoring and demonstrate an average-to-fair capacity to meet financial commitments, with moderate default risk.*
- *'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern.*
- *'Credit-impaired' exposures have been assessed as impaired.*

(b) Credit risk (Cont'd)

(iii) Credit risk sub-function (Cont'd)

Key risk management processes (Cont'd)

Renegotiated loans and forbearance

'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties.

A loan, advance and financing is classed as 'renegotiated' when we modify the contractual payment terms on concessionary terms because we have significant concerns about the borrowers' ability to meet contractual payments when due.

Non-payment-related concessions (e.g. covenant waivers), while potential indicators of impairment, do not trigger identification as renegotiated loans.

Loans, advances and financing that have been identified as renegotiated retain this designation until maturity or derecognition. For details of the policy on derecognised renegotiated loans, see Note 3(l)(iii).

- Credit quality of renegotiated loans

  On execution of a renegotiation, a loan, advance and financing will also be classified as credit impaired if it is not already so classified. In wholesale lending, all facilities with a customer, including loans that have not been modified, are considered credit impaired following the identification of a renegotiated loan.

  Wholesale renegotiated loans, advances and financing are classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. Personal renegotiated loans are deemed to remain credit impaired until repayment or derecognition.

- Renegotiated loans and recognition of expected credit losses

  For wholesale lending, renegotiated loans, advances and financing are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessments. The individual impairment assessment takes into account the higher risk of the future non-payment inherent in renegotiated loans.

  For retail lending, unsecured renegotiated loans, advances and financing are generally segmented from other parts of the loan, advance and financing portfolio. Renegotiated expected credit loss assessments reflect the higher rates of losses typically encountered with renegotiated loans, advances and financing.

Impairment assessment

For details of the impairment policies on loans, advances and financing and financial investments, see Note 3(l).

Write-off of loans, advances and financing

For details of the policy on the write-off of loans, advances and financing, see Note 3(l)(ii).

Unsecured personal facilities, including credit cards, are generally written off at between 180 and 210 days past due except for unsecured restructured facilities which are usually written off at 90 days past due. The standard period runs until the end of the month in which the account becomes 180 days contractually delinquent. Write-off periods may be extended, generally to no more than 360 days past due. However, in exceptional circumstances, they may be extended further.

4 Risk (Cont'd)

(b) Credit risk (Cont'd)

(iii) Credit risk sub-function (Cont'd)

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

For secured facilities, write-off should occur upon repossession of collateral, receipt of proceeds via settlement, or determination that recovery of the collateral will not be pursued. Any secured assets maintained on the balance sheet beyond 60 months of consecutive delinquency-driven default require additional monitoring and review to assess the prospect of recovery.

In the event of bankruptcy or analogous proceedings, write-off may occur earlier than the maximum periods stated above. Collection procedures may continue after write-off.

(iv) Credit risk profile

The financial assets recorded in each stage have the following characteristics:

Stage 1: These financial assets are unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.

Stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition for which a lifetime ECL is recognised.

Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired on which a lifetime ECL is recognised.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due (DPD) and are transferred from stage 1 to stage 2.

(v) Credit deterioration of financial instruments

<u>Measurement uncertainty and sensitivity analysis of ECL estimates</u>

The recognition and measurement of ECL involves the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate. Management judgemental adjustments are used to address late-breaking events, data and model limitations, and expert credit judgements.

<u>Methodology for developing forward looking economic scenarios</u>

The Group and the Bank use multiple economic scenarios to reflect assumptions about future economic scenarios based on consensus forecast distributions, supplemented by alternative or additional economic scenarios and/or management adjustments where, in management's judgement, the consensus forecast distribution does not adequately capture the relevant risks.

(b) Credit risk (Cont'd)

(v) Credit deterioration of financial instruments (Cont'd)

Methodology for developing forward looking economic scenarios (Cont'd)

Four economic scenarios have been used to capture the exceptional nature of the current economic environment and to articulate management's view of the range of potential outcome. Scenarios produced to calculate ECL are aligned to HSBC's Top and Emerging Risks. Three of these scenarios are drawn from consensus forecasts and distributional estimates. The central scenario is deemed the "most likely" outcome and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution which are less likely to occur. The central scenario is created using the average of a panel of external forecasters ('the consensus') while consensus upside and downside scenarios are created with reference to distributions for select markets that capture forecasters views of the entire range of outcomes. Management have chosen to use an additional scenario to represent its view of severe downside risks that are not captured into the consensus scenarios. The use of an additional scenario is in line with HSBC's forward economic guidance (FEG) methodology and has been regularly used over the course of 2021. Unlike the consensus scenarios, these additional scenarios are driven by narrative assumptions and may result in shocks that drive economic activity permanently away from trend.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus central, upside, downside and additional downside scenarios.

	2021				2020			
	Scenario				Scenario			
	Central (%)	**Upside (%)**	**Downside (%)**	**Additional Downside (%)**	Central (%)	Upside (%)	Downside (%)	Additional Downside (%)
GDP growth rate	**4.8**	**6.2**	**3.6**	**3.1**	4.9	6.4	3.6	3.1
Inflation	**2.1**	**2.4**	**1.7**	**0.9**	2.2	2.8	1.6	1.0
Unemployment rate	**3.7**	**3.6**	**3.9**	**5.2**	3.6	3.4	3.8	5.2
Property price growth	**2.0**	**2.7**	**1.2**	**-3.9**	2.0	2.8	0.9	-4.7
Short term interest / profit rate	**2.9**	**3.1**	**1.8**	**1.8**	2.0	2.1	1.6	0.8
Probability	**75.0**	**5.0**	**20.0**	**5.0**	70.0	10.0	15.0	5.0

Critical accounting estimates and judgements

The calculation of ECL under MFRS 9 involves significant judgements, assumptions and estimates, as set out in the Note 2(d). The level of estimation uncertainty and judgement remained high during 2021 as a result of the economic effects of the COVID-19 outbreak, including significant judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions in an unprecedented manner, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a wider distribution of economic forecasts than before the pandemic. The key judgements are the length of time over which the economic effects of the pandemic will occur and the speed and shape of recovery. The main factors include the effectiveness of pandemic containment measures, the pace of roll-out and effectiveness of vaccines, and the emergence of new variants of the virus, plus a range of geopolitical uncertainties, which together, represent a very high degree of estimation uncertainty, particularly in assessing downside scenarios;

(b) Credit risk (Cont'd)

(v) Credit deterioration of financial instruments (Cont'd)

Critical accounting estimates and judgements (Cont'd)

- estimating the economic effects of those scenarios on ECL, where there is no observable historical trend that can be reflected in the models that will accurately represent the effects of the economic changes of the severity and speed brought about by the COVID-19 outbreak. Modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions, and there is significant uncertainty in the estimation of parameters such as collateral values and loss severity; and

- the identification of customers experiencing significant increases in credit risk and credit impairment, particularly where those customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues, or have extended those deferrals, given limitations in the available credit information on these customers. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

How economic scenarios are reflected in the calculation of ECL

HSBC Group has developed a globally consistent methodology for the application of forward economic guidance into the calculation of ECL by incorporating forward economic guidance into the estimation of the term structure of probability of default (PD) and loss given default (LGD). For PDs, the correlation of forward economic guidance to default rates is considered for a particular industry in a country. For LGD calculations the correlation of forward economic guidance to collateral values and realisation rates is considered for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For impaired loans, advances and financing, LGD estimates take into account independent recovery valuations provided by external consultants where available, or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on impaired loans that are individually considered not to be significant, HSBC Group incorporates forward economic guidance proportionate to the probability-weighted outcome and the Central scenario outcome for non-stage 3 populations.

These models are based largely on historical observations and correlations with default rates.

We continue to observe volatility in macroeconomic variables as a result of the COVID-19 pandemic, which – together with significant governmental support programmes, forbearance and payment holidays – have impacted model performance and historical correlations between macroeconomic variables and defaults. As economic forecasts begin to improve, the level and speed of economic recovery remains outside the range of historical experience used to calibrate the models, and the timing of defaults has considerably shifted from the modelled assumptions. Management judgements have been used to overcome the limitations in the model generated outcome.

Management judgemental adjustments arise when data and model limitations are addressed in the short term using in-model and post-model adjustments. This includes refining model inputs and outputs and using post-model adjustments based on management judgement and higher level quantitative analysis for impacts that are difficult to model.

(b) Credit risk (Cont'd)

(v) Credit deterioration of financial instruments (Cont'd)

Management judgemental adjustments

In the context of MFRS 9, management judgemental adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late breaking events, model and data limitations and deficiencies, and expert credit judgement applied following management review and challenge. Internal governance is in place to regularly monitor post-model adjustments and where possible to reduce the reliance on these through model recalibration or redevelopment as appropriate.

At 31 December 2021, management judgements were applied to reflect credit risk dynamics not captured by our models. The drivers of the management judgemental adjustments continue to evolve with the economic environment. We have internal governance in place to monitor management judgemental adjustments regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate. Wider-ranging model changes will take time to develop and need observable loss data on which models can be developed. Models will be revisited over time once the longer-term impacts of the COVID-19 outbreak are observed. Therefore, we continue to anticipate significant management judgemental adjustments for the foreseeable future. Some management judgemental adjustments could cease once macroeconomic forecasts have stabilised and move within the range of historical experience, portfolio impacts due to unwinding of government schemes become visible and the uncertainty due to COVID-19 reduces.

Management judgemental adjustments made in estimating the reported ECL for the Group and the Bank as at 31 December 2021 are RM154,384,000 (2020: RM211,193,000) and RM107,136,000 (2020: RM130,906,000) respectively.

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of significant increase in credit risk and the measurement of the resulting ECL.

The ECL calculated for the upside and downside scenarios should not be taken to represent the lower and upper limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating ECL for loans, advances and financing in stages 1 and 2 at the balance sheet date. The population of stage 3 loans (in default) at the balance sheet date is unchanged in these sensitivity calculations. Stage 3 ECL would only be sensitive to changes in forecasts of future economic conditions if the loss given default (LGD) of a particular portfolio was sensitive to these changes.

There is a particularly high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100% weighting.

For wholesale credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios. Therefore, it is impracticable to separate the effect of macro-economic factors in individual assessments.

For retail credit risk exposures, the sensitivity analysis includes ECL for loans, advances and financing to customers related to defaulted obligors. This is because the retail ECL for secured mortgage portfolios including loans in all stages is sensitive to macroeconomic variables.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(b) Credit risk (Cont'd)

(v) Credit deterioration of financial instruments (Cont'd)

Wholesale and retail sensitivity

The wholesale and retail sensitivity analysis is stated inclusive of management judgemental adjustments, as appropriate to each scenario. The results tables exclude small portfolios. Additionally, in both the wholesale and retail analysis, the comparative period results for additional/alternative downside scenarios are not directly comparable to the current period, because they reflect different risk profiles relative with the consensus scenarios for the period end.

Wholesale analysis

MFRS 9 ECL sensitivity to future economic conditions [1]

ECL coverage of financial instruments subject to significant measurement uncertainty as at 31 December [2]	**Group**		**Bank**	
	2021	2020	**2021**	2020
Reported ECL (RM'000)	**120,406**	139,857	**96,692**	126,596
Gross carrying value/ nominal amount [3] (RM'000)	**96,707,404**	90,671,566	**77,172,323**	73,361,549
Reported ECL coverage (%)	**0.12%**	0.15%	**0.13%**	0.17%
Coverage ratios by scenario (%)				
Consensus central scenario	**0.11%**	0.13%	**0.11%**	0.15%
Consensus upside scenario	**0.08%**	0.11%	**0.08%**	0.12%
Consensus downside scenario	**0.14%**	0.21%	**0.13%**	0.24%
Alternative downside scenario	**0.27%**	0.41%	**0.25%**	0.45%

[1] Excludes ECL and financial instruments relating to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor then future economic scenario.
[2] Includes off balance sheet financial instruments that are subject to significant measurement uncertainty.
[3] Includes low credit risk financial instruments such as Debt instruments at FVOCI which have low ECL coverage ratios under all the above scenarios. Coverage ratios on loans, advances and financing to customers including loan commitments and financial guarantees are typically higher.

Retail analysis

MFRS 9 ECL sensitivity to future economic conditions [1]

ECL coverage of financing and advances [2]	**Group**		**Bank**	
	2021	2020	**2021**	2020
Reported ECL (RM'000)	**377,606**	429,077	**187,554**	184,482
Drawn amount (RM'000)	**16,402,888**	21,006,931	**12,010,491**	15,277,010
Reported ECL coverage (%)	**2.30%**	2.04%	**1.56%**	1.21%
Coverage ratios by scenario (%)				
Consensus central scenario	**2.22%**	2.01%	**1.53%**	1.19%
Consensus upside scenario	**2.05%**	1.85%	**1.42%**	1.09%
Consensus downside scenario	**2.45%**	2.19%	**1.69%**	1.30%
Alternative downside scenario	**2.94%**	2.54%	**2.05%**	1.54%

[1] ECL sensitivities excludes portfolios using less complex modelling approaches.
[2] ECL sensitivity includes only on balance sheet financial instruments to which MFRS 9 impairment requirements are applied.

4 Risk (Cont'd)

(b) Credit risk (Cont'd)

(vi) Credit quality

Credit quality of financial instruments

The Group and the Bank assess credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point-in-time assessment of the probability of default of financial instruments, whereas stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments, there is no direct relationship between the credit quality assessment and stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in stage 2.

The five credit quality classifications each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table on the following page.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(b) Credit risk (Cont'd)

(vi) Credit quality (Cont'd)

Distribution of financial assets by credit quality

Group (RM'000)	Gross Carrying Amount							
	Strong	**Good**	**Satisfactory**	**Sub-standard**	**Credit Impaired**	**Total**	**ECL allowances**	**Carrying amount (net of impairment provision)**
As at 31 December 2021								
Cash and short-term funds	**12,350,576**	**1,314**	**-**	**-**	**-**	**12,351,890**	**(77)**	**12,351,813**
Securities purchased under resale agreements	**5,172,216**	**875,454**	**-**	**-**	**-**	**6,047,670**	**-**	**6,047,670**
Deposits and placements with banks and other financial institution	**150,000**	**-**	**-**	**-**	**-**	**150,000**	**-**	**150,000**
Financial assets at FVTPL	**1,640,538**	**100**	**118,470**	**-**	**-**	**1,759,108**	**-**	**1,759,108**
Financial assets at FVOCI [1]	**15,486,921**	**-**	**-**	**-**	**-**	**15,486,921**	**-**	**15,486,921**
Financial assets at amortised cost	**-**	**200,000**	**-**	**-**	**-**	**200,000**	**(826)**	**199,174**
Loans, advances and financing to customers held at amortised cost	**18,165,749**	**12,175,146**	**16,040,089**	**1,365,581**	**3,571,670**	**51,318,235**	**(1,309,331)**	**50,008,904**
of which:								
- retail	***7,179,721***	***4,833,702***	***6,412,163***	***552,740***	***2,712,490***	***21,690,816***	***(643,344)***	***21,047,472***
- corporate and commercial	***10,986,028***	***7,341,444***	***9,627,926***	***812,841***	***859,180***	***29,627,419***	***(665,987)***	***28,961,432***
Derivatives financial assets	**825,399**	**65,024**	**33,838**	**241**	**5**	**924,507**	**-**	**924,507**
Other financial assets	**768,650**	**-**	**-**	**-**	**-**	**768,650**	**-**	**768,650**
Irrevocable loan commitments and financial guarantees	**21,482,000**	**4,080,000**	**5,313,000**	**164,000**	**15,000**	**31,054,000**	***(31,406)***	**31,022,594**

Group (RM'000)	Gross Carrying Amount							
	Strong	**Good**	**Satisfactory**	**Sub-standard**	**Credit Impaired**	**Total**	**ECL allowances**	**Carrying amount (net of impairment provision)**
As at 31 December 2020								
Cash and short-term funds	12,663,253	-	-	-	-	12,663,253	(57)	12,663,196
Securities purchased under resale agreements	6,415,253	411,116	-	-	-	6,826,369	-	6,826,369
Deposits and placements with banks and other financial institution	48,204	-	-	-	-	48,204	-	48,204
Financial assets at FVTPL	1,047,109	654	41,910	-	-	1,089,673	-	1,089,673
Financial assets at FVOCI [1]	10,613,542	-	-	-	-	10,613,542	-	10,613,542
Financial assets at amortised cost	-	200,000	-	-	-	200,000	(257)	199,743
Loans, advances and financing to customers held at amortised cost	17,473,366	16,181,212	14,649,803	1,471,297	1,831,501	51,607,179	(854,395)	50,752,784
of which:								
- retail	*7,606,632*	*7,070,911*	*6,404,944*	*645,697*	*1,471,206*	*23,199,390*	*(571,527)*	*22,627,863*
- corporate and commercial	*9,866,734*	*9,110,301*	*8,244,858*	*825,601*	*360,295*	*28,407,789*	*(282,868)*	*28,124,921*
Derivatives financial assets	1,722,314	185,996	124,811	211	97	2,033,429	-	2,033,429
Other financial assets	408,390	-	-	-	-	408,390	-	408,390
Irrevocable loan commitments and financial guarantees	19,613,000	6,951,000	3,963,000	204,000	9,000	30,740,000	*(6,123)*	30,733,877

[1] Financial investments at FVOCI excludes equity securities.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(b) Credit risk (Cont'd)

(vi) Credit quality (Cont'd)

Distribution of financial assets by credit quality

Bank (RM'000)	Gross Carrying Amount							
	Strong	**Good**	**Satisfactory**	**Sub-standard**	**Credit Impaired**	**Total**	**ECL allowances**	**Carrying amount (net of impairment provision)**
As at 31 December 2021								
Cash and short-term funds	**8,637,067**	**1,243**	**-**	**-**	**-**	**8,638,310**	**(76)**	**8,638,234**
Securities purchased under resale agreements	**5,172,216**	**875,454**	**-**	**-**	**-**	**6,047,670**	**-**	**6,047,670**
Deposits and placements with banks and other financial institution	**1,425,508**	**-**	**-**	**-**	**-**	**1,425,508**	**-**	**1,425,508**
Financial assets at FVTPL	**1,640,538**	**100**	**118,470**	**-**	**-**	**1,759,108**	**-**	**1,759,108**
Financial assets at FVOCI [1]	**13,233,971**	**-**	**-**	**-**	**-**	**13,233,971**	**-**	**13,233,971**
Financial assets at amortised cost	**-**	**200,000**	**-**	**-**	**-**	**200,000**	**(826)**	**199,174**
Loans, advances and financing to customers held at amortised cost	**14,425,102**	**9,188,730**	**11,131,806**	**796,490**	**2,396,659**	**37,938,787**	**(785,949)**	**37,152,838**
of which:								
- retail	***5,567,004***	***3,546,159***	***4,296,040***	***307,385***	***1,778,681***	***15,495,269***	***(317,685)***	***15,177,584***
- corporate and commercial	***8,858,098***	***5,642,571***	***6,835,766***	***489,105***	***617,978***	***22,443,518***	***(468,264)***	***21,975,254***
Derivatives financial assets	**844,486**	**65,012**	**28,829**	**50**	**5**	**938,382**	**-**	**938,382**
Other financial assets	**936,979**	**-**	**-**	**-**	**-**	**936,979**	**-**	**936,979**
Irrevocable loan commitments and financial guarantees	**16,978,000**	**3,225,000**	**3,547,000**	**97,000**	**15,000**	**23,862,000**	***(22,759)***	**23,839,241**

Bank (RM'000)	Gross Carrying Amount							
	Strong	**Good**	**Satisfactory**	**Sub-standard**	**Credit Impaired**	**Total**	**ECL allowances**	**Carrying amount (net of impairment provision)**
As at 31 December 2020								
Cash and short-term funds	9,441,488	-	-	-	-	9,441,488	(47)	9,441,441
Securities purchased under resale agreements	6,415,253	411,116	-	-	-	6,826,369	-	6,826,369
Deposits and placements with banks and other financial institution	1,403,411	-	-	-	-	1,403,411	-	1,403,411
Financial assets at FVTPL	1,047,109	654	41,910	-	-	1,089,673	-	1,089,673
Financial assets at FVOCI [1]	9,313,727	-	-	-	-	9,313,727	-	9,313,727
Financial assets at amortised cost	-	200,000	-	-	-	200,000	(257)	199,743
Loans, advances and financing to customers held at amortised cost	13,864,525	11,508,813	10,259,028	909,116	1,224,806	37,766,288	(506,080)	37,260,208
of which:								
- retail	*5,977,951*	*4,962,241*	*4,423,373*	*391,982*	*924,859*	*16,680,406*	*(251,501)*	*16,428,905*
- corporate and commercial	*7,886,574*	*6,546,572*	*5,835,655*	*517,134*	*299,947*	*21,085,882*	*(254,579)*	*20,831,303*
Derivatives financial assets	1,743,795	185,894	107,389	54	97	2,037,229	-	2,037,229
Other financial assets	457,296	-	-	-	-	457,296	-	457,296
Irrevocable loan commitments and financial guarantees	15,360,000	5,590,000	2,811,000	95,000	8,000	23,864,000	*(4,146)*	23,859,854

[1] Financial investments at FVOCI excludes equity securities.

(b) Credit risk (Cont'd)

(vi) Credit quality (Cont'd)

Credit impaired loans (Stage 3)

The Group and the Bank determine that a financial instrument is credit impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore, the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

Collateral and other credit enhancements

Although collateral can be an important mitigant of credit risk, it is the Group and the Bank's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than placing primary reliance on collateral and other credit risk enhancements. Depending on the customer's standing and the type of product, facilities may be provided without any collateral or other credit enhancements. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the bank may utilise the collateral as a source of repayment.

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 machinery 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 issue 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).

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 as it is not practicable to do so.

(b) Credit risk (Cont'd)

(vi) Credit quality (Cont'd)

Collateral and other credit enhancements (Cont'd)

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 December 2021 are 61.8% (2020: 59.9%) and 66.9% (2020: 64.3%) 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.

Derivatives

The Group and the Bank participate in transactions exposing us to counterparty credit risk. Counterparty credit risk is the risk of financial loss if the counterparty to a transaction defaults before satisfactorily settling it. It arises principally from over-the-counter (OTC) derivatives and securities financing transactions and is calculated in both the trading and non-trading books. Transactions vary in value by reference to a market factor such as an interest rate, exchange rate or asset price.

The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment (CVA).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(b) Credit Risk (Cont'd)

(vi) Credit quality (Cont'd)

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 reported 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 realise 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[1] does not meet the criteria for offsetting in the statement of financial position. The ISDA[1] 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:

[1] International Swaps and Derivatives Association

	(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 RM'000	Net amount RM'000
As at 31 December 2021						
Group						
Securities purchased under resale agreements	**6,047,670**	**-**	**6,047,670**	**6,047,670**	**-**	**-**
Derivative financial assets	**924,507**	**-**	**924,507**	**-**	**297,245**	**627,262**
Derivative financial liabilities	**947,581**	**-**	**947,581**	**-**	**327,761**	**619,820**
Bank						
Securities purchased under resale agreements	**6,047,670**	**-**	**6,047,670**	**6,047,670**	**-**	**-**
Derivative financial assets	**938,382**	**-**	**938,382**	**-**	**297,245**	**641,137**
Derivative financial liabilities	**986,699**	**-**	**986,699**	**-**	**327,761**	**658,938**
As at 31 December 2020						
Group						
Securities purchased under resale agreements	6,826,369	-	6,826,369	6,826,369	-	-
Derivative financial assets	2,033,429	-	2,033,429	-	615,800	1,932,718
Derivative financial liabilities	1,840,252	-	1,840,252	-	100,711	1,224,452
Bank						
Securities purchased under resale agreements	6,826,369	-	6,826,369	6,826,369	-	-
Derivative financial assets	2,037,229	-	2,037,229	-	615,800	1,936,518
Derivative financial liabilities	1,899,404	-	1,899,404	-	100,711	1,283,604

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(c) Liquidity and funding risk

(i) Overview

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. Liquidity risk arise from mismatches in the timing of cash flows.

Funding risk is the risk that the Group and the Bank cannot raise funding or can only do so at excessive cost.

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.

(ii) Governance and structure

The management of liquidity and funding is primarily carried out through HSBC Group's liquidity and funding risk framework (LFRF) and BNM's Liquidity Coverage Ratio and Net Stable Funding Ratio Framework. Limits are proposed by Asset, Liability and Capital Management (ALCM) through the RMM and approved by the Board. These limits vary to take account of the depth and liquidity of the local market in which the Group and the Bank operate. 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 Asset and Liability Committee (ALCO) is responsible for managing all ALCM issues including liquidity and funding risk management. Compliance with liquidity and funding requirements is monitored by ALCO through the following processes:

- maintaining compliance with relevant regulatory requirements of the operating entity;
- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring liquidity and funding ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of term funding;
- managing contingent liquidity commitment exposures within predetermined limits;
- maintaining debt financing plans;
- monitoring of depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises, while minimising adverse long-term implications for the business.

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

(iii) Management of liquidity and funding risk

The HSBC Group's LFRF uses the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) regulatory framework as a foundation, but adds extra metrics, limits and overlays to address the risks that we consider are not adequately reflected by the regulatory framework.

Funding and liquidity plans form part of the financial resource plan that is approved by the Board. The critical Board-level appetite measures are the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). An internal liquidity metric (ILM) was introduced in January 2021 to supplement the LCR and NSFR metrics. An appropriate funding and liquidity profile is managed through a wider set of measures:

- a minimum LCR requirement;
- a minimum NSFR requirement or other appropriate metric;
- an internal liquidity metric (ILM);
- a legal entity depositor concentration limit;
- three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from banks, deposits from non-bank financial institutions and securities issued;
- a minimum LCR requirement by currency;
- intra-day liquidity;
- the application of liquidity funds transfer pricing; and
- forward-looking funding assessments.

The management of liquidity risk was enhanced during 2020 in response to the COVID-19 outbreak pandemic. Liquidity risk is closely monitored and continues to be enhanced to ensure the Group and the Bank anticipated, monitored and responded to the impact.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(c) Liquidity and funding risk (cont'd)

(iv) Liquidity risk

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

	Non-trading book							
Group **31 December 2021**	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-specific maturity RM'000**	**Trading book RM'000**	**Total RM'000**
ASSETS								
Cash and short term funds	12,351,813	-	-	-	-	-	-	12,351,813
Securities purchased under resale agreements	3,513,486	2,283,726	250,458	-	-	-	-	6,047,670
Deposits and placements with banks and other financial institutions	-	150,000	-	-	-	-	-	150,000
Financial assets at FVTPL	-	-	-	-	-	-	1,759,108	1,759,108
Financial investments at FVOCI	833,880	3,374,657	4,183,454	7,094,930	-	225,479	-	15,712,400
Financial assets at amortised cost	-	-	-	199,174	-	-	-	199,174
Loans, advances and financing	13,239,389	6,448,440	4,740,023	6,607,881	18,973,171	-	-	50,008,904
Derivative financial assets	-	-	-	-	-	-	924,507	924,507
Others	4,628	17,959	58,567	94,304	27,544	1,667,259	578,519	2,448,780
Total Assets	29,943,196	12,274,782	9,232,502	13,996,289	19,000,715	1,892,738	3,262,134	89,602,356
LIABILITIES AND EQUITY								
Deposits from customers	52,743,116	6,295,520	7,733,558	1,203,499	-	-	-	67,975,693
Deposits and placements from banks and other financial institutions	1,985,387	204,342	625,537	-	-	-	-	2,815,266
Bills payable	100,527	-	-	-	-	-	-	100,527
Multi-Currency Sukuk Programme	-	-	-	515,333	-	-	-	515,333
Subordinated liabilities	-	-	500,000	-	-	-	-	500,000
Derivative financial liabilities	-	-	7,310	13,106	-	-	927,165	947,581
Structured liabilities designated at FVTPL	177,151	154,882	776,066	1,671,154	129,773	-	-	2,909,026
Others	526,454	31,416	56,866	40,440	1,653	1,561,242	596,220	2,814,291
Total Liabilities	55,532,635	6,686,160	9,699,337	3,443,532	131,426	1,561,242	1,523,385	78,577,717
Equity	-	-	-	-	-	11,024,639	-	11,024,639
Total Liabilities and Equity	55,532,635	6,686,160	9,699,337	3,443,532	131,426	12,585,881	1,523,385	89,602,356
Net maturity mismatches	(25,589,439)	5,588,622	(466,835)	10,552,757	18,869,289	(10,693,143)	1,738,749	-
Off-balance sheet liabilities	71,056,344	30,865,245	35,811,942	34,412,486	2,953,001	-	-	175,099,018

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(c) Liquidity and funding risk (cont'd)

(iv) Liquidity risk (Cont'd)

Group 31 December 2020	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Trading book RM'000	Total RM'000
ASSETS								
Cash and short term funds	12,663,196	-	-	-	-	-	-	12,663,196
Securities purchased under resale agreements	4,985,768	1,840,601	-	-	-	-	-	6,826,369
Deposits and placements with banks and other financial institutions	-	48,204	-	-	-	-	-	48,204
Financial assets at FVTPL	-	-	-	-	-	-	1,089,673	1,089,673
Financial investments at FVOCI	499,009	3,351,586	818,109	5,944,838	-	214,003	-	10,827,545
Financial assets at amortised cost	-	-	199,743	-	-	-	-	199,743
Loans, advances and financing	12,966,850	5,455,695	2,232,303	9,761,856	20,336,080	-	-	50,752,784
Derivative financial assets	-	-	-	-	-	-	2,033,429	2,033,429
Others	15,387	4,795	9,858	125,994	21,686	1,428,029	270,406	1,876,155
Total Assets	31,130,210	10,700,881	3,260,013	15,832,688	20,357,766	1,642,032	3,393,508	86,317,098
LIABILITIES AND EQUITY								
Deposits from customers	48,087,022	6,321,406	7,916,697	1,085,311	-	-	-	63,410,436
Deposits and placements from banks and other financial institutions	1,888,749	-	50,000	919,592	-	-	-	2,858,341
Bills payable	169,111	-	-	-	-	-	-	169,111
Multi-Currency Sukuk Programme	-	-	-	523,841	-	-	-	523,841
Subordinated liabilities	-	-	-	500,000	-	-	-	500,000
Derivative financial liabilities	-	-	4,440	44,929	-	-	1,790,883	1,840,252
Structured liabilities designated at FVTPL	272,513	453,368	1,565,183	1,313,896	143,233	-	-	3,748,193
Others	223,442	40,730	61,402	40,258	645	1,382,585	619,068	2,368,130
Total Liabilities	50,640,837	6,815,504	9,597,722	4,427,827	143,878	1,382,585	2,409,951	75,418,304
Equity	-	-	-	-	-	10,898,794	-	10,898,794
Total Liabilities and Equity	50,640,837	6,815,504	9,597,722	4,427,827	143,878	12,281,379	2,409,951	86,317,098
Net maturity mismatches	(19,510,627)	3,885,377	(6,337,709)	11,404,861	20,213,888	(10,639,347)	983,557	-
Off-balance sheet liabilities	76,882,915	34,846,681	34,710,721	32,245,032	3,864,407	-	-	182,549,756

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(c) Liquidity and funding risk (cont'd)

(iv) Liquidity risk (Cont'd)

Bank 31 December 2021	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	8,638,234	-	-	-	-	-	-	8,638,234
Securities purchased under resale agreements	3,513,486	2,283,726	250,458	-	-	-	-	6,047,670
Deposits and placements with banks and other financial institutions	-	546,174	278,557	600,777	-	-	-	1,425,508
Financial assets at FVTPL	-	-	-	-	-	-	1,759,108	1,759,108
Financial investments at FVOCI	833,880	3,164,201	3,557,772	5,678,117	-	225,479	-	13,459,449
Financial assets at amortised cost	-	-	-	199,174	-	-	-	199,174
Loans, advances and financing	10,834,354	4,114,815	3,518,269	5,037,462	13,647,938	-	-	37,152,838
Derivative financial assets	-	-	-	-	-	-	938,382	938,382
Others	135,404	16,052	49,782	75,615	14,880	2,282,338	575,742	3,149,813
Total Assets	23,955,358	10,124,968	7,654,838	11,591,145	13,662,818	2,507,817	3,273,232	72,770,176
LIABILITIES AND EQUITY								
Deposits from customers	44,177,742	4,307,070	5,926,467	772,733	-	-	-	55,184,012
Deposits and placements from banks and other financial institutions	1,983,499	-	83,405	-	-	-	-	2,066,904
Bills payable	87,660	-	-	-	-	-	-	87,660
Subordinated liabilities	-	-	500,000	-	-	-	-	500,000
Derivative financial liabilities	-	-	7,310	13,106	-	-	966,283	986,699
Structured liabilities designated at FVTPL	175,268	152,558	527,800	753,849	111,452	-	-	1,720,927
Others	494,761	22,286	42,139	21,289	1,653	1,371,028	596,220	2,549,376
Total Liabilities	46,918,930	4,481,914	7,087,121	1,560,977	113,105	1,371,028	1,562,503	63,095,578
Equity	-	-	-	-	-	9,674,598	-	9,674,598
Total Liabilities and Equity	46,918,930	4,481,914	7,087,121	1,560,977	113,105	11,045,626	1,562,503	72,770,176
Net maturity mismatches	(22,963,572)	5,643,054	567,717	10,030,168	13,549,713	(8,537,809)	1,710,729	-
Off-balance sheet liabilities	62,757,321	30,321,252	34,476,281	35,382,872	2,816,466	-	-	165,754,192

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(c) Liquidity and funding risk (cont'd)

(iv) Liquidity risk (Cont'd)

Bank 31 December 2020	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	9,441,441	-	-	-	-	-	-	9,441,441
Securities purchased under resale agreements	4,985,768	1,840,601	-	-	-	-	-	6,826,369
Deposits and placements with banks and other financial institutions	200,000	546,655	78,056	578,700	-	-	-	1,403,411
Financial assets at FVTPL	-	-	-	-	-	-	1,089,673	1,089,673
Financial investments at FVOCI	499,009	3,351,586	792,912	4,670,220	-	214,003	-	9,527,730
Financial assets at amortised cost	-	-	199,743	-	-	-	-	199,743
Loans, advances and financing	10,160,518	3,771,386	1,620,457	6,925,826	14,782,021	-	-	37,260,208
Derivative financial assets	-	-	-	-	-	-	2,037,229	2,037,229
Others	45,039	4,892	9,969	100,519	14,444	2,043,205	270,406	2,488,474
Total Assets	25,331,775	9,515,120	2,701,137	12,275,265	14,796,465	2,257,208	3,397,308	70,274,278
LIABILITIES AND EQUITY								
Deposits from customers	40,243,582	4,313,258	5,987,471	719,197	-	-	-	51,263,508
Deposits and placements from banks and other financial institutions	1,884,678	-	50,000	200,549	-	-	-	2,135,227
Bills payable	121,104	-	-	-	-	-	-	121,104
Subordinated liabilities	-	-	-	500,000	-	-	-	500,000
Derivative financial liabilities	-	-	4,440	44,929	-	-	1,850,035	1,899,404
Structured liabilities designated at FVTPL	258,428	403,694	1,054,602	798,014	120,202	-	-	2,634,940
Others	202,845	30,181	45,623	22,486	645	1,268,110	619,068	2,188,958
Total Liabilities	42,710,637	4,747,133	7,142,136	2,285,175	120,847	1,268,110	2,469,103	60,743,141
Equity	-	-	-	-	-	9,531,137	-	9,531,137
Total Liabilities and Equity	42,710,637	4,747,133	7,142,136	2,285,175	120,847	10,799,247	2,469,103	70,274,278
Net maturity mismatches	(17,378,862)	4,767,987	(4,440,999)	9,990,090	14,675,618	(8,542,039)	928,205	-
Off-balance sheet liabilities	68,839,151	34,487,962	33,466,570	33,119,981	3,761,252	-	-	173,674,916

(c) Liquidity and funding risk (cont'd)

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

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

(v) 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	Total
At 31 December 2021						
Non-derivative liabilities						
Deposits from customers	**43,654,459**	**15,447,108**	**7,826,543**	**1,295,427**	**-**	**68,223,537**
Deposits and placements of banks and other financial institutions	-	**2,192,145**	**629,202**	**-**	**-**	**2,821,347**
Structured liabilities designated as fair value through profit or loss	**301,866**	**161,130**	**658,756**	**1,933,017**	-	**3,054,769**
Bills payable	**100,527**	-	-	-	-	**100,527**
Other liabilities	**723,902**	**109,645**	**109,607**	**177,506**	**833,491**	**1,954,151**
Multi Currency Sukuk Programme	-	**-**	**21,500**	**521,500**	-	**543,000**
Subordinated liabilities	-	**-**	**525,250**	**-**	-	**525,250**
Loans and other credit-related commitments	**44,721,698**	**1,134,332**	**4,773,658**	**1,377,796**	**1,516**	**52,009,000**
Financial guarantees and similar contracts	**1,326,991**	**1,356,239**	**4,989,404**	**3,279,507**	**783,828**	**11,735,969**
	90,829,443	**20,400,599**	**19,533,920**	**8,584,753**	**1,618,835**	**140,967,550**
Derivative liabilities						
Gross settled derivatives						
- Inflow	**-**	**(22,258,227)**	**(10,677,238)**	**(2,054,670)**	**(388,246)**	**(35,378,381)**
- Outflow	**-**	**22,487,391**	**10,903,972**	**2,246,834**	**426,543**	**36,064,740**
Net settled derivatives	**-**	**54,789**	**86,116**	**142,720**	**1,316**	**284,941**

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	Total
At 31 December 2020						
Non-derivative liabilities						
Deposits from customers	38,110,729	16,365,870	8,007,318	1,171,303	-	63,655,220
Deposits and placements of banks and other financial institutions	-	1,742,537	50,356	978,696	164,632	2,936,221
Structured liabilities designated as fair value through profit or loss	525,996	401,957	1,476,496	1,344,414	-	3,748,863
Bills payable	169,111	-	-	-	-	169,111
Other liabilities	776,581	192,579	126,335	95,631	707,561	1,898,687
Multi Currency Sukuk Programme	-	-	21,500	543,000	-	564,500
Subordinated liabilities	-	-	25,250	525,250	-	550,500
Loans and other credit-related commitments	43,511,620	1,337,615	5,199,705	546,552	-	50,595,492
Financial guarantees and similar contracts	1,589,008	1,162,830	2,894,564	3,794,358	668,907	10,109,667
	84,683,045	21,203,388	17,801,524	8,999,204	1,541,100	134,228,261
Derivative liabilities						
Gross settled derivatives						
- Inflow	-	(30,471,034)	(11,129,099)	(1,318,085)	(500,157)	(43,418,375)
- Outflow	-	31,228,206	11,558,693	1,532,110	526,508	44,845,517
Net settled derivatives	-	68,578	173,033	323,215	13,427	578,253

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

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

(v) 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	Total
At 31 December 2021						
Non-derivative liabilities						
Deposits from customers	**37,418,694**	**11,107,307**	**5,999,446**	**834,552**	**-**	**55,359,999**
Deposits and placements of banks and other financial institutions	**-**	**1,985,482**	**83,655**	**-**	**-**	**2,069,137**
Structured liabilities designated as fair value through profit or loss	**298,889**	**158,884**	**421,896**	**870,040**	**-**	**1,749,709**
Bills payable	**87,660**	**-**	**-**	**-**	**-**	**87,660**
Other liabilities	**703,149**	**80,264**	**79,168**	**137,451**	**786,386**	**1,786,418**
Subordinated liabilities	**-**	**-**	**525,250**	**-**	**-**	**525,250**
Loans and other credit-related commitments	**35,823,163**	**915,408**	**3,857,541**	**1,057,616**	-	**41,653,728**
Financial guarantees and similar contracts	**1,200,115**	**1,243,984**	**4,129,649**	**2,770,164**	**648,809**	**9,992,721**
	75,531,670	**15,491,329**	**15,096,605**	**5,669,823**	**1,435,195**	**113,224,622**
Derivative liabilities						
Gross settled derivatives						
- Inflow	**-**	**(22,304,652)**	**(10,844,784)**	**(2,068,800)**	**(388,246)**	**(35,606,482)**
- Outflow	**-**	**22,533,429**	**11,078,746**	**2,276,859**	**426,543**	**36,315,577**
Net settled derivatives	**-**	**57,816**	**94,074**	**148,761**	**1,316**	**301,967**

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	Total
At 31 December 2020						
Non-derivative liabilities						
Deposits from customers	33,168,979	11,430,194	6,061,218	776,733	-	51,437,124
Deposits and placements of banks and other financial institutions	-	1,738,448	50,356	208,170	164,632	2,161,606
Structured liabilities designated as fair value through profit or loss	491,066	349,280	964,997	830,019	-	2,635,362
Bills payable	121,104	-	-	-	-	121,104
Other liabilities	760,963	158,925	104,131	63,552	643,354	1,730,925
Subordinated liabilities	-	-	25,250	525,250	-	550,500
Loans and other credit-related commitments	35,412,029	1,098,701	3,987,673	413,278	-	40,911,681
Financial guarantees and similar contracts	1,474,720	1,041,252	2,289,667	3,367,415	565,751	8,738,805
	71,428,861	15,816,800	13,483,292	6,184,417	1,373,737	108,287,107
Derivative liabilities						
Gross settled derivatives						
- Inflow	-	(30,411,385)	(11,127,090)	(1,318,085)	(500,157)	(43,356,717)
- Outflow	-	31,168,375	11,558,932	1,532,110	526,508	44,785,925
Net settled derivatives	-	72,120	182,688	344,895	13,427	613,130

(d) Market risk

Market risk is the risk that movements in market risk factors, such as foreign exchange rates, interest/profit rates, credit spreads, equity prices and commodity prices will reduce the Group and the Bank's income or the value of their portfolios. Exposure to market risk is separated into two portfolios: trading portfolios and non-trading portfolios.

Where appropriate, the Group and Bank apply similar risk management policies and measurement techniques to both trading and non-trading portfolios. The objective of the Group and the Bank's market risk management is to manage and control market risk exposures to optimise return on risk while maintaining a market profile consistent with HSBC Group's established risk appetite.

There were no material changes to the Group and the Bank's policies and practices for the management of market risk in 2021.

Market risk in the Group and the Bank are managed and controlled through limit mandates approved by the Group and the Bank's Board of Directors. The Group and the Bank have an independent market risk management and control sub-function, which is responsible for measuring, monitoring and reporting market risk exposures against limits on a daily basis.

The Product Control function enforces the controls around trading in permissible instruments and also restricts trading in the more complex derivatives products to offices with appropriate levels of product expertise and robust control systems.

(i) Key risk management process

Monitoring and limiting market risk exposures

Our objective is to manage and control market risk exposures while maintaining a market profile consistent with our risk appetite. We use a range of tools to monitor and limit market risk exposures including sensitivity analyses, VaR and stress testing.

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios including interest rates, foreign exchange rates and equity prices. Sensitivity measures are used to monitor the market risk positions within each risk type.

Granular sensitivity limits are set primarily for trading desks with consideration of market liquidity, customer demand and capital constraints, among other factors.

Value at risk (VaR)

VaR is a technique for estimating 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 use of VaR is integrated into market risk management and is calculated for all trading positions regardless of how the Group and the Bank capitalise those exposures.

In addition, the Group and the Bank calculate VaR for non-trading portfolios in order to have a complete picture of market risk. Where VaR is not calculated explicitly, alternative tools are used as summarised in the Market Risk stress testing section below.

4 Risk (Cont'd)

(d) Market risk (Cont'd)

(i) Key risk management process (Cont'd)

Value at risk (VaR) (Cont'd)

The VaR models used by the Group and the Bank are predominantly based on historical simulation which 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 that are calculated with reference to data from the past two years; and
- VaR measures are calculated to a 99 per cent confidence level and use a one-day holding period.

The models also incorporate the effect of option features on the underlying exposures. 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.

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 Berhad (RM'000)

	At 31 December 2021	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**139**	**684**	**2,251**	**52**
Interest rate risk	**4,552**	**5,750**	**8,729**	**2,688**
Equity risk	**664**	**167**	**709**	**-**
Credit spread risk	**27**	**53**	**510**	**11**
Overall	**4,412**	**5,491**	**8,857**	**2,605**
	At 31 December 2020	Average	Maximum	Minimum
Foreign currency risk	533	609	2,095	37
Interest rate risk	4,546	3,350	7,558	1,380
Equity risk	-	-	-	-
Credit spread risk	99	75	563	5
Overall	3,226	3,287	7,380	1,517

(d) Market risk (Cont'd)

(i) Key risk management process (Cont'd)

Value at risk (VaR) (Cont'd)

HSBC Amanah Malaysia Berhad (RM'000)

	At 31 December 2021	Average	Maximum	Minimum
Foreign currency risk	**35**	**32**	**271**	**7**
Profit rate risk	**218**	**218**	**319**	**126**
Equity risk	**-**	**-**	**63**	**-**
Credit spread risk	**-**	**-**	**14**	**-**
Overall	**234**	**226**	**395**	**130**
	At 31 December 2020	Average	Maximum	Minimum
Foreign currency risk	73	43	169	11
Profit rate risk	247	201	822	66
Equity risk	-	-	-	-
Credit spread risk	-	-	18	-
Overall	270	208	829	78

Although a valuable guide to risk, VaR is used with awareness of its limitations. For example:

- the use of historical data as a proxy for estimating future market movement may not encompass all potential market events, particularly those that are extreme in nature;
- the use of a one-day holding period for risk management purposes of trading and non-trading books assumes that this short period is sufficient to hedge or liquidate all positions;
- 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.

(ii) Interest Rate Risk in the Banking Book

Interest/ Profit Rate Risk in the Banking Book (IRRBB) is the risk of an adverse impact to earnings or capital due to changes in market interest rates that affect the banking book positions. The risk arises either from timing mismatches in the repricing of non-traded assets and liabilities, an imperfect correlation between changes in the rates earned and paid on different instruments with otherwise similar repricing characteristics; as well as from option derivative positions or from optional elements embedded in the assets, liabilities and/or off-balance sheet items, where customer can alter the level and timing of their cash flows. In its management of the risk, the Group and the Bank aim to mitigate the impact of future interest rate movements which could reduce future net interest/ profit income or its net worth, while balancing the cost of hedging activities to the current revenue stream. Monitoring the sensitivity of the projected net interest / profit income and of the present value of expected net cash flows under varying interest/ profit rate scenarios is a key part of this.

In order to manage structural interest rate risk, non-traded assets and liabilities are transferred to Markets Treasury (MKTY) based on their repricing and maturity characteristics. For assets and liabilities with no defined maturity or repricing characteristics, behaviouralisation is used to assess the interest rate risk profile. MKTY manages the banking book interest rate positions transferred to it within the approved limits. ALCO is responsible for monitoring and reviewing their overall structural interest rate risk position. Interest rate behaviouralisation policies have to be formulated in line with the Group and the Bank's behaviouralisation policies and approved annually by ALCO.

(d) Market risk (Cont'd)

(ii) Interest Rate Risk in the Banking Book (Cont'd)

Sensitivity of net interest income

A principal part of our management of non-traded interest rate risk is to monitor the sensitivity of expected net interest income (NII) under varying interest rate scenarios (simulation modelling), where all other economic variables are held constant.

NII sensitivity reflects the group's sensitivity of earnings due to changes in market interest rates. Projected NII sensitivity figures represent the effect of pro forma movements in projected yield curves based on a constant balance sheet size and structure. The exception to this is where the size of the balances changes materially or repricing is deemed interest rate sensitive, for example, non-interest-bearing current account migration and fixed-rate loan early prepayment. These sensitivity calculations do not incorporate actions that would be taken by MKTY or in the business that originate the risk to mitigate the effect of interest rate movements.

Sensitivity of economic value of equity

Economic value of equity (EVE) represents the present value of the future banking book cash flows that could be distributed to equity providers under a managed run-off scenario. This equates to the current book value of equity plus the present value of future NII in this scenario. EVE can be used to assess the economic capital required to support interest rate risk in the banking book.

An EVE sensitivity represents the expected movement in EVE due to pre-specified movements in interest rates, where all other economic variables are held constant. EVE sensitivity is monitored as a percentage of Tier 1 capital resources.

Non-traded VaR

Non-traded VaR uses the same models as those used in the trading book and includes only the elements of risk that are transferred to MKTY.

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

Sensitivity of projected Net Interest/Finance Income

Change in projected net interest/finance income in next 12 months arising from a shift in interest/ profit rates of:

	Group (RM'000)			
	31 Dec 21		31 Dec 20	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**191,542**	**(214,978)**	232,718	(254,271)
USD	**59,953**	**(54,666)**	52,128	(23,906)
Others	**(3,719)**	**570**	4,570	(159)
	247,776	**(269,074)**	289,416	(278,336)

	Bank (RM'000)			
	31 Dec 21		31 Dec 20	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**203,728**	**(223,618)**	247,136	(260,942)
USD	**57,129**	**(52,200)**	49,748	(23,650)
Others	**(3,955)**	**612**	(1,984)	(1,725)
	256,902	**(275,206)**	294,900	(286,317)

(d) Market risk (Cont'd)

(ii) Interest Rate Risk in the Banking Book (Cont'd)

Sensitivity of projected Economic value of equity

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

	Group (RM'000)			
	31 Dec 21		31 Dec 20	
Basis point parallel shift in yield curve	***+200bps***	***-200bps***	*+200bps*	*-200bps*
RM	**(86,740)**	**112,045**	(6,220)	35,277
USD	**(15,170)**	**9,050**	(20,130)	11,540
Others	**(3,460)**	**488**	(2,151)	1,036
	(105,370)	**121,583**	(28,501)	47,853

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

	Bank (RM'000)			
	31 Dec 21		31 Dec 20	
Basis point parallel shift in yield curve	***+200bps***	***-200bps***	*+200bps*	*-200bps*
RM	**14,640**	**(2,442)**	101,744	(88,846)
USD	**(10,182)**	**6,600**	(6,755)	4,621
Others	**(2,056)**	**168**	(109)	(77)
	2,402	**4,326**	94,880	(84,302)

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 FVOCI portfolios and cash flow hedges to parallel movements of plus or minus 100 basis points in all yield curves.

	Group (RM'000)			
	31 Dec 21		31 Dec 20	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(140,076)**	**140,076**	(95,513)	95,513
USD	**(3,766)**	**3,766**	(5,055)	5,055
	(143,842)	**143,842**	(100,568)	100,568

	Bank (RM'000)			
	31 Dec 21		31 Dec 20	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(110,511)**	**110,511**	(71,838)	71,838
USD	**(3,766)**	**3,766**	(5,055)	5,055
	(114,277)	**114,277**	(76,893)	76,893

4 Risk (Cont'd)

(d) Market risk (Cont'd)

(ii) Interest Rate Risk in the Banking Book (Cont'd)

Foreign exchange risk

Foreign exchange risk arises as a result of movements in the relative value of currencies. The Group and the Bank control 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 21		31 Dec 20	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after tax	**390**	**(390)**	959	(959)

	Bank (RM'000)			
	31 Dec 21		31 Dec 20	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after tax	**426**	**(426)**	890	(890)

Change in foreign exchange rate has no significant impact to other comprehensive income for the financial year ended 31 December 2021 and 31 December 2020.

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(d) Market risk (Cont'd)

(iii) Interest/Profit Rate Risk

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

Group 31 December 2021	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	11,630,300	-	-	-	-	721,590	-	12,351,890	1.48
- impairment allowances	-	-	-	-	-	(77)	-	(77)	-
Securities purchased under resale agreements	3,513,486	2,283,726	250,458	-	-	-	-	6,047,670	1.73
Deposits and placements with banks and other financial institutions	-	150,000	-	-	-	-	-	150,000	1.56
Financial assets at FVTPL	-	-	-	-	-	-	1,759,108	1,759,108	2.44
Financial investments at FVOCI	833,880	3,374,657	4,183,454	7,094,930	-	225,479	-	15,712,400	1.75
Financial assets at amortised cost	-	-	826	199,174	-	-	-	200,000	2.79
- impairment allowances	-	-	-	-	-	(826)	-	(826)	-
Loans, advances and financing									
- performing	19,218,983	25,855,027	1,774,644	683,490	214,421	-	-	47,746,565	3.61
- impaired	-	-	-	-	-	3,571,670	-	3,571,670	-
- impairment allowances	-	-	-	-	-	(1,309,331)	-	(1,309,331)	-
Derivative financial assets	-	-	-	-	-	-	924,507	924,507	-
Other assets	-	-	-	-	-	190,131	578,519	768,650	-
Total Financial Assets	35,196,649	31,663,410	6,209,382	7,977,594	214,421	3,398,636	3,262,134	87,922,226	
LIABILITIES AND EQUITY									
Deposits from customers	40,501,104	6,295,520	7,733,558	1,203,499	-	12,242,012	-	67,975,693	0.96
Deposits and placements from banks and other financial institutions	1,984,431	204,342	625,537	-	-	956	-	2,815,266	0.58
Bills payable	-	-	-	-	-	100,527	-	100,527	-
Multi-Currency Sukuk Programme	-	-	-	515,333	-	-	-	515,333	2.31
Subordinated liabilities	-	-	500,000	-	-	-	-	500,000	3.54
Derivative financial liabilities	-	-	7,310	13,106	-	-	927,165	947,581	-
Structured liabilities designated at FVTPL	177,151	154,882	776,066	1,671,154	129,773	-	-	2,909,026	1.53
Other liabilities									
- provision for credit commitments	-	-	-	-	-	33,158	-	33,158	-
- others	-	-	-	-	-	1,127,005	596,220	1,723,225	-
Total Financial Liabilities	42,662,686	6,654,744	9,642,471	3,403,092	129,773	13,503,658	1,523,385	77,519,809	
Total interest/profit sensitivity gap	(7,466,037)	25,008,666	(3,433,089)	4,574,502	84,648	(10,105,022)	1,738,749	10,402,417	

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(d) Market risk (Cont'd)

(iii) Interest/Profit Rate Risk (Cont'd)

Group 31 December 2020	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	12,249,497	-	-	-	-	413,757	-	12,663,254	1.79
- impairment allowances	-	-	-	-	-	(58)	-	(58)	-
Securities purchased under resale agreements	4,985,768	1,840,601	-	-	-	-	-	6,826,369	2.22
Deposits and placements with banks and other financial institutions	-	48,204	-	-	-	-	-	48,204	1.87
Financial assets at FVTPL	-	-	-	-	-	-	1,089,673	1,089,673	2.79
Financial investments at FVOCI	499,009	3,351,586	818,109	5,944,838	-	214,003	-	10,827,545	2.28
Financial assets at amortised cost	-	-	200,000	-	-	-	-	200,000	2.86
- impairment allowances	-	-	-	-	-	(257)	-	(257)	-
Loans, advances and financing									
- performing	20,951,801	26,923,184	933,045	621,172	346,476	-	-	49,775,678	4.05
- impaired	-	-	-	-	-	1,831,501	-	1,831,501	-
- impairment allowances	-	-	-	-	-	(854,395)	-	(854,395)	-
Derivative financial assets	-	-	-	-	-	-	2,033,429	2,033,429	-
Other assets	-	-	-	-	-	137,984	270,406	408,390	-
Total Financial Assets	38,686,075	32,163,575	1,951,154	6,566,010	346,476	1,742,535	3,393,508	84,849,333	
LIABILITIES AND EQUITY									
Deposits from customers	36,625,811	6,321,406	7,916,697	1,085,311	-	11,461,211	-	63,410,436	1.41
Deposits and placements from banks and other financial institutions	1,884,689	-	50,000	919,592	-	4,060	-	2,858,341	0.98
Bills payable	-	-	-	-	-	169,111	-	169,111	-
Multi-Currency Sukuk Programme	-	-	-	523,841	-	-	-	523,841	3.16
Subordinated liabilities	-	-	-	500,000	-	-	-	500,000	3.62
Derivative financial liabilities	-	-	4,440	44,929	-	-	1,790,883	1,840,252	-
Structured liabilities designated at FVTPL	272,513	453,368	1,565,183	1,313,896	143,233	-	-	3,748,193	1.99
Other liabilities									
- provision for credit commitments	-	-	-	-	-	8,274	-	8,274	-
- others	-	-	-	-	-	963,901	619,068	1,582,969	-
Total Financial Liabilities	38,783,013	6,774,774	9,536,320	4,387,569	143,233	12,606,557	2,409,951	74,641,417	
Total interest/profit sensitivity gap	(96,938)	25,388,801	(7,585,166)	2,178,441	203,243	(10,864,022)	983,557	10,207,916	

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(d) Market risk (Cont'd)

(iii) Interest/Profit Rate Risk (Cont'd)

	Non-trading book								
Bank 31 December 2021	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective interest rate %**
ASSETS									
Cash and short term funds	8,220,512	-	-	-	-	417,798	-	8,638,310	1.49
- impairment allowances	-	-	-	-	-	(76)	-	(76)	
Securities purchased under resale agreements	3,513,486	2,283,726	250,458	-	-	-	-	6,047,670	1.73
Deposits and placements with banks and other financial institutions	-	546,174	278,557	600,777	-	-	-	1,425,508	1.56
Financial assets at FVTPL	-	-	-	-	-	-	1,759,108	1,759,108	2.44
Financial investments at FVOCI	833,880	3,164,201	3,557,772	5,678,117	-	225,479	-	13,459,449	1.66
Financial assets at amortised cost	-	-	826	199,174	-	-	-	200,000	2.79
- impairment allowances	-	-	-	-	-	(826)	-	(826)	
Loans, advances and financing									
- performing	15,497,470	18,782,524	1,166,571	87,719	7,844	-	-	35,542,128	3.41
- impaired	-	-	-	-	-	2,396,659	-	2,396,659	-
- impairment allowances	-	-	-	-	-	(785,949)	-	(785,949)	-
Derivative financial assets	-	-	-	-	-	-	938,382	938,382	-
Other assets	-	-	-	-	-	361,237	575,742	936,979	-
Total Financial Assets	28,065,348	24,776,625	5,254,184	6,565,787	7,844	2,614,322	3,273,232	70,557,342	
LIABILITIES AND EQUITY									
Deposits from customers	33,085,234	4,307,070	5,926,467	772,733	-	11,092,508	-	55,184,012	0.91
Deposits and placements from banks and other financial institutions	1,983,499	-	83,405	-	-	-	-	2,066,904	0.40
Bills payable	-	-	-	-	-	87,660	-	87,660	-
Subordinated liabilities	-	-	500,000	-	-	-	-	500,000	5.05
Derivative financial liabilities	-	-	7,310	13,106	-	-	966,283	986,699	-
Structured liabilities designated at FVTPL	175,268	152,558	527,800	753,849	111,452	-	-	1,720,927	0.75
Other liabilities									
- provision for credit commitments	-	-	-	-	-	24,221	-	24,221	-
- others	-	-	-	-	-	1,020,358	596,220	1,616,578	-
Total Financial Liabilities	35,244,001	4,459,628	7,044,982	1,539,688	111,452	12,224,747	1,562,503	62,187,001	
Total interest sensitivity gap	(7,178,653)	20,316,997	(1,790,798)	5,026,099	(103,608)	(9,610,425)	1,710,729	8,370,341	

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(d) Market risk (Cont'd)

(iii) Interest/Profit Rate Risk (Cont'd)

	Non-trading book								
Bank 31 December 2020	**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	9,151,994	-	-	-	-	289,494	-	9,441,488	1.70
- impairment allowances	-	-	-	-	-	(47)	-	(47)	
Securities purchased under resale agreements	4,985,768	1,840,601	-	-	-	-	-	6,826,369	2.22
Deposits and placements with banks and other financial institutions	200,000	546,655	78,056	578,700	-	-	-	1,403,411	1.87
Financial assets at FVTPL	-	-	-	-	-	-	1,089,673	1,089,673	2.79
Financial investments at FVOCI	499,009	3,351,586	792,912	4,670,220	-	214,003	-	9,527,730	2.12
Financial assets at amortised cost	-	-	200,000	-	-	-	-	200,000	2.86
- impairment allowances	-	-	-	-	-	(257)	-	(257)	
Loans, advances and financing									
- performing	16,246,133	19,669,658	601,880	23,658	153	-	-	36,541,482	3.90
- impaired	-	-	-	-	-	1,224,806	-	1,224,806	-
- impairment allowances	-	-	-	-	-	(506,080)	-	(506,080)	-
Derivative financial assets	-	-	-	-	-	-	2,037,229	2,037,229	-
Other assets	-	-	-	-	-	186,890	270,406	457,296	-
Total Financial Assets	31,082,904	25,408,500	1,672,848	5,272,578	153	1,408,809	3,397,308	68,243,100	
LIABILITIES									
Deposits from customers	29,637,252	4,313,258	5,987,471	719,197	-	10,606,330	-	51,263,508	1.30
Deposits and placements from banks and other financial institutions	1,884,678	-	50,000	200,549	-	-	-	2,135,227	0.95
Bills payable	-	-	-	-	-	121,104	-	121,104	-
Subordinated liabilities	-	-	-	500,000	-	-	-	500,000	3.95
Derivative financial liabilities	-	-	4,440	44,929	-	-	1,850,035	1,899,404	-
Structured liabilities designated at FVTPL	258,428	403,694	1,054,602	798,014	120,202	-	-	2,634,940	1.51
Other liabilities									
- provision for credit commitments	-	-	-	-	-	6,006	-	6,006	-
- others	-	-	-	-	-	863,742	619,068	1,482,810	-
Total Financial Liabilities	31,780,358	4,716,952	7,096,513	2,262,689	120,202	11,597,182	2,469,103	60,042,999	
Total interest sensitivity gap	(697,454)	20,691,548	(5,423,665)	3,009,889	(120,049)	(10,188,373)	928,205	8,200,101	

(d) Market risk (Cont'd)

(iv) Stress testing

Stress testing is an important procedure that is integrated into our market risk management framework to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such scenarios, losses can be much greater than those predicted by VaR modelling.

Stress testing is implemented at the legal entity level with the scenarios tailored to capture the relevant potential events or market movements. The risk appetite around potential stress losses is set and monitored against a referral limit.

Market risk reverse stress tests are part of the overall consideration of legal entity's reverse stress tests which are undertaken based upon the premise that there is a fixed loss. The stress testing process identifies which scenarios lead to this loss. The rationale behind the reverse stress test is to understand scenarios which are beyond normal business settings that could have contagion and systemic implications.

Stress testing and reverse stress testing provide senior management with insights regarding the 'tail risk' beyond VaR for which our risk appetite is limited.

(v) Back-testing

The accuracy of VaR models are routinely validated by backtesting them with both actual and hypothetical profit and loss against the corresponding VaR numbers. Hypothetical profit and loss excludes non-modelled items such as fees, commissions and revenue of intra-day transactions.

The actual number of profits or losses in excess of VaR over this period can be used to gauge how well the models are performing. A VaR model is deemed satisfactory if it experiences less than five profit or loss exceptions in a 250-day period.

(e) Resilience risk

(i) Overview

Resilience risk is the risk that we are unable to provide critical services to our customers, affiliates and counterparties, as a result of sustained and significant operational disruption. Resilience risk arises from failures or inadequacies in processes, people, systems or external events.

(ii) Resilience risk management

Key developments in 2021

The Operational and Resilience Risk sub-function provides robust non-financial risk steward oversight of the management of risk by the Group and the Bank's businesses and functions. It also provides effective and timely independent challenge. In 2021, HSBC at the group level carried out a number of initiatives to strengthen the management of non-financial risks globally (including the Group and the Bank):

- Developed a more robust understanding of the Group and the Banks' risk and control environment, by updating material risk taxonomy and control libraries and refreshed material risk and control assessments.
- Further strengthened non-financial risk governance and senior leadership focus.
- Created a consolidated view of all risk issues across the Group and the Bank enabling better senior management focus, read across on material control issues and intervention as required.
- Enabled better analysis and reporting of non-financial risks, where more of our risk practitioners now have access to a wider range of management information on their risks and controls.
- Increased the capability of risk stewards to allow for effective stewardship to be in place across the Group and the Bank.
- Strengthened read across of issues and near misses by implementing a group wide harmonised approach across business, functions and regions.
- Enhanced risk management oversight across the most material change initiatives to support growth in strategic transformation in 2021.

(e) Resilience risk (Cont'd)

(ii) Resilience risk management (Cont'd)

Governance and structure

The Operational and Resilience Risk target operating model provides a globally consistent view across resilience risks, strengthening HSBC Group risk management oversight while operating effectively as part of a simplified non-financial risk structure. HSBC Group view resilience risk across seven risk types related to:

- Third parties / supply-chain
- Information, Technology and Cyber Security
- Payments and manual processing
- Physical security
- Business Interruption / Contingency Risk
- Buildings unavailability, and
- Workplace safety

The Operational and Resilience Risk structure simplifies interactions with our key stakeholders by providing specialist skill and a single channel of contact. Resilience Risk actively challenges the business and delivers clear, consistent and credible responses, ensuring controls are being operated and risks are being managed.

A principal senior management meeting for Operational and Resilience Risk governance is the Non-Financial Risk Management Board (NFRMB), chaired by the HSBC Group Chief Risk Officer, with an escalation path to the HSBC Group Risk Management Meeting (GRMM). In Malaysia, this is governed through the country Risk Management Meeting (RMM).

Key risk management processes

Operational resilience is the Group and Bank's ability to anticipate, prevent, adapt, respond to, recover and learn from internal or external disruption, protecting customers, the markets we operate in and economic stability. Resilience is measured by assessing whether we are able to continue to provide our most important services, within an agreed tolerance, during a severe but a plausible level. We accept that we will not be able to prevent all disruption, but we prioritise investment to continually improve our response and recovery strategies for our most important business services.

Business operations continuity

Business continuity, in response to the COVID-19 pandemic, remains in place across a number of locations where the Group operates, allowing the majority of service level agreements to be maintained. There were no significant impacts to service delivery in locations where the Group operates.

(f) Regulatory compliance risk

(i) Overview

Regulatory compliance risk is the risk of failure to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, which as consequence incur fines and penalties and suffer damage to our business.

Regulatory compliance risk arises from the risks associated with breaching the Group and the Bank's duty to customers and inappropriate market conduct as well as breaching other regulatory licensing, permissions and rules.

(ii) Regulatory compliance risk management

Key developments in 2021

We have continued to embed the structural changes made in the prior year to our wider approach to Compliance Risk Management. The integration of the Group Risk and Compliance functions in May 2021 brought together two complementary functions which will strengthen the Regulatory Conduct mandate and our capability to drive ever greater standards in regard to conduct of our business.

In June 2021, we also announced HSBC's new purpose-led approach to conduct. As part of this, the Group and the Bank took the opportunity to align and simplify our approach, making conduct easier to understand and showing how it fulfils our value: 'we take responsibility'.

Governance and structure

Following the creation of the Group Regulatory Conduct capability in May 2020, we have continued to evolve our structure in response to the ever-changing business and industry needs. In March 2021, a new Group Regulatory Conduct Strategic Delivery and Analytics team was created to drive the Regulatory Conduct strategic priorities, and provides oversight of Regulatory Conduct sponsored projects.

The HSBC Group Regulatory Conduct capability continues to work closely with the Regional Chief Compliance Officers and their respective teams to help them identify and manage regulatory compliance risks across the bank. They also work together to ensure good conduct outcomes and to provide enterprise-wide support on the regulatory agenda and similarly, in Malaysia, the Regulatory Conduct capability works with the Chief Compliance Officer.

(f) Regulatory compliance risk

(ii) Regulatory compliance risk management (Cont'd)

Conduct of business

The HSBC Group's new simplified Conduct Approach, which was launched in June 2021, guides us to do the right thing and to recognise the real impact we have for our customers and the financial markets in which we operate. It complements our Purpose and Values, setting outcomes to be achieved for our customers and markets. It recognises cultural and behavioural drivers of good conduct outcomes and applies across all risk disciplines, operational processes and technologies.

During 2021:

- We understood and serviced our customers' ongoing needs and continued to champion a strong conduct and customer-focused culture. This was demonstrated through providing support to our customers facing financial difficulties as a result of the prolonged impacts of the pandemic and the resulting uncertainty in trading conditions.
- We began the integration of climate risk into the Group's risk management approach to recognise the importance of strengthened controls and oversight for our related activities.
- We operated resiliently and securely to avoid harm to our customers and markets by continuing to embed conduct within our business line processes and through our Non- Financial and Financial Risk Steward activities.
- We continued our focus on culture and behaviours as a driver of good conduct outcomes.
- We placed a particular focus on the importance of well-being and collaborative working as we continued to adapt to changing working practices as the pace of change resulting from the pandemic varied across our markets.
- We continued to emphasise and worked to create an environment in which employees are encouraged and feel safe to speak up.
- We delivered our annual global mandatory training course on conduct to reinforce the importance of conduct for all colleagues.
- The Board continues to maintain oversight of conduct matters through the Risk Committee.

(g) Financial crime risk

(i) Overview

Financial crime risk is the risk of knowingly or unknowingly helping parties to commit or to further potentially illegal activity through HSBC, including money laundering, fraud, bribery and corruption, tax evasion, sanctions breaches, and terrorist and proliferation financing.

(ii) Financial crime risk management

Key developments in 2021

We consistently review the effectiveness of our financial crime risk management framework, which includes consideration of geopolitical and wider economic factors, and 2021 was no exception. We continued to support the Business in navigating the complex and dynamic nature of geopolitics as it relates to sanctions and export control risk. A key focus area in this regard relates to the array of new regulations and designations in 2021 and in alignment with our policy, which is to comply with all applicable sanctions regulations in the jurisdictions in which we operate.

We also continued to progress several key financial crime risk management initiatives, including:

- We deployed a key component of our intelligence-led, dynamic risk assessment capabilities for customer account monitoring in one of our home markets, and undertook important enhancements to our traditional transaction monitoring systems.

- We strengthened our anti-fraud capabilities, notably with respect to the early identification of first party lending fraud and the identification of new strategic detection tools.

- We continued to develop leading-edge surveillance technology and capabilities to identify potential market abuse, including testing machine learning capabilities to detect unauthorized trading.

- We invested in the use of artificial intelligence (AI) and advanced analytics techniques to manage financial crime risk, notably new automated capabilities in name and transaction screening.

- We implemented a market leading gifts and entertainment recording and approval system, which, in combination with an expenses reconciliation tool, allows us to manage our gifts and entertainment risk consistently and effectively.

(g) Financial crime risk (Cont'd)

(ii) Financial crime risk management (Cont'd)

Governance and structure

We have continued to review the effectiveness of our governance framework to manage financial crime risk. The framework aims to enable us to comply with the letter and the spirit of all applicable financial crime laws and regulations, as well as our own standards, values and policies relating to financial crime risks.

In 2021, the Risk and Compliance functions were integrated, allowing us to make better use of a broader range of perspectives from other risk disciplines.

Key risk management processes

The Group and the Bank assess the effectiveness of end-to-end financial crime risk management framework on an ongoing basis and invest in enhancing our operational control capabilities and technology solutions to deter and detect criminal activity. We have simplified our framework by streamlining and de-duplicating policy requirements. We also strengthened our financial crime risk taxonomy and control libraries, improving our investigative and monitoring capabilities through technology deployments, as well as developing more targeted metrics. We have also enhanced governance and reporting.

We are committed to working in partnership with the wider industry and the public sector in managing financial crime risk, protecting the integrity of the financial system, the communities we serve. We participate in numerous public-private partnerships and information-sharing initiatives around the world also supporting national governments and international standard setters' reforms activity.

HSBC Group have been an advocate for a more effective international framework for managing financial crime risk, whether through engaging directly with the Financial Action Task Force, or via its key role in industry groups such as the Wolfsberg Group and the Institute of International Finance.

(h) Model risk

(i) Overview

Model risk is the potential for adverse consequences from business decisions informed by models, which can be exacerbated by errors in methodology, design or the way they are used. Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.

(ii) Key developments in 2021

In 2021, regulatory changes in model requirements and continued improvements in model risk management processes were key drivers of model risk. This included:

- Models impacted by changes to alternative rate setting mechanisms due to IBOR transition were redeveloped and validated.
- Model owners in Business and Functions continued to embed the requirements included in the Model Risk Policy and Standards introduced in 2020. On-going training in model requirements continued to be a critical component in raising knowledge levels among model role-holders.
- Stronger controls related to SOX models were introduced including second line approvals of SOX models prior to use. In addition, more granular review of model risk impact of loss model outputs by Model Risk Management was also introduced. The impact on model performance due to COVID-19 impact on models continued to be a key area of focus.
- There has been greater level of involvement by Businesses and Functions in the development and management of models. This included hiring of staff with strong model risk skills and enhanced focus on key model risk drivers such as data quality and model methodology.
- The transformation of the Model Risk Management team continued with changes to the model validation processes including new system and process and organisation changes. Key hires were made in HSBC Group during the year to strengthen oversight and expertise within the Function. Also, changes to the Model Inventory system provided Businesses and Functions improved functionality and more detailed information related to model risk.
- HBAP regional engagement strategy has been established in response to the growing maturity of model risk management and demand across sites in the Region, including that of the Group and the Bank in Malaysia.
- Models related to Climate Risk and models using Advanced Analytics and Machine Learning became a critical area of focus and would grow in importance in 2022 and beyond. In response, new controls around these models were implemented and qualified specialist skills were added to the model risk teams to manage the increased model risk.

(h) Model risk (Cont'd)

(iii) Governance

The governance structure implemented in 2020 is fully operational. The HBAP Model Risk Committee (MRC) established in 2021 provides oversight of models used in HBAP (including the Group and the Bank in Malaysia). The Committee is chaired by the HBAP Chief Risk Officer and the Regional Heads of Businesses participate in these meetings. Authorised sub-forums operating under the remit of the HBAP MRC, oversee model risk management activities based on associated model categories.

(iv) Key risk management processes

A variety of modelling approaches, including regression, simulation, sampling, machine learning and judgemental scorecards for a range of business applications were used. These activities include customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting.

The Group and the Bank's model risk management policies and procedures were regularly reviewed and required the first line of defence to demonstrate comprehensive and effective controls based on a library of model risk controls provided by Model Risk Management.

Model Risk Management also reports on model risk to senior management on a regular basis through the use of the risk map and regular key updates.

The effectiveness of these processes, including the Regional model oversight committee structure, are regularly reviewed to ensure clarity in authority, coverage and escalations and that appropriate understanding and ownership of model risk continue to be embedded in the businesses and functions.

(i) IBOR Transition

Interbank offered rates (IBORs) have historically been used extensively to set interest rates on different types of financial transactions and for valuation purposes, risk measurement and performance benchmarking.

Following the UK's Financial Conduct Authority (FCA) announcement in July 2017 that it would no longer continue to persuade or require panel banks to submit rates for the London interbank offered rate (LIBOR), we have been actively working to transition legacy contracts from IBORs and meet client needs for new replacement rates.

Through 2021, our IBOR transition programme (the programme) developed IT and new near risk free replacement rate (RFR) product capabilities, and implemented supporting operational processes throughout the Group whilst actively engaging with our clients to discuss options for transition of their legacy contracts. As a result of the progress made by the programme in implementing new processes and controls, the heightened financial and non-financial risks IBOR transition exposed HSBC to continue to reduce.

HSBC met the industry milestones to cease issuance of new LIBOR contracts in the demising benchmarks through 2021, and remaining LIBOR contracts will continue to be transitioned in 2022, with the need to complete transition of US dollar legacy contracts by mid-2023.

Financial instruments impacted by IBOR reform

Interest Rate Benchmark Reform Phase 2, the amendments to MFRSs issued in 2020, represents the second phase of the IASB's project on the effects of interest/profit rate benchmark reform. The amendments address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships.

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Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest/profit rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument. Instead, they require the effective interest/profit rate to be updated to reflect the change in the interest /profit rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest/profit rate benchmark if the hedge meets other hedge accounting criteria. We have adopted the amendments from 1 January 2021.

(i) IBOR Transition (Cont'd)

Financial instruments impacted by IBOR reform (Cont'd)

The amounts in the below table provide an indication of the extent of the Group and the Bank's exposure to the IBOR benchmarks which are due to be replaced under Phase 2. Amounts are in respect of financial instruments that:

- contractually reference an interest/profit rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date beyond the date by which the reference interest/profit rate benchmark is expected to cease; and
- are recognised on the Group and the Bank's consolidated balance sheet.

Group	**Carrying value**	**Of which: Have yet to transition to alternative benchmark interest/ profit rates**	
2021	**RM'000**	**USD LIBOR RM'000**	**SIBOR RM'000**
Assets			
Deposits and placements with banks and other financial institutions (Note 8)	**150,000**	-	-
Loans, advances and financing (Note 12)	**50,008,904**	3,257,361	-
Derivative notional contract amount (Note 43)	**111,354,049**	6,892,264	2,514

Bank	**Carrying value**	**Of which: Have yet to transition to alternative benchmark interest rates**	
2021	**RM'000**	**USD LIBOR RM'000**	**SIBOR RM'000**
Assets			
Deposits and placements with banks and other financial institutions (Note 8)	1,425,508	600,777	-
Loans, advances and financing (Note 12)	37,152,838	2,048,417	-
Derivative notional contract amount (Note 43)	114,107,743	6,902,114	2,514

In March 2021, the administrator of LIBOR, IBA, announced that the publication date of most US dollar LIBOR tenors is extended from 31 December 2021 to 30 June 2023. Publication of one-week and two-month tenors will cease after 31 December 2021. This change, together with the extended publication dates of SIBOR, SOR and THBFIX, reduce the amounts presented at 31 December 2021 in the above table as some financial instruments included at 31 December 2020 will reach their contractual maturity date prior to the extended publication dates.

The amounts in the above table do not represent amounts at risk as the steps to transition for certain trades have been completed.

5 Capital management

The Group and the Bank's approach to capital management is driven by their strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which they operate.

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

The Group and the Bank's capital management process is articulated in their 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.

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, retained earnings, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. The Bank has also issued a perpetual capital term loan on 21 June 2019 which qualifies as Additional Tier 1 Capital.

  From 1 January 2020 to 31 December 2023, the Group and the Bank's CET1 will also include a portion of the impairment allowances equal to 12-months and lifetime expected credit losses for non-credit impaired loans (commonly known as Stage 1 and 2 provisions).

  This is as allowed by BNM in its Guideline on Capital Adequacy Framework (Capital Component) issued on 9 December 2020 which allows banks to apply for a transitional arrangement where Stage 1 and 2 provisions for expected credit loss (ECL) are added back to CET1 Capital subject to capping and with an add-back factor that will gradually reduce over the transitional duration. The Group and the Bank has elected to adopt the transitional arrangement for four financial years beginning 1 January 2020.

- Tier 2 capital, which includes qualifying subordinated liabilities and subordinated term financing, impairment allowances equal to 12-months and lifetime expected credit losses for non-credit impaired loans (commonly known as Stage 1 and 2 provisions), regulatory reserve, and the element of the fair value reserve relating to revaluation of property which are disclosed as regulatory adjustments.

(a) Externally imposed capital requirements

The Group and the Bank are required to comply with BNM's Capital Adequacy Framework (Capital Components) Guideline for the purpose of computing regulatory capital adequacy ratios. Under the said Guideline, the Group and the Bank are required to maintain the minimum capital adequacy ratios for Common Equity Tier 1 (CET1), Tier 1 and Total Capital Ratios of 4.5%, 6.0% and 8.0% respectively.

5 Capital management (Cont'd)

(b) Basel III

With effect from 1 January 2016, banking institutions in Malaysia are also required to maintain capital buffers above the minimum capital adequacy ratios. The capital buffer requirements comprise Capital Conservation Buffer (CCB) of 2.5%, and the Countercyclical Capital Buffer (CCyB) ranging between 0% to 2.5%. CCB is intended to build up capital buffers by individual banking institutions during normal times that can be drawn down during stress periods while CCyB 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 line with the regulatory requirement, the Group and the Bank have also 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.

(c) Leverage ratio

Basel III introduces a simple non risk-based leverage ratio as a complementary measure to the risk-based Capital Adequacy Framework. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The ratio is a volume-based measure calculated as Basel III Tier 1 Capital divided by Total on- and off-balance sheet exposures.

The Group and the Bank are required to comply with BNM Leverage Ratio Framework which came into effect on 1 January 2018. This includes the implementation of the leverage ratio framework in Malaysia with the minimum leverage ratio requirement of 3%.

6 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.

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(l). The calculation of the Group and the Bank's ECL under MFRS 9 require a number of judgements, assumptions and estimates to be made. The most significant are set out below:

Judgements:
- Defining what is considered to be a significant increase in credit risk
- Determining the lifetime and point of initial recognition of overdrafts and credit cards
- Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions
- Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss

Estimates:
- Note 4(b)(v) sets out the assumptions used in determining ECL and provides an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions

(b) Fair value of financial instruments carried at fair value

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 manage 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 measure the fair value of the group of financial instruments on a net basis, but present the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the offsetting criteria as described in Note 3(g)(iv).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgements (Cont'd)

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

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			
2021	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial assets at FVTPL (Note 9)	**1,706,977**	**52,131**	**-**	**1,759,108**
Financial investments at FVOCI (Note 10)	**12,412,610**	**3,074,311**	**225,479**	**15,712,400**
Derivative financial assets (Note 43)	**1,133**	**900,484**	**22,890**	**924,507**
	14,120,720	**4,026,926**	**248,369**	**18,396,015**
Structured liabilities (Note 24)	**-**	**1,789,030**	**1,119,996**	**2,909,026**
Derivative financial liabilities (Note 43)	**2,222**	**914,256**	**31,103**	**947,581**
Other liabilities (Note 25)	**298,970**	**-**	**-**	**298,970**
Multi-Currency Sukuk Programme (Note 26)	**-**	**515,333**	**-**	**515,333**
	301,192	**3,218,619**	**1,151,099**	**4,670,910**
2020				
Financial assets at FVTPL (Note 9)	1,028,068	61,605	-	1,089,673
Financial investments at FVOCI (Note 10)	6,793,080	3,820,462	214,003	10,827,545
Derivative financial assets (Note 43)	8,213	2,007,484	17,732	2,033,429
	7,829,361	5,889,551	231,735	13,950,647
Structured liabilities (Note 24)	-	2,828,017	920,176	3,748,193
Derivative financial liabilities (Note 43)	18,350	1,813,465	8,437	1,840,252
Other liabilities (Note 25)	3,263	-	-	3,263
Multi-Currency Sukuk Programme (Note 26)	-	523,841	-	523,841
	21,613	5,165,323	928,613	6,115,549

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgements (Cont'd)

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

	Bank			
2021	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial assets at FVTPL (Note 9)	**1,706,977**	**52,131**	**-**	**1,759,108**
Financial investments at FVOCI (Note 10)	**10,159,659**	**3,074,311**	**225,479**	**13,459,449**
Derivative financial assets (Note 43)	**1,889**	**917,571**	**18,922**	**938,382**
	11,868,525	**4,044,013**	**244,401**	**16,156,939**
Structured liabilities (Note 24)	**-**	**1,396,621**	**324,306**	**1,720,927**
Derivative financial liabilities (Note 43)	**2,251**	**940,439**	**44,009**	**986,699**
Other liabilities (Note 25)	**298,970**	**-**	**-**	**298,970**
	301,221	**2,337,060**	**368,315**	**3,006,596**
2020				
Financial assets at FVTPL (Note 9)	1,028,068	61,605	-	1,089,673
Financial investments at FVOCI (Note 10)	5,493,265	3,820,462	214,003	9,527,730
Derivative financial assets (Note 43)	8,281	2,011,168	17,780	2,037,229
	6,529,614	5,893,235	231,783	12,654,632
Structured liabilities (Note 24)	-	2,217,118	417,822	2,634,940
Derivative financial liabilities (Note 43)	18,385	1,859,065	21,954	1,899,404
Other liabilities (Note 25)	3,263	-	-	3,263
	21,648	4,076,183	439,776	4,537,607

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

(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.

Where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. For inactive markets, the Group and the Bank source alternative market information, with greater weight given to information that is considered to be more relevant and reliable. Examples of the factors considered are price observability, instrument comparability, consistency of data sources, underlying data accuracy and timing of prices.

For fair values determined using valuation models, the control framework includes development or validation by independent support functions of the model logic, inputs, model outputs and adjustments. Valuation models are subject to a process of due diligence before becoming operational and are calibrated against external market data on an ongoing basis.

Changes in fair value are generally subject to a profit and loss analysis process and are disaggregated into high-level categories including portfolio changes, market movements and other fair value adjustments.

(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 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.

(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 judgemental. 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 structured 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.

(iv) Fair value adjustments

Fair value adjustments are adopted when the Group and the Bank determine there are additional factors considered by market participants that are not incorporated within the valuation model. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement, such as when models are enhanced and therefore fair value adjustments may no longer be required.

<u>Bid-offer</u>

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.

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

(iv) Fair value adjustments (Cont'd)

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, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions, than those used in the Group and the Bank's valuation model.

Credit valuation adjustment (CVA) and Debit valuation adjustment (DVA)

The CVA is an adjustment to the valuation of over-the-counter (OTC) derivative contracts to reflect the possibility that the counterparty may default and the Group and the Bank may not receive the full market value of the transactions.

The DVA is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that the Group and the Bank may default, and that the Group and the Bank may not pay the full market value of the transactions.

The Group and the Bank calculate a separate CVA and DVA for each legal entity, and for each counterparty to which the entity has exposure. With the exception of central clearing parties, all third-party counterparties are included in the CVA and DVA calculations, and these adjustments are not netted across entities.

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 the Bank, to the Group and the Bank's expected positive exposure 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 the Group and the Bank and multiplying the result 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, which incorporates a range of potential exposures over the life of the portfolio, to calculate the expected positive exposure to a counterparty. The simulation methodology includes credit mitigants, such as counterparty netting agreements and collateral agreements with the counterparty.

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

Funding fair value adjustment (FFVA)

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available and is adjusted for events that may terminate the exposure, such as the default of the Group or the Bank or the counterparty. The FFVA and DVA are calculated independently.

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. In these circumstances, model limitation adjustments are adopted.

6 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)

Inception profit (Day 1 profit or loss reserves)

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

(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:

	2021			2020		
	Derivative financial assets	**Derivative financial liabilities**	**Structured liabilities**	Derivative financial assets	Derivative financial liabilities	Structured liabilities
Group (RM'000)						
Balance at 1 January	**17,732**	**8,437**	**920,176**	7,951	510	493,373
Total gains or losses						
- In profit or loss	**8,058** [1]	**29,189** [2]	**(33,809)** [2]	10,013 [1]	3,096 [2]	12,867 [2]
- In OCI	**-**	**-**	**6,992** [1]	-	-	(9,995) [1]
Issues	**-**	**-**	**289,433**	-	-	374,197
Settlements	**(2)**	**-**	**(112,954)**	-	-	57,342
Transfer into Level 3	**679**	**94**	**50,158**	803	5,522	-
Transfer out of Level 3	**(3,577)**	**(6,617)**	**-**	(1,035)	(691)	(7,608)
Balance at 31 December	**28,890**	**31,103**	**1,119,996**	17,732	8,437	920,176

	2021			2020		
	Derivative financial assets	**Derivative financial liabilities**	**Structured liabilities**	Derivative financial assets	Derivative financial liabilities	Structured liabilities
Bank (RM'000)						
Balance at 1 January	**17,780**	**21,954**	**417,822**	7,951	5,764	280,580
Total gains or losses						
- In profit or loss	**4,043** [1]	**28,000** [2]	**(29,841)** [2]	10,061 [1]	11,356 [2]	5,548 [2]
- In OCI	**-**	**-**	**4,166** [1]	-	-	(7,211) [1]
Issues	**-**	**-**		-	-	65,000
Settlements	**(2)**	**-**	**(78,820)**	-	-	81,513
Transfer into Level 3	**679**	**672**	**10,979**	803	5,522	-
Transfer out of Level 3	**(3,577)**	**(6,617)**	**-**	(1,035)	(691)	(7,608)
Balance at 31 December	**18,922**	**44,009**	**324,306**	17,780	21,954	417,822

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

(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)

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

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

2021 **Group (RM'000)**	**Derivative financial assets**	**Derivative financial liabilities**	**Structured liabilities**
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	**(3,709)**[1]	**(1,336)**[2]	**1,009**[1]
Total gains or losses included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	**11,767**[2]	**30,525**[1]	**(34,818)**[2]
2020 Group (RM'000)			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	(1,062)[1]	(43)[2]	1,113[1]
Total gains or losses included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	11,075[2]	3,139[1]	11,754[1]

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

6 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)

2021 **Bank (RM'000)**	**Derivative financial assets**	**Derivative financial liabilities**	**Structured liabilities**
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	**(11,644)[1]**	**(10,861)[2]**	**2,235[1]**
Total gains or losses included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	**15,687[2]**	**38,861[1]**	**(32,076)[2]**
2020 Bank (RM'000)			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	(953)[1]	(447)[2]	1,397[1]
Total gains or losses included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	11,014[2]	11,803[1]	4,151[1]

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

(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	**2021 : 2.41% - 19.51%** 2020 : 3.43% - 20.97%
Equity derivatives	Option model	Long term equity volatility	**2021 : 6.30% - 90.3%** 2020 : 6.68% - 45.03%
		Equity/Equity Index Correlation	**2021 : 0.746 – 0.908** 2020 : 0.47 – 0.80
Structured liabilities	Option model	Foreign currency volatility	**2021 : 2.4% - 35.76%** 2020 : 3.43% - 35.76%
		Long term equity volatility	**2021 : 6.30% - 90.3%** 2020 : 6.68% - 45.03%
		Equity/Equity Index Correlation	**2021 : 0.746 – 0.908** 2020 : 0.47 – 0.80
		MMM Lambda	**2021 : -14%** 2020 : -14%
Cross currency swap	Discounted cashflow model	Cross currency interest rate basis	**2021 : n.a** 2020 : 0.05% - 0.35%

(vii) Key unobservable inputs to Level 3 financial instruments

The key unobservable inputs to Level 3 financial instruments include volatility and correlation for structured notes and deposits valued using option models, and private equity investments. In the absence of an active market, the fair value of private equity and strategic investments is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors, as well as by reference to market valuations for similar entities quoted in an active market, or the price at which similar companies have changed ownership.

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

(viii) 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:

	2021 Effect on profit or loss		2020 Effect on profit or loss	
	Favourable changes	**Unfavourable changes**	Favourable changes	Unfavourable changes
Group (RM'000)				
Derivative financial assets	**207**	**(207)**	299	(299)
Derivative financial liabilities	**106**	**(106)**	123	(123)
Structured liabilities	**162**	**(162)**	205	(205)
	475	**(475)**	627	(627)

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 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.

6 Use of estimates and judgements (Cont'd)

(c) 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 approximate the carrying amount as at reporting date, except for the following:

	Group			
	31 Dec 2021 Carrying amount RM'000	**31 Dec 2021 Fair value RM'000**	31 Dec 2020 Carrying amount RM'000	31 Dec 2020 Fair value RM'000
Financial Assets				
Loans, advances and financing	**50,008,904**	**50,109,262**	50,752,784	51,285,074
Financial Liabilities				
Deposits from customers	**67,975,693**	**67,954,069**	63,410,436	63,432,502
Deposits and placements from banks and other financial institutions	**2,815,266**	**2,815,265**	2,858,341	2,858,303
Subordinated liabilities	**500,000**	**509,500**	500,000	520,600

	Bank			
	31 Dec 2021 Carrying amount RM'000	**31 Dec 2021 Fair value RM'000**	31 Dec 2020 Carrying amount RM'000	31 Dec 2020 Fair value RM'000
Financial Assets				
Loans, advances and financing	**37,152,838**	**37,234,821**	37,260,208	37,729,083
Financial Liabilities				
Deposits from customers	**55,184,012**	**55,169,616**	51,263,508	51,278,869
Deposits and placements from banks and other financial institutions	**2,066,904**	**2,066,904**	2,135,227	2,135,219
Subordinated liabilities	**500,000**	**509,500**	500,000	520,600

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

- **Cash and short term funds**
- **Securities purchased under resale agreements**
- **Deposits and placements with banks and other financial institutions**
- **Repurchase agreement**
- **Bills payable**

The carrying amounts approximate fair values due to their relatively short-term nature or reprise to current market rates frequently.

6 Use of estimates and judgements (Cont'd)

(c) Fair values of financial assets and liabilities not measured at fair value (Cont'd)

(i) Loans, advances and financing

To determine the fair value of loans, advances and financing to banks and customers, loans, advances and financing are segregated, as far as possible, into portfolios of similar characteristics. Fair values are based on observable market transactions, when available. When they are unavailable, fair values are estimated using valuation models incorporating a range of input assumptions. These assumptions may include: value estimates from third-party brokers reflecting over-the-counter trading activity; forward-looking discounted cash flow models, taking account of expected customer prepayment rates, using assumptions that the Group and the Bank believe are consistent with those that would be used by market participants in valuing such loans; new business rates estimates for similar loans; and trading inputs from other market participants including observed primary and secondary trades. From time to time, the Group and the Bank may engage a third-party valuation specialist to measure the fair value of a pool of loans.

The fair value of loans, advances and financing reflect expected credit losses at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, advances and financing, and the fair value effect of repricing between origination and the balance sheet date. For credit impaired loans, advances and financing, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

(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.

Fair value hierarchy

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 categorised.

			Group		
31 December 2021 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	**-**	**-**	**50,109,262**	**50,109,262**	**50,008,904**
Financial Liabilities					
Deposits from customers	**-**	**67,954,069**	**-**	**67,954,069**	**67,975,693**
Deposits and placements from banks and other financial institutions	**-**	**2,815,265**	**-**	**2,815,265**	**2,815,266**
Subordinated liabilities	**-**	**509,500**	**-**	**509,500**	**500,000**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgements (Cont'd)

(c) Fair values of financial assets and liabilities not measured at fair value (Cont'd)

Fair value hierarchy (Cont'd)

			Group		
31 December 2020 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	-	-	51,285,074	51,285,074	50,752,784
Financial Liabilities					
Deposits from customers	-	63,432,502	-	63,432,502	63,410,436
Deposits and placements from banks and other financial institutions	-	2,858,303	-	2,858,303	2,858,341
Subordinated liabilities	-	520,600	-	520,600	500,000

			Bank		
31 December 2021 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	**-**	**-**	**37,234,821**	**37,234,821**	**37,152,838**
Financial Liabilities					
Deposits from customers	**-**	**55,169,616**	**-**	**55,169,616**	**55,184,012**
Deposits and placements from banks and other financial institutions	**-**	**2,066,904**	**-**	**2,066,904**	**2,066,904**
Subordinated liabilities	**-**	**509,500**	**-**	**509,500**	**500,000**

			Bank		
31 December 2020 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	-	-	37,729,083	37,729,083	37,260,208
Financial Liabilities					
Deposits from customers	-	51,278,869	-	51,278,869	51,263,508
Deposits and placements from banks and other financial institutions	-	2,135,219	-	2,135,219	2,135,227
Subordinated liabilities	-	520,600	-	520,600	500,000

7 Cash and Short-Term Funds

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Cash and balances with banks and other financial institutions	**1,099,824**	978,801	**722,565**	790,710
Money at call and interbank placements maturing within one month	**11,251,989**	11,684,395	**7,915,669**	8,650,731
	12,351,813	12,663,196	**8,638,234**	9,441,441

Money at call and interbank placements maturing within one month are within Stage 1 allocation (12 -months ECL) with impairment allowance of RM77,000 for the Group and RM76,000 for the Bank as at 31 December 2021 (31 December 2020: RM57,000 for the Group and RM47,000 for the Bank).

8 Deposits and Placements with Banks and Other Financial Institutions

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Licensed banks	**-**	-	**1,275,508**	1,403,411
Bank Negara Malaysia	**150,000**	48,204	**150,000**	-
	150,000	48,204	**1,425,508**	1,403,411

Included in Deposits and Placements with Banks and Other Financial Institutions of the Bank are placements with the Bank's wholly owned subsidiary, HSBC Amanah Malaysia Berhad (HBMS) of RM1,275.5 million (31 December 2020: RM1,403.4 million).

The balance is within Stage 1 allocation (12 -months ECL) with nil impairment allowance for the Group and the Bank as at 31 December 2021 (31 December 2020: nil for the Group and the Bank).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

9 Financial Assets at Fair Value through Profit and Loss (FVTPL)

	Group		*Bank*	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Money market instruments:				
Malaysian Government treasury bills	**18,779**	-	**18,779**	-
Islamic treasury bills	**1,779**	32,751	**1,779**	32,751
Malaysian Government securities	**1,338,589**	803,632	**1,338,589**	803,632
Malaysian Government Islamic Sukuk	**277,346**	204,624	**277,346**	204,624
Cagamas bonds and notes	**2,516**	2,552	**2,516**	2,552
	1,639,009	1,043,559	**1,639,009**	1,043,559
Unquoted:				
Corporate bonds and Sukuk	**120,099**	46,114	**120,099**	46,114
	1,759,108	1,089,673	**1,759,108**	1,089,673

Credit quality of financial assets at fair value through profit and loss based on the ratings of Standard & Poor's on the counterparties:

	Rating	*Group*		*Bank*	
		31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
		RM'000	RM'000	**RM'000**	RM'000
Money market instruments:					
Malaysian Government treasury bills	*A+ to A-*	**18,779**	-	**18,779**	-
Islamic treasury bills	*A+ to A-*	**1,779**	32,751	**1,779**	32,751
Malaysian Government securities	*A+ to A-*	**1,338,589**	803,632	**1,338,589**	803,632
Malaysian Government Islamic Sukuk	*A+ to A-*	**277,346**	204,624	**277,346**	204,624
Cagamas bonds and notes	*A+ to A-*	**2,516**	2,552	**2,516**	2,552
Unquoted:					
Corporate bonds and Sukuk	- [1]	**118,470**	41,910	**118,470**	41,910
(including commercial paper)	*A+ to A-*	**1,529**	3,550	**1,529**	3,550
	BBB+ to BBB	**100**	654	**100**	654
		1,759,108	1,089,673	**1,759,108**	1,089,673

[1] Rated separately by another rating agency.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financial Investments at Fair Value through Other Comprehensive Income (FVOCI)

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Debt instruments				
Money market instruments:				
Bank Negara Malaysia bills and notes	**3,074,311**	3,820,462	**3,074,311**	3,820,462
Malaysian Government securities	**7,427,679**	4,576,941	**7,427,679**	4,576,941
Malaysian Government Islamic Sukuk	**4,984,931**	2,216,139	**2,731,980**	916,324
	15,486,921	10,613,542	**13,233,970**	9,313,727
Financial Investments Designated as FVOCI				
Equity instruments				
Unquoted:				
Shares	**225,479**	214,003	**225,479**	214,003
of which				
Cagamas Holdings Berhad	***183,471***	*172,994*	***183,471***	*172,994*
Credit Guarantee Corporation Malaysia Berhad	***34,876***	*33,619*	***34,876***	*33,619*
Others	***7,132***	*7,390*	***7,132***	*7,390*
	15,712,400	10,827,545	**13,459,449**	9,527,730

The Group and the Bank have elected to designate these equity instruments at fair value through other comprehensive income as these instruments are held for business facilitation and not to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. During the current financial year, there were capital reduction and repayment exercises on some of the equity instruments with fair value of RM527,000. The Group and the Bank realised a gain of RM9,000 which were transferred from OCI to retained earnings.

The maturity structure of money market instruments held as financial investments at FVOCI is as follows:

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Maturing within one year	**8,391,992**	4,668,705	**7,555,853**	4,643,507
More than one year to three years	**7,094,929**	5,355,227	**5,678,117**	4,080,610
More than three years to five years	**-**	589,610	**-**	589,610
	15,486,921	10,613,542	**13,233,970**	9,313,727

There are no FVOCI balances that are pledged against Repurchase Agreement as at 31 December 2021 (31 December 2020: nil).

Financial investments at FVOCI are within Stage 1 allocation (12 -months ECL) with RM1,527,000 impairment allowance for the Group and RM1,247,000 for the Bank as at 31 December 2021 (31 December 2020: RM992,000 for the Group and RM814,000 for the Bank). The carrying amount of financial investments at FVOCI is equivalent to their fair value. The impairment allowance is recognised in other comprehensive income and does not reduce the carrying amount in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Financial Investments at Amortised Cost

	Group		Bank	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Debt instruments				
Unquoted:				
Corporate Sukuk	**199,174**	199,743	**199,174**	199,743

Financial investments at amortised cost are within Stage 1 allocation (12 -months ECL) with RM826,000 impairment allowance for the Group and the Bank as at 31 December 2021 (31 December 2020: RM257,000 for the Group and the Bank).

12 Loans, Advances and Financing

(i) By type

	Group		Bank	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
At amortised cost	**RM'000**	RM'000	**RM'000**	RM'000
Overdrafts/cash line	**657,583**	569,745	**587,490**	499,148
Term loans/financing:				
Housing loans/financing	**15,973,758**	17,109,892	**12,116,245**	13,065,891
Syndicated term loans/financing	**3,733,139**	4,144,469	**2,710,897**	2,979,715
Factoring receivables	**667,339**	718,801	**667,339**	718,801
Hire purchase receivables	**210,548**	206,548	**-**	-
Other term loans/financing	**9,899,908**	10,383,133	**6,688,017**	6,713,647
Bills receivable	**5,147,447**	3,926,083	**3,999,725**	3,273,215
Trust receipts	**3,244,901**	2,408,497	**2,787,111**	1,961,314
Claims on customers under acceptance credits	**866,537**	874,799	**668,039**	592,705
Staff loans/financing	**53,292**	64,375	**51,805**	62,089
Credit/charge cards	**3,299,922**	3,372,936	**2,226,100**	2,282,613
Revolving financing	**7,548,605**	7,813,934	**5,424,479**	5,606,804
Other loans/financing	**15,256**	13,967	**11,540**	10,346
Gross loans, advances and financing [1]	**51,318,235**	51,607,179	**37,938,787**	37,766,288
Less: - Impairment allowances	**(1,309,331)**	(854,395)	**(785,949)**	(506,080)
Total net loans, advances and financing	**50,008,904**	50,752,784	**37,152,838**	37,260,208

[1] Included in gross loans, advances and financing of the Bank are Syndicated Investment Account for Financing/Investment Agency Account (SIAF/IAA) financing which are disclosed as "Asset Under Management" in the financial statements of HBMS. SIAF/IAA arrangement is with the Bank's wholly 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 proportionately 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. These comprise of the following types of financing:

	Bank	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
Syndicated term financing	**2,305,608**	2,109,579
Other term financing	**235,054**	115,761
Revolving financing	**1,261,530**	1,261,295
Gross loans, advances and financing	**3,802,192**	3,486,635
Less: - Impairment allowances	**(183,710)**	(872)
Total net loans, advances and financing	**3,618,482**	3,485,763

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Loans, Advances and Financing (Cont'd)

(ii) By type of customer

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Domestic non-bank financial institutions	**1,021,893**	1,196,950	**604,100**	742,284
Domestic business enterprises:				
Small medium enterprises	**3,501,020**	3,018,099	**2,384,033**	1,922,892
Others	**19,634,128**	19,719,560	**15,276,795**	15,393,886
Individuals	**18,969,754**	20,304,894	**13,247,130**	14,283,075
Other domestic entities	**2,215**	3,727	**2,213**	2,635
Foreign entities/individuals	**8,189,225**	7,363,949	**6,424,516**	5,421,516
	51,318,235	51,607,179	**37,938,787**	37,766,288

(iii) By residual contractual maturity

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Maturity within one year	**24,937,211**	21,045,884	**18,702,482**	15,881,974
More than one year to three years	**4,190,263**	6,429,386	**3,600,049**	4,434,098
More than three years to five years	**2,956,200**	3,441,574	**1,902,169**	2,535,261
More than five years	**19,234,561**	20,690,335	**13,734,087**	14,914,955
	51,318,235	51,607,179	**37,938,787**	37,766,288

(iv) By interest/profit rate sensitivity

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Fixed rate:				
Hire purchase receivables	**210,548**	206,548	**-**	-
Other fixed rate loans/financing	**13,523,549**	11,766,641	**9,874,928**	8,409,893
Variable rate:				
Base Rate/Base Lending/Financing Rate plus	**18,779,579**	20,233,453	**13,996,054**	15,175,072
Cost-plus	**18,804,559**	19,400,537	**14,067,805**	14,181,323
	51,318,235	51,607,179	**37,938,787**	37,766,288

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Loans, Advances and Financing (Cont'd)

(v) By sector

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Agricultural, hunting, forestry and fishing	**74,349**	117,778	**63,741**	102,386
Mining and quarrying	**188,912**	435,023	**111,013**	302,753
Manufacturing	**7,416,876**	6,184,300	**5,930,426**	4,791,246
Electricity, gas and water	**367,556**	108,032	**22,687**	25,990
Construction	**3,394,266**	3,715,488	**2,430,449**	2,659,102
Real estate	**4,471,023**	4,669,099	**3,514,268**	3,800,120
Wholesale & retail trade and restaurants & hotels	**4,071,291**	3,801,121	**3,232,157**	3,014,292
Transport, storage and communication	**588,953**	688,704	**442,632**	502,720
Finance, insurance and business services	**2,929,904**	3,415,266	**2,029,656**	2,318,903
Household-retail	**21,690,816**	23,199,390	**15,495,269**	16,680,406
Others	**6,124,289**	5,272,978	**4,666,489**	3,568,370
	51,318,235	51,607,179	**37,938,787**	37,766,288

(vi) By purpose

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Purchase of property:				
Residential	**16,004,543**	17,149,089	**12,146,646**	13,104,101
Non residential	**1,301,451**	1,404,442	**572,272**	618,148
Purchase of securities	**2,852**	3,130	**2,852**	3,130
Purchase of transport vehicles	**15,104**	15,574	**14,226**	14,763
Purchase of fixed assets excluding land & building	**210,381**	203,613	**89**	-
Consumption credit	**5,359,424**	5,675,861	**3,218,552**	3,423,738
Construction	**3,188,332**	3,449,175	**2,487,417**	2,415,360
Working capital	**19,750,898**	19,231,481	**15,303,269**	15,157,502
Other purpose	**5,485,250**	4,474,814	**4,193,464**	3,029,546
	51,318,235	51,607,179	**37,938,787**	37,766,288

(vii) By geographical distribution

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Northern Region	**6,047,708**	6,004,352	**4,737,781**	4,774,648
Southern Region	**5,908,966**	5,940,209	**4,381,359**	4,257,990
Central Region	**37,705,167**	37,644,928	**27,480,004**	27,064,114
Eastern Region	**1,656,394**	2,017,690	**1,339,643**	1,669,536
	51,318,235	51,607,179	**37,938,787**	37,766,288

Concentration by location for loans, advances and financing is based on the location of branches where facilities were captured.

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, the Federal Territory of Kuala Lumpur and the Federal Territory of Putrajaya.
The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Impaired Loans, Advances and Financing

(i) Gross carrying amount movement of loans, advances and financing classified as credit impaired:

	Group		Bank	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Gross carrying amount as at 1 January	**1,831,501**	1,003,447	**1,224,806**	618,144
Transfer within stages	**2,020,148**	828,778	**1,328,032**	589,655
Net remeasurement due to changes in credit risk	**(93,069)**	247,202	**(60,355)**	145,825
Written-off	**(186,910)**	(247,926)	**(95,824)**	(128,818)
Gross carrying amount as at 31 December	**3,571,670**	1,831,501	**2,396,659**	1,224,806

(ii) By sector

	Group		Bank	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Agricultural, hunting, forestry and fishing	**214**	319	**-**	-
Manufacturing	**104,375**	109,880	**78,873**	92,757
Electricity, gas and water	**3,036**	487	**3,036**	487
Construction	**159,275**	16,381	**22,354**	12,671
Real estate	**117,159**	12,164	**117,159**	12,164
Wholesale & retail trade, restaurants & hotels	**69,570**	66,298	**61,359**	54,919
Transport, storage and communication	**90,505**	118,069	**90,505**	117,856
Finance, insurance and business services	**292,261**	8,111	**238,985**	2,123
Household-retail	**2,712,490**	1,471,206	**1,778,681**	924,859
Others	**22,785**	28,586	**5,707**	6,970
	3,571,670	1,831,501	**2,396,659**	1,224,806

(iii) By purpose

	Group		Bank	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Purchase of property:				
Residential	**1,998,471**	883,350	**1,426,821**	619,049
Non residential	**36,222**	43,267	**26,651**	29,765
Purchase of transport vehicles	**-**	71	**-**	9
Purchase of fixed assets excluding land & building	**169**	354	**-**	-
Consumption credit	**708,498**	581,031	**346,339**	299,643
Construction	**160,254**	13,793	**22,932**	10,143
Working capital	**651,691**	290,299	**573,799**	266,131
Other purpose	**16,365**	19,336	**117**	66
	3,571,670	1,831,501	**2,396,659**	1,224,806

(iv) By geographical distribution

	Group		Bank	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Northern Region	**406,326**	205,739	**312,295**	154,295
Southern Region	**505,188**	200,401	**394,677**	136,847
Central Region	**2,519,084**	1,325,153	**1,569,647**	847,871
Eastern Region	**141,072**	100,208	**120,040**	85,793
	3,571,670	1,831,501	**2,396,659**	1,224,806

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 ECL allowances

(i) Movements in ECL allowances for loans, advances and financing

The following table shows reconciliation from the opening to the closing balance of the ECL allowance for customer loans, advances and financing:

	Stage 1	Stage 2	Stage 3	
	12-month ECL not credit impaired RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
Group				
Balance at 1 January 2021	**136,817**	**242,457**	**475,121**	**854,395**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	**51,919**	**(26,210)**	**(25,709)**	**-**
- Transferred to Stage 2	**(32,821)**	**44,946**	**(12,125)**	**-**
- Transferred to Stage 3	**(5,708)**	**(132,343)**	**138,051**	**-**
New financial assets originated or purchased	**17,980**	**-**	**-**	**17,980**
Net remeasurement due to changes in credit risk	**(84,788)**	**73,273**	**633,423**	**621,908**
Asset written-off	**-**	**-**	**(186,910)**	**(186,910)**
Others	**1,958**	**-**	**-**	**1,958**
Balance at 31 December 2021 [1]	**85,357**	**202,123**	**1,021,851**	**1,309,331**
Balance at 1 January 2020	91,688	129,424	314,677	535,789
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	46,271	(38,130)	(8,141)	-
- Transferred to Stage 2	(6,165)	14,259	(8,094)	-
- Transferred to Stage 3	(2,379)	(13,825)	16,204	-
New financial assets originated or purchased	39,447	-	-	39,447
Net remeasurement due to changes in credit risk	(28,763)	150,729	408,401	530,367
Asset written-off	-	-	(247,926)	(247,926)
Others	(3,282)	-	-	(3,282)
Balance at 31 December 2020 [1]	136,817	242,457	475,121	854,395

[1] Included in the Balance at 31 December 2021 and 31 December 2020 are management judgemental adjustments. Please refer to Note 4(b)(v).

The Group measures the expected credit losses (ECL) using the three-stage approach. The following section explains how significant changes in the gross carrying amount of loans, advances and financing during the year have contributed to the changes in the ECL allowances for the Group under the expected credit loss model.

Total ECL allowances increased by RM454.9 million for the Group compared to the balance at the beginning of the year. This net increase was mainly contributed by remeasurement due to changes in credit risk (RM621.9 million) and new financial assets originated or purchased (RM18.0 million), partially offset by assets written-off (RM186.9 million).

- 12-months ECL not credit impaired (Stage 1) – decreased by RM51.5 million for the Group, mainly from remeasurement due to changes in credit risk based on HSBC Group's model and net migration of loans, advances and financing from stages 2 and 3 partially offset by new financial assets originated or purchased.

- Lifetime ECL not credit-impaired (Stage 2) – decreased by RM40.3 million for the Group, mainly from net migration of loans, advances and financing to stage 1 and 3 partially offset by remeasurement due to changes in credit risk.

- Lifetime ECL credit-impaired (Stage 3) – increased by RM546.7 million for the Group, primarily from remeasurement due to changes in credit risk and net migration of loans, advances and financing from stage 1 and 2 partially offset by asset written-off. The increase in remeasurement due to changes in credit risk and net migration of loans, advances and financing to stage 3 was mainly attributed to downgrade of loans, advances and financing exposures in the household, finance, insurance and business services as well as construction sectors.

14 ECL allowances (Cont'd)

(i) Movements in ECL allowances for loans, advances and financing (Cont'd)

	Stage 1	Stage 2	Stage 3	
	12-month ECL not credit impaired RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
Bank				
Balance at 1 January 2021	**48,030**	**166,693**	**291,357**	**506,080**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	**31,093**	**(16,111)**	**(14,982)**	**-**
- Transferred to Stage 2	**(8,940)**	**15,158**	**(6,218)**	**-**
- Transferred to Stage 3	**(1,876)**	**(103,655)**	**105,531**	**-**
New financial assets originated or purchased	**9,456**	**-**	**-**	**9,456**
Net remeasurement due to changes in credit risk	**(25,609)**	**53,499**	**337,239**	**365,129**
Asset written-off	**-**	**-**	**(95,824)**	**(95,824)**
Others	**1,108**	**-**	**-**	**1,108**
Balance at 31 December 2021 [1]	**53,262**	**115,584**	**617,103**	**785,949**
Balance at 1 January 2020	45,185	61,421	171,918	278,524
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	23,323	(17,647)	(5,676)	-
- Transferred to Stage 2	(3,234)	8,590	(5,356)	-
- Transferred to Stage 3	(978)	(7,708)	8,686	-
New financial assets originated or purchased	11,463	-	-	11,463
Net remeasurement due to changes in credit risk	(24,598)	122,037	250,603	348,042
Asset written-off	-	-	(128,818)	(128,818)
Others	(3,131)	-	-	(3,131)
Balance at 31 December 2020 [1]	48,030	166,693	291,357	506,080

[1] Included in the Balance at 31 December 2021 and 31 December 2020 are management judgemental adjustments made. Please refer to Note 4(b)(v).

The Bank measures the expected credit losses (ECL) using the three-stage approach. The following section explains how significant changes in the gross carrying amount of loans and advances during the year have contributed to the changes in the ECL allowances for the Bank under the expected credit loss model.

The total ECL allowances increased by RM279.9 million for the Bank compared to the balance at the beginning of the year. This net increase was mainly contributed by remeasurement due to changes in credit risk (RM365.1 million) and new financial assets originated or purchased (RM9.5 million), partially offset by asset written-off (RM95.8 million).

- 12-months ECL not credit impaired (Stage 1) – increased by RM5.2 million for the Bank mainly contributed by net migration of loans and advances from stages 2 and 3 due to improved credit quality and new financial assets originated or purchased partially offset by remeasurement due to changes in credit risk.

- Lifetime ECL not credit-impaired (Stage 2) – decreased by RM51.1 million for the Bank, mainly from net migration of loans and advances to stage 1 and 3 partially offset by remeasurement due to changes in credit risk.

- Lifetime ECL credit-impaired (Stage 3) – increased by RM325.7 million, primarily from remeasurement due to changes in credit risk and net migration of loans and advances from stage 1 and 2, partially offset by asset written-off. The increase in remeasurement due to changes in credit risk and net migration of loans and advances to stage 3 was mainly attributed to downgrade of loans and advances exposures in the household and finance, insurance and business services sectors.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 ECL allowances movement (Cont'd)

(ii) Movements in ECL allowances for loan commitments

The following table shows reconciliation from the opening to the closing balance of the ECL allowance for loan commitments:

	Stage 1	Stage 2	Stage 3	
	12-month ECL not credit impaired RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
Group				
Balance at 1 January 2021	**4,612**	**3,198**	**464**	**8,274**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	**575**	**(575)**	**-**	**-**
- Transferred to Stage 2	**(961)**	**961**	**-**	**-**
- Transferred to Stage 3	**-**	**-**	**-**	**-**
New financial assets originated or purchased	**2,994**	**-**	**-**	**2,994**
Net remeasurement due to changes in credit risk	**2,841**	**15,492**	**3,584**	**21,917**
Others	**(27)**	**-**	**-**	**(27)**
Balance at 31 December 2021	**10,034**	**19,076**	**4,048**	**33,158**
Balance at 1 January 2020	4,830	3,105	649	8,584
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	582	(582)	-	-
- Transferred to Stage 2	(205)	205	-	-
- Transferred to Stage 3	-	(1)	1	-
New financial assets originated or purchased	1,335	-	-	1,335
Net remeasurement due to changes in credit risk	(1,515)	471	(186)	(1,230)
Others	(415)	-	-	(415)
Balance at 31 December 2020	4,612	3,198	464	8,274

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 ECL allowances movement (Cont'd)

(ii) Movements in ECL allowances for loan commitments (Cont'd)

	Stage 1	Stage 2	Stage 3	
	12-month ECL not credit impaired RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
Bank				
Balance at 1 January 2021	**3,103**	**2,439**	**464**	**6,006**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	**549**	**(549)**	**-**	**-**
- Transferred to Stage 2	**(542)**	**542**	**-**	**-**
- Transferred to Stage 3	**-**	**-**	**-**	**-**
New financial assets originated or purchased	**2,814**	**-**	**-**	**2,814**
Net remeasurement due to changes in credit risk	**1,610**	**10,249**	**3,584**	**15,443**
Others	**(42)**	**-**	**-**	**(42)**
Balance at 31 December 2021	**7,492**	**12,681**	**4,048**	**24,221**
Balance at 1 January 2020	3,554	2,231	247	6,032
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	412	(412)	-	-
- Transferred to Stage 2	(185)	185	-	-
- Transferred to Stage 3	-	(1)	1	-
New financial assets originated or purchased	789	-	-	789
Net remeasurement due to changes in credit risk	(1,109)	436	216	(457)
Others	(358)	-	-	(358)
Balance at 31 December 2020	3,103	2,439	464	6,006

For retail portfolio, the split of ECL allowance for drawn amount and provision for undrawn commitments is not available. In accordance to MFRS 7 Financial Instruments disclosure, the provisions for the loans, financing and other credit related commitments for retail portfolio are presented together with the allowance for the drawn loans, advances and financing.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Other Assets

	Group		*Bank*	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Settlements	**248,959**	168,206	**246,182**	168,206
Interest/profit receivable	**148,657**	105,379	**129,029**	91,906
Income receivable	**40,628**	31,763	**101,652**	63,922
Deposits and prepayments	**2,644**	2,331	**2,494**	2,031
Amount due from subsidiary company	**-**	-	**129,861**	30,520
Rights of Use (ROU) assets [1]	**54,692**	72,672	**33,189**	52,769
Cash collateral	**327,761**	100,711	**327,761**	100,711
Other receivables	**177,598**	107,843	**161,155**	95,802
	1,000,939	588,905	**1,131,323**	605,867

[1] ROU assets comprise solely properties. There were RM25,157,000 and RM23,550,000 leases disposed during the year by the Group and the Bank respectively (2020: RM nil for the Group and the Bank). Existing leases that were subjected to modification during the year were RM25,850,000 and RM15,962,000 for the Group and the Bank respectively (2020: RM16,830,000 for the Group and RM14,167,000 for the Bank).

Lease related expenses and cash outflows during the financial year:

	Group		*Bank*	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Interest/Finance expense (included in income from Islamic banking operations)	**3,271**	4,868	**1,075**	3,530
Expense related to short-term leases (included in establishment related expenses)	**42**	-	**42**	-
Cash outflow for lease payments	**20,222**	31,974	**12,318**	24,290

16 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.

BNM has reduced the Statutory Reserve Requirement (SRR) Ratio requirement from 3% to 2% effective 20 March 2020. BNM also allowed banks to recognise Malaysia Government Securities (MGS) and Malaysian Government Investment Issues (MGII) securities as part of SRR compliance until 31 December 2022.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Investments in Subsidiary Companies

	Group		Bank	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Unquoted shares, at cost - in Malaysia	**-**	-	**660,021**	660,021

The subsidiary companies of the Bank are as follows:

Name	*Principal activities*	*Percentage of equity held*	
		31 Dec 2021	31 Dec 2020
HSBC Amanah Malaysia Berhad	Islamic banking and related financial services	**100%**	100%
HSBC (Kuala Lumpur) Nominees Sdn Bhd	Nominees, trustees or agents to receive securities for safe custody and management	**100%**	100%
HSBC Nominees (Tempatan) Sdn Bhd		**100%**	100%
HSBC Nominees (Asing) Sdn Bhd		**100%**	100%

All income and expenditure arising from the activities of subsidiaries which are nominee companies were recognised in the Bank's results, in respect of which the right of recovery has been waived. Audit reports for all the subsidiaries' financial statements as at 31 December 2021 and 31 December 2020 were not qualified. None of the subsidiaries hold shares in holding company and other related corporations.

18 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. Since 27 June 2019, HOUSe is under liquidation and is in the progress of winding up. As the joint arrangement is immaterial, no further disclosure is made in this financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Property and equipment

2021	*Land*	*Buildings*	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Work in progress*	*Total*
	Group						
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation							
Balance at 1 January	368,220	105,690	180,285	91,794	2,615	376,512	1,125,116
Additions	-	5,449	5,019	9,653	-	109,234	129,355
Written off	-	(4,452)	(20,592)	(534)	-	-	(25,578)
Reclassification	-	535,281	(1,121)	342	-	(534,327)	175
Other movements	-	-	6	(76)	407	-	337
Adjustments for revaluation	(7,860)	(97,938)	-	-	-	99,700	(6,098)
Balance at 31 December	360,360	544,030	163,597	101,179	3,022	51,119	1,223,307
Representing items at:							
Cost	-	-	163,597	101,179	3,022	51,119	318,917
Valuation - 2021	360,360	544,030	-	-	-	-	904,390
	360,360	544,030	163,597	101,179	3,022	51,119	1,223,307
Accumulated depreciation							
Balance at 1 January	-	-	157,298	65,779	1,658	-	224,735
Charge for the financial year	1,354	4,676	7,762	9,856	464	-	24,112
Written off	-	(3,932)	(19,403)	(407)	-	-	(23,742)
Reclassification	-	68	(235)	342	-	-	175
Other movements	-	-	6	(24)	407	-	389
Adjustments for revaluation	(1,354)	(812)	-	-	-	-	(2,166)
Balance at 31 December	-	-	145,428	75,546	2,529	-	223,503
Net book value at 31 December	360,360	544,030	18,169	25,633	493	51,119	999,804
Carrying amounts that would have been recognised if land and building were stated at cost	235,192	583,271	18,169	25,633	493	51,119	913,877

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Property and equipment (Cont'd)

	Group						
2020	*Land*	*Buildings*	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Work in progress*	*Total*
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation							
Balance at 1 January	417,390	114,841	255,149	131,021	3,027	251,509	1,172,937
Additions	-	200	3,181	16,960	-	233,915	254,256
Disposals	-	-	(192)	(419)	-	-	(611)
Written off	-	(75)	(82,317)	(55,768)	(412)	(3,796)	(142,368)
Reclassification/other movements	-	952	4,464	-	-	(5,416)	-
Adjustments for revaluation	(49,170)	(10,228)	-	-	-	(99,700)	(159,098)
Balance at 31 December	368,220	105,690	180,285	91,794	2,615	376,512	1,125,116
Representing items at:							
Cost	-	-	180,285	91,794	2,615	376,512	651,206
Valuation - 2020	368,220	105,690	-	-	-	-	473,910
	368,220	105,690	180,285	91,794	2,615	376,512	1,125,116
Accumulated depreciation							
Balance at 1 January	-	-	225,171	112,053	1,557	-	338,781
Charge for the financial year	1,340	5,828	12,855	8,140	513	-	28,676
Disposals	-	-	(192)	(65)	-	-	(257)
Written off	-	(72)	(80,536)	(54,349)	(412)	-	(135,369)
Adjustments for revaluation	(1,340)	(5,756)	-	-	-	-	(7,096)
Balance at 31 December	-	-	157,298	65,779	1,658	-	224,735
Net book value at 31 December	368,220	105,690	22,987	26,015	957	376,512	900,381
Carrying amounts that would have been recognised if land and building were stated at cost	235,261	46,435	22,987	26,015	957	376,512	708,167

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Property and equipment (Cont'd)

	Bank						
2021	*Land*	*Buildings*	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Work in progress*	*Total*
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cost or valuation							
Balance at 1 January	**368,220**	**105,690**	**146,186**	**79,303**	**2,314**	**376,512**	**1,078,225**
Additions	**-**	**5,449**	**4,634**	**9,653**	**-**	**109,234**	**128,970**
Written off	**-**	**(4,452)**	**(16,505)**	**(449)**	**-**	**-**	**(21,406)**
Reclassification	**-**	**535,281**	**(948)**	**183**	**-**	**(534,327)**	**189**
Other movements	**-**	**-**	**(62)**	**(76)**	**407**	**-**	**269**
Adjustments for revaluation	**(7,860)**	**(97,938)**	**-**	**-**	**-**	**99,700**	**(6,098)**
Balance at 31 December	**360,360**	**544,030**	**133,305**	**88,614**	**2,721**	**51,119**	**1,180,149**
Representing items at:							
Cost	**-**	**-**	**133,305**	**88,614**	**2,721**	**51,119**	**275,759**
Valuation - 2021	**360,360**	**544,030**	**-**	**-**	**-**	**-**	**904,390**
	360,360	**544,030**	**133,305**	**88,614**	**2,721**	**51,119**	**1,180,149**
Accumulated depreciation							
Balance at 1 January	**-**	**-**	**126,912**	**58,473**	**1,543**	**-**	**186,928**
Charge for the financial year	**1,354**	**4,676**	**6,397**	**8,839**	**403**	**-**	**21,669**
Written off	**-**	**(3,932)**	**(15,437)**	**(322)**	**-**	**-**	**(19,691)**
Reclassification	**-**	**68**	**(62)**	**183**	**-**	**-**	**189**
Other movements	**-**	**-**	**(62)**	**(24)**	**407**	**-**	**321**
Adjustments for revaluation	**(1,354)**	**(812)**	**-**	**-**	**-**	**-**	**(2,166)**
Balance at 31 December	**-**	**-**	**117,748**	**67,149**	**2,353**	**-**	**187,250**
Net book value at 31 December	**360,360**	**544,030**	**15,557**	**21,465**	**368**	**51,119**	**992,899**
Carrying amounts that would have been recognised if land and building were stated at cost	**235,192**	**583,271**	**15,557**	**21,465**	**368**	**51,119**	**906,972**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Property and equipment (Cont'd)

2020	*Bank*						
	Land	*Buildings*	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Work in progress*	*Total*
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation							
Balance at 1 January	417,390	114,841	217,252	110,803	2,726	251,509	1,114,521
Additions	-	200	2,693	13,064	-	233,915	249,872
Disposals	-	-	(192)	(419)	-	-	(611)
Written off	-	(75)	(78,031)	(44,145)	(412)	(3,796)	(126,459)
Reclassification	-	952	4,464	-	-	(5,416)	-
Adjustments for revaluation	(49,170)	(10,228)	-	-	-	(99,700)	(159,098)
Balance at 31 December	368,220	105,690	146,186	79,303	2,314	376,512	1,078,225
Representing items at:							
Cost	-	-	146,186	79,303	2,314	376,512	604,315
Valuation - 2020	368,220	105,690	-	-	-	-	473,910
	368,220	105,690	146,186	79,303	2,314	376,512	1,078,225
Accumulated depreciation							
Balance at 1 January	-	-	192,056	93,908	1,502	-	287,466
Charge for the financial year	1,340	5,828	11,451	7,468	453	-	26,540
Disposals	-	-	(192)	(65)	-	-	(257)
Written off	-	(72)	(76,403)	(42,838)	(412)	-	(119,725)
Adjustments for revaluation	(1,340)	(5,756)	-	-	-	-	(7,096)
Balance at 31 December	-	-	126,912	58,473	1,543	-	186,928
Net book value at 31 December	368,220	105,690	19,274	20,830	771	376,512	891,297
Carrying amounts that would have been recognised if land and building were stated at cost	235,261	46,435	19,274	20,830	771	376,512	699,083

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Intangible Assets

Computer software	*Group*	*Bank*
2021	**RM'000**	**RM'000**
Cost		
Balance at 1 January	**292,143**	**287,764**
Additions	**6,072**	**6,072**
Written off	**(1,930)**	**(27)**
Other movement	**(175)**	**(189)**
Balance at 31 December	**296,110**	**293,620**
Accumulated amortisation		
Balance at 1 January	**257,040**	**252,661**
Charge for the financial year	**7,708**	**7,708**
Written off	**(1,930)**	**(27)**
Other movement	**(175)**	**(189)**
At 31 December	**262,643**	**260,153**
Accumulated impairment loss		
Balance at 1 January	**6,004**	**6,004**
Charge for the financial year	**1,110**	**1,110**
At 31 December	**7,114**	**7,114**
Net book value at 31 December	**26,353**	**26,353**
2020	RM'000	RM'000
Cost		
Balance at 1 January	288,624	283,572
Additions	2,722	2,722
Written off	(1,622)	(949)
Other movement	2,419	2,419
Balance at 31 December	292,143	287,764
Accumulated amortisation		
Balance at 1 January	244,447	239,395
Charge for the financial year	11,796	11,796
Written off	(1,622)	(949)
Other movement	2,419	2,419
At 31 December	257,040	252,661
Accumulated impairment loss		
Balance at 1 January	5,323	5,323
Release for the financial year	681	681
Balance at 31 December	6,004	6,004
Net book value at 31 December	29,099	29,099

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

	Group		*Bank*	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Deferred tax assets	**353,754**	233,737	**303,557**	202,110
Deferred tax liabilities	**(82,953)**	(103,668)	**(82,102)**	(99,801)
	270,801	130,069	**221,455**	102,309

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 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Deferred tax assets:				
- settled more than 12 months	**33,678**	51,999	**20,588**	39,427
- settled within 12 months	**320,076**	181,738	**282,969**	162,683
Deferred tax liabilities:				
- settled more than 12 months	**(54,313)**	(71,559)	**(53,799)**	(67,823)
- settled within 12 months	**(28,640)**	(32,109)	**(28,303)**	(31,978)
	270,801	130,069	**221,455**	102,309

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

	Group		*Bank*	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Property and equipment				
- Capital allowances	**7,581**	25,707	**8,432**	25,884
- Revaluation	**(32,530)**	(35,662)	**(32,530)**	(35,662)
Rights of Use (ROU) assets	**1,194**	1,143	**565**	877
FVOCI reserve	**(48,582)**	(67,829)	**(49,572)**	(64,139)
Own credit reserve	**1,774**	1,795	**1,082**	1,441
Provision for accrued expenses	**288,274**	160,882	**256,927**	145,040
Deferred income	**24,992**	17,720	**20,136**	15,075
Loans, advances and financing	**28,098**	26,313	**16,415**	13,793
	270,801	130,069	**221,455**	102,309

21 Deferred Tax Assets (Cont'd)

Movement in temporary differences during the financial year

	Group						
	Balance at 1 Jan 2020	*Recognised in profit or loss*	*Recognised in other comprehensive income*	***Balance at 31 Dec 2020 / 1 Jan 2021***	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***Balance at 31 Dec 2021***
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Loans, advances and financing	14,100	12,213	-	**26,313**	**1,785**	**-**	**28,098**
Rights of Use (ROU) assets	28	1,115		**1,143**	**51**		**1,194**
Property and equipment							
capital allowances	-	25,884	-	**25,884**	**(17,452)**	**-**	**8,432**
Deferred income	27,693	(9,973)	-	**17,720**	**7,272**	**-**	**24,992**
Provision for accrued expenses	177,730	(16,848)	-	**160,882**	**127,392**	**-**	**288,274**
Lease receivables	215	(215)	-	**-**	**-**	**-**	**-**
Own credit reserve	5,740	-	(3,945)	**1,795**	**-**	**(21)**	**1,774**
FVOCI reserve	-	-	-	**-**	**-**	**990**	**990**
Deferred Tax Assets	225,506	12,176	(3,945)	**233,737**	**119,048**	**969**	**353,754**
Property and equipment							
capital allowances	(6,786)	6,609	-	**(177)**	**(674)**	**-**	**(851)**
revaluation	(38,400)	756	1,982	**(35,662)**	**714**	**2,418**	**(32,530)**
FVOCI reserve	(54,625)	-	(13,204)	**(67,829)**	**-**	**18,257**	**(49,572)**
Deferred Tax Liabilities	(99,811)	7,365	(11,222)	**(103,668)**	**40**	**20,675**	**(82,953)**
Net Deferred Tax Assets	125,695	19,541	(15,167)	**130,069**	**119,088**	**21,644**	**270,801**

21 Deferred Tax Assets (Cont'd)

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

	Bank						
	Balance at 1 Jan 2020	*Recognised in profit or loss*	*Recognised in other comprehensive income*	***Balance at 31 Dec 2020 / 1 Jan 2021***	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***Balance at 31 Dec 2021***
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Loans, advances and financing	7,235	6,558	-	**13,793**	**2,622**	**-**	**16,415**
Rights of Use (ROU) assets	-	877	-	**877**	**(312)**	**-**	**565**
Property and equipment							
capital allowances	-	25,884	-	**25,884**	**(17,452)**	**-**	**8,432**
Deferred income	18,391	(3,316)	-	**15,075**	**5,061**	**-**	**20,136**
Provision for accrued expenses	170,583	(25,543)	-	**145,040**	**111,887**	**-**	**256,927**
Own credit reserve	3,133	-	(1,692)	**1,441**	**-**	**(359)**	**1,082**
Deferred Tax Assets	199,342	4,460	(1,692)	**202,110**	**101,806**	**(359)**	**303,557**
Property and equipment							
capital allowances	(6,464)	6,464	-	**-**	**-**	**-**	**-**
revaluation	(38,400)	756	1,982	**(35,662)**	**714**	**2,418**	**(32,530)**
FVOCI reserve	(52,691)	-	(11,448)	**(64,139)**	**-**	**14,567**	**(49,572)**
Deferred Tax Liabilities	(97,555)	7,220	(9,466)	**(99,801)**	**714**	**16,985**	**(82,102)**
Net Deferred Tax Assets	101,787	11,680	(11,158)	**102,309**	**102,520**	**16,626**	**221,455**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

22 Deposits from Customers

(i) By type of deposit	Group		Bank	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Demand deposits	**25,628,566**	22,378,777	**22,309,723**	19,940,987
Savings deposits	**17,968,576**	15,639,505	**15,108,971**	13,227,992
Fixed deposits	**24,378,551**	25,392,154	**17,765,318**	18,094,529
	67,975,693	63,410,436	**55,184,012**	51,263,508

The maturity structure of fixed deposits is as follows:

	Group		Bank	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Due within six months	**18,619,795**	19,825,209	**13,407,218**	13,919,094
More than six months to one year	**4,559,287**	4,482,405	**3,585,367**	3,456,238
More than one year to three years	**938,264**	723,856	**591,545**	474,542
More than three years to five years	**261,205**	360,684	**181,188**	244,655
Over five years	**-**	-	**-**	-
	24,378,551	25,392,154	**17,765,318**	18,094,529

(ii) By type of customer	Group		Bank	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Government and statutory bodies	**20,682**	33,855	**7,158**	15,577
Business enterprises	**27,413,477**	24,899,520	**23,802,931**	21,536,979
Individuals	**26,427,705**	25,145,896	**20,689,676**	19,413,603
Foreign entities/individuals	**12,753,879**	12,208,780	**9,943,178**	9,506,879
Others	**1,359,950**	1,122,385	**741,069**	790,470
	67,975,693	63,410,436	**55,184,012**	51,263,508

23 Deposits and Placements from Banks and Other Financial Institutions

	Group		Bank	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Licensed banks	**365**	50,607	**365**	50,607
Bank Negara Malaysia	**246,249**	139,992	**244,383**	135,932
Other financial institutions	**2,568,652**	2,667,742	**1,822,156**	1,948,688
	2,815,266	2,858,341	**2,066,904**	2,135,227

Included in Deposits and Placements from Banks and Other Financial Institutions are amounts received under the Government scheme as part of the COVID-19 relief measures, for the purpose of lending/ financing to SMEs at a concessionary rate amounting to RM232,604,000 and RM231,694,000 for the Group and for the Bank respectively (2020: RM133,865,000 for the Group and the Bank).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24 Structured Liabilities Designated at Fair Value through Profit or Loss

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Structured liabilities	**2,909,026**	3,748,193	**1,720,927**	2,634,940

Structured liabilities are measured at fair value over the life of the instruments. Structured liabilities are customer placements with embedded derivatives, of which both interest/profit paid and fair valuation on the structured liabilities are recorded in net income/(expense) from financial investments designated at fair value.

25 Other Liabilities

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Settlements	**323,468**	92,826	**323,412**	92,826
Interest/profit payable	**160,815**	179,958	**110,586**	126,246
Deferred income	**80,065**	74,395	**64,133**	62,813
Marginal deposit	**141,164**	65,734	**121,712**	58,181
Amount due to subsidiary company	**-**	-	**371**	1,856
Accrued expenses	**794,560**	689,486	**766,891**	658,493
Lease liabilities	**58,862**	77,492	**35,206**	56,325
Cash collateral	**297,250**	615,805	**297,250**	615,805
Other creditors	**924,949**	564,160	**805,594**	510,407
Provisions on loan and credit related commitments; and financial guarantees [1]	**33,158**	8,274	**24,221**	6,006
	2,814,291	2,368,130	**2,549,376**	2,188,958

[1] Refer to Note 14(ii) for movement in provision.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

26 Multi-Currency Sukuk Programme

	Group	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	**515,333**	523,841

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 2021	Carrying Value (RM'000) 31 Dec 2020
At fair value					
4th series [1]	500,000	2 Oct 2018	2 Oct 2023	**515,333**	523,841

Movement in MCSP

	4th series
	RM'000
2021	
Balance at 1 January	**523,841**
Change in fair value other than from own credit risk	**(12,401)**
Change in fair value from own credit risk	**3,893**
Redemption of Multi-Currency Sukuk	**-**
Balance at 31 December	**515,333**

	3rd series [2]	4th series
	RM'000	RM'000
2020		
Balance at 1 January	751,732	514,197
Change in fair value other than from own credit risk	489	15,791
Change in fair value from own credit risk	(2,221)	(6,147)
Redemption of Multi-Currency Sukuk	(750,000)	-
Balance at 31 December	-	523,841

	Group	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
The cumulative loss/(gain) from change in fair value due to changes in own credit risk	**3,893**	(8,368)

[1] Proceeds from this series are utilised, where appropriate, to finance eligible businesses and projects in accordance with HSBC's internal Sustainable Development Goals (SDG) Bond Framework.

[2] Redeemed on 27 March 2020.

27 Subordinated Liabilities

	Group		Bank	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Second tranche issued on 2 November 2007 [1] at par	**500,000**	500,000	**500,000**	500,000

[1] 5.05% coupon rate for RM500 million due 2027 callable with a 100 basis point step up coupon in 2022.

The unsecured subordinated liabilities qualify as a component of Tier 2 capital of the Bank. Under the Guideline on Capital Adequacy Framework (Capital Components) issued by Bank Negara Malaysia (BNM), the par value of the subordinated liabilities is 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Share Capital

Group and Bank	**31 Dec 2021** Number of Ordinary Shares ('000)	**31 Dec 2021** RM'000	31 Dec 2020 Number of Ordinary Shares ('000)	31 Dec 2020 RM'000
At 1 January - ordinary shares of RM0.50 each	**229,000**	**1,045,875**	229,000	1,045,875
Ordinary Shares Issued and Fully Paid	**229,000**	**1,045,875**	229,000	1,045,875

29 Other Equity and Reserves

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Other equity				
Other equity instrument[1]	**500,000**	500,000	**500,000**	500,000
Reserves				
Revaluation reserve	**176,430**	190,751	**176,430**	190,751
FVOCI reserve	**155,378**	215,792	**158,229**	203,924
Own credit reserve	**(5,617)**	(5,685)	**(3,424)**	(4,562)
Capital contribution reserve[2]	**100,073**	103,790	**99,562**	103,013
Regulatory reserve[3]	**386,400**	298,100	**339,600**	292,000
Retained profits	**8,666,100**	8,550,171	**7,358,326**	7,200,136
Total reserves	**9,478,764**	9,352,919	**8,128,723**	7,985,262
Total other equity and reserves	**9,978,764**	9,852,919	**8,628,723**	8,485,262

[1] On 21 June 2019, the Group and the Bank issued a perpetual capital term loan with nominal amounting to RM500 million. The capital instrument qualifies to constitute as Additional Tier 1 capital of the Group and the Bank as per the Capital Adequacy Framework (Capital Components) issued by Bank Negara Malaysia (BNM). Coupon payments are non-cumulative and may be cancelled at the sole discretion of the Group and the Bank. On the occurrence of a trigger event as defined by BNM, the capital instruments will be written down at the point of non-viability. They rank higher than ordinary shares in the event of a wind-up. The capital instrument meets the requirements of equity classification as per MFRS 132.

[2] 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.

[3] The regulatory reserve is maintained in line with paragraph 10.5 of BNM's policy document on Financial Reporting and Financial Reporting for Islamic Banking Institutions issued on 2 February 2018, to maintain, in aggregate, loss allowance for non-credit-impaired exposures and regulatory reserve of no less than 1.0% of total credit exposures, net of loss allowance for credit-impaired exposures.

The regulatory reserve is debited against retained profits.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Net Interest Income

	Group		Bank	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	**1,146,395**	1,436,003	**1,146,395**	1,436,003
- Interest income recognised from impaired loans	**30,942**	28,813	**30,942**	28,813
Money at call and deposit placements with financial institutions	**244,796**	238,184	**264,266**	263,790
Financial investments at FVOCI	**187,615**	207,569	**187,615**	207,569
Financial investments at amortised cost	**5,485**	1,632	**5,485**	1,632
	1,615,233	1,912,201	**1,634,703**	1,937,807
Interest expense				
Deposits and placements of banks and other financial institutions	**(8,725)**	(16,747)	**(8,725)**	(16,747)
Deposits from customers	**(380,196)**	(510,045)	**(380,196)**	(510,045)
Subordinated liabilities	**(25,250)**	(43,598)	**(25,250)**	(43,598)
Lease liabilities	**(1,075)**	(3,530)	**(1,075)**	(3,530)
Others	**(585)**	(744)	**(585)**	(744)
	(415,831)	(574,664)	**(415,831)**	(574,664)
Net interest income	**1,199,402**	1,337,537	**1,218,872**	1,363,143

31 Net Fee and Commission Income

	Group		Bank	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Fee and commission income				
Credit cards	**96,614**	93,152	**96,614**	93,152
Service charges	**112,409**	106,402	**112,409**	106,402
Credit facilities	**58,809**	56,212	**58,809**	56,212
Agency	**133,571**	113,112	**133,571**	113,112
Others	**24,787**	28,717	**24,063**	27,602
	426,190	397,595	**425,466**	396,480
Fee and commission expense				
Debit/credit cards	**(40,122)**	(51,168)	**(40,122)**	(51,168)
Interbank and clearing	**(944)**	(798)	**(944)**	(798)
Brokerage	**(2,677)**	(2,557)	**(2,677)**	(2,557)
Cash management	**(884)**	(1,160)	**(884)**	(1,160)
Others	**(17,065)**	(15,386)	**(17,065)**	(15,386)
	(61,692)	(71,069)	**(61,692)**	(71,069)
Net fee and commission income	**364,498**	326,526	**363,774**	325,411

32 Net Trading Income

	Group		Bank	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Realised (losses)/gains on financial assets/liabilities at FVTPL and other financial instruments	**(775)**	65,197	**(7,616)**	59,880
Net interest income from financial assets at FVTPL	**40,990**	54,341	**40,990**	54,341
Net unrealised (losses)/gains on revaluation of financial assets at FVTPL	**(9,889)**	(3,974)	**6,756**	(3,264)
Net realised gains arising from dealing in foreign currency	**359,632**	455,358	**360,140**	448,467
Net unrealised (losses)/gains from dealing in foreign currency	**(16,738)**	141,588	**104,410**	19,680
Net realised gains arising from dealing in derivatives	**128,743**	3,178	**139,073**	58,068
Net unrealised (losses)/gains on revaluation of derivatives	**(154,352)**	53,204	**(155,320)**	(6,665)
Gains arising from fair value hedges	**102**	81	**102**	81
	347,713	768,973	**488,535**	630,588

Net trading income for the Group is presented in both Note 32 and Note 33. A reconciliation of the net trading income for the Group is as follows:

	Group	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
Total net trading income (net of elimination with subsidiary)	**519,598**	678,185
of which:		
- is disclosed in Note 32	**347,713**	768,973
- is included under Income from Islamic Banking operations of the Group (Note 33)	**171,885**	(90,788)

33 Income from Islamic Banking operations

For consolidation with the conventional banking operations, the income from Islamic Banking operations as shown in the face of the consolidated statements of profit or loss and other comprehensive income, consists of the following items:

	Group	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
Income derived from investment of depositor funds and others [1] [2]	**550,179**	653,063
Income derived from investment of shareholders' funds [2]	**149,490**	159,932
Total income before allowance for impairment losses on financing and advances	**699,669**	812,995
Income attributable to the depositors	**(173,017)**	(273,397)
Income from Islamic Banking operations before elimination	**526,652**	539,598
Elimination of intercompany income and expenses	**158,550**	(115,810)
Income from Islamic Banking operations reported in the statement of profit or loss of the Group	**685,202**	423,788

[1] Included in the Income derived from investment of depositors' funds and others are net losses on financial instruments designated at fair value through profit or loss for the year ended 31 December	**(4,165)**	(49,367)

[2] Included in the following funds are day 1 modification loss relating to COVID-19 relief measures for the year ended 31 December:

Income derived from investment of depositors' funds and others	**(13,983)**	(11,398)
Income derived from investment of shareholder's funds	**(1,729)**	(1,308)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Other Operating Income

	Group		*Bank*	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Gain on disposal of financial investments at FVOCI	**22,692**	50,402	**22,692**	50,402
Dividend income from financial investments designated at FVOCI				
- Unquoted in Malaysia	**1,415**	1,591	**1,415**	1,591
Dividend income from subsidiary	**-**	-	**50,000**	50,000
Rental income	**3,690**	7,766	**3,690**	7,766
Net gain on disposal of property and equipment	**-**	10	**-**	10
Net upwards revaluation on property	**10,545**	-	**10,545**	-
Income recharges from subsidiary	**-**	-	**146,741**	137,702
Other operating income	**32,147**	20,566	**32,147**	20,566
	70,489	80,335	**267,230**	268,037

35 Impairment Allowance/Provision

	Group		*Bank*	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
New and increased allowance (net of releases)[1]	**665,947**	570,486	**393,894**	360,390
Recoveries	**(110,503)**	(95,602)	**(55,309)**	(49,442)
Written off	**1,487**	808	**1,460**	492
Total charge to statement of profit or loss	**556,931**	475,692	**340,045**	311,440

[1] Included in the New and increased allowance are management judgemental adjustments made. Please refer to Note 4(b)(v).

Breakdown of the impairment allowance/provision is disclosed by financial instruments type are as follow:

(i) Loans, advances and financing

	Group		*Bank*	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
New and increased allowance (net of releases)	**639,888**	569,814	**374,585**	359,505
Recoveries	**(110,503)**	(95,602)	**(55,309)**	(49,442)
Written off	**1,487**	808	**1,460**	492
Total charge to statement of profit or loss	**530,872**	475,020	**320,736**	310,555

(ii) Deposits and placements with banks and other financial institutions

	Group		*Bank*	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Net increase/(release) in allowance/provision	**45**	(6)	**51**	(7)

(iii) Debt securities - FVOCI

	Group		*Bank*	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
	RM'000	RM'000	**RM'000**	RM'000
Net increase in allowance/provision	**534**	316	**432**	303

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Impairment Allowance/Provision (Cont'd)

Breakdown of the impairment allowance/provision by financial instruments type (Cont'd)

(iv) Financial investments at amortised costs

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Net increase in allowance/provision	**569**	257	**569**	257

(v) Loan commitments and contingencies

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Net increase in allowance/provision	**24,911**	105	**18,257**	332

36 Other Operating Expenses

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Personnel expenses	**744,247**	704,609	**697,866**	657,142
Promotion and marketing related expenses	**34,761**	36,755	**28,092**	29,173
Establishment related expenses	**111,566**	287,802	**94,112**	270,438
General administrative expenses	**158,190**	213,555	**130,261**	179,910
Related company charges	**653,328**	646,041	**643,747**	637,660
	1,702,092	1,888,762	**1,594,078**	1,774,323
Personnel expenses				
Salaries, allowances and bonuses	**530,591**	539,783	**496,825**	502,074
Employees Provident Fund contributions	**88,422**	90,868	**82,521**	84,205
Share based payment	**8,802**	9,907	**8,734**	9,654
Others	**116,432**	64,051	**109,786**	61,209
	744,247	704,609	**697,866**	657,142

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Other Operating Expenses (Cont'd)

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Establishment related expenses				
Depreciation of property and equipment	**24,112**	28,676	**21,669**	26,540
Depreciation of ROU assets	**18,088**	26,777	**11,535**	19,513
Impairment of ROU assets	**587**	-	**458**	-
Amortisation of intangible assets	**7,708**	11,796	**7,708**	11,796
Impairment of intangible assets	**1,110**	681	**1,110**	681
Information technology costs	**20,031**	28,538	**15,905**	26,275
Revaluation loss on property	**-**	137,802	**-**	137,802
Property and equipment written off	**1,836**	6,999	**1,715**	6,734
General repairs and maintenance	**14,443**	12,434	**12,235**	11,008
Utilities	**7,471**	13,666	**6,262**	11,717
Others	**16,180**	20,433	**15,515**	18,372
	111,566	287,802	**94,112**	270,438
General administrative expenses				
Auditors' remuneration				
Statutory audit fees	**692**	1,080	**536**	924
Regulatory related fees				
- Current year	**30**	327	**20**	198
- Overprovision for prior year	**(254)**	-	**(148)**	-
Professional fees [1]	**18,326**	9,734	**16,315**	8,174
Communication	**31,752**	22,335	**30,507**	20,366
Others	**107,644**	180,079	**83,031**	150,248
General administrative expenses	**158,190**	213,555	**130,261**	179,910

[1] Included in professional fees are fees paid to the Shariah Committee members of HBMS:

	Group	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Shariah Committee members	**531**	565

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Related company charges				
(i) Type of service				
- Information technology related cost	**277,007**	285,382	**276,981**	285,382
- Non information technology related cost	**376,321**	360,659	**366,766**	352,278
	653,328	646,041	**643,747**	637,660
(ii) Countries/territories				
- Hong Kong	**402,057**	383,519	**402,049**	383,505
- United Kingdom	**176,724**	187,335	**175,203**	186,448
- Malaysia	**70,666**	70,146	**62,614**	62,666
- Others	**3,881**	5,041	**3,881**	5,041
	653,328	646,041	**643,747**	637,660

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Tax Expense

	Group		Bank	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Malaysian income tax				
- Current year	**164,929**	163,598	**141,103**	128,516
- Prior years	**(1,343)**	(4,900)	**301**	(5,001)
Total current tax recognised in profit or loss	**163,586**	158,698	**141,404**	123,515
Deferred tax				
Origination and reversal of temporary differences				
- Current year	**(119,088)**	(25,062)	**(102,520)**	(11,680)
- Over provision in prior years	**-**	5,521	**-**	-
Total deferred tax recognised in profit or loss	**(119,088)**	(19,541)	**(102,520)**	(11,680)
Total tax expense	**44,498**	139,157	**38,884**	111,835

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

	Group		Bank	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Profit before tax	**447,300**	496,725	**443,307**	425,436
Income tax using Malaysian tax rate	**107,352**	119,214	**106,394**	102,105
Non-deductible expenses	**19,594**	35,129	**17,560**	27,113
Tax exempt income	**(2,746)**	(10,286)	**(14,746)**	(12,382)
Impact on change of tax rates [1]	**(78,359)**	-	**(70,625)**	-
(Over)/under provision in respect of prior years	**(1,343)**	(4,900)	**301**	(5,001)
Tax expense	**44,498**	139,157	**38,884**	111,835

[1] In order to support the Government’s initiative to assist parties affected by the pandemic, the Finance Act 2021 has introduced a special one-off tax for year of assessment (“YA”) 2022 which is called ‘Cukai Makmur’ and will be imposed on non-micro, small and medium enterprise companies which generate high profits during the period of the pandemic. Chargeable income in excess of RM100.0 million will be charged an income tax rate of 33% for YA 2022.

38 Earnings per Share

The earnings per ordinary share have been calculated based on profit for the financial year and ordinary shares in issue of 229,000,000 (2020: 229,000,000) during the financial year.

39 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 (hereinafter referred to as parent) and ultimate holding company;
(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, either directly or indirectly. Key management personnel consist of all members of the Board of Directors and certain senior management of the Group and the Bank, including their close family members.
(v) Transactions, arrangements and agreements that are entered into by the Group and the Bank with companies that may be controlled/jointly controlled by the key management personnel of the Group and the Bank and their close family members.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

	Group					
	2021			2020		
	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	**-**	**62**	**-**	488	121	-
Interest/finance income on loans, advances and financing from customers	**-**	**-**	**42**	-	-	247
Fees and commission	**5,998**	**14,841**	**-**	7,152	15,101	-
Other income	**11,363**	**15,169**	**-**	6,989	13,927	-
Net trading income/(expenses)	**(107,643)**	**(62,799)**	**-**	(49,533)	54,591	-
	(90,282)	**(32,727)**	**42**	(34,904)	83,740	247
Expenditure						
Interest/finance expense on deposits and placements from banks and financial institutions	**8,515**	**3,242**	**-**	32,459	6,458	-
Interest/finance expense on deposits from customers	**-**	**-**	**102**	-	-	214
Fees and commission	**3,400**	**6,577**	**-**	3,577	13,428	-
Operating expenses	**401,144**	**252,184**	**-**	383,519	262,522	-
	413,059	**262,003**	**102**	419,555	282,408	214
Amount due from						
Deposits and placements with banks and other financial institutions (including cash and short-term funds)	**48,272**	**225,775**	**-**	55,493	422,252	-
Loans, advances and financing	**-**	**-**	**2,166**	-	-	6,846
Derivative financial assets	**113,385**	**174,229**	**-**	361,048	352,926	-
Other assets	**261,667**	**167,148**	**-**	2,098	74,381	-
	423,324	**567,152**	**2,166**	418,639	849,559	6,846
Amount due to						
Deposit and placements from banks and other financial institutions	**893,990**	**751,334**	**-**	952,777	899,718	-
Deposit from customers	**-**	**-**	**23,202**	-	-	27,990
Derivative financial liabilities	**292,711**	**64,774**	**-**	182,855	180,526	-
Other liabilities	**298,580**	**355,453**	**-**	393,646	280,659	-
	1,485,281	**1,171,561**	**23,202**	1,529,278	1,360,903	27,990

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)

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

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

	Bank			
	2021			
	Parent RM'000	*Subsidiary bank* RM'000	*Other related companies* RM'000	*Key management personnel* RM'000
Income				
Interest/finance income on deposits and placements with Banks and other financial institutions	**-**	**19,470**	**62**	**-**
Interest/finance income on loans, advances and financing from customers	**-**	**-**	**-**	**6**
Fees and commission	**5,989**	**-**	**13,660**	**-**
Other income	**11,363**	**146,741**	**15,166**	**-**
Net trading income/(expenses)	**(107,643)**	**140,822**	**(65,927)**	**-**
	(90,291)	**307,033**	**(37,039)**	**6**
Expenditure				
Interest/finance expense on deposits and placements from Banks and other financial institutions	**1,381**	**-**	**3,099**	**-**
Interest/finance expense on deposits from customers	**-**	**-**	**-**	**54**
Fees and commission	**3,366**	**724**	**5,846**	**-**
Operating expenses	**401,139**	**1,018**	**241,590**	**-**
	405,886	**1,742**	**250,535**	**54**
Amount due from				
Deposits and placements with banks and other financial institutions (including cash and short-term funds)	**43,231**	**1,637,277**	**159,039**	**-**
Loans, advances and financing	**-**	**-**	**-**	**1,192**
Derivative financial assets	**113,385**	**31,139**	**174,229**	**-**
Other assets	**261,585**	**203,879**	**167,076**	**-**
	418,201	**1,872,295**	**500,344**	**1,192**
Amount due to				
Deposit and placements from banks and other financial institutions	**147,505**	**-**	**751,333**	**-**
Deposit from customers	**-**	**-**	**-**	**18,456**
Derivative financial liabilities	**292,711**	**75,594**	**64,774**	**-**
Other liabilities	**297,169**	**929**	**352,870**	**-**
	737,385	**76,523**	**1,168,977**	**18,456**

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)

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

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

	Bank			
	2020			
	Parent RM'000	*Subsidiary bank* RM'000	*Other related companies* RM'000	*Key management personnel* RM'000
Income				
Interest/finance income on deposits and placements with Banks and other financial institutions	488	25,606	121	-
Interest/finance income on deposits from customers	-	-	-	20
Fees and commission	7,138	-	13,906	-
Other income	6,989	137,702	13,921	-
Net trading income/(expenses)	(49,533)	(138,385)	68,193	-
	(34,918)	24,923	96,141	20
Expenditure				
Interest/finance expense on deposits and placements from Banks and other financial institutions	23,108	-	4,816	-
Interest/finance expense on deposits from customers	-	-	-	49
Fees and commission	3,555	1,115	5,787	-
Operating expenses	383,505	1,916	252,239	-
	410,168	3,031	262,842	49
Amount due from				
Deposits and placements with banks and other financial institutions (including cash and short-term funds)	53,467	1,433,539	362,693	-
Loans, advances and financing	-	-	-	746
Derivative financial assets	361,048	22,601	352,926	-
Other assets	2,098	66,312	74,381	-
	416,613	1,522,452	790,000	746
Amount due to				
Deposit and placements from banks and other financial institutions	233,723	-	899,718	-
Deposit from customers	-	-	-	20,929
Derivative financial liabilities	182,855	212,533	180,526	-
Other liabilities	392,271	1,951	278,674	-
	808,849	214,484	1,358,918	20,929

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)

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

(b) Key management personnel and other material risk takers' remuneration

i) The remuneration of CEO and Directors

The remuneration of the members of the Board of Directors/CEO of HSBC Bank Malaysia Berhad and its subsidiaries, charged to the statements of profit or loss and other comprehensive income during the financial year are as follows:

2021	***Group***				
	Salaries and bonuses RM'000	**Other short term employee benefits RM'000**	**Share-based payment RM'000**	**Fees RM'000**	**Total RM'000**
Executive Directors of the Bank and subsidiary					
Stuart Paterson Milne (CEO of the Bank)	**4,363**	**2,187**	**1,650**	**-**	**8,200**
Non-Executive Directors of the Bank and subsidiary					
Tan Sri Dato' Tan Boon Seng @ Krishnan	**-**	**-**	**-**	**242**	**242**
Adil Ahmad	**-**	**-**	**-**	**143**	**143**
Albert Quah Chei Jin	**-**	**-**	**-**	**142**	**142**
Choo Yoo Kwan @ Choo Yee Kwan	**-**	**-**	**-**	**217**	**217**
Ho Chai Huey	**-**	**-**	**-**	**128**	**128**
Lee Choo Hock	**-**	**-**	**-**	**332**	**332**
Mukhtar Malik Hussain [1]	**-**	**-**	**-**	**104**	**104**
Tan Kar Leng @ Chen Kar Leng	**-**	**-**	**-**	**195**	**195**
Datuk Kamaruddin bin Taib [2]	**-**	**-**	**-**	**173**	**173**
Datin Che Teh Ija binti Mohd Jalil [3]	**-**	**-**	**-**	**190**	**190**
	4,363	**2,187**	**1,650**	**1,866**	**10,066**
CEO of the Bank's subsidiary					
Raja Amir Shah bin Raja Azwa [4]	**373**	**194**	**-**	**-**	**567**
Arsalaan Ahmed [5]	**127**	**55**	**-**	**-**	**182**
	500	**249**	**-**	**-**	**749**

[1] Re-designated on 1 August 2021

[2] Resigned from HBMS' Board and appointed to the Bank's Board on 1 January 2022

[3] Resigned from the Bank's Board and appointed to HBMS' Board on 1 January 2022

[4] Appointed on 24 May 2021

[5] Resigned on 14 February 2021

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

b) Key management personnel and other material risk takers' remuneration (Cont'd)

i) The remuneration of CEO and Directors (Cont'd)

2020	*Group*				
	Salaries and bonuses RM'000	Other short term employee benefits RM'000	Share-based payment RM'000	Fees RM'000	Total RM'000
Executive Directors of the Bank and subsidiary					
Stuart Paterson Milne (CEO of the Bank)	4,407	1,675	1,451	-	7,533
Mukhtar Malik Hussain	205	-	520	-	725
Non-Executive Directors of the Bank and subsidiary					
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	251	251
Adil Ahmad	-	-	-	143	143
Albert Quah Chei Jin	-	-	-	142	142
Choo Yoo Kwan @ Choo Yee Kwan	-	-	-	217	217
Ho Chai Huey	-	-	-	128	128
Lee Choo Hock	-	-	-	332	332
Tan Kar Leng @ Chen Kar Leng	-	-	-	195	195
Datuk Kamaruddin bin Taib	-	-	-	173	173
Datin Che Teh Ija binti Mohd Jalil	-	-	-	190	190
	4,612	1,675	1,971	1,771	10,029
CEO of the Bank's subsidiary					
Arsalaan Ahmed	1,284	492	332	-	2,108

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

b) Key management personnel and other material risk takers' remuneration (Cont'd)

i) The remuneration of CEO and Directors (Cont'd)

2021	***Bank***				
	Salaries and bonuses RM'000	**Other short term employee benefits RM'000**	**Share-based payment RM'000**	**Fees RM'000**	**Total RM'000**
Non-Independent Executive Directors					
Stuart Paterson Milne (CEO of the Bank)	**4,363**	**2,187**	**1,650**	**-**	**8,200**
Independent Non-Executive Directors					
Tan Sri Dato' Tan Boon Seng @ Krishnan	**-**	**-**	**-**	**242**	**242**
Choo Yoo Kwan @ Choo Yee Kwan	**-**	**-**	**-**	**217**	**217**
Lee Choo Hock	**-**	**-**	**-**	**196**	**196**
Mukhtar Malik Hussain	**-**	**-**	**-**	**62**	**62**
Tan Kar Leng @ Chen Kar Leng	**-**	**-**	**-**	**195**	**195**
Datin Che Teh Ija binti Mohd Jalil [1]	**-**	**-**	**-**	**190**	**190**
	4,363	**2,187**	**1,650**	**1,102**	**9,302**

[1] Resigned on 1 January 2022

2020	*Bank*				
	Salaries and bonuses RM'000	Other short term employee benefits RM'000	Share-based payment RM'000	Fees RM'000	Total RM'000
Non-Independent Executive Directors					
Stuart Paterson Milne (CEO of the Bank)	4,407	1,675	1,451	-	7,533
Mukhtar Malik Hussain	205	-	520	-	725
Independent Non-Executive Directors					
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	251	251
Choo Yoo Kwan @ Choo Yee Kwan	-	-	-	217	217
Lee Choo Hock	-	-	-	196	196
Tan Kar Leng @ Chen Kar Leng	-	-	-	195	195
Datin Che Teh Ija binti Mohd Jalil	-	-	-	190	190
	4,612	1,675	1,971	1,049	9,307

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

b) Key management personnel and other material risk takers' remuneration (Cont'd)

ii) The remuneration of senior management and other material risk takers

Senior management consist of certain Executive Committee (EXCO) members for the Group and the Bank.

Other material risk taker refers to an employee who is not a member of the EXCO which falls under the Group and the Bank's material risk taker definition, and shall include:
(i) officer who can materially commit or control significant amounts of the Group and the Bank's resources or whose actions are likely to have a significant impact on its risk profile; or
(ii) officer who is among the most highly remunerated officers in the Group and the Bank.

Total Remuneration

Senior Management	*Group* **31 Dec 2021**		*Group* 31 Dec 2020	
	Unrestricted RM'000	**Deferred RM'000**	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
Cash	**17,236**	**-**	17,912	-
Variable remuneration				
Cash	**7,134**	**1,537**	4,347	1,840
Shares and share-linked instruments	**1,547**	**2,241**	2,074	1,991
	8,681	**3,778**	6,421	3,831
Total Senior Management's Remuneration	**25,917**	**3,778**	24,333	3,831

Number of officers having received a variable remuneration during the financial year: 21 (2020: 17)

Other Material Risk Takers	*Group* **31 Dec 2021**		*Group* 31 Dec 2020	
	Unrestricted RM'000	**Deferred RM'000**	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
Cash	**4,594**	**-**	4,542	-
Variable remuneration				
Cash	**1,887**	**82**	1,029	267
Shares and share-linked instruments	**124**	**390**	401	313
	2,011	**472**	1,430	580
Total Other Material Risk Takers' Remuneration	**6,605**	**472**	5,972	580

Number of officers having received a variable remuneration during the financial year: 4 (2020: 4)

Other than the above, no senior management nor other material risk takers received any guaranteed bonuses, sign-on awards and severance payments.

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

b) Key management personnel and other material risk takers' remuneration (Cont'd)

ii) The remuneration of senior management and other material risk takers (Cont'd)

Total Remuneration (Cont'd)

Senior Management

	Bank			
	31 Dec 2021		31 Dec 2020	
	Unrestricted RM'000	**Deferred RM'000**	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
Cash	**14,765**	**-**	14,602	-
Variable remuneration				
Cash	**6,197**	**1,537**	3,747	1,776
Shares and share-linked instruments	**1,547**	**2,185**	1,979	1,927
	7,744	**3,722**	5,726	3,703
Total Senior Management's Remuneration	**22,509**	**3,722**	20,328	3,703

Number of officers having received a variable remuneration during the financial year: 13 (2020: 11)

Other Material Risk Takers

	Bank			
	31 Dec 2021		31 Dec 2020	
	Unrestricted RM'000	**Deferred RM'000**	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
Cash	**4,594**	**-**	4,542	-
Variable remuneration				
Cash	**1,887**	**82**	1,029	267
Shares and share-linked instruments	**124**	**390**	401	313
	2,011	**472**	1,430	580
Total Other Material Risk Takers' Remuneration	**6,605**	**472**	5,972	580

Number of officers having received a variable remuneration during the financial year: 4 (2020: 4)

Other than the above, no senior management nor other material risk takers received any guaranteed bonuses, sign-on awards and severance payments.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

b) Key management personnel and other material risk takers' remuneration (Cont'd)

ii) The remuneration of senior management and other material risk takers (Cont'd)

Deferred Remuneration

	Group			
	31 Dec 2021		31 Dec 2020	
	Senior management RM'000	**Other material risk takers RM'000**	Senior management RM'000	Other material risk takers RM'000
Outstanding deferred remuneration				
Cash	**4,104**	**577**	4,786	440
Shares and share-linked instruments	**5,806**	**1,027**	6,369	596
	9,910	**1,604**	11,155	1,036
Deferred remuneration paid out	**6,173**	**987**	4,116	1,114

	Bank			
	31 Dec 2021		31 Dec 2020	
	Senior management RM'000	**Other material risk takers RM'000**	Senior management RM'000	Other material risk takers RM'000
Outstanding deferred remuneration				
Cash	**3,990**	**577**	4,531	440
Shares and share-linked instruments	**5,639**	**1,027**	5,949	595
	9,629	**1,604**	10,480	1,035
Deferred remuneration paid out	**6,022**	**987**	3,908	1,114

40 Credit exposure to connected parties

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Aggregate value of outstanding credit exposures to connected parties	**3,515,150**	3,579,045	**3,225,337**	3,684,063
As a percentage of total credit exposures	**3.3%**	3.5%	**3.8%**	4.5%
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)

41 Capital Adequacy

	Group	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
Common Equity Tier 1 (CET1) capital		
Paid-up ordinary share capital	**1,045,875**	1,045,875
Retained profits	**8,666,100**	8,550,171
Other reserves	**890,478**	904,446
Regulatory adjustments	**(1,060,915)**	(870,026)
Total CET1 capital	**9,541,538**	9,630,466
Tier 1 capital		
Additional Tier 1 capital	**500,000**	500,000
Total Tier 1 capital	**10,041,538**	10,130,466
Tier 2 capital		
Subordinated liabilities	**100,000**	200,000
Impairment allowance (unimpaired portion) & regulatory reserves	**616,205**	519,281
Regulatory adjustments	**94,032**	101,886
Total Tier 2 capital	**810,237**	821,167
Capital base	**10,851,775**	10,951,633
Before deducting proposed dividend		
CET 1 Capital ratio	**16.925%**	17.030%
Tier 1 Capital ratio	**17.812%**	17.914%
Total Capital ratio	**19.249%**	19.366%
After deducting proposed dividend		
CET 1 Capital ratio	**16.495%**	16.697%
Tier 1 Capital ratio	**17.382%**	17.581%
Total Capital ratio	**18.819%**	19.033%

The total capital and capital adequacy ratios of the Group and the Bank have been computed based on Standardised Approach in accordance with the Bank Negara Malaysia (BNM)'s Guidelines on Capital Adequacy Framework (Capital Components).

For HBMS, a wholly owned subsidiary of the Bank, the total capital and capital adequacy ratios have been computed in accordance with the BNM's Guidelines on 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 risk-weighted assets (RWA) in the various risk categories:

	Group	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
Total RWA for credit risk [1]	**49,732,001**	49,671,803
Total RWA for market risk	**1,273,714**	1,215,604
Total RWA for operational risk	**5,369,068**	5,662,957
	56,374,783	56,550,364

[1] The risk weighted amount for credit risk relating to the SIAF/IAA (refer to Note12(i) for more details) are as follows:

	Group	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
Under SIAF/IAA arrangement	**2,941,036**	2,743,531

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Capital Adequacy (Cont'd)

	Bank	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
Common Equity Tier 1 (CET1) capital		
Paid-up ordinary share capital	**1,045,875**	1,045,875
Retained profits	**7,358,326**	7,200,136
Other reserves	**850,171**	883,486
Regulatory adjustments	**(1,637,042)**	(1,534,219)
Total CET1 capital	**7,617,330**	7,595,278
Tier 1 capital		
Additional Tier 1 capital	**500,000**	500,000
Total Tier 1 capital	**8,117,330**	8,095,278
Tier 2 capital		
Subordinated liabilities	**100,000**	200,000
Impairment allowance (unimpaired portion) & regulatory reserves	**452,577**	398,668
Regulatory adjustments	**(321,794)**	(414,399)
Total Tier 2 capital	**230,783**	184,269
Capital base	**8,348,113**	8,279,547
Before deducting proposed dividend		
CET 1 Capital ratio	**17.122%**	17.033%
Tier 1 Capital ratio	**18.246%**	18.155%
Total Capital ratio	**18.764%**	18.568%
After deducting proposed dividend		
CET 1 Capital ratio	**16.576%**	16.612%
Tier 1 Capital ratio	**17.700%**	17.733%
Total Capital ratio	**18.219%**	18.146%

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

Breakdown of RWA in the various risk categories:

	Bank	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
Total RWA for credit risk [1]	**38,524,879**	38,424,645
Total RWA for market risk	**1,212,910**	1,163,047
Total RWA for operational risk	**4,751,416**	5,002,558
	44,489,205	44,590,250

[1] The risk weighted amount for credit risk relating to the SIAF/IAA (refer to Note12(i) for more details) are as follows:

	Bank	
	31 Dec 2021	31 Dec 2020
	RM'000	RM'000
Under SIAF/IAA arrangement	**2,941,036**	2,743,531

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Capital Adequacy (Cont'd)

Pursuant to BNM's Guidelines on Capital Adequacy Framework (Capital Component) issued on 9 December 2020 (the Guidelines), the Group and the Bank elected to apply the transitional arrangements as specified in paragraph 39.

Under transitional arrangements, the expected credit loss (ECL) allowance measured at an amount equal to 12-month and lifetime ECL to the extent they are related to non-credit-impaired exposures (hereinafter referred to as Stage 1 and Stage 2 provisions), are allowed to be added back to CET-1, subject to a capping. The transitional arrangement commenced from financial year beginning 1 January 2020, with an add-back factor that will gradually reduce over the four-year transitional duration.

As required by the Guideline, below is the disclosure on the capital ratios with comparison of:
(i) the Capital Ratios, computed in accordance with the transitional arrangement
(ii) the Capital Ratios, had the transitional arrangement not been applied.

Group	**With Transitional Arrangement (%)**		**Without Transitional Arrangement (%)**	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
Before deducting proposed dividend				
CET1 Capital Ratio	**16.925%**	17.030%	**16.767%**	16.750%
Tier 1 Capital Ratio	**17.812%**	17.914%	**17.654%**	17.634%
Total Capital Ratio	**19.249%**	19.366%	**19.101%**	19.266%

Bank	**With Transitional Arrangement (%)**		**Without Transitional Arrangement (%)**	
	31 Dec 2021	31 Dec 2020	**31 Dec 2021**	31 Dec 2020
Before deducting proposed dividend				
CET1 Capital Ratio	**17.122%**	17.033%	**16.946%**	16.790%
Tier 1 Capital Ratio	**18.246%**	18.155%	**18.070%**	17.912%
Total Capital Ratio	**18.764%**	18.568%	**18.654%**	18.508%

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

42 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 and of the Bank.

	Group		*Bank*	
Principal amount	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Direct credit substitutes	**642,637**	571,769	**625,220**	551,207
Transaction-related contingent items	**10,480,561**	9,001,843	**8,807,141**	7,727,208
Short-term self-liquidating trade-related contingencies	**612,771**	536,055	**560,360**	460,390
Formal standby facilities and credit lines				
- Maturity not exceeding one year	**8,239,721**	7,229,606	**6,877,826**	5,840,490
- Maturity exceeding one year	**15,153,783**	14,090,402	**11,963,035**	11,779,180
Other unconditionally cancellable	**15,851,700**	15,927,899	**13,507,758**	13,633,727
Unutilised credit card lines	**12,763,796**	13,347,584	**9,305,109**	9,658,284
Foreign exchange related contracts:				
- Less than one year	**69,987,915**	79,984,757	**70,463,324**	79,946,550
- Over one year to less than five years	**4,875,308**	4,400,810	**4,896,130**	4,478,825
- Over five years	**567,821**	1,043,567	**567,821**	1,043,567
Interest/profit rate related contracts:				
- Less than one year	**8,672,915**	10,115,382	**8,907,915**	10,569,974
- Over one year to less than five years	**23,650,660**	22,496,732	**24,837,128**	23,356,232
- Over five years	**1,599,836**	2,151,934	**1,599,836**	2,151,934
Gold and other precious metals contracts:				
- Less than one year	**11,254**	15,559	**11,254**	15,559
Equity related contracts:				
- Less than one year	**759,125**	629,277	**1,002,501**	957,558
- Over one year to less than five years	**1,229,215**	1,006,580	**1,821,834**	1,504,231
	175,099,018	182,549,756	**165,754,192**	173,674,916

of which the amount related to SIAF/IAA arrangement (refer to Note12(i) for more details) are as below:

Formal standby facilities and credit lines:				
- Maturity not exceeding one year	**-**	50,516	**-**	50,516
- Maturity exceeding one year	**180,534**	15,083	**180,534**	15,083
	180,534	65,599	**180,534**	65,599

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

43 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

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

Group At 31 Dec 2021	Contract / Notional Amount Up to 1 Year RM'000	Contract / Notional Amount > 1 - 5 Years RM'000	Contract / Notional Amount > 5 Years RM'000	Contract / Notional Amount Total RM'000	Positive Fair Value Up to 1 Year RM'000	Positive Fair Value > 1 - 5 Years RM'000	Positive Fair Value > 5 Years RM'000	Positive Fair Value Total RM'000	Negative Fair Value Up to 1 Year RM'000	Negative Fair Value > 1 - 5 Years RM'000	Negative Fair Value > 5 Years RM'000	Negative Fair Value Total RM'000
Trading derivatives:												
Foreign exchange contracts												
- Forwards	66,792,699	761,994	-	67,554,693	310,172	6,612	-	316,784	264,509	3,782	-	268,291
- Swaps	2,558,802	4,113,314	567,821	7,239,937	103,218	125,748	73,771	302,737	103,762	33,279	19,249	156,290
- Options	636,414	-	-	636,414	2,202	-	-	2,202	672	-	-	672
Interest/profit rate related contracts												
- Options	448,745	110,762	-	559,507	847	68	-	915	4,655	15	-	4,670
- Swaps	7,654,170	22,989,898	1,599,836	32,243,904	21,655	221,800	28,480	271,935	26,207	199,917	31,310	257,434
Equity related contracts												
- Options	759,125	1,229,215	-	1,988,340	7,909	22,025	-	29,934	129,873	109,907	-	239,780
Precious metal contracts												
- Options	11,254	-	-	11,254	-	-	-	-	28	-	-	28
Sub- total	78,861,209	29,205,183	2,167,657	110,234,049	446,003	376,253	102,251	924,507	529,706	346,900	50,559	927,165
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	570,000	550,000	-	1,120,000	-	-	-	-	7,310	13,106	-	20,416
Sub- total	570,000	550,000	-	1,120,000	-	-	-	-	7,310	13,106	-	20,416
Total	79,431,209	29,755,183	2,167,657	111,354,049	446,003	376,253	102,251	924,507	537,016	360,006	50,559	947,581

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

43 Derivative Financial Instruments (Cont'd)

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

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

Group	**Contract / Notional Amount**				**Positive Fair Value**				**Negative Fair Value**			
At 31 Dec 2020	**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	75,909,799	552,972	-	76,462,771	923,016	2,409	-	925,425	976,257	9,002	-	985,259
- Swaps	3,572,306	3,847,838	1,043,567	8,463,711	182,779	257,764	72,198	512,741	85,871	100,520	33,247	219,638
- Options	502,652	-	-	502,652	1,459	-	-	1,459	2,978	-	-	2,978
Interest/profit rate related contracts												
- Options	955,008	193,346	-	1,148,354	4,393	2,456	-	6,849	6,639	-	-	6,639
- Swaps	8,760,374	21,183,386	2,151,934	32,095,694	41,096	415,524	99,597	556,217	37,936	386,468	91,102	515,506
Equity related contracts												
- Options	629,277	1,006,580	-	1,635,857	14,041	16,688	-	30,729	22,564	38,264	-	60,828
Precious metal contracts												
- Options	15,559	-	-	15,559	9	-	-	9	36	-	-	36
Sub- total	90,344,975	26,784,122	3,195,501	120,324,598	1,166,793	694,841	171,795	2,033,429	1,132,281	534,254	124,349	1,790,884
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	400,000	1,120,000	-	1,520,000	-	-	-	-	4,440	44,928	-	49,368
Sub- total	400,000	1,120,000	-	1,520,000	-	-	-	-	4,440	44,928	-	49,368
Total	90,744,975	27,904,122	3,195,501	121,844,598	1,166,793	694,841	171,795	2,033,429	1,136,721	579,182	124,349	1,840,252

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

43 Derivative Financial Instruments (Cont'd)

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

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 **At 31 Dec 2021**	**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	67,316,115	761,994	-	68,078,109	305,755	6,612	-	312,367	265,943	3,782	-	269,725
- Swaps	2,510,795	4,134,136	567,821	7,212,752	104,315	125,908	73,771	303,994	103,604	33,381	19,249	156,234
- Options	636,414	-	-	636,414	2,202	-	-	2,202	672	-	-	672
Interest rate related contracts												
- Options	448,745	472,730	-	921,475	847	12,843	-	13,690	4,655	15	-	4,670
- Swaps	7,889,170	23,814,398	1,599,836	33,303,404	21,655	221,900	28,480	272,035	26,988	215,651	31,310	273,949
Equity related contracts												
- Options	1,002,501	1,821,834	-	2,824,335	7,909	26,185	-	34,094	135,395	125,610	-	261,005
Precious metal contracts												
- Options	11,254	-	-	11,254	-	-	-	-	28	-	-	28
Sub- total	79,814,994	31,005,092	2,167,657	112,987,743	442,683	393,448	102,251	938,382	537,285	378,439	50,559	966,283
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	570,000	550,000	-	1,120,000	-	-	-	-	7,310	13,106	-	20,416
Sub- total	570,000	550,000	-	1,120,000	-	-	-	-	7,310	13,106	-	20,416
Total	80,384,994	31,555,092	2,167,657	114,107,743	442,683	393,448	102,251	938,382	544,595	391,545	50,559	986,699

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

43 Derivative Financial Instruments (Cont'd)

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

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 At 31 Dec 2020	**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	75,871,592	552,972	-	76,424,564	922,628	2,409	-	925,037	974,754	9,002	-	983,756
- Swaps	3,572,306	3,925,853	1,043,567	8,541,726	182,765	262,095	72,198	517,058	85,871	100,520	33,247	219,638
- Options	502,652	-	-	502,652	1,459	-	-	1,459	2,978	-	-	2,978
Interest rate related contracts												
- Options	1,198,600	193,346	-	1,391,946	4,393	2,456	-	6,849	10,510	-	-	10,510
- Swaps	8,971,374	22,042,886	2,151,934	33,166,194	41,096	415,347	99,597	556,040	38,982	419,128	91,102	549,212
Equity related contracts												
- Options	957,558	1,504,231	-	2,461,789	14,041	16,736	-	30,777	32,343	51,563	-	83,906
Precious metal contracts												
- Options	15,559	-	-	15,559	9	-	-	9	36	-	-	36
Sub- total	91,089,641	28,219,288	3,195,501	122,504,430	1,166,391	699,043	171,795	2,037,229	1,145,474	580,213	124,349	1,850,036
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	400,000	1,120,000	-	1,520,000	-	-	-	-	4,440	44,928	-	49,368
Sub- total	400,000	1,120,000	-	1,520,000	-	-	-	-	4,440	44,928	-	49,368
Total	91,489,641	29,339,288	3,195,501	124,024,430	1,166,391	699,043	171,795	2,037,229	1,149,914	625,141	124,349	1,899,404

	Group and Bank	
	31 Dec 2021	31 Dec 2020
Included in the net non-interest income is the net losses arising from fair value hedges during the financial year as follows:	**RM'000**	RM'000
Gains/(losses) on hedging instruments	**20,486**	(28,223)
(Losses)/gains on the hedged items attributable to the hedged risk	**(20,451)**	28,323
Net gains from fair value hedges	**35**	100

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

44 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 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Carrying amount of assets and collateral pledged				
- Collateral pledged on derivative contracts (ISDA [1])	**327,761**	100,711	**327,761**	100,711
Fair value of assets and collateral accepted				
- Securities bought under reverse repurchase agreement	**6,139,054**	6,911,292	**6,139,054**	6,911,292
- Securities sold under regulated short selling	**298,970**	3,263	**298,970**	3,263
- Collateral accepted on derivative contracts (ISDA [1])	**297,245**	615,800	**297,245**	615,800

[1] ISDA: International Swaps and Derivatives Association

45 Capital Commitments

	Group		*Bank*	
	31 Dec 2021 RM'000	31 Dec 2020 RM'000	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Property and equipment				
- Authorised and contracted, but not provided for	**117,337**	113,326	**117,337**	113,326

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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) 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. For HSBC Malaysia, the last grant of options under this plan was in 2012. However, anyone employed within the HSBC Group and is working for HSBC UK at the time of invitation, will be eligible for this plan. Such employees who are transferred to HSBC Malaysia are entitled to apply or continue with the said plan.

Under this plan, employees may make monthly contributions up to £500 with the option to use the savings to acquire shares. The options are generally exercisable within six months following from either the third or fifth anniversary of the commencement of a three-year or five-year contract, 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

	2021		2020	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Balance at 1 January	**1**	**4.05**	5	4.70
Transferred out in the financial year	**(1)**	**4.85**	(4)	4.69
Balance at 31 December	**-**	**-**	1	4.05
Options vested at 31 December	**-**		-	

	2021 RM'000	2020 RM'000
Compensation cost recognised during the financial year	**-**	-

Bank

	2021		2020	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Balance at 1 January	**1**	**4.05**	5	4.70
Transferred out in the financial year	**(1)**	**4.85**	(4)	4.69
Balance at 31 December	**-**		1	4.05
Options vested at 31 December	**-**		-	

	2021 RM'000	2020 RM'000
Compensation cost recognised during the financial year	**-**	-

The weighted average remaining contractual life for the share options is nil (2020: 1.0 year).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

46 Equity-based Compensation (Cont'd)

(b) Restricted Share Plan and Share Match Schemes

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

The 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 £750 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*	
	2021 Number ('000)	2020 Number ('000)	**2021 Number ('000)**	2020 Number ('000)
Balance at 1 January	**540**	468	**519**	457
Granted in the financial year	**370**	467	**357**	439
Exercised in the financial year	**-**	(297)	**-**	(281)
Released in the financial year	**(341)**	(52)	**(333)**	(51)
Cancelled in the financial year	**(47)**	(23)	**(36)**	(22)
Transferred out in the financial year	**(18)**	(23)	**(18)**	(23)
Balance at 31 December	**504**	540	**489**	519

	2021 RM'000	2020 RM'000	**2021 RM'000**	2020 RM'000
Compensation cost recognised during the financial year	**8,802**	9,907	**8,734**	9,654

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan and the Share Match Schemes is £4.06 (2020: £5.50). The weighted average fair value of the HSBC share at 31 December 2021 for the share granted during the year was £4.87 (2020: £5.75). The weighted average remaining vesting period as at 31 December 2021 was 1.03 years (2020: 1.20 years).