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

FINANCIAL STATEMENTS – 31 DECEMBER 2019

Domiciled in Malaysia.
Registered Office:
10th Floor, North Tower,
2, Leboh Ampang,
50100 Kuala Lumpur

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

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

Datin Che Teh Ija Binti Mohd Jalil
Independent Non-Executive Director *(appointed on 1 August 2019)*

CORPORATE GOVERNANCE DISCLOSURES

The statement of corporate governance practices set out on pages 2 to 14 and the information referred to therein constitutes 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 set out below:

Tan Sri Dato' Tan Boon Seng @ Krishnan, 68
Independent Non-Executive Chairman
Member of the Audit Committee, Risk Committee and 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 Audit Committee, Risk Committee and 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.

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 Director of IJM Plantations Berhad, Grupo Concesionario del Oeste S.A., Argentina, Malaysia Airlines Berhad, and Malaysia Aviation Group Berhad. He is also a member of the Board of Trustees 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, 60
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 (HBMS).

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 16.

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

Directors (Cont'd)

Mukhtar Malik Hussain, 60
Non-Independent Executive Director
Appointed to the Board: December 2009

Mr Mukhtar was appointed as the Non-Independent Executive Director on 15 December 2009.

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 is currently HSBC Group General Manager and Head of Belt & Road Initiatives for HSBC Asia Pacific.

Mr Mukhtar is a Non-Independent Executive Director of HSBC Amanah Malaysia Berhad, Director and Chairman of HSBC Bank (Singapore) Limited and Director of The ICLIFF Leadership and Governance Centre.

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 16.

Lee Choo Hock, 67
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, Yayasan Kossan and a Non-Independent Non-Executive Director of HSBC Amanah Malaysia Berhad.

Mr Lee does not have any shareholding in the Bank.

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

Directors (Cont'd)

Tan Kar Leng @ Chen Kar Leng, 76
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 an Independent Director of Eastern & Oriental Berhad and 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, 65
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 is an Independent Director of Danajamin Nasional Berhad and a member of FAA Accreditation Council.

Mr Choo does not have any shareholding in the Bank.

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

Directors (Cont'd)

Datin Che Teh Ija Binti Mohd Jalil, 66
Independent Non- Executive Director
Member of the Audit Committee and Risk Committee
Appointed to the Board: August 2019

Datin Teh has been appointed as Independent Non-Executive Director of HSBC Bank Malaysia Berhad on 1 August 2019. She is a member of the Audit Committee and Risk Committee of the Bank.

Datin Teh holds a Bachelor of Arts (Honours) from University of Malaya and Master of Business Administration from Southern New Hampshire University. She began her career in the civil service and built her competency in the area of economic policy-making and international trade and finance through her 24 years in government. She retired from the Securities Commission of Malaysia (SC) where she had served for 17 years since 2000 in various capacities including Executive Director and as Advisor of Special Projects in the Chairman's Office. During her stint in the SC, she was involved in capital market policies development and regulation, human capital development and training and education. She also co-led in the establishment of the Securities Industry Dispute Resolution Centre, Private Pension Administrator and the Capital Markets Promotion Council.

Her other experience included trade and financial services negotiations as Lead Negotiator in the World Trade Organization, Association of Southeast Asian Nations and Asia–Pacific Economic Cooperation as well as representing the Ministry of Finance ("MoF") in World Bank, International Monetary Fund, APEC Finance Ministers meetings during her tenure with MoF from 1990 to 1999.

She is currently an Independent Non-Executive Director of UEM Sunrise Berhad and Finance Accreditation Agency Berhad.

Datin Teh does not have any shareholding in the Bank.

BOARD RESPONSIBILITY AND OVERSIGHT

Board of Directors

The objectives of the management structure within the Bank, headed by the Board of Directors and led by the Independent Non-Executive Chairman, 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 annual operating 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 seven (7) members; comprising one (1) Independent Non-Executive Chairman, two (2) Non-Independent Executive Directors and four (4) 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.

On 1 August 2019, Datin Che Teh Ija Binti Mohd Jalil was appointed as Independent Non-Executive Director of the Bank.

Appointments to the Board are made on merit and candidates are considered against objective criteria, having due regard to the benefits of diversity on the Board. A rigorous selection process, overseen by the Nominations and Remuneration Committee and based on agreed requirements including BNM Corporate Governance Policy requirements are followed in relation to the appointment of Directors.

All Directors, including those appointed by the Board to fill a casual vacancy, are subject 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 years.

The terms and conditions of appointment of Non-Executive Directors are set out in a letter of appointment, which include the expectations 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 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 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. They bring an external perspective, constructively challenge and help develop proposals on strategy, scrutinise the performance of management in meeting agreed goals and objectives, 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 judgment, and there are no relationships or circumstances likely to affect the judgment of the Independent Non-Executive Directors.

The roles of the Independent Chairman 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.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

Board and Committee Meetings
Six (6) Board meetings were held in 2019. The table below show each Director's attendance (including attendance via video conferencing) at meetings of all Board and Committee meetings during 2019. 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.

2019 Board and Committee meeting attendance	Board	Audit Committee	Risk Committee	Nominations and Remuneration Committee
Total number of meetings held	**6**	**4**	**6**	**4**
Independent Non-Executive Chairman				
Tan Sri Dato' Tan Boon Seng @ Krishnan	6	3	6	4
Non-Independent Executive Directors				
Stuart Paterson Milne	5	-	-	-
Mukhtar Malik Hussain	6	-	-	-
Independent Non-Executive Directors				
Lee Choo Hock	6	4	-	4
Tan Kar Leng @ Chen Kar Leng	6	-	6	4
Choo Yoo Kwan @ Choo Yee Kwan	6	4	6	4
Datin Che Teh Ija Binti Mohd Jalil[1]	2	1	2	-

[1] Appointed as Independent Non-Executive Director with effect from 1 August 2019.

Directors' Emoluments

Details of the emoluments of the Directors of the Bank for 2019, disclosed in accordance with the Companies Act 2016, are shown in Note 39(b) to the financial statements.

Training and Development

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

Training and development are provided for Directors, and are regularly reviewed by the Nominations and Remuneration Committee supported by 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 approved by the Board. Awareness and discussion sessions were conducted by senior executives and subject matter experts on emerging technologies, financial crime compliance, regulatory initiatives and other business developments.

During the year, Directors have also attended talks, dialogue sessions and focus group sessions organised by Financial Institutions Directors' Education (FIDE) Forum, and have received refresher training and courses related to financial crime and cybersecurity. The Audit Committee and Risk Committee Chairmen have attended a two-day forum for the HSBC Group's Non-Executive Directors held in June 2019.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees

The Board has established a number of committees, the membership of which comprises Independent Non-Executive Directors who have the skills, knowledge and experience relevant to the responsibilities of the committee. The Board and each Board committee have terms of reference to 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 non-executive responsibility for oversight of and advice to the Board on financial reporting, including Pillar 3 Disclosures and internal controls over financial reporting, covering all material 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 oversight of the external auditors.

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

The Audit Committee meets regularly with the Bank's senior financial and internal audit management and 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
- Tan Sri Dato' Tan Boon Seng @ Krishnan
- Datin Che Teh Ija bt Mohd Jalil *(appointed on 1 October 2019)*

During 2019, the Audit Committee held 4 meetings. Attendance is set out in the table on page 7.

2. Risk Committee

The Risk Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on risk related matters and the principal risks 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.

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

2. Risk Committee (Cont'd)

The current members of the Risk Committee, all being Independent Non-Executive Directors, are:
- Choo Yoo Kwan @ Choo Yee Kwan (Chairman)
- Tan Sri Dato' Tan Boon Seng @ Krishnan
- Tan Kar Leng @ Chen Kar Leng
- Datin Che Teh Ija bt Mohd Jalil *(appointed on 1 October 2019)*

During 2019, the Risk Committee held 6 meetings. 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 non-executive responsibility for: (i) leading the process for Board appointments and for identifying and nominating, for the approval of the Board, candidates for appointment to the Board; (ii) reviewing the candidates for appointment to the senior management team; and (iii) supporting the Board in overseeing the operation of the Bank's remuneration system and reviewing the remuneration of Directors on the Board.

The Nominations and Remuneration Committee considers plans for orderly succession to the Board and 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 implementation of actions arising from the performance evaluation are reported to the Board during 2019.

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 members of the Nominations and Remuneration Committee, being all 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 2019, the Nominations Committee held 4 meetings. Attendance is set out in the table on page 7.

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 Transaction 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

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

Delegations By the Board (Cont'd)

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 exercising all of the powers, authorities and discretions of the Board in so far as they concern the management and day-to-day running of the Bank, in accordance with such policies and directions as the Board may from time to time determine. 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 were 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.

(ii) Risk Management Meeting

The Risk Management Meeting is responsible for the oversight of the risk framework. Regular Risk Management Meetings (RMM), 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.

(iii) Financial Crime Risk Management Committee

The Financial Crime Risk Management Committee is responsible for the management of financial crime risk and to support the CEO in discharging the financial crime risk responsibilities.

(iv) IT Steering Committee

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

(v) People Committee

The People Committee is established as a principle human resource forum to drive People Plan i.e. build capability, talent, succession and leaders. The Committees oversees the development and delivery of key people initiative or programmes, and resolve any critical people risks or issues.

Conflicts of Interest and Indemnification of Directors

The Board has adopted a 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 Bank maintained on a group basis, a Directors' and Officers' Liability Insurance which provides adequate insurance cover for the Directors and Officers of the Group and the Bank.

None of the Directors had, during the year, any material interest, directly or indirectly, in any contract of significance with 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 Bank.

MANAGEMENT REPORTS

The Board meetings are structured around a pre-set agenda and reports for discussion, notation and approvals are circulated in advance of the meeting dates. To enable Directors to keep abreast with the performance of the Bank and its subsidiaries (collectively known as the Group), key reports submitted to the Board during the financial year include:

- Minutes of the Board Committees
- 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
- Internal Capital Adequacy Assessment Process
- Quarterly and Annual Financial Statements
- Quarterly Internal Audit Progress Reports
- Risk Appetite Statement
- Risk and Compliance Reports
- Stress Testing Results

INTERNAL CONTROL FRAMEWORK

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems, and for determining 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 mis-statement, 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 5 February 2020, the date of approval of the audited financial statements of the Group and the Bank for the financial year ended 31 December 2019.

The key risk management and internal control procedures over financial reporting includes 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, for example 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.

  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. HSBC Group has commenced a refresh exercise to simplify the suite of entity level controls relied upon to meet the internal control principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, which is expected to complete in 2020 at HSBC Group level, and subsequently rolled-out to sites, including HSBC Malaysia.

- **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, the requirements of the Companies Act 2016 in Malaysia and guidelines issued by BNM. 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 quarterly reporting period, as well as analytical review procedure. The financial reports of the Group and the Bank are subject to certification by the Chief Financial Officer and Board's approval.

- **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. It spells out, and connect, the Group and the Bank's purpose, values, strategy and risk management principles, guiding on what is right and the manner to treat customers and colleagues fairly at all times.

INTERNAL CONTROL FRAMEWORK (Cont'd)

- **Enterprise risk management framework (ERMF)**
  The ERMF provides an effective and efficient approach to govern and oversee the organisation and monitor and mitigate risks to the delivery of the Group and the Bank's strategy. It applies to all categories of risk, covering core governance, standards and principles that bring together all risk management practices into an integrated structure.

- **Delegation of authority within limits set by the Board**
  Authority to manage the day to day running of the Group and the Bank is delegated within limits set by the Board to the Chief Executive who has responsibility for overseeing the establishment and maintenance of systems of control appropriate to the business and who has the authority to delegate such duties and responsibilities as he sees fit. Appointments to the most senior positions within the Group and the Bank require the approval of the Board of Directors.

- **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.

- **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.

- **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.

- **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.

- **Strategic plans**
  Strategic plans are prepared for global businesses and global functions within the framework of the HSBC Group's overall strategy. Annual operating plans, 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 sets out the key business initiatives and the likely financial effects of those initiatives.

The effectiveness of the Group and the Bank's system of risk management and internal control 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. The Audit Committee and Risk Committee have worked closely to ensure there were procedures to manage risk and oversee the internal control framework.

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

REMUNERATION POLICY

The remuneration policy for the HSBC Group aims to reward success, not failure, and to be properly aligned with the risk management framework and risk outcomes. In order to ensure alignment between remuneration and business strategy, individual remuneration is determined through assessment of performance, delivered against both annual and long-term objectives summarised in performance scorecards, as well as adherence to HSBC Values of being 'open, connected and dependable' and acting with 'courageous integrity'. Altogether, performance is judged not only on what is achieved over the short and long term, but also on how it is achieved, as the latter contributes to the sustainability of the organisation. The financial and non-financial measures incorporated in the annual and long-term scorecards are carefully considered to ensure alignment with the long-term strategy of the HSBC Group.

The Group and the Bank have fully adopted 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 the local regulations, the materiality of definition needs to be taken into consideration in ensuring a robust corporate governance framework has been duly applied for the Group and the Bank. Further reviews will be conducted to ensure continued adherence to the underlying principles of the local regulations.

RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

Rating Agency	Date	Rating Classification	Ratings Received
RAM Ratings Services Berhad	June 2019	• Long term	AAA
		• Short term	P1
		• Subordinated liabilities	AA1
		• Outlook	Stable
Moody's Investors Service	December 2019	• Foreign currency long term deposits	A3
		• Local currency long term deposits	A1
		• Foreign currency short term deposits	P-2
		• Local currency short term deposits	P-1
		• Outlook	Negative

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

Rating Agency	Date	Rating Classification	Ratings Received
RAM Ratings Services Berhad	June 2019	• 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 2019.

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
- Datin Che Teh Ija Binti Mohd Jalil *(appointed on 1 August 2019)*

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 income tax expense	1,303,322	1,113,932
Income tax expense	(301,407)	(259,838)
Profit after income tax expense	1,001,915	854,094

RESERVES AND PROVISIONS

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

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 1.1.2019	Acquired	Disposed	As at 31.12.2019
HSBC Holdings plc				
Ordinary shares of USD0.50				
Stuart Paterson Milne [1]	206,514	82,802	(38,146)	251,170
Mukhtar Malik Hussain	1,455,407	161,508	-	1,616,915

	Number of Shares			
	Shares held at 1.1.2019	Shares issued during the year[2]	Shares vested during the year	Shares held at 31.12.2019
HSBC Holdings plc				
HSBC Share Plan				
Stuart Paterson Milne [1]	103,344	34,064	(48,026)	89,382
Mukhtar Malik Hussain	240,174	109,606	(169,537)	180,243

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

None of the other Directors holding office at 31 December 2019 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

DIVIDENDS

The dividends paid since the end of the previous financial year were as follows:

	Per share (RM)	Total (RM'million)
In respect of financial year ended 31 December 2018:		
Ordinary shares		
Final dividend (paid on 26 April 2019)	1.16	265
In respect of financial year ended 31 December 2019:		
Ordinary shares		
Interim dividend (paid on 4 September 2019)	1.07	244
Special dividend (paid on 21 June 2019)	2.18	500

The Directors recommend the payment of a final dividend of RM0.80 per share, amounting to net dividend payment of RM183 million in respect of the financial year ended 31 December 2019. This dividend will be recognised in the subsequent financial year upon approval by the owner of the Bank.

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, Strategy and Outlook

Performance Review

The Group recorded profit before tax (PBT) of RM1,303.3 million for the financial year ended 31 December 2019, a decrease of RM225.4 million or 14.7% compared to the prior year.

The lower PBT was mainly contributed by lower income from Islamic banking operations (RM180.9m), higher other operating expenses (RM138.8m) and higher impairment allowances (RM54.7m), partially offset by higher net trading income (RM213.9m). The income from Islamic Banking operations was lower from RM699.4m to RM518.5m mainly due to elimination of intercompany income between the Bank and its subsidiary. Income from Islamic banking operations prior to elimination of intercompany income increased by RM13.5m from RM536.4m to RM550.0m year on year.

The Group continues to place high emphasis in managing its operating expenses to ensure that the resources were spent in a sustainable manner. The Group is committed to invest in people to support its growth aspiration and control agenda.

Total balance sheet size at 31 December 2019 has increased by 1.2% or RM1.0 billion to RM85.0 billion (31 December 2018: RM83.9 billion). The Group's capital and liquidity ratios remain strong and well above regulatory requirements.

Business Strategy during the Year 2019

During 2019, the Group and the Bank have largely focused its business strategy on sustainable growth, risk management, efficiency and streamlining, as well as offering innovative products and digital service solution to its clients.

In the retail business, the Retail Banking and Wealth Management (RBWM) focused its customer growth in three key customer segments primarily in Premier, Advance and the Retail Business Banking while maintaining balanced risk measures across its processes. New products and propositions were launched to meet different customer needs and widen our product based. The prominent ones are HSBC Fusion which provides a new and unique solution to both the small businesses and its owners, New World Selection Funds which allow Premier customers to choose from a range of preferred global portfolios of investments, and HSBC Everyday Global Account which is a transactional multi-currency account where customers open their accounts in MYR and get automatic access to various foreign currencies. Customers' growth remain strong, and market share in cards and mutual funds continue to trend upwards.

Commercial Banking (CMB) continued to deliver its strategy to position HSBC Malaysia as a leading international bank, assisting local corporates to expand their operations overseas, and thereby support foreign direct investment into Malaysia. Strong growth was recorded across key corridors in 2019, in particular ASEAN and China, as evidenced by robust revenue uplift in both ASEAN outbound and China inbound revenue. From the digital front, CMB has pioneered Malaysia's first block-chain Letter-of-Credit (LC) transaction during the year and successfully launched the first of its kind HSBCnet Trade Transaction Tracker, which enables customers to track real-time status of trade transactions quickly and easily. CMB also implemented a Supply Chain Finance Platform to enhance the digital trade capabilities in the emerging market of structured trade. In addition, there have been on-going efforts in the commercialisation of digital tools and streamlining initiatives to simplify processes and improvements in customer journeys.

Global Banking & Markets (GBM) also continued to seize advantage of its leadership and expertise in the debt capital to secure key deals that yielded ancillary income and opportunities. Collaboration with other HSBC entities continued to capture key growth opportunities in ASEAN and Belt and Road Initiative (BRI) corridors. Our offerings have been recognised in 2019, such as being voted Best Domestic Cash Manager in Malaysia for the third consecutive year and Best Cash Management Bank for Service in Malaysia (in the Euromoney Cash Management Survey 2019).

Separately, the HSBC Security Services (HSS) once again asserted its market leadership position as leading custodian and fund administrator by securing its position as No.1 Sub Custodian in Malaysia (11th consecutive year). HSS has also continued to increase collaboration with product partners, financial institutions group, and customer segments to increase its market share.

Performance Review, Strategy and Outlook (Cont'd)

Business Strategy during the Year 2019 (Cont'd)

HSBC Malaysia's strong financial position is also recognised by external parties including RAM Ratings Services Berhad, which in 2019 reaffirmed the Bank and HBMS's long term and short term ratings of AAA and P1 ratings respectively. The Group and the Bank also continued to maintain its market leader position in various segments, evident by the numerous awards that the Group and the Bank won in 2019. One of the most prestigious award is the 'Best International Bank' at the 2019 Asiamoney Best Bank Awards for Malaysia. This is the first time that the Group has been awarded this accolade and acknowledged of its achievements in network, business capabilities and business expansion.

Corporate social responsibility continues to be a key focus area of HSBC. In 2019, the Group and the Bank continued to focus on three main pillars which include developing Future Skills, Sustainable Network & Entrepreneurship and Sustainable Finance.

In addition the Group via HBMS, aspires to implement HSBC's sustainability agenda which is also in line with Bank Negara's Value Based Intermediation (VBI). VBI is an initiative which aims to encourage banks to generate positive and sustainable impact to the economy, community and environment through practices, conduct and offerings consistent with shareholder's sustainable returns and long term interests. In 2019, HBMS was awarded The Islamic Deal of the Year, The Best Deal in Malaysia, The Best Sukuk, and The Most Innovative Deal by The Asset Triple A Islamic Finance Awards for the issuance of 500 million ringgit United Nations Sustainable Development Goals (SDG) Sukuk, whereby the proceeds will be utilised to finance eligible businesses and projects in accordance with the HSBC SDG Bond Framework. The Bank will continue to explore different opportunities to ensure commitment towards the VBI agenda.

During the year, the Bank has also announced a streamlining initiative on its Global Operation Services, as part of its consistent aim to achieve operational and cost efficiency.

Outlook for 2020

For 2019, the Malaysian economy expanded annually by 4.3% (2018: 4.7%). Headline inflation was lower at 1.0% during 4Q 2019, mainly reflecting the lapse in the impact from sales and services tax (SST) implementation.

Going into 2020, the outlook of the global economy remains uncertain due to the ongoing coronavirus outbreak, outcome of various trade negotiations, geopolitical risks, weaker-than-expected growth of major trading countries and heightened volatility in the financial markets.

Amid the challenging environment, the growth in the Malaysian economy is still expected to gradually improve in 2020 with continued support from household spending and supportive monetary and fiscal policy changes. To secure the growth trajectory amid price stability, Bank Negara Malaysia, has on 22 January 2020, reduced the Overnight Policy Rate (OPR) by 25 basis points to 2.75%. This is in addition to the previous 25-basis point cut in May 2019.

Overall investment activity in 2020 is expected to record a modest recovery, underpinned by ongoing and new projects, both in the public and private sectors. The Finance Ministry, during Budget for 2020, has also forecasted the GDP for 2020 to grow by 4.8%.

In 2020, headline inflation is expected to average higher but remain modest. The trajectory of headline inflation will continue to be primarily dependent on global crude oil prices and the timing of the lifting of the domestic retail fuel price ceilings, but is expected to be broadly stable. The Ringgit, consistent with most regional currencies, has generally depreciated against US dollar during the year, and will continue to be affected by external factors.

From funding perspective, the banking system liquidity is expected to remain robust and sufficient to facilitate financial intermediation despite continuous strong competition among banks for deposits especially in view of Basel III's Net Stable Funding Ratio requirement coming into effect on 1 July 2020. BNM has also reduced the Statutory Reserve Requirement (SRR) Ratio from 3.5% to 3.0% effective from 16 November 2019 in an effort to maintain sufficient liquidity in the domestic financial system.

Performance Review, Strategy and Outlook (Cont'd)

Outlook for 2020 (Cont'd)

Separately, the much awaited digital banking licensing framework has been issued by BNM for industry consultation in late December 2019. BNM is expected to finalise the policy in first half of 2020 and up to five digital bank licences is expected to be issued to qualified applicants to conduct either conventional or Islamic banking business in Malaysia. Many local players are already eyeing the licence following from the issuance of digital banking licence in Singapore and Hong Kong, along with the successful set-up of a few digital banks in China, Australia and South Korea. Non-bank players from the FinTech sector are expected to join the crowd, leveraging on their well-established e-payment and e-wallet platforms. In time to come, the banking industry will face an unprecedented, new stream of competitors. Digital banking will definitely change the banking landscape and may prove to be one of the biggest disruption that the banking industry has seen in decades.

In attune to the rapid technology development, the Group and the Bank are also gearing up our technology frontier by enhancing digital capabilities for mobile and internet banking to improve customer service and experience. In addition, the Group and the Bank will continue to deepen the relationship with existing customers and also to penetrate new customer segments including the tech-savvy group.

The Group and the Bank will also continue to leverage on our international network and capabilities to capture cross-border opportunities in the ASEAN and Belt and Road Initiative (BRI) corridors. On the Islamic Banking front, the Group will continue to grow the HSBC Amanah franchise by leveraging on government schemes, providing customers with structured banking solutions and sustainable financing, and continue our commitment towards the VBI agenda.

In the spirit of putting customer's interest first and doing the right things, the Group and the Bank will also continue its journey in building the right culture for the organisation, providing continuous training and staff development, and gaining efficiency as we progress.

Awards won during the financial year:

HSBC Bank Malaysia Berhad

1. **Best International Bank in Malaysia** – Asiamoney Awards 2019

2. **Best Renminbi Bank** – The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2019 (2nd consecutive year)

3. **Best in Treasury and Working Capital - MNCs/LLCs, Malaysia** – The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2019

4. **Best Service Provider - Trade Finance, Malaysia** – The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2019 (second year in a row)

5. **Best Service Provider-Structured Trade Finance, Malaysia** – The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2019

6. **Best Payments and Collections Solution** – The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2019

7. **Best Trade and Supply Chain House** – Corporate Treasurer Awards 2018

8. **3rd place for Lead Manager Award 2018 -** 16thAnnual RAM League awards

9. **Banking, Investment & Insurance category, Bronze** – Putra Brand Awards 2019 (2nd consecutive year)

10. **#1 in Asia Pacific for Malaysian Ringgit as voted by Financial Institutions** – Euromoney Cash Management Survey 2019 – Market Leader (3rd consecutive year)

11. **Best Domestic Cash Manager in Malaysia as voted by Corporates** – Euromoney Cash Management Survey 2019 – Market Leader (3rd consecutive year)

12. **#1 Domestically for Overall Services in Malaysia** – Euromoney Cash Management Survey 2019 – Best Service

13. **#1 Sub Custodian in Malaysia (weighted)** – Global Investor / ISF Sub Custody Survey 2019 (11 consecutive years)

14. **Excellence in Recruitment Silver Award** – HR Excellence Award 2019

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

HSBC Bank Malaysia Berhad (Cont'd)

15. **Best Corporate Social Responsibility award** - AKPK Collaboration Awards 2018/2019

16. **Largest Visa Platinum Credit Card Issuer** – Visa Malaysia Bank Awards 2018/2019

17. **Largest Visa Platinum Credit Card Payment Volume** – Visa Malaysia Bank Awards 2018/2019

18. **Best Credit Card Cross Border Performance Premium** – MasterCard 2019

19. **Best bank, Global** - The Asset Country Awards 2019 (2nd consecutive year)

20. **Best corporate and institutional adviser, Global** - The Asset Country Awards 2019 (3rd consecutive year)

21. **Best bond adviser, Global** - The Asset Country Awards 2019 (13th consecutive year)

22. **Best bond, Malaysia for Government of Malaysia 200 billion yen JBIC-guaranteed bond** - The Asset Country Awards 2019

23. **Best FIG bond, Malaysia for RHB Bank US$300 million senior notes** - The Asset Country Awards 2019

24. **Best Panda bond, Malaysia for Maybank 2 billion renminbi dual-tranche Panda bond** - The Asset Country Awards 2019

25. **Best local currency bond, Malaysia for Mercedes-Benz Services Malaysia 250 million ringgit medium-term note** - The Asset Country Awards 2019 (2nd consecutive year)

HSBC Amanah Malaysia Berhad

1. **Islamic deal of the year for HSBC Amanah's 500 million ringgit United Nations sustainable development goals sukuk** – The Asset Triple A Islamic Finance Awards 2019

2. **Best deal, Malaysia for HSBC Amanah's 500 million ringgit United Nations sustainable development goals sukuk** – The Asset Triple A Islamic Finance Awards 2019

3. **Best sukuk for HSBC Amanah's 500 million ringgit United Nations sustainable development goals sukuk** – The Asset Triple A Islamic Finance Awards 2019

4. **Most innovative deal for HSBC Amanah's 500 million ringgit United Nations sustainable development goals sukuk** – The Asset Triple A Islamic Finance Awards 2019

5. **Best Trade Finance Bank** – The Asset Triple A Islamic Finance Awards 2019

6. **Best Corporate Sukuk for Tenaga Nasional's US$750 million sukuk wakala** – The Asset Triple A Islamic Finance Awards 2019

7. **Largest Payment Volume Islamic Credit Card** – Visa Malaysia Bank Awards 2018/2019

8. **Best Country Deal Award for Serba Dinamik's US$300 million 3-year high yield sukuk -** FinanceAsia Achievement Awards 2019

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 5 February 2020.

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

…………………….…………………….….…….
STUART PATERSON MILNE
Director

…………………….…………………….….…….
LEE CHOO HOCK
Director

Kuala Lumpur, Malaysia
5 February 2020

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

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 31 to 179 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 2019 and financial performance of the Group and of the Bank for the financial year ended 31 December 2019 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 5 February 2020.

……………………………………………….

STUART PATERSON MILNE
Director

……………………………………………….

LEE CHOO HOCK
Director

Kuala Lumpur, Malaysia
5 February 2020

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 31 to 179 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 5 February 2020.

....
SUN WENYUN

BEFORE ME:

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HSBC BANK MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company 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 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 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 2019 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 year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 31 to 179.

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' Code of Ethics for Professional Accountants ("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 list of 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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

(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 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 member 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
LLP0014401-LCA & AF 1146
Chartered Accountants

SOO HOO KHOON YEAN
02682/10/2021 J
Chartered Accountant

Kuala Lumpur
18 February 2020

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

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

		Group		*Bank*	
		31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Assets					
Cash and short-term funds	*8*	**9,623,962**	7,908,159	**4,847,237**	5,137,240
Securities purchased under resale agreements		**6,645,298**	2,557,198	**6,645,298**	2,557,198
Deposits and placements with banks and other financial institutions	*9*	**139,153**	227,535	**1,011,570**	1,369,248
Financial assets at fair value through profit and loss (FVTPL)	*10*	**1,391,978**	2,327,385	**1,391,978**	2,327,385
Financial investments at fair value through other comprehensive income (FVOCI)	*11*	**11,907,954**	13,720,317	**9,187,979**	10,994,634
Loans, advances and financing	*12*	**51,289,860**	53,308,493	**38,246,907**	39,171,156
Derivative financial assets	*43*	**1,440,197**	1,299,939	**1,440,057**	1,303,262
Other assets	*15*	**432,253**	634,695	**424,659**	658,356
Statutory deposits with Bank Negara Malaysia	*16*	**992,351**	1,200,662	**662,689**	836,000
Investments in subsidiary companies	*17*	**-**	-	**660,021**	660,021
Property and equipment	*19*	**834,156**	467,730	**827,055**	460,862
Intangible assets	*20*	**38,854**	39,691	**38,854**	39,691
Tax recoverable		**89,458**	20,850	**89,458**	20,850
Deferred tax assets	*21*	**125,695**	208,895	**101,787**	191,532
Total assets		**84,951,169**	83,921,549	**65,575,549**	65,727,435
Liabilities					
Deposits from customers	*22*	**59,407,190**	57,147,153	**46,086,878**	45,702,597
Deposits and placements from banks and other financial institutions	*23*	**3,683,684**	5,518,751	**1,770,927**	2,798,088
Repurchase agreement		**-**	147,871	**-**	147,871
Bills payable		**176,652**	250,704	**154,616**	232,110
Derivative financial liabilities	*43*	**1,282,269**	1,116,285	**1,328,082**	1,134,562
Structured liabilities designated at fair value through profit and loss	*24*	**4,860,845**	4,158,241	**3,565,487**	3,273,364
Other liabilities	*25*	**2,478,076**	2,389,097	**2,195,727**	2,192,462
Provision for taxation		**12,007**	164,706	**-**	135,186
Multi-Currency Sukuk Programme	*26*	**1,265,929**	1,755,281	**-**	-
Subordinated liabilities	*27*	**1,089,612**	1,095,987	**1,089,612**	1,095,987
Total liabilities		**74,256,264**	73,744,076	**56,191,329**	56,712,227
Equity					
Share capital	*28*	**1,045,875**	1,045,875	**1,045,875**	1,045,875
Other equity and reserves	*29*	**9,649,030**	9,131,598	**8,338,345**	7,969,333
Total equity attributable to owner of the Bank		**10,694,905**	10,177,473	**9,384,220**	9,015,208
Total liabilities and equity		**84,951,169**	83,921,549	**65,575,549**	65,727,435
Commitments and contingencies	*42*	**198,344,398**	188,548,995	**193,751,469**	183,918,046

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 2019

		Group		Bank	
		31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Interest income	*30*	**2,366,611**	2,380,431	**2,404,076**	2,430,422
Interest expense	*30*	**(787,044)**	(757,024)	**(787,044)**	(757,024)
Net interest income	*30*	**1,579,567**	1,623,407	**1,617,032**	1,673,398
Fee and commission income	*31*	**453,138**	464,983	**450,689**	464,983
Fee and commission expense	*31*	**(58,095)**	(66,072)	**(58,095)**	(66,072)
Net fee and commission income	*31*	**395,043**	398,911	**392,594**	398,911
Net trading income	*32*	**676,482**	462,576	**612,376**	577,951
Income from Islamic banking operations	*33*	**518,536**	699,408	**-**	-
Net expenses from financial liabilities designated at fair value		**(114,853)**	(90,036)	**(114,853)**	(90,036)
Other operating income	*34*	**49,455**	41,806	**214,666**	177,970
Operating income before impairment losses		**3,104,230**	3,136,072	**2,721,815**	2,738,194
Impairment allowance/provisions	*35*	**(136,693)**	(81,950)	**(61,210)**	(12,506)
Net operating income		**2,967,537**	3,054,122	**2,660,605**	2,725,688
Other operating expenses	*36*	**(1,664,215)**	(1,525,390)	**(1,546,673)**	(1,398,525)
Profit before tax		**1,303,322**	1,528,732	**1,113,932**	1,327,163
Tax expense	*37*	**(301,407)**	(349,847)	**(259,838)**	(300,978)
Profit for the financial year		**1,001,915**	1,178,885	**854,094**	1,026,185

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 2019

		Group		Bank	
		31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Other comprehensive income/(expense)					
Items that will not be reclassified to profit or loss					
Revaluation reserve:					
Surplus/(Deficit) on revaluation properties		**3,391**	(3,499)	**3,391**	(3,499)
Income tax effect		**(570)**	(6,111)	**(570)**	(6,111)
Own credit reserve:					
Change in fair value		**(14,889)**	(10,226)	**(7,955)**	(5,367)
Income tax effect		**3,573**	2,454	**1,909**	1,288
Items that will subsequently be reclassified to profit or loss when specific conditions are met					
Fair value through other comprehensive income reserve:					
Change in fair value		**107,635**	(2,649)	**91,350**	(2,363)
Amount transferred to profit or loss		**(54,386)**	(15,724)	**(45,733)**	(16,205)
Impairment charges		**28**	135	**14**	110
Income tax effect		**(15,073)**	2,025	**(13,242)**	2,071
Financial assets designated as fair value through other comprehensive income:					
Change in fair value		**9,557**	9,999	**9,557**	9,999
Other comprehensive income/(expense) for the financial year, net of income tax		**39,266**	(23,596)	**38,721**	(20,077)
Profit attributable to the owner of the Bank		**1,001,915**	1,178,885	**854,094**	1,026,185
Total comprehensive income attributable to the owner of the Bank		**1,041,181**	1,155,289	**892,815**	1,006,108
Basic earnings per RM0.50 ordinary share	*38*	**437.5 sen**	514.8 sen	**373.0 sen**	448.1 sen
Dividends per RM0.50 ordinary share (net)					
- final dividend paid in respect of prior year		**115.7 sen**	87.3 sen	**115.7 sen**	87.3 sen
- interim dividend paid in respect of the year		**106.6 sen**	108.3 sen	**106.6 sen**	108.3 sen
- special dividend paid in respect of current year		**218.3 sen**	-	**218.3 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 CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Group (RM'000)	*Non-distributable*							*Distributable*	
	Share capital	*Other equity instrument* [1]	*Revaluation reserve*	*FVOCI reserve*	*Own credit reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total equity*
2019									
Balance at 1 January	**1,045,875**	**-**	**204,890**	**125,969**	**(6,863)**	**99,586**	**559,200**	**8,148,816**	**10,177,473**
Profit for the financial year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,001,915**	**1,001,915**
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	**-**	**-**	**(2,348)**	**-**	**-**	**-**	**-**	**2,348**	**-**
Surplus on revaluation of properties	**-**	**-**	**3,391**	**-**	**-**	**-**	**-**	**-**	**3,391**
Deferred tax adjustment on revaluation reserve	**-**	**-**	**(570)**	**-**	**-**	**-**	**-**	**-**	**(570)**
FVOCI reserve/Own credit reserve									
Net change in fair value	**-**	**-**	**-**	**89,066**	**(11,316)**	**-**	**-**	**-**	**77,750**
Net amount transferred to profit or loss	**-**	**-**	**-**	**(41,333)**	**-**	**-**	**-**	**-**	**(41,333)**
Transfer to retained profits upon realisation of unquoted investments	**-**	**-**	**-**	**(57)**	**-**	**-**	**-**	**57**	**-**
Impairment charges	**-**	**-**	**-**	**28**	**-**	**-**	**-**	**-**	**28**
Total other comprehensive income	**-**	**-**	***473***	***47,704***	***(11,316)***	**-**	**-**	***2,405***	***39,266***
Total comprehensive income for the financial year	**-**	**-**	**473**	**47,704**	**(11,316)**	**-**	**-**	**1,004,320**	**1,041,181**
Net change in regulatory reserves	**-**	**-**	**-**	**-**	**-**	**-**	**(73,000)**	**73,000**	**-**
Transactions with the owner, recorded directly in equity									
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**424**	**-**	**(3,628)**	**(3,204)**
Other equity instrument issued [1]	**-**	**500,000**	**-**	**-**	**-**	**-**	**-**	**-**	**500,000**
Dividends paid to owner - 2018 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(265,000)**	**(265,000)**
Dividends paid to owner - 2019 special	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(500,000)**	**(500,000)**
Dividends paid to owner - 2019 interim	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(244,000)**	**(244,000)**
Discretionary coupon on other equity instrument issued	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(11,545)**	**(11,545)**
Balance at 31 December	**1,045,875**	**500,000**	**205,363**	**173,673**	**(18,179)**	**100,010**	**486,200**	**8,201,963**	**10,694,905**

[1] On 21 June 2019, the Group and the Bank issued RM500.0 million Additional Tier 1 Perpetual Capital Term Loan. Details of the issuance are set out in Note 29 to the financial statements.

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 2019 (Cont'd)

Group (RM'000)	*Non-distributable*							*Distributable*	
	Share capital	*Revaluation reserve*	*Available-for-sale reserve*	*FVOCI reserve*	*Own credit reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total equity*
2018									
Balance at 1 January									
- As previously stated	1,045,875	216,937	131,657	-	230	94,583	284,000	7,562,878	9,336,160
- Impact on transition to MFRS 9	-	-	(131,657)	132,183	679	-	43,680	88,046	132,931
- As restated	1,045,875	216,937	-	132,183	909	94,583	327,680	7,650,924	9,469,091
Profit for the financial year	-	-	-	-	-	-	-	1,178,885	1,178,885
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	-	(2,437)	-	-	-	-	-	2,437	-
Deficit on revaluation of properties	-	(3,499)	-	-	-	-	-	-	(3,499)
Deferred tax adjustment on revaluation reserve	-	(6,111)	-	-	-	-	-	-	(6,111)
FVOCI reserve/Own credit reserve									
Net change in fair value	-	-	-	5,601	(7,772)	-	-	-	(2,171)
Net amount transferred to profit or loss	-	-	-	(11,950)	-	-	-	-	(11,950)
Impairment charges	-	-	-	135	-	-	-	-	135
Total other comprehensive income	-	*(12,047)*	-	*(6,214)*	*(7,772)*	-	-	*2,437*	*(23,596)*
Total comprehensive income for the financial year	-	(12,047)	-	(6,214)	(7,772)	-	-	1,181,322	1,155,289
Net change in regulatory reserves	-	-	-	-	-	-	231,520	(231,520)	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	5,003	-	(3,910)	1,093
Dividends paid to owner - 2018 interim	-	-	-	-	-	-	-	(248,000)	(248,000)
Dividends paid to owner - 2017 final	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 31 December	1,045,875	204,890	-	125,969	(6,863)	99,586	559,200	8,148,816	10,177,473

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 2019

Bank (RM'000)	*Non-distributable*							*Distributable*	
	Share capital	*Other equity instrument* [1]	*Revaluation reserve*	*FVOCI reserve*	*Own credit reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total equity*
2019									
Balance at 1 January	**1,045,875**	**-**	**204,890**	**125,490**	**(3,876)**	**99,087**	**468,100**	**7,075,642**	**9,015,208**
Profit for the financial year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**854,094**	**854,094**
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	**-**	**-**	**(2,348)**	**-**	**-**	**-**	**-**	**2,348**	**-**
Surplus on revaluation of properties	**-**	**-**	**3,391**	**-**	**-**	**-**	**-**	**-**	**3,391**
Deferred tax adjustment on revaluation reserve	**-**	**-**	**(570)**	**-**	**-**	**-**	**-**	**-**	**(570)**
FVOCI reserve/Own credit reserve									
Net change in fair value	**-**	**-**	**-**	**76,689**	**(6,046)**	**-**	**-**	**-**	**70,643**
Net amount transferred to profit or loss	**-**	**-**	**-**	**(34,757)**	**-**	**-**	**-**	**-**	**(34,757)**
Transfer to retained profits upon realisation of unquoted investments	**-**	**-**	**-**	**(57)**	**-**	**-**	**-**	**57**	**-**
Impairment charges	**-**	**-**	**-**	**14**	**-**	**-**	**-**	**-**	**14**
Total other comprehensive income	-	-	***473***	***41,889***	***(6,046)***	-	-	***2,405***	***38,721***
Total comprehensive income for the financial year	**-**	**-**	**473**	**41,889**	**(6,046)**	**-**	**-**	**856,499**	**892,815**
Net change in regulatory reserves	**-**	**-**	**-**	**-**	**-**	**-**	**(35,000)**	**35,000**	**-**
Transactions with the owner, recorded directly in equity									
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**386**	**-**	**(3,644)**	**(3,258)**
Other equity instrument issued [1]	**-**	**500,000**	**-**	**-**	**-**	**-**	**-**	**-**	**500,000**
Dividends paid to owner - 2018 final	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(265,000)**	**(265,000)**
Dividends paid to owner - 2019 special	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(500,000)**	**(500,000)**
Dividends paid to owner - 2019 interim	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(244,000)**	**(244,000)**
Discretionary coupon on other equity instrument issued	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(11,545)**	**(11,545)**
Balance at 31 December	**1,045,875**	**500,000**	**205,363**	**167,379**	**(9,922)**	**99,473**	**433,100**	**6,942,952**	**9,384,220**

[1] On 21 June 2019, the Group and the Bank issued RM500.0 million Additional Tier 1 Perpetual Capital Term Loan. Details of the issuance are set out in Note 29 to the financial statements.

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 2019

Bank (RM'000)	*Non-distributable*							*Distributable*	
	Share capital	*Revaluation reserve*	*Available-for-sale reserve*	*FVOCI reserve*	*Own credit reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total equity*
2018									
Balance at 1 January									
- As previously stated	1,045,875	216,937	131,478	-	-	94,175	250,000	6,641,367	8,379,832
- Impact on transition to MFRS 9	-	-	(131,478)	131,878	203	-	27,720	47,956	76,279
- As restated	1,045,875	216,937	-	131,878	203	94,175	277,720	6,689,323	8,456,111
Profit for the financial year	-	-	-	-	-	-	-	1,026,185	1,026,185
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	-	(2,437)	-	-	-	-	-	2,437	-
Deficit on revaluation of properties	-	(3,499)	-	-	-	-	-	-	(3,499)
Deferred tax adjustment on revaluation reserve	-	(6,111)	-	-	-	-	-	-	(6,111)
FVOCI reserve/Own credit reserve									
Net change in fair value	-	-	-	5,818	(4,079)	-	-	-	1,739
Net amount transferred to profit or loss	-	-	-	(12,316)	-	-	-	-	(12,316)
Impairment charges	-	-	-	110	-	-	-	-	110
Total other comprehensive income	-	*(12,047)*	-	*(6,388)*	*(4,079)*	-	-	*2,437*	*(20,077)*
Total comprehensive income for the financial year	-	(12,047)	-	(6,388)	(4,079)	-	-	1,028,622	1,006,108
Net change in regulatory reserves	-	-	-	-	-	-	190,380	(190,380)	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	4,912	-	(3,923)	989
Dividends paid to owner - 2018 interim	-	-	-	-	-	-	-	(248,000)	(248,000)
Dividends paid to owner - 2017 final	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 31 December	1,045,875	204,890	-	125,490	(3,876)	99,087	468,100	7,075,642	9,015,208

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 2019

	Group	
	31 Dec 2019 RM'000	31 Dec 2018 RM'000
Cash Flows from Operating Activities		
Profit before income tax expense	**1,303,322**	1,528,732
Adjustments for :		
Property and equipment written off	**39**	27
Depreciation of property and equipment	**22,886**	21,583
Depreciation of Right of Use assets	**26,027**	-
Amortisation of intangible assets	**10,991**	19,505
Net gains on disposal of property and equipment	**(44)**	(134)
Net upwards revaluation on property	**(8)**	(8)
Impairment of intangible assets	**(53)**	53
Share-based payment transactions	**11,827**	11,390
Dividend income	**(3,463)**	(1,363)
Net expenses on financial instrument at FVTPL	**(75,458)**	106,117
Unrealised (gains)/losses on revaluation of financial assets at FVTPL	**(11,313)**	1,804
Unrealised (gains)/losses of foreign exchange translation on subordinated liabilities	**(6,375)**	12,084
Unrealised (gains)/losses on revaluation of derivatives	**(57,062)**	(182,243)
Unrealised (gains)/losses from dealing in foreign currency	**(3,435)**	(110,738)
Allowance for impairment losses	**251,899**	190,195
Operating profit before changes in operating assets and liabilities	**1,469,780**	1,597,004
(Increase)/Decrease in operating assets		
Securities purchased under resale agreements	**(4,088,100)**	(592,268)
Deposits and placements with banks and other financial institutions	**88,345**	299,058
Financial assets at FVTPL	**946,720**	(340,470)
Loans, advances and financing	**1,766,785**	(1,348,478)
Derivative financial assets	**(79,759)**	1,038,267
Other assets	**96,853**	(168,336)
Statutory deposits with Bank Negara Malaysia	**208,311**	(115,774)
Total (increase) in operating assets	**(1,060,845)**	(1,228,001)
Increase/(Decrease) in operating liabilities		
Deposits from customers	**2,260,038**	596,002
Deposits and placements from banks and other financial institutions	**(1,835,067)**	1,530,335
Repurchase agreements	**(147,871)**	147,871
Structured liabilities designated at FVTPL	**773,821**	1,193,423
Bills payable	**(74,052)**	(67,305)
Derivative financial liabilities	**165,984**	(980,120)
Other liabilities	**196,747**	(711,467)
Total increase in operating liabilities	**1,339,600**	1,708,739
Cash generated from operating activities	**1,748,535**	2,077,742
Income tax paid	**(451,608)**	(401,262)
Net cash generated from operating activities	**1,296,927**	1,676,480
Cash Flows from Investing Activities		
Purchase of financial investment at FVOCI	**(19,661,986)**	(13,979,955)
Proceeds from disposal/redemption of financial investment at FVOCI	**21,616,718**	10,080,989
Purchase of property and equipment	**(386,087)**	(121,572)
Purchase of intangible assets	**(10,101)**	(12,676)
Proceeds from disposal of property and equipment	**179**	134
Dividends received	**3,463**	1,363
Net cash generated from/(used in) investing activities	**1,562,186**	(4,031,717)

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 2019 (Cont'd)

	Group	
	31 Dec 2019	31 Dec 2018
	RM'000	RM'000
Cash Flows from Financing Activities		
Interest paid on subordinated liabilities	**(52,741)**	(52,194)
Issuance of Multi-Currency Sukuk Programme	**-**	500,000
Issuance of other equity instrument	**500,000**	-
Redemption of Multi-Currency Sukuk Programme	**(500,000)**	-
Profits paid on Multi-Currency Sukuk Programme	**(70,024)**	(50,186)
Dividends paid	**(1,020,545)**	(448,000)
Net cash used in financing activities	**(1,143,310)**	(50,380)
Net increase/(decrease) in Cash and Cash Equivalents	**1,715,803**	(2,405,617)
Cash and Cash Equivalents at beginning of the financial year	**7,908,159**	10,313,776
Cash and Cash Equivalents at end of the financial year	**9,623,962**	7,908,159
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**9,623,962**	7,908,159

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 2019 (Cont'd)

	Bank	
	31 Dec 2019	**31 Dec 2018**
	RM'000	RM'000
Cash Flows from Operating Activities		
Profit before income tax expense	**1,113,932**	1,327,163
Adjustments for :		
Property and equipment written off	**36**	26
Depreciation of property and equipment	**20,924**	19,259
Depreciation of Right of Use assets	**19,353**	-
Amortisation of intangible assets	**10,991**	19,505
Net gains on disposal of property and equipment	**(44)**	(134)
Net upwards revaluation on property	**(8)**	(8)
Impairment of intangible assets	**(53)**	53
Share-based payment transactions	**11,099**	11,203
Dividend income	**(43,463)**	(11,363)
Net expenses on financial instrument at FVTPL	**(114,853)**	90,036
Unrealised (gains)/losses on revaluation of financial assets at FVTPL	**(9,231)**	853
Unrealised (gains)/losses of foreign exchange translation on subordinated liabilities	**(6,375)**	12,084
Unrealised losses/(gains) on revaluation of derivatives	**41,506**	(170,208)
Unrealised losses/(gains) from dealing in foreign currency	**59,583**	(239,525)
Allowance for impairment losses	**128,084**	79,768
Operating profit before changes in operating assets and liabilities	**1,231,481**	1,138,712
(Increase)/Decrease in operating assets		
Securities purchased under resale agreements	**(4,088,100)**	(592,268)
Deposits and placements with banks and other financial institutions	**357,645**	2,150,844
Financial assets at FVTPL	**944,638**	(339,519)
Loans, advances and financing	**796,498**	(559,882)
Derivative financial assets	**(237,883)**	1,151,476
Other assets	**130,404**	(46,895)
Statutory deposits with Bank Negara Malaysia	**173,311**	(112,474)
Total (increase)/decrease in operating assets	**(1,923,487)**	1,651,282
(Decrease)/Increase in operating liabilities		
Deposits from customers	**384,281**	(814,050)
Deposits and placements from banks and other financial institutions	**(1,027,161)**	(270,165)
Repurchase agreements	**(147,871)**	147,871
Structured liabilities designated at FVTPL	**399,021**	607,838
Bills payable	**(77,494)**	(69,221)
Derivative financial liabilities	**193,521**	(974,693)
Other liabilities	**41,362**	(777,093)
Total decrease in operating liabilities	**(234,341)**	(2,149,513)
Cash (used in)/generated from operating activities	**(926,347)**	640,481
Income tax paid	**(385,791)**	(364,020)
Net cash (used in)/generated from operating activities	**(1,312,138)**	276,461
Cash Flows from Investing Activities		
Purchase of financial investment at FVOCI	**(17,606,510)**	(12,694,058)
Proceeds from disposal/redemption of financial investment at FVOCI	**19,552,279**	9,295,056
Purchase of property and equipment	**(383,859)**	(117,899)
Purchase of intangible assets	**(10,101)**	(12,676)
Proceeds from disposal of property and equipment	**149**	134
Dividends received	**43,463**	11,363
Net cash generated from/(used in) investing activities	**1,595,421**	(3,518,080)

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 2019 (Cont'd)

	Bank	
	31 Dec 2019	31 Dec 2018
	RM'000	RM'000
Cash Flows from Financing Activities		
Interest paid on subordinated liabilities	**(52,741)**	(52,194)
Issuance of other equity instrument	**500,000**	-
Dividends paid	**(1,020,545)**	(448,000)
Net cash used in financing activities	**(573,286)**	(500,194)
Net decrease in Cash and Cash Equivalents	**(290,003)**	(3,741,813)
Cash and Cash Equivalents at beginning of the financial year	**5,137,240**	8,879,053
Cash and Cash Equivalents at end of the financial year	**4,847,237**	5,137,240
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**4,847,237**	5,137,240

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 2019 (Cont'd)

Change in liabilities arising from financing activities

Group (RM'000)

2019	**At 1 Jan**	**Cash (outflow)/ inflow**	**Foreign exchange adjustment**	**Fair value movement**	**Interest/ Profit accrual**	**At 31 Dec**
Multi-Currency Sukuk Programme	1,755,281	(500,000)	-	10,648	-	1,265,929
Subordinated liabilities	1,095,987	-	(6,375)	-	-	1,089,612
Other liabilities of which:						
Profit paid on Multi-Currency Sukuk	18,175	(70,024)	-	-	65,573	13,724
Interest paid on Subordinated liabilities	4,458	(52,741)	-	-	52,575	4,292
Other equity instrument	-	500,000	-	-	-	500,000
Dividend paid	-	(1,020,545)	-	-	-	-
	2,873,901	(1,143,310)	(6,375)	10,648	118,148	2,873,557
2018						
Multi-Currency Sukuk Programme	1,252,829	500,000	-	2,452	-	1,755,281
Subordinated liabilities	1,083,903	-	12,084	-	-	1,095,987
Other liabilities of which:						
Profit paid on Multi-Currency Sukuk	12,815	(50,186)	-	-	55,546	18,175
Interest paid on Subordinated liabilities	6,521	(52,194)	-	-	50,130	4,458
Dividend paid	-	(448,000)	-	-	-	-
	2,356,068	(50,380)	12,084	2,452	105,676	2,873,901

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 2019 (Cont'd)

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

Bank (RM'000)

2019	At 1 Jan	Cash (outflow)/ inflow	Foreign exchange adjustment	Fair value movement	Interest accrual	At 31 Dec
Subordinated liabilities	1,095,987	-	(6,375)	-	-	1,089,612
Other liabilities of which:						
Interest paid on Subordinated liabilities	4,458	(52,741)	-	-	52,575	4,292
Other equity instrument	-	500,000	-	-	-	500,000
Dividend paid	-	(1,020,545)	-	-	-	-
	1,100,445	(573,286)	(6,375)	-	52,575	1,593,904
2018						
Subordinated liabilities	1,083,903	-	12,084	-	-	1,095,987
Other liabilities of which:						
Interest paid on Subordinated liabilities	6,521	(52,194)	-	-	50,130	4,458
Dividend paid	-	(448,000)	-	-	-	-
	1,090,424	(500,194)	12,084	-	50,130	1,100,445

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

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

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

The Bank is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 10th Floor, North Tower, 2, Leboh Ampang, 50100 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 5 February 2020.

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 2019 are as follows:

- MFRS 16 ‘Leases’
- Amendments to MFRS 9 ‘Prepayment Features with Negative Compensation’
- Amendments to MFRS 128 ‘Long-term Interests in Associates and Joint Ventures’
- Amendments to MFRS 119 ‘Plan Amendment, Curtailment or Settlement’
- IC Interpretation 23 ‘Uncertainty over Income Tax Treatments’
- Annual Improvements to MFRSs 2015 – 2017 Cycle

The Group and the Bank have adopted MFRS 16 for the first time in the 2019 financial statements, which resulted in changes in accounting policies. The detailed impact of change in accounting policies for MFRS 16 are set out in Note 3.

The adoption of other amendments listed above did not have any impact on the current period or any prior period and is not likely to affect future periods.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

(ii) Standards early adopted by the Group and the Bank

The Group and the Bank elected to early adopt the Interest Rate Benchmark Reform (Amendments to MFRS 9 'Financial Instruments', MFRS 139 'Financial Instruments: Recognition and Measurement' and MFRS 7 'Financial Instruments: Disclosures'). Amendments to MFRS 9, MFRS 139 and MFRS 7 were issued in October 2019 that modify the specific hedge accounting requirements so that entities apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of interest rate benchmark reform. These amendments apply from 1 January 2020 with early adoption permitted. The Group and the Bank have adopted amendments that apply to MFRS 139 from 1 January 2019 and have made additional disclosures as required by the amendments.

(iii) 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 are effective for financial year beginning after 1 January 2020. None of these is expected to have a significant effect on the consolidated financial statements of the Group and the Bank, except the following set out below:

- Amendments to MFRS 3 'Definition of a Business' (effective 1 January 2020) revise the definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments provide guidance to determine whether an input and a substantive process are present, including situation where an acquisition does not have outputs. To be a business without outputs, there will now need to be an organised workforce. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

In addition, the revised definition of the term 'outputs' is narrower, focusses on goods or services provided to customers, generating investment returns and other income but excludes returns in the form of cost savings.

The amendments introduce an optional simplified assessment known as 'concentration test' that, if met, eliminates the need for further assessment. Under this concentration test, if substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset (or a group of similar assets), the assets acquired would not represent a business.

The amendments shall be applied prospectively.

(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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

(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 judgments

The results of the Group and the Bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the financial statements. The significant accounting policies are described in Note 4. 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 judgment 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 judgment is necessarily applied are those which relate to impairment of loans, advances and financing and the valuation of financial instruments (refer Note 7). There are no other significant areas of estimation uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed above.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies

Adoption of MFRS 16 'Leases'

On 1 January 2019, the Group and the Bank changed its accounting policies on leases upon the adoption of MFRS16, which supersedes MFRS 117 'Leases'. The Group and the Bank have elected to use the simplified retrospective transition method and to apply a number of practical expedients as provided in MFRS 16.

On adoption of MFRS 16, the Group and the Bank recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of MFRS 117. These liabilities were measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate as at 1 January 2019. The associated right-of-use (ROU) assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or provisions for onerous leases recognised on balance sheet at 31 December 2018.

In addition, the following practical expedients permitted by the standard were applied:
- Reliance was placed on previous assessments on whether leases were onerous;
- Operating leases with a remaining lease term of less than 12 months as at 1 January 2019 were treated as short-term leases; and
- Initial direct costs were not included in the measurement of ROU assets for leases previously accounted for as operating leases.

The differences between MFRS 16 and MFRS 117 are summarised below:

- Under MFRS 117, leases were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.
- Under the new MFRS 16:
  - Leases are recognised as an ROU asset and a corresponding liability at the date at which the leased asset is made available for use. Lease payments are allocated between the lease liability and finance cost. The finance cost is charged to the profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability. The ROU asset is depreciated over the shorter of the ROU asset's useful economic life and the lease term on a straight-line basis.

  - In determining lease term, the Group and the Bank consider all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option over the planning horizon of five years.

  - In general, it is not expected that the discount rate implicit in the lease is available so the lessee's incremental borrowing rate is used. This is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment with similar terms and conditions. The rates are determined for each economic environment in which the Group and the Bank operate by adjusting swap rates with funding spreads (own credit spread) and cross-currency basis where appropriate.

Under the simplified retrospective transition method, the 2018 comparative information was not restated and the cumulative effects of initial application of MFRS 16 where the Group and the Bank is a lessee were recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019. The comparative information continued to be reported under the previous accounting policies governed under MFRS 117 'Leases' and IC Interpretation 4 'Determining whether an Arrangement Contains a Lease'.

As at 1 January 2019, the change in accounting policies has affected the following items:

Group
Other assets - increase by RM108,926,000
Other liabilities - increase by RM108,926,000

Bank
Other assets - increase by RM77,193,000
Other liabilities - increase by RM77,193,000

There is no impact on retained profits and deferred tax of the Group and the Bank arising from the adoption of MFRS 16.

3 Changes in accounting policies (Cont'd)

Adoption of MFRS 16 'Leases (Cont'd)

The reconciliation between the operating lease commitments disclosed applying MFRS 117 at 31 December 2018 to the lease liabilities recognised at 1 January 2019 is as follows:

	Group	Bank
	RM'000	**RM'000**
Operating lease commitments disclosed as at 31 December 2018	89,017	75,613
Discounted using incremental borrowing rate	(4,312)	(3,702)
Less: services and other charges not in scope for MFRS 16	(18,296)	(18,296)
Less: short-term leases recognised on a straight-line basis as expense	(1,545)	(1,342)
Less: low-value leases recognised on a straight-line basis as expense	(13)	(13)
Add: adjustments as a result of a different treatment on extension and termination options	44,075	24,933
Lease liability recognised as at 1 January 2019	108,926	77,193
Of which:		
- Current lease liability	26,364	20,344
- Non-current lease liability	82,562	56,849
	108,926	77,193

4 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 2019.

(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.

4 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 4(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.

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.

4 Significant Accounting Policies (Cont'd)

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

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 4(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.

4 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. Such investments 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 4(h));
- financial assets measured at fair value through other comprehensive income (FVOCI) (Note 4(i));
- equity securities measured at fair value with fair value movements presented in OCI (Note 4(j)); or
- financial instruments designated at fair value through profit or loss (FVTPL) (Note 4(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 4(h) and 4(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 currently a legally enforceable right to offset the recognised amounts and the Group and the Bank intend to settle on a net basis, or realise the asset and settle the liability simultaneously. 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.

(g) Financial instruments (Cont'd)

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

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.

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 7(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, with changes in fair value generally recorded in the income statement. 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 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 enter into fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to the risk being hedged.

4 Significant Accounting Policies (Cont'd)

(g) Financial instruments (Cont'd)

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

Hedge accounting (Cont'd)

- *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; 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.

- *Cash flow hedge*

  The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income; 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. In hedges of forecast transactions that result in recognition of a non-financial asset or liability, previous gains and losses recognised in other comprehensive income are included in the initial measurement of the asset or liability. 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*

  Following the request received by the Financial Stability Board from the G20, a fundamental review and reform of the major interest rate benchmarks is under way across the world's largest financial markets. This reform was not contemplated when the standard was published, and consequently the MASB has published a set of temporary exceptions from applying specific hedge accounting requirements to provide clarification on how the standard should be applied in these circumstances. Under the temporary exceptions, IBORs are assumed to continue for the purposes of hedge accounting until such time as the uncertainty is resolved.

  Interest Rate Benchmark Reform: Amendments to MFRS 9 Financial Instruments, MFRS 139 Financial Instruments: Recognition and Measurement and MFRS 7 Financial Instruments: Disclosures)

  Amendments to MFRS 9, MFRS 139 and MFRS 7 were issued in October 2019 and modified specific hedge accounting requirements (the 'temporary exceptions'). For example, under the temporary exceptions, IBORs are assumed to continue for the purposes of hedge accounting until such time as the uncertainty is resolved.

  The application of this set of temporary exceptions is mandatory for accounting periods starting on or after 1 January 2020, but early adoption is permitted and the Group and the Bank have elected to apply these exceptions for the year ended 31 December 2019. Significant judgement will be required in determining when uncertainty is expected to be resolved and therefore when the temporary exceptions will cease to apply, however at 31 December 2019 the uncertainty exists and therefore the temporary exceptions apply to all of the Group and the Bank's hedge accounting relationships that reference IBORs.

(g) Financial instruments (Cont'd)

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

Hedge accounting (Cont'd)

The Group and the Bank have fair value hedge accounting relationships that are exposed to MYR Kuala Lumpur Interbank Offered Rate (KLIBOR). Existing derivatives designated in these relationships referencing IBORs will transition to new Risk-Free Rates (RFRs) in different ways and at different times. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the Group and the Bank's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships entered into, while others may survive the transition.

Hedged items within the hedge accounting relationships affected by the adoption of the temporary exceptions are presented in the Balance Sheet as financial investments at FVOCI.

As at 31 Dec 2019, RM1.8 billion of the notional amounts of the derivatives designated in hedge accounting relationships is directly affected by IBOR reform and impacted by the temporary exceptions. For details on the hedging derivatives, see note 43.

The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

(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. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income.

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 4(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 qualify for derecognition by the subsidiary of the Bank, HBMS. Refer to accounting policy Note 4(g)(iii) on derecognition of financial assets.

4 Significant Accounting Policies (Cont'd)

(h) Financial instruments measured at amortised cost (Cont'd)

(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, 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/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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Significant Accounting Policies (Cont'd)

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

(ii) Write-off (Cont'd)

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).

(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.

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 will only 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 5(b)(iii).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Significant Accounting Policies (Cont'd)

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

(iv) Loans, advances and financing modifications that are not credit-impaired

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/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. The Group and the Bank also assess whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

(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/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:

4 Significant Accounting Policies (Cont'd)

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

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

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

Please refer to Note 5(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 in that portfolio 12 months before they become 30 days past due. The expert credit risk judgment is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which 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) are recognised for financial instruments that remain in stage 1.

4 Significant Accounting Policies (Cont'd)

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

(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.

(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, a loss given default 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 Loss Given Default (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 its 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 three economic scenarios applied more generally by the Group and the Bank and the judgment 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 is approximated and applied as an adjustment to the most likely outcome.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Significant Accounting Policies (Cont'd)

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

(ix) Period over which ECL is measured

Expected credit loss 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/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.

(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 5(b)(v).

(xi) Grouping of instruments for ECL measured on collective basis

ECL may be determined on collective or individual basis for the following:
- perform assessment of significant increases in credit risk
- determining loss allowance measurement

This disclosure is applicable for both general 3-stage approach and simplified approach.

The following factors are considered when computing ECL:
- availability of reasonable and supportable information that is more forward-looking than past due information without undue cost or effort, which considers comprehensive credit risk information.
- availability of credit risk information for particular groups of financial instruments vs individual instruments
- shared credit risk characteristics. Example as follows:
  - instrument type
  - credit risk ratings
  - collateral type
  - date of initial recognition
  - remaining term to maturity
  - industry
  - geographical location of debtor
  - the value of collateral relative to the financial asset if it has impact to probability of a default occurring

4 Significant Accounting Policies (Cont'd)

(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 are carried at their revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Capital work-in-progress related to land and buildings are carried at cost.

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 is 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

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

The fair value are within level 2 of the fair value hierarchy. The fair value have been derived using the sales comparison approach.

(ii) Equipment

Equipment, fixtures and fittings, and motor vehicles are stated at cost less accumulated depreciation and any accumulated impairment losses. 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 RM1,000 and below are expensed to profit or loss in the month of purchase. For those assets costing more than RM1,000, it will be capitalised and depreciated at the above rates.

(m) Property and equipment (Cont'd)

(ii) Equipment (Cont'd)

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

Prior to 1 January 2019

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group or the Bank, are recognised as operating lease. Payments made under operating lease (net of any incentives received from the lessor) are charged to the statement of profit or loss under 'Establishment related expenses' on a straight-line basis over the period of the lease.

After 1 January 2019

Leases are recognised as a 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Significant Accounting Policies (Cont'd)

(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 of 3 to 5 years. Intangible assets are subject to impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

(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 benefit 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.

(r) Employee benefits (Cont'd)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Significant Accounting Policies (Cont'd)

(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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk

a) Introduction and overview

(i) Conservative risk appetite

The Group and the Bank maintain a conservative approach to risk. These are central to the business and strategy.

The importance of a strong risk culture is long recognised, which refers to shared attitudes, values and norms that shape behaviours related to risk awareness, risk taking and risk management. All employees 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 will continue to incorporate this into how we manage and oversee risks internally and with our customers.

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

Financial position

- 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.

Operating model

- 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.

Business practice

- Zero tolerance for any of the employees to knowingly engage 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 a member of staff or by any group business.

Enterprise-wide application

The Group and the Bank's risk appetite encapsulate 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 defined as the risk to achieving the Group and the Bank's strategy or objectives as a 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, at the regional level and to material operating entities such as the Group and the Bank.

5 Risk (Cont'd)

a) Introduction and overview (Cont'd)

(i) Conservative 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, such as the 'Risk map' and 'Top and emerging risks';
- 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. Setting out risk appetite helps to make sure that planned business activities provide an appropriate balance of return for the risk taken, and 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 fundamental to the development of business line strategies, strategic and business planning, and senior management balanced scorecards.

The performance against the RAS is reported to the Risk Management Meeting (RMM) on a monthly basis so that any actual performance that falls outside the approved risk appetite is discussed and appropriate mitigating actions are determined. 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 business, customers, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth. As we move into revised business focus, active risk management will be critical in ensuring the associated change and execution risks arising from a major change programme are managed. In addition periodic risk assessments will be performed, including strategies to ensure retention of key personnel to ensure continued safe operation.

An enterprise-wide risk management framework is used across the organisation and across all risk types, underpinned by the Group and the Bank's risk culture. This outlines the key principles, policies and practices that is employed in managing material risks, both financial and non-financial.

The framework fosters continuous monitoring, promotes risk awareness and encourages sound operational and strategic decision making. It also ensures a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities.

a) Introduction and overview (Cont'd)

(ii) Risk Management (Cont'd)

Risk management framework

The following diagram and descriptions summarise key aspects of the framework, including governance and 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

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 ensures 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 to identify/assess, monitor, manage and report risks to 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	The operational 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.

5 Risk (Cont'd)

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 the Group and the Bank's risk appetite. It is advised on risk-related matters by the Risk Committee.

Executive accountability for the ongoing monitoring, assessment and management of risk environment and the effectiveness of the risk management framework resides with the Chief Risk Officer. He is supported by the RMM.

The management of financial crime risk resides with the Chief Executive Officer. He is supported by the Financial Crime Risk Management Committee.

The day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All employees 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.

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

Responsibilities 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.

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 responsibilities, encouraging collaboration and 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 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 on effective risk management.
- The third line of defence is the Internal Audit function, which provides independent assurance that risk management, governance and internal control 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 forward-looking risk identification and management. 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.

Responsibility for minimising both financial and non-financial risk lies with the employees. They are required to manage the risks of the business and operational activities for which they are responsible. Adequate oversight of risks are maintained through various specialist Risk Stewards, along with an aggregate overview through the Chief Risk Officer.

5 Risk (Cont'd)

a) Introduction and overview (Cont'd)

(ii) Risk Management (Cont'd)

Risk function (Cont'd)

Non-financial risk includes some of the most material risks the Group and the Bank face, such as cyber-attacks, the loss of data and poor conduct outcomes. Actively managing non-financial risk is crucial to serving our customers effectively and having a positive impact on society. During 2019 we continued to strengthen the control environment and our approach to the management of non-financial risk, as set out in our Operational Risk Management Framework. The approach outlines non-financial risk 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 Risk function, headed by the HSBC Group Head of Operational Risk.

Stress testing

The Group and the Bank operate a wide-ranging stress testing programme that supports risk management and capital 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

a) Introduction and overview (Cont'd)

(ii) Risk Management (Cont'd)

Key developments in 2019

In 2019, a number of initiatives were undertaken to enhance the approach to management of risk. There have been continued efforts to simplify and enhance how we manage risk. The HSBC Group risk taxonomy has been simplified through consolidating certain existing risks into broader categories. These changes streamlined risk reporting and promoted common language in our risk management approach. Further simplification will continue during 2020, including the combining of two key risk management frameworks. These changes include:

- Forming a Resilience Risk sub-function to reflect the growing regulatory importance of being able to ensure our operations continue to function when an operational disturbance occurs. Resilience Risk was formed to simplify the way we interact with our stakeholders and to deliver clear, consistent and credible responses globally. The leadership of the resilience risk function is the responsibility of the Head of Resilience Risk.

- Placing greater focus on our model risk activities during 2019. To reflect this, HSBC Group has created the role of Chief Model Risk Officer, which for group is undertaken by the Head of Model Risk Management.

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.

The Group and the Bank define a 'top risk' as a thematic issue that may form and crystallise between six months and one year, and has the potential to materially affect the Group and the Bank's financial results, reputation or business model. 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. Stress tests of varying granularity may already have been carried out to assess the impact.

An 'emerging risk' is defined as a thematic issue with large unknown components that may form and crystallise beyond a one year time horizon. If it were to materialise, it could have a significant material effect on a combination of our long term strategy, profitability and reputation. Existing management action 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:
- Forward looking balance sheet position
- Geopolitical risk
- System resilience, Cyber threat and unauthorised access to systems
- Increased regulatory scrutiny and efforts
- IBOR transition and reform
- Climate-related risk
- People risk

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

a) Introduction and overview (Cont'd)

(ii) Risk Management (Cont'd)

Top and emerging risks management (Cont'd)

Areas of special interest – IBOR Transition

The Financial Stability Board has observed that the decline in interbank short-term unsecured funding poses structural risks for interest rate benchmarks that reference these markets. In response, regulators and central banks in various jurisdictions have convened national working groups (NWGs) to identify replacement rates for these interbank offer rates (IBORs) and, where appropriate, to facilitate an orderly transition to these rates.

Following the announcement by the UK's Financial Conduct Authority in July 2017 that it will no longer persuade or require banks to submit rates for Libor after 2021, the NWGs for the affected currencies were tasked with facilitating an orderly transition of the relevant Libors to their chosen replacement rates. The euro NWG is also responsible for facilitating an orderly transition of the Euro Overnight Index Average (Eonia) to the euro short-term rate (€STER) as a result of the determination that Eonia cannot be made to comply with the European Benchmark Regulations (BMR) and can therefore no longer be used beyond 2021. Although NWGs in other jurisdictions have identified replacements for their respective Ibors, there is no intention for these benchmark rates to be discontinued.

Given the current lack of alternatives, HSBC Group has an increasing portfolio of contracts referencing Libor and Eonia with maturities beyond 2021. HSBC Group established the IBOR transition programme with the objective of facilitating an orderly transition from Libor and Eonia for HSBC Group and its clients. This global programme oversees the transition effected by each of the global businesses and is led by the Group Chief Risk Officer.

The programme is currently focused on developing alternative rate products, and the supporting processes and systems, that reference the NWG-selected replacement rates and making them available to customers. Depending on the take up of these products by customers, this should reduce the current growth in Libor and Eonia contracts being transacted with maturities beyond end 2021, while the new product capabilities will also enable the transition of outstanding Libor and Eonia products onto the replacement rates. A structured development plan is required given the widespread use of Libor and Eonia in a wide range of products, systems and processes across each of the four global businesses and all of the jurisdictions in which HSBC Group operates, including the Group and the Bank. The resulting execution risk is closely monitored by the programme.

The programme is concurrently developing the capability to transition, through repapering, outstanding Libor and Eonia contracts. The process of implementing International Swaps and Derivatives Association's (ISDA's) proposed protocol and transitioning outstanding contracts is nonetheless a material undertaking for the industry as a whole and may expose HSBC Group to the risk of financial losses.

HSBC Group intends to actively engage in the process to achieve an orderly transition of HSBC Group's Libor and Eonia bond issuance, HSBC Group's holdings of Libor/Eonia bonds and of those bonds where HSBC Group is the payment agent. At this stage HSBC Group is confident of transitioning the bulk of these exposures and is actively engaged in industry working groups.

Although HSBC Group has plans to transition multi-billion dollar contractually IBOR-referenced commercial loans onto replacement rates, the ability to transition this portfolio by the end of 2021 is materially dependent on the availability of products that reference the replacement rates and on customers being ready and able to adapt their own processes and systems to accommodate the replacement products. This may give rise to an elevated level of conduct related risks. HSBC Group is engaging with impacted clients to ensure that customers are aware of the risks associated with the ongoing purchase of Libor and Eonia referencing contracts as well as the need to transition legacy contracts prior to the end of 2021.

5 Risk (Cont'd)

a) Introduction and overview (Cont'd)

(iii) Risk Management (Cont'd)

Top and emerging risks management (Cont'd)

Areas of special interest – IBOR Transition (Cont'd)

In addition to the execution and conduct risk previously highlighted, the process of adopting new reference rates may expose HSBC Group to an increased level of operational and financial risks, such as potential earnings volatility resulting from contract modifications, changes in hedge accounting and a large volume of product and associated process changes. Furthermore, the transition to alternative reference rates could have a range of adverse impacts on our business, including legal proceedings or other actions regarding the interpretation and enforceability of provisions in IBOR-based contracts, and regulatory investigations or reviews in respect of our preparation and readiness for the replacement of IBOR with alternative reference rates. The Group and the Bank continue to engage with industry participants, the official sector and their clients to support an orderly transition and the mitigation of the risks resulting from the transition.

(iv) 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 and basis risk)
- resilience risk
- regulatory compliance risk
- financial crime and fraud risk
- model risk

This note 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

b) Credit risk management

(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

Key developments 2019

There were no material changes to the policies and practices for the management of credit risk in 2019. We continued to apply the requirements of MFRS 9 'Financial Instruments' within Credit Risk.

Governance and structure

The Group and the Bank have established credit risk management and related MFRS 9 processes. The Group and the Bank continue to actively 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 Executive (CEO) 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 costs and their mitigation.

Key risk management processes

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 in various geographies 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 management (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 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, heads of Wholesale Credit, Market Risk, and Retail Banking and Wealth Management (RBWM) Risk, as well as the Chief Financial Officer and the Financial Controller.

Concentration of exposure

Concentrations of credit risk arise when a number of counterparties or exposures 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.

The Group and the Bank monitor concentration of credit risk by sector and geographical location. The analysis of concentration of credit risk from loans, advances and financing to customers is shown in 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 5(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 probability of default (PD).

b) Credit risk management (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 Basel probability of default %**
Strong	Band 1 and 2	0.000–0.500
Medium-good	Band 3	0.501–1.500
Medium-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.

5 Risk (Cont'd)

b) Credit risk management (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 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 that have been identified as renegotiated retain this designation until maturity or derecognition. For details of the policy on derecognised renegotiated loans, see Note 4(l)(iii).

- Credit quality of renegotiated loans

  On execution of a renegotiation, the loan 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 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 retail lending, unsecured renegotiated loans are generally segmented from other parts of the loan portfolio. Renegotiated expected credit loss assessments reflect the higher rates of losses typically encountered with renegotiated loans. For wholesale lending, renegotiated loans 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.

Impairment assessment

For details of the impairment policies on loans and advances and financial investments, see Note 4(l).

b) Credit risk management (Cont'd)

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

Key risk management processes (Cont'd)

Write-off of loans and advances

For details of the policy on the write-off of loans and advances, see Note 4(l)(ii).

Unsecured personal facilities, including credit cards, are generally written off at between 150 and 210 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.

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

Measurement uncertainty and sensitivity analysis of ECL estimates

The recognition and measurement of expected credit losses (ECL) involves the use of significant judgment 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.

b) Credit risk management (Cont'd)

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

Methodology for developing forward looking economic scenarios

The Group and the Bank have adopted the use of multiple scenarios, representative of their view of forecast economic conditions, sufficient to calculate unbiased expected loss in most economic environments.

We rely on an average of external forecasts and their distributions to create three scenarios that represent a 'most likely outcome', the Central scenario, and two less likely outcomes, referred to as the Upside and Downside scenarios. Each outer scenario is consistent with a probability of 10%, while the Central scenario is assigned the remaining 80%, according to the decision of the senior management. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. These three scenarios are referred to as the 'consensus economic scenarios. Additional scenarios are used to specifically address the forward looking risks that management consider are not adequately captured by the consensus. Together, these scenarios represent our approach to forward economic guidance.

Economic assumptions in the Central consensus economic scenario are set using consensus forecasts which represent the average of forecasts of external economists. Reliance on external forecasts helps ensure that the Central scenario is unbiased and maximises the use of independent information. The Upside and Downside scenarios are selected with reference to externally available forecast distributions and are designed to be cyclical, in that GDP growth, inflation and unemployment usually revert back to the Central scenario after the first three years for major economies. We determine the maximum divergence of GDP growth from the Central scenario using the 10th and the 90th percentile of the entire distribution of forecast outcomes for major economies. While key economic variables are set with reference to external distributional forecasts, we also align the overall narrative of the scenarios to the macroeconomic risks described in the 'Top and Emerging risks'. This ensures that scenarios remain consistent with the more qualitative assessment of these risks. We project additional variable paths using an external provider's global macro model.

The Upside and Downside scenarios are generated once a year, reviewed at each reporting date to ensure that they are an appropriate reflection of managements view and updated if economic conditions change significantly. The Central scenario is generated every quarter. For quarters without updates to outer scenarios, wholesale and retail credit risk use the updated central scenario to approximate the impact of the most recent outer scenarios.

Additional scenarios are created as required, to address those forward-looking risks that management consider are not adequately captured by the consensus.

The following table describes key macroeconomic variables and the probabilities assigned in the Consensus Central, Upside and Downside scenarios.

	2019			2018		
	Scenario			Scenario		
	Central (%)	**Upside (%)**	**Downside (%)**	Central (%)	Upside (%)	Downside (%)
GDP growth rate	**4.6**	**5.2**	**4.0**	4.8	5.2	4.4
Inflation	**2.4**	**2.7**	**2.1**	2.4	2.7	2.1
Unemployment	**3.2**	**3.0**	**3.4**	3.2	3.0	3.4
Short term interest/profit rate	**2.9**	**3.0**	**2.6**	3.9	4.1	2.7
Property price growth	**3.3**	**3.9**	**2.5**	5.8	6.3	4.6
Probability	**80.0**	**10.0**	**10.0**	80.0	10.0	10.0

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

b) Credit risk management (Cont'd)

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

How economic scenarios are reflected in the wholesale 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, 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.

How economic scenarios are reflected in the retail calculation of ECL

HSBC Group has developed and implemented a globally consistent methodology for incorporating forecasts of economic conditions into ECL estimates. The impact of economic scenarios on PD is modelled at a portfolio level. Historic relationships between observed default rates and macro-economic variables are integrated into HKFRS 9 ECL estimates by leveraging economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of underlying asset or assets. The impact on LGD is modelled for mortgage portfolios by forecasting future loan-to-value (LTV) profiles for the remaining maturity of the asset by leveraging national level forecasts of the house price index and applying the corresponding LGD expectation.

Economic scenarios sensitivity analysis of ECL estimates

Management assessed and considered the sensitivity of the ECL outcome against the forward-looking economic conditions 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 as well as the measurement of the resulting ECL.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. The impact of defaults that might occur in future under different economic scenarios is captured by recalculating ECL for loans 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 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, and it is impracticable to separate the effect of macro-economic factors in individual assessments.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

b) Credit risk management (Cont'd)

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

Economic scenarios sensitivity analysis of ECL estimates (Cont'd)

For retail credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors as the retail ECL is sensitive to macroeconomic variables which are incorporated into the future economic scenarios. The population of stage 3 loans at the balance sheet date is determined at that point in time. The impact on ECL of exposures moving from stage 1 (12-month provisioning) to a lifetime provisioning stage (and vice versa) as well as changes in ECL for existing stages 1 and 2 loans as a result of changes in forecasts of future economic conditions is captured in sensitivity analysis by recalculating the ECL for stages 1 and 2, reflecting changes in the population of loans in each stage and their PD.

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**	
	2019	2018	**2019**	2018
Reported ECL (RM'000)	36,288	33,417	25,424	23,846
Gross carrying value/ nominal amount [3] (RM'000)	85,605,706	85,839,003	67,671,487	68,077,676
Reported ECL coverage (%)	0.04 %	0.04 %	0.04 %	0.04 %
Coverage ratios by scenario (%)				
Consensus central scenario	0.04 %	0.04 %	0.04 %	0.03 %
Consensus upside scenario	0.04 %	0.04 %	0.03 %	0.03 %
Consensus downside scenario	0.05 %	0.04 %	0.04 %	0.04 %

[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.

ECL coverage rates reflect the underlying observed credit defaults, the sensitivity to economic environment, extent of security and the effective maturity of the book.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

b) Credit risk management (Cont'd)

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

Retail analysis

MFRS 9 ECL sensitivity to future economic conditions [1]

ECL coverage of financing and advances at 31 December[2]	**Group**		**Bank**	
	2019	2018	**2019**	2018
Reported ECL (RM'000)	375,625	380,369	175,028	195,719
Drawn amount (RM'000)	23,391,973	24,109,059	17,052,335	17,763,343
Reported ECL coverage (%)				
Coverage ratios by scenario (%)	1.61 %	1.58 %	1.03 %	1.10 %
Consensus central scenario	1.60 %	1.56 %	1.02 %	1.09 %
Consensus upside scenario	1.46 %	1.39 %	0.95 %	0.96 %
Consensus downside scenario	1.81 %	1.75 %	1.16 %	1.23 %

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

The changes in sensitivity from 31 December 2018 is reflective of changes in lending volumes, credit quality and movements in foreign exchange.

Post-model adjustments

In the context of MFRS 9, post-model adjustments are short-term increases or decreases to the expected credit loss at either a customer or portfolio level to account for model deficiencies, expert credit judgment applied following management review and challenge and for any late breaking events. 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.

(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 MFRS 9 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 MFRS 9 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 below.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

b) Credit Risk Management (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 2019								
Cash and short-term funds	**9,623,220**	**811**	**-**	**-**	**-**	**9,624,031**	**(69)**	**9,623,962**
Securities purchased under resale agreements	**5,440,800**	**1,204,498**	**-**	**-**	**-**	**6,645,298**	**-**	**6,645,298**
Deposits and placements with banks and other financial institution	**139,153**	**-**	**-**	**-**	**-**	**139,153**	**-**	**139,153**
Financial assets at FVTPL	**697,112**	**600,607**	**94,259**	**-**	**-**	**1,391,978**	**-**	**1,391,978**
Financial assets at FVOCI [1]	**11,710,933**	**-**	**-**	**-**	**-**	**11,710,933**	**-**	**11,710,933**
Loans, advances and financing to customers held at amortised cost	**17,010,119**	**17,269,095**	**15,080,567**	**1,462,421**	**1,003,447**	**51,825,649**	**(535,789)**	**51,289,860**
of which:								
- retail	***7,911,272***	***8,092,435***	***7,073,245***	***687,878***	***572,960***	***24,337,790***	***(387,050)***	***23,950,740***
- corporate and commercial	***9,098,848***	***9,176,659***	***8,007,322***	***774,543***	***430,487***	***27,487,859***	***(148,739)***	***27,339,120***
Derivatives financial assets	**1,242,788**	**154,272**	**40,752**	**2,385**	**-**	**1,440,197**	**-**	**1,440,197**
Other financial assets	**222,812**	**-**	**-**	**-**	**-**	**222,812**	**-**	**222,812**
Irrevocable loan commitments and financial guarantees	**19,765,000**	**6,188,000**	**5,203,000**	**199,000**	**2,000**	**31,357,000**	***(8,584)***	**31,348,416**

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 2018								
Cash and short-term funds	7,908,191	-	-	-	-	7,908,191	(32)	7,908,159
Securities purchased under resale agreements	2,557,198	-	-	-	-	2,557,198	-	2,557,198
Deposits and placements with banks and other financial institution	227,535	-	-	-	-	227,535	-	227,535
Financial assets at FVTPL	2,286,815	-	40,570	-	-	2,327,385	-	2,327,385
Financial assets af FVOCI [1]	13,532,382	-	471	-	-	13,532,853	-	13,532,853
Loans, advances and financing to customers held at amortised cost	17,616,406	17,976,493	15,707,960	1,526,225	973,287	53,800,371	(491,878)	53,308,493
of which:								
- retail	*8,100,724*	*8,268,968*	*7,225,749*	*702,157*	*744,637*	*25,042,235*	*(389,879)*	*24,652,356*
- corporate and commercial	*9,515,684*	*9,707,525*	*8,482,211*	*824,067*	*228,649*	*28,758,136*	*(101,999)*	*28,656,137*
Derivatives financial assets	881,134	218,141	200,475	189	-	1,299,939	-	1,299,939
Other financial assets	505,754	-	-	-	-	505,754	-	505,754
Irrevocable loan commitments and financial guarantees	16,070,000	9,741,000	5,486,000	222,000	3,000	31,522,000	*(8,598)*	31,513,402

[1] Financial investments at FVOCI excludes equity securities.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

b) Credit Risk Management (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 2019								
Cash and short-term funds	**4,846,489**	**811**	**-**	**-**	**-**	**4,847,300**	**(63)**	**4,847,237**
Securities purchased under resale agreements	**5,440,800**	**1,204,498**	**-**	**-**	**-**	**6,645,298**	**-**	**6,645,298**
Deposits and placements with banks and other financial institution	**1,011,570**	**-**	**-**	**-**	**-**	**1,011,570**	**-**	**1,011,570**
Financial assets at FVTPL	**697,112**	**600,607**	**94,259**	**-**	**-**	**1,391,978**	**-**	**1,391,978**
Financial assets at FVOCI [1]	**8,990,958**	**-**	**-**	**-**	**-**	**8,990,958**	**-**	**8,990,958**
Loans, advances and financing to customers held at amortised cost	**13,742,497**	**12,454,541**	**10,719,059**	**991,190**	**618,144**	**38,525,431**	**(278,524)**	**38,246,907**
of which:								
- retail	***6,284,469***	***5,695,484***	***4,901,845***	***453,273***	***282,678***	***17,617,749***	***(181,279)***	***17,436,470***
- corporate and commercial	***7,458,028***	***6,759,057***	***5,817,214***	***537,917***	***335,466***	***20,907,682***	***(97,245)***	***20,810,437***
Derivatives financial assets	**1,289,343**	**112,486**	**35,843**	**2,385**	**-**	**1,440,057**	**-**	**1,440,057**
Other financial assets	**250,543**	**-**	**-**	**-**	**-**	**250,543**	**-**	**250,543**
Irrevocable loan commitments and financial guarantees	**15,574,000**	**5,127,000**	**3,359,000**	**107,000**	**-**	**24,167,000**	***(6,031)***	**24,160,969**

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 2018								
Cash and short-term funds	5,137,270	-	-	-	-	5,137,270	(30)	5,137,240
Securities purchased under resale agreements	2,557,198	-	-	-	-	2,557,198	-	2,557,198
Deposits and placements with banks and other financial institution	1,369,248	-	-	-	-	1,369,248	-	1,369,248
Financial assets at FVTPL	2,286,815	-	40,570	-	-	2,327,385	-	2,327,385
Financial assets af FVOCI [1]	10,806,699	-	471	-	-	10,807,170	-	10,807,170
Loans, advances and financing to customers held at amortised cost	14,070,310	12,751,630	10,974,752	1,014,834	616,975	39,428,501	(257,345)	39,171,156
of which:								
- retail	*6,465,392*	*5,859,451*	*5,042,965*	*466,323*	*481,587*	*18,315,718*	*(201,537)*	*18,114,181*
- corporate and commercial	*7,604,918*	*6,892,179*	*5,931,787*	*548,511*	*135,388*	*21,112,783*	*(55,808)*	*21,056,975*
Derivatives financial assets	1,044,834	218,132	40,150	146	-	1,303,262	-	1,303,262
Other financial assets	546,982	-	-	-	-	546,982	-	546,982
Irrevocable loan commitments and financial guarantees	12,801,000	7,421,000	4,264,000	89,000	-	24,575,000	*(5,739)*	24,569,261

[1] Financial investments at FVOCI excludes equity securities.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

b) Credit risk management (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 general practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured. 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 use the collateral as a source of repayment.

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

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for impaired loans, advances and financing for the Group and the Bank as at 31 December 2019 are 58.1% (2018: 60.0%) and 62.6% (2018: 67.5%) 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.

Financial assets FVTPL

As at 31 December 2019, the Group and Bank held financial assets FVTPL of RM1,392 million (2018: RM2,327 million) and RM1,392 million (2018: RM2,327 million) respectively. An analysis of the credit quality of the maximum credit exposure, based on the rating agency Standard & Poor's, is as disclosed in Note 10 to the financial statements.

Derivatives

The International Swaps and Derivatives Association (ISDA) Master Agreement is the Group and the Bank's preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of over the counter (OTC) products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or another pre-agreed termination event occurs. Whilst not common practice in the Malaysian market, it is the HSBC Group's preferred practice for the parties to execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions. The majority of CSAs are with financial institution clients.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

b) Credit Risk Management (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 does not meet the criteria for offsetting in the statement of financial position. The ISDA creates for the parties to the agreement, a right of set off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group and the Bank, or its counterparties. Financial instruments subject to offsetting, enforceable master netting agreements and similar agreements are shown as follows:

	(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
2019						
Group						
Securities purchased under resale agreements	**6,645,298**	**-**	**6,645,298**	**6,645,298**	**-**	**-**
Derivative financial assets	**1,440,197**	**-**	**1,440,197**	**-**	**40,143**	**1,400,054**
Derivative financial liabilities	**1,282,269**	**-**	**1,282,269**	**-**	**439,106**	**843,163**
Bank						
Securities purchased under resale agreements	**6,645,298**	**-**	**6,645,298**	**6,645,298**	**-**	**-**
Derivative financial assets	**1,440,057**	**-**	**1,440,057**	**-**	**40,143**	**1,399,914**
Derivative financial liabilities	**1,328,082**	**-**	**1,328,082**	**-**	**439,106**	**888,976**
2018						
Group						
Securities purchased under resale agreements	2,557,198	-	2,557,198	2,557,198	-	-
Derivative financial assets	1,299,939	-	1,299,939	-	289,271	1,010,668
Derivative financial liabilities	1,116,285	-	1,116,285	-	255,078	861,207
Bank						
Securities purchased under resale agreements	2,557,198	-	2,557,198	2,557,198	-	-
Derivative financial assets	1,303,262	-	1,303,262	-	289,271	1,013,991
Derivative financial liabilities	1,134,562	-	1,134,562	-	255,078	879,484

c) Liquidity and funding risk management

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

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

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

The management of liquidity and funding is primarily carried out through HSBC Group's liquidity and funding risk framework (LFRF) and BNM's Liquidity Coverage 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

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

i) 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 2019**	**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	9,623,962	-	-	-	-	-	-	9,623,962
Securities purchased under resale agreements	4,865,582	1,779,716	-	-	-	-	-	6,645,298
Deposits and placements with banks and other financial institutions	-	139,153	-	-	-	-	-	139,153
Financial assets at FVTPL	-	-	-	-	-	-	1,391,978	1,391,978
Financial investments at FVOCI	908,429	466,157	3,468,508	6,867,839	-	197,021	-	11,907,954
Loans, advances and financing	13,906,319	5,223,760	1,965,740	8,761,254	21,432,787	-	-	51,289,860
Derivative financial assets	-	-	-	-	-	-	1,440,197	1,440,197
Others	21,067	5,735	34,319	133,909	30,956	2,242,913	43,868	2,512,767
Total Assets	29,325,359	7,614,521	5,468,567	15,763,002	21,463,743	2,439,934	2,876,043	84,951,169
LIABILITIES AND EQUITY								
Deposits from customers	44,340,147	6,141,116	8,082,433	842,381	1,113	-	-	59,407,190
Deposits and placements from banks and other financial institutions	3,011,466	191,020	76,220	404,978	-	-	-	3,683,684
Bills payable	176,652	-	-	-	-	-	-	176,652
Multi-Currency Sukuk Programme	-	751,732	-	514,197	-	-	-	1,265,929
Subordinated liabilities	-	-	-	817,957	271,655	-	-	1,089,612
Derivative financial liabilities	-	95	806	25,132	-	-	1,256,236	1,282,269
Structured liabilities designated at FVTPL	265,659	340,421	1,778,097	2,334,454	142,214	-	-	4,860,845
Others	83,007	71,499	94,811	53,995	53,811	1,677,277	455,683	2,490,083
Total Liabilities	47,876,931	7,495,883	10,032,367	4,993,094	468,793	1,677,277	1,711,919	74,256,264
Equity	-	-	-	-	-	10,694,905	-	10,694,905
Total Liabilities and Equity	47,876,931	7,495,883	10,032,367	4,993,094	468,793	12,372,182	1,711,919	84,951,169
Net maturity mismatches	(18,551,572)	118,638	(4,563,800)	10,769,908	20,994,950	(9,932,248)	1,164,124	-
Off-balance sheet liabilities	76,466,749	33,521,196	46,693,832	37,995,193	3,667,428	-	-	198,344,398

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

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

i) Liquidity risk (Cont'd)

Group 31 December 2018	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**Non-trading book** **>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-specific maturity RM'000**	**Trading book RM'000**	**Total RM'000**
ASSETS								
Cash and short term funds	7,908,159	-	-	-	-	-	-	7,908,159
Securities purchased under resale agreements	1,532,477	345,434	679,287	-	-	-	-	2,557,198
Deposits and placements with banks and other financial institutions	-	227,535	-	-	-	-	-	227,535
Financial assets at FVTPL	-	-	-	-	-	-	2,327,385	2,327,385
Financial investments at FVOCI	1,332,680	2,732,401	1,719,485	7,195,625	552,662	187,464	-	13,720,317
Loans, advances and financing	15,023,204	7,329,531	3,655,595	5,445,162	21,855,001	-	-	53,308,493
Derivative financial assets	-	-	-	329	-	-	1,299,610	1,299,939
Others	16,812	8,566	16,134	77,966	9,981	2,144,812	298,252	2,572,523
Total Assets	25,813,332	10,643,467	6,070,501	12,719,082	22,417,644	2,332,276	3,925,247	83,921,549
LIABILITIES AND EQUITY								
Deposits from customers	42,280,955	5,878,925	8,386,793	600,191	289	-	-	57,147,153
Deposits and placements from banks and other financial institutions	3,261,079	154,107	383,972	1,695,153	-	24,440	-	5,518,751
Repurchase agreement	147,871	-	-	-	-	-	-	147,871
Bills payable	250,704	-	-	-	-	-	-	250,704
Multi-Currency Sukuk Programme	-	-	501,173	1,254,108	-	-	-	1,755,281
Subordinated liabilities	-	-	-	500,000	595,987	-	-	1,095,987
Derivative financial liabilities	-	-	158	9,528	-	-	1,106,599	1,116,285
Structured liabilities designated at FVTPL	73,538	93,299	841,123	3,142,764	7,517	-	-	4,158,241
Others	113,022	63,374	107,958	53,345	10,853	1,923,653	281,598	2,553,803
Total Liabilities	46,127,169	6,189,705	10,221,177	7,255,089	614,646	1,948,093	1,388,197	73,744,076
Equity	-	-	-	-	-	10,177,473	-	10,177,473
Total Liabilities and Equity	46,127,169	6,189,705	10,221,177	7,255,089	614,646	12,125,566	1,388,197	83,921,549
Net maturity mismatches	(20,313,837)	4,453,762	(4,150,676)	5,463,993	21,802,998	(9,793,290)	2,537,050	-
Off-balance sheet liabilities	68,699,461	31,771,969	43,279,576	41,706,313	3,091,676	-	-	188,548,995

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

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

i) Liquidity risk (Cont'd)

Bank 31 December 2019	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	**4,847,237**	**-**	**-**	**-**	**-**	**-**	**-**	**4,847,237**
Securities purchased under resale agreements	**4,865,582**	**1,779,716**	**-**	**-**	**-**	**-**	**-**	**6,645,298**
Deposits and placements with banks and other financial institutions	**-**	**110,076**	**311,881**	**317,958**	**271,655**	**-**	**-**	**1,011,570**
Financial assets at FVTPL	**-**	**-**	**-**	**-**	**-**	**-**	**1,391,978**	**1,391,978**
Financial investments at FVOCI	**908,429**	**466,157**	**1,767,919**	**5,848,453**	**-**	**197,021**	**-**	**9,187,979**
Loans, advances and financing	**11,198,611**	**3,949,482**	**1,496,796**	**6,020,568**	**15,581,450**	**-**	**-**	**38,246,907**
Derivative financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**1,440,057**	**1,440,057**
Others	**77,116**	**5,664**	**22,008**	**107,834**	**22,823**	**2,525,210**	**43,868**	**2,804,523**
Total Assets	**21,896,975**	**6,311,095**	**3,598,604**	**12,294,813**	**15,875,928**	**2,722,231**	**2,875,903**	**65,575,549**
LIABILITIES AND EQUITY								
Deposits from customers	**35,849,295**	**3,898,391**	**5,810,880**	**527,572**	**740**	**-**	**-**	**46,086,878**
Deposits and placements from banks and other financial institutions	**1,565,698**	**473**	**323**	**204,433**	**-**	**-**	**-**	**1,770,927**
Bills payable	**154,616**	**-**	**-**	**-**	**-**	**-**	**-**	**154,616**
Subordinated liabilities	**-**	**-**	**-**	**817,957**	**271,655**	**-**	**-**	**1,089,612**
Derivative financial liabilities	**-**	**95**	**806**	**25,132**	**-**	**-**	**1,302,049**	**1,328,082**
Structured liabilities designated at FVTPL	**247,230**	**216,635**	**1,337,053**	**1,652,113**	**112,456**	**-**	**-**	**3,565,487**
Others	**60,899**	**41,221**	**71,432**	**40,219**	**53,810**	**1,472,559**	**455,587**	**2,195,727**
Total Liabilities	**37,877,738**	**4,156,815**	**7,220,494**	**3,267,426**	**438,661**	**1,472,559**	**1,757,636**	**56,191,329**
Equity	**-**	**-**	**-**	**-**	**-**	**9,384,220**	**-**	**9,384,220**
Total Liabilities and Equity	**37,877,738**	**4,156,815**	**7,220,494**	**3,267,426**	**438,661**	**10,856,779**	**1,757,636**	**65,575,549**
Net maturity mismatches	**(15,980,763)**	**2,154,280**	**(3,621,890)**	**9,027,387**	**15,437,267**	**(8,134,548)**	**1,118,267**	**-**
Off-balance sheet liabilities	**71,868,175**	**34,182,223**	**45,449,440**	**38,600,192**	**3,651,439**	**-**	**-**	**193,751,469**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

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

i) Liquidity risk (Cont'd)

Bank 31 December 2018	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	5,137,240	-	-	-	-	-	-	5,137,240
Securities purchased under resale agreements	1,532,477	345,434	679,287	-	-	-	-	2,557,198
Deposits and placements with banks and other financial institutions	-	349,247	424,015	-	595,986	-	-	1,369,248
Financial assets at FVTPL	-	-	-	-	-	-	2,327,385	2,327,385
Financial investments at FVOCI	1,332,680	2,533,087	978,354	5,410,387	552,662	187,464	-	10,994,634
Loans, advances and financing	12,009,241	5,827,339	2,368,120	3,023,936	15,942,520	-	-	39,171,156
Derivative financial assets	-	-	-	329	-	-	1,302,933	1,303,262
Others	89,922	8,657	10,050	63,124	10,288	2,390,450	294,821	2,867,312
Total Assets	20,101,560	9,063,764	4,459,826	8,497,776	17,101,456	2,577,914	3,925,139	65,727,435
LIABILITIES AND EQUITY								
Deposits from customers	35,837,501	3,627,538	5,977,006	260,293	259	-	-	45,702,597
Deposits and placements from banks and other financial institutions	2,330,855	624	177,122	289,487	-	-	-	2,798,088
Repurchase agreement	147,871	-	-	-	-	-	-	147,871
Bills payable	232,110	-	-	-	-	-	-	232,110
Subordinated liabilities	-	-	-	500,000	595,987	-	-	1,095,987
Derivative financial liabilities	-	-	158	9,528	-	-	1,124,876	1,134,562
Structured liabilities designated at FVTPL	73,538	93,299	711,185	2,395,342	-	-	-	3,273,364
Others	88,630	43,578	80,962	30,579	10,853	1,791,448	281,598	2,327,648
Total Liabilities	38,710,505	3,765,039	6,946,433	3,485,229	607,099	1,791,448	1,406,474	56,712,227
Equity	-	-	-	-	-	9,015,208	-	9,015,208
Total Liabilities and Equity	38,710,505	3,765,039	6,946,433	3,485,229	607,099	10,806,656	1,406,474	65,727,435
Net maturity mismatches	(18,608,945)	5,298,725	(2,486,607)	5,012,547	16,494,357	(8,228,742)	2,518,665	-
Off-balance sheet liabilities	64,834,441	31,357,398	41,654,387	42,998,654	3,073,166	-	-	183,918,046

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

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

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

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

ii) 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 2019						
Non-derivative liabilities						
Deposits from customers	**33,954,621**	**16,664,323**	**8,244,335**	**943,459**	**-**	**59,806,738**
Deposits and placements of banks and other financial institutions	**-**	**3,213,749**	**81,502**	**432,969**	**3,929**	**3,732,148**
Structured liabilities designated as fair value through profit or loss	**484,994**	**337,222**	**1,905,979**	**2,263,872**	**-**	**4,992,067**
Bills payable	**176,652**	**-**	**-**	**-**	**-**	**176,652**
Other liabilities	**523,245**	**143,256**	**101,056**	**103,157**	**1,080,274**	**1,950,989**
Multi Currency Sukuk Programme	**-**	**760,571**	**21,559**	**564,500**	**-**	**1,346,630**
Subordinated liabilities	**-**	**14,242**	**68,889**	**1,075,821**	**290,563**	**1,449,515**
Loans and other credit-related commitments	**38,622,756**	**669,908**	**6,806,302**	**557,033**	**-**	**46,655,999**
Financial guarantees and similar contracts	**1,969,018**	**1,594,018**	**3,354,731**	**3,768,259**	**273,177**	**10,959,203**
	75,731,286	**23,397,289**	**20,584,353**	**9,709,070**	**1,647,943**	**131,069,941**
Derivative liabilities						
Gross settled derivatives						
- Inflow	**-**	**(35,385,499)**	**(16,005,969)**	**(2,714,358)**	**(891,318)**	**(54,997,144)**
- Outflow	**-**	**35,909,990**	**16,482,257**	**2,823,071**	**964,548**	**56,179,866**
Net settled derivatives	**-**	**26,760**	**62,781**	**147,990**	**11,340**	**248,871**

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 2018						
Non-derivative liabilities						
Deposits from customers	33,120,762	15,375,079	8,488,358	684,036	-	57,668,235
Deposits and placements of banks and other financial institutions	-	3,454,861	396,431	1,837,312	-	5,688,604
Structured liabilities designated as fair value through profit or loss	274,799	122,686	823,182	3,227,619	-	4,448,286
Bills payable	250,704	-	-	-	-	250,704
Other liabilities	377,644	130,858	89,125	17,384	1,009,805	1,624,816
Multi Currency Sukuk Programme	-	10,513	553,287	1,346,630	-	1,910,430
Subordinated liabilities	-	7,153	47,111	688,985	626,400	1,369,649
Loans and other credit-related commitments	36,408,685	876,818	7,187,152	468,769	-	44,941,424
Financial guarantees and similar contracts	1,931,968	1,233,443	3,137,518	5,098,326	665,102	12,066,357
	72,364,562	21,211,411	20,722,164	13,369,061	2,301,307	129,968,505
Derivative liabilities						
Gross settled derivatives						
- Inflow	-	(30,083,379)	(14,084,417)	(3,450,360)	(599,391)	(48,217,547)
- Outflow	-	30,516,089	14,350,968	3,664,663	695,851	49,227,571
Net settled derivatives	-	20,941	27,712	77,530	6,885	133,068

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

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

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

Bank (RM'000)	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years	Total
At 31 December 2019						
Non-derivative liabilities						
Deposits from customers	**28,576,795**	**11,249,255**	**5,936,877**	**596,993**	**-**	**46,359,920**
Deposits and placements of banks and other financial institutions	**-**	**1,572,122**	**327**	**216,863**	**-**	**1,789,312**
Structured liabilities designated as fair value through profit or loss	**468,183**	**223,855**	**1,397,133**	**1,568,716**	**-**	**3,657,887**
Bills payable	**154,616**	**-**	**-**	**-**	**-**	**154,616**
Other liabilities	**499,388**	**96,377**	**75,339**	**76,390**	**923,572**	**1,671,066**
Subordinated liabilities	**-**	**7,121**	**47,104**	**972,139**	**281,109**	**1,307,473**
Loans and other credit-related commitments	**31,507,041**	**551,647**	**5,880,456**	**332,162**	**-**	**38,271,306**
Financial guarantees and similar contracts	**1,771,758**	**1,358,830**	**2,482,582**	**3,282,851**	**257,187**	**9,153,208**
	62,977,781	**15,059,207**	**15,819,818**	**7,046,114**	**1,461,868**	**102,364,788**
Derivative liabilities						
Gross settled derivatives						
- Inflow	**-**	**(35,330,540)**	**(15,366,215)**	**(2,714,358)**	**(891,318)**	**(54,302,431)**
- Outflow	**-**	**35,857,622**	**15,773,554**	**2,842,294**	**964,548**	**55,438,018**
Net settled derivatives	**-**	**28,338**	**65,196**	**156,104**	**11,340**	**260,978**

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 2018						
Non-derivative liabilities						
Deposits from customers	29,465,294	10,223,125	6,097,510	297,030	-	46,082,959
Deposits and placements of banks and other financial institutions	-	2,339,639	178,982	305,698	-	2,824,319
Structured liabilities designated as fair value through profit or loss	274,799	122,686	704,721	2,387,908	-	3,490,114
Bills payable	232,110	-	-	-	-	232,110
Other liabilities	345,031	89,940	68,641	14,034	924,871	1,442,517
Subordinated liabilities	-	7,153	47,111	688,985	626,400	1,369,649
Loans and other credit-related commitments	29,662,336	695,577	5,654,667	403,323	-	36,415,903
Financial guarantees and similar contracts	1,855,529	1,018,234	2,429,778	4,422,719	646,592	10,372,852
	61,835,099	14,496,354	15,181,410	8,519,697	2,197,863	102,230,423
Derivative liabilities						
Gross settled derivatives						
- Inflow	-	(30,810,485)	(14,082,598)	(3,450,359)	(599,391)	(48,942,833)
- Outflow	-	31,243,352	14,351,163	3,678,642	695,851	49,969,008
Net settled derivatives	-	21,602	29,446	78,042	6,899	135,989

d) *Market risk management*

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 in order 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 2019.

The management of market risk is principally undertaken using risk limit mandates approved by HSBC's Regional and Global Wholesale Market Risk Management (WMR), an independent unit which develops HSBC Group's market risk management policies and measurement techniques. Market risks which arise on each product are transferred to the Global Markets. The aim is to ensure that all market risks are consolidated within operations which have the necessary skills, tools, management and governance to manage such risks professionally. Limits are set for portfolios, products and risk types, with market liquidity and business need being the principal factor in determining the level of limits set. The Group and the Bank have an independent product control function that is responsible for measuring market risk exposures in accordance with the policies defined by WMR. Positions are monitored daily and excesses against the prescribed limits are reported immediately to local Senior Management and WMR.

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

(i) 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.

(ii) 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. Where there is no approved internal model, the Group and the Bank use the appropriate local rules to capitalise 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

d) Market risk management (Cont'd)

(ii) 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 utilised for VAR 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 2019	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**550**	**460**	**1,789**	**35**
Interest rate risk	**1,998**	**3,248**	**5,537**	**1,101**
Credit spread risk	**20**	**41**	**198**	**9**
Overall	**1,938**	**3,273**	**5,660**	**1,145**
	At 31 December 2018	Average	Maximum	Minimum
Foreign currency risk	877	751	4,358	26
Interest rate risk	3,665	3,978	8,116	2,042
Credit spread risk	55	49	442	12
Overall	3,735	4,165	8,832	2,061

HSBC Amanah Malaysia Berhad (RM'000)

	At 31 December 2019	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**41**	**39**	**188**	**5**
Profit rate risk	**117**	**112**	**294**	**46**
Credit spread risk	**-**	**2**	**325**	**-**
Overall	**115**	**122**	**404**	**48**
	At 31 December 2018	Average	Maximum	Minimum
Foreign currency risk	68	65	384	5
Profit rate risk	52	74	114	20
Credit spread risk	-	6	93	-
Overall	77	109	385	34

d) Market risk management (Cont'd)

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

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

- the use of historical data as a proxy for estimating future 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.

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

Banking book interest/profit rate risk is the risk of an adverse impact to earnings or capital due to changes in market interest rates. The risk arises from timing mismatches in the repricing of non-traded assets and liabilities and is the potential adverse impact of changes in interest rates on earnings and capital. 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 income, while balancing the cost of hedging activities to the current revenue stream. Monitoring the sensitivity of projected net interest income under varying interest rate scenarios is a key part of this.

In order to manage structural interest rate risk, non-traded assets and liabilities are transferred to Balance Sheet Management (BSM) 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. BSM manages the banking book interest rate positions transferred to it within the approved limits. Local ALCOs are 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.

The Group and the Bank manage market risk in non-trading portfolios by monitoring the sensitivity of projected net interest/finance income under varying interest/profit rate scenarios (simulation modeling), where all other economic variables are held constant.

Sensitivity of net interest income reflects sensitivity of earnings due to changes in market interest rates. The Group and the Bank forecast net interest income sensitivities across a range of interest rate scenarios based on a static balance sheet assumption. This includes business line interest rate pass-on assumptions, re-investment of maturing assets and liabilities at market rates per shock scenario and prepayment risk. BSM is modelled based on no management actions i.e. the risk profile at the month end is assumed to remain constant throughout the forecast horizon.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

d) Market risk management (Cont'd)

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

Sensitivity of projected Net Interest/Finance Income

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

	Group (RM'000)			
	31 Dec 19		31 Dec 18	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**189,028**	**(238,453)**	67,416	(93,584)
USD	**13,178**	**(22,112)**	45,789	(57,377)
Others	**6,735**	**(12,873)**	2,691	(14,301)
	208,941	**(273,438)**	115,896	(165,262)

	Bank (RM'000)			
	31 Dec 19		31 Dec 18	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**171,348**	**(203,452)**	82,393	(102,405)
USD	**25,870**	**(32,569)**	33,033	(42,269)
Others	**507**	**(6,993)**	(4,001)	(5,733)
	197,725	**(243,014)**	111,425	(150,407)

Sensitivity of projected Economic value of equity

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

	Group (RM'000)			
	31 Dec 19		31 Dec 18	
Basis point parallel shift in yield curve	***+200bps***	***-200bps***	*+200bps*	*-200bps*
RM	**(105,695)**	**143,024**	275,180	(278,468)
USD	**(26,619)**	**29,191**	94,669	(132,594)
Others	**(1,680)**	**1,353**	69,567	(51,651)
	(133,994)	**173,568**	439,416	(462,713)

Change in projected economic value of equity arising from a shift in profit rates of (Cont'd):

	Bank (RM'000)			
	31 Dec 19		31 Dec 18	
Basis point parallel shift in yield curve	***+200bps***	***-200bps***	*+200bps*	*-200bps*
RM	**(17,474)**	**38,889**	341,580	(361,082)
USD	**(27,636)**	**30,779**	91,427	(127,161)
Others	**398**	**(417)**	69,003	(51,661)
	(44,712)	**69,251**	502,010	(539,904)

d) Market risk management (Cont'd)

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

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 19		31 Dec 18	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(106,454)**	**106,454**	(137,858)	137,858
USD	**(19,697)**	**19,697**	(14,034)	14,034
CNY	**(34)**	**34**	(95)	95
	(126,185)	**126,185**	(151,987)	151,987

	Bank (RM'000)			
	31 Dec 19		31 Dec 18	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(81,005)**	**81,005**	(101,528)	101,528
USD	**(19,697)**	**19,697**	(14,034)	14,034
CNY	**(34)**	**34**	(95)	95
	(100,736)	**100,736**	(115,657)	115,657

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 19		31 Dec 18	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after income tax expense	**837**	**(837)**	1,729	(1,729)

	Bank (RM'000)			
	31 Dec 19		31 Dec 18	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after income tax expense	**890**	**(890)**	1,636	(1,636)

Change in foreign exchange rate has no significant impact to other comprehensive income for the financial year ended 31 December 2019 and 31 December 2018.

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.

5 Risk (Cont'd)

d) Market risk management (Cont'd)

iv) 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 2019	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non- interest/profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest/ profit rate %
ASSETS									
Cash and short term funds	**9,008,221**	**-**	**-**	**-**	**-**	**615,810**	**-**	**9,624,031**	**2.87**
- impairment allowances	**-**	**-**	**-**	**-**	**-**	**(69)**	**-**	**(69)**	**-**
Securities purchased under resale agreements	**4,865,582**	**1,779,716**	**-**	**-**	**-**	**-**	**-**	**6,645,298**	**3.26**
Deposits and placements with banks and other financial institutions	**-**	**139,153**	**-**	**-**	**-**	**-**	**-**	**139,153**	**3.01**
Financial assets at FVTPL	**-**	**-**	**-**	**-**	**-**	**-**	**1,391,978**	**1,391,978**	**3.52**
Financial investments at FVOCI	**908,429**	**466,157**	**3,468,508**	**6,867,839**	**-**	**197,021**	**-**	**11,907,954**	**3.26**
Loans, advances and financing									
- performing	**19,683,624**	**29,239,979**	**923,417**	**590,954**	**384,228**	**-**	**-**	**50,822,202**	**4.90**
- impaired	**-**	**-**	**-**	**-**	**-**	**1,003,447**	**-**	**1,003,447**	**-**
- impairment allowances	**-**	**-**	**-**	**-**	**-**	**(535,789)**	**-**	**(535,789)**	**-**
Derivative financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**1,440,197**	**1,440,197**	**-**
Other assets	**-**	**-**	**-**	**-**	**-**	**178,944**	**43,868**	**222,812**	**-**
Total Financial Assets	**34,465,856**	**31,625,005**	**4,391,925**	**7,458,793**	**384,228**	**1,459,364**	**2,876,043**	**82,661,214**	
LIABILITIES AND EQUITY									
Deposits from customers	**33,262,077**	**6,141,116**	**8,082,433**	**842,381**	**1,113**	**11,078,070**	**-**	**59,407,190**	**2.06**
Deposits and placements from banks and other financial institutions	**2,994,346**	**191,020**	**76,220**	**404,978**	**-**	**17,120**	**-**	**3,683,684**	**1.75**
Bills payable	**-**	**-**	**-**	**-**	**-**	**176,652**	**-**	**176,652**	**-**
Multi-Currency Sukuk Programme	**-**	**751,732**	**-**	**514,197**	**-**	**-**	**-**	**1,265,929**	**3.96**
Subordinated liabilities	**-**	**-**	**-**	**817,957**	**271,655**	**-**	**-**	**1,089,612**	**4.72**
Derivative financial liabilities	**-**	**95**	**806**	**25,132**	**-**	**-**	**1,256,236**	**1,282,269**	**-**
Structured liabilities designated at FVTPL	**265,659**	**340,421**	**1,778,097**	**2,334,454**	**142,214**	**-**	**-**	**4,860,845**	**2.86**
Other liabilities									
- provision for credit commitments	**-**	**-**	**-**	**-**	**-**	**8,584**	**-**	**8,584**	**-**
- others	**-**	**-**	**-**	**-**	**-**	**1,077,866**	**455,489**	**1,533,355**	**-**
Total Financial Liabilities	**36,522,082**	**7,424,384**	**9,937,556**	**4,939,099**	**414,982**	**12,358,292**	**1,711,725**	**73,308,120**	
Total Equity	**-**	**500,000**	**-**	**-**	**-**	**-**	**-**	**500,000**	
Total Liabilities and Equity	**36,522,082**	**7,924,384**	**9,937,556**	**4,939,099**	**414,982**	**12,358,292**	**1,711,725**	**73,808,120**	
Total interest/profit sensitivity gap	**(2,056,226)**	**23,700,621**	**(5,545,631)**	**2,519,694**	**(30,754)**	**(10,898,928)**	**1,164,318**	**8,853,094**	

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

d) Market risk management (Cont'd)

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

Group 31 December 2018	Non-trading book: Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest/profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest/ profit rate %
ASSETS									
Cash and short term funds	7,457,392	-	-	-	-	450,799	-	7,908,191	2.97
- impairment allowances	-	-	-	-	-	(32)	-	(32)	-
Securities purchased under resale agreements	1,532,477	345,434	679,287	-	-	-	-	2,557,198	3.41
Deposits and placements with banks and other financial institutions	-	227,535	-	-	-	-	-	227,535	3.00
Financial assets at FVTPL	-	-	-	-	-	-	2,327,385	2,327,385	3.71
Financial investments at FVOCI	1,332,680	2,732,401	1,719,485	7,195,625	552,662	187,464	-	13,720,317	3.42
Loans, advances and financing									
- performing	20,045,729	30,996,559	826,778	609,401	348,617	-	-	52,827,084	5.01
- impaired	-	-	-	-	-	973,287	-	973,287	-
- impairment allowances	-	-	-	-	-	(491,878)	-	(491,878)	-
Derivative financial assets	-	-	-	329	-	-	1,299,610	1,299,939	-
Other assets	-	-	-	-	-	207,502	298,252	505,754	-
Total Financial Assets	30,368,278	34,301,929	3,225,550	7,805,355	901,279	1,327,142	3,925,247	81,854,780	
LIABILITIES AND EQUITY									
Deposits from customers	32,415,305	5,878,925	8,386,793	600,191	289	9,865,650	-	57,147,153	2.06
Deposits and placements from banks and other financial institutions	3,261,079	154,107	383,972	1,695,153	-	24,440	-	5,518,751	1.85
Repurchase agreement	147,871	-	-	-	-	-	-	147,871	3.24
Bills payable	-	-	-	-	-	250,704	-	250,704	-
Multi-Currency Sukuk Programme	-	-	501,173	1,254,108	-	-	-	1,755,281	4.02
Subordinated liabilities	-	-	-	500,000	595,987	-	-	1,095,987	4.53
Derivative financial liabilities	-	-	158	9,528	-	-	1,106,599	1,116,285	-
Structured liabilities designated at FVTPL	73,538	93,299	841,123	3,142,764	7,517	-	-	4,158,241	2.93
Other liabilities									
- provision for credit commitments	-	-	-	-	-	8,598	-	8,598	-
- others	-	-	-	-	-	1,426,574	281,598	1,708,172	-
Total Financial Liabilities	35,897,793	6,126,331	10,113,219	7,201,744	603,793	11,575,966	1,388,197	72,907,043	
Total interest/profit sensitivity gap	(5,529,515)	28,175,598	(6,887,669)	603,611	297,486	(10,248,824)	2,537,050	8,947,737	

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

d) Market risk management (Cont'd)

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

Bank 31 December 2019	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
ASSETS									
Cash and short term funds	**4,375,759**	**-**	**-**	**-**	**-**	**471,541**	**-**	**4,847,300**	**2.77**
- impairment allowances	**-**	**-**	**-**	**-**	**-**	**(63)**	**-**	**(63)**	**-**
Securities purchased under resale agreements	**4,865,582**	**1,779,716**	**-**	**-**	**-**	**-**	**-**	**6,645,298**	**3.26**
Deposits and placements with banks and other financial institutions	**25,000**	**110,076**	**286,881**	**317,958**	**271,655**	**-**	**-**	**1,011,570**	**3.01**
Financial assets at FVTPL	**-**	**-**	**-**	**-**	**-**	**-**	**1,391,978**	**1,391,978**	**3.52**
Financial investments at FVOCI	**908,429**	**466,157**	**1,767,919**	**5,848,453**	**-**	**197,021**	**-**	**9,187,979**	**3.20**
Loans, advances and financing									
- performing	**15,803,981**	**21,430,285**	**667,151**	**5,708**	**162**	**-**	**-**	**37,907,287**	**4.75**
- impaired	**-**	**-**	**-**	**-**	**-**	**618,144**	**-**	**618,144**	**-**
- impairment allowances	**-**	**-**	**-**	**-**	**-**	**(278,524)**	**-**	**(278,524)**	**-**
Derivative financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**1,440,057**	**1,440,057**	**-**
Other assets	**-**	**-**	**-**	**-**	**-**	**206,675**	**43,868**	**250,543**	**-**
Total Financial Assets	**25,978,751**	**23,786,234**	**2,721,951**	**6,172,119**	**271,817**	**1,214,794**	**2,875,903**	**63,021,569**	
LIABILITIES AND EQUITY									
Deposits from customers	**26,053,536**	**3,898,391**	**5,810,880**	**527,572**	**740**	**9,795,759**	**-**	**46,086,878**	**1.90**
Deposits and placements from banks and other financial institutions	**1,565,698**	**473**	**323**	**204,433**	**-**	**-**	**-**	**1,770,927**	**1.52**
Bills payable	**-**	**-**	**-**	**-**	**-**	**154,616**	**-**	**154,616**	**-**
Subordinated liabilities	**-**	**-**	**-**	**817,957**	**271,655**	**-**	**-**	**1,089,612**	**4.79**
Derivative financial liabilities	**-**	**95**	**806**	**25,132**	**-**	**-**	**1,302,049**	**1,328,082**	**-**
Structured liabilities designated at FVTPL	**247,230**	**216,635**	**1,337,053**	**1,652,113**	**112,456**	**-**	**-**	**3,565,487**	**2.64**
Other liabilities									
- provision for credit commitments	**-**	**-**	**-**	**-**	**-**	**6,032**	**-**	**6,032**	**-**
- others	**-**	**-**	**-**	**-**	**-**	**955,011**	**455,587**	**1,410,598**	**-**
Total Financial Liabilities	**27,866,464**	**4,115,594**	**7,149,062**	**3,227,207**	**384,851**	**10,911,418**	**1,757,636**	**55,412,232**	
Total Equity	**-**	**500,000**	**-**	**-**	**-**	**-**	**-**	**500,000**	
Total Liabilities and Equity	**27,866,464**	**4,615,594**	**7,149,062**	**3,227,207**	**384,851**	**10,911,418**	**1,757,636**	**55,912,232**	
Total interest sensitivity gap	**(1,887,713)**	**19,170,640**	**(4,427,111)**	**2,944,912**	**(113,034)**	**(9,696,624)**	**1,118,267**	**7,109,337**	

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Risk (Cont'd)

d) Market risk management (Cont'd)

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

Bank 31 December 2018	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
ASSETS									
Cash and short term funds	4,785,927	-	-	-	-	351,343	-	5,137,270	2.86
- impairment allowances	-	-	-	-	-	(30)	-	(30)	-
Securities purchased under resale agreements	1,532,477	345,434	679,287	-	-	-	-	2,557,198	3.41
Deposits and placements with banks and other financial institutions	-	349,247	424,015	-	595,986	-	-	1,369,248	3.00
Financial assets at FVTPL	-	-	-	-	-	-	2,327,385	2,327,385	3.71
Financial investments at FVOCI	1,332,680	2,533,087	978,354	5,410,387	552,662	187,464	-	10,994,634	3.39
Loans, advances and financing									
- performing	14,899,935	23,240,706	639,809	30,662	414	-	-	38,811,526	4.86
- impaired	-	-	-	-	-	616,975	-	616,975	-
- impairment allowances	-	-	-	-	-	(257,345)	-	(257,345)	-
Derivative financial assets	-	-	-	329	-	-	1,302,933	1,303,262	-
Other assets	-	-	-	-	-	252,161	294,821	546,982	-
Total Financial Assets	22,551,019	26,468,474	2,721,465	5,441,378	1,149,062	1,150,568	3,925,139	63,407,105	
LIABILITIES									
Deposits from customers	26,677,812	3,627,538	5,977,006	260,293	259	9,159,689	-	45,702,597	1.88
Deposits and placements from banks and other financial institutions	2,330,855	624	177,122	289,487	-	-	-	2,798,088	1.40
Repurchase agreement	147,871	-	-	-	-	-	-	147,871	3.24
Bills payable	-	-	-	-	-	232,110	-	232,110	-
Subordinated liabilities	-	-	-	500,000	595,987	-	-	1,095,987	4.64
Derivative financial liabilities	-	-	158	9,528	-	-	1,124,876	1,134,562	-
Structured liabilities designated at FVTPL	73,538	93,299	711,185	2,395,342	-	-	-	3,273,364	2.78
Other liabilities									
- provision for credit commitments	-	-	-	-	-	5,739	-	5,739	-
- others	-	-	-	-	-	1,218,474	281,598	1,500,072	-
Total Financial Liabilities	29,230,076	3,721,461	6,865,471	3,454,650	596,246	10,616,012	1,406,474	55,890,390	
Total interest sensitivity gap	(6,679,057)	22,747,013	(4,144,006)	1,986,728	552,816	(9,465,444)	2,518,665	7,516,715	

d) Market risk management (Cont'd)

(v) 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 is 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 management with insights regarding the 'tail risk' beyond VaR for which our risk appetite is limited.

(vi) 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. These may be driven by rapid technological innovation, changing behaviours of consumers, cyber-threats, cross-border dependencies and third-party relationships.

(ii) Resilience risk management

Key developments in 2019

In May 2019, in line with the simplified risk taxonomy, HSBC Group, including the Group and the Bank formed a new Resilience Risk sub-function to ensure operations continue functioning when an operational disturbance occurs. The resilience strategy is focused on the establishment of robust backup plans, detailed response methods, alternative delivery channels and recovery options. Resilience risk was formed to simplify interaction with stakeholders and to deliver clear, consistent and credible responses globally. Investment in information technology ('IT') Resilience is central to this commitment. Designing and implementing IT Systems that continue to be available to use, in the face of adverse conditions is a key objective. We seek to ensure we understand the root cause of IT failures and learn lessons both from our own experiences and those of others.

A number of initiatives have been undertaken to develop and embed the new sub-function:

- HSBC Group recruited and consolidated personnel from several previously independent risk functions, in Information and Cyber Security, Protective Security, Business Continuity and Incident Management, Third-party and Systems, Data Integrity and Transaction Processing.

- We adopted a new model that allows us to provide a globally consistent view across Resilience Risk in order to strengthening risk management oversight.

- We developed a Target Operating Model to set out our desired state for the function. We identified areas where we need to develop the resilience risk vision.

- We used internal and external channels to recruit a leadership team that is aligned to our core values of being open, dependable and connected.

Governance and structure

Resilience Risk provides guidance and stewardship to our businesses and global functions about how we can prevent, adapt, and learn from resilience-related threats when something goes wrong. We view resilience through six lenses: strategic change and emerging threats; third-party risk; information and data resilience; payments and processing resilience; systems and cyber resilience; and protective security risk. The Global Resilience Risk Executive Committee oversees resilience risk and has accountability to the Global Risk Management Board. The Global Resilience Risk Executive Committee is supported by its subcommittees that provide oversight over each of the respective Resilience Risk sub-teams within HSBC Group.

Key risk management processes

Operational resilience is our ability to adapt operations to continue functioning when an operational disturbance occurs. We measure resilience in terms of the maximum disruption period or their impact tolerance that we are willing to accept for a business service. Resilience risk cannot be managed down to zero, so we concentrate on critical business and strategic change programmes that have the highest potential to threaten our ability to provide continued service to our customers. Our resilience strategy is focused on the establishment of robust back-up plans, detailed response methods, alternative delivery channels and recovery options.

The Resilience Risk team oversees the identification, management and control of resilience risks.

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, and incur fines and penalties and suffer damage to our business as a consequence.

Regulatory compliance risk arises from the risks associated with breaching the Group and the Bank's duty to customers and other counterparties, inappropriate market conduct and breaching other regulatory requirements.

(ii) Regulatory compliance risk management

Key developments in 2019

There were no material changes to the practices for the management of regulatory compliance risk in 2019, except for the initiatives that was undertook to raise our standards in relation to the conduct of business, as described below under 'Conduct of business'.

Governance and structure

The Regulatory Compliance sub-function provides independent, objective oversight and challenge, and promotes a compliance-orientated culture that supports the business in delivering fair outcomes for customers, maintaining the integrity of financial markets and achieving our strategic objectives.

Regulatory Compliance is part of the Compliance function, which is headed by the HSBC Group Chief Compliance Officer. Regulatory Compliance is structured as a global function with regional and country Regulatory Compliance teams, which support and advise each global business and global function.

Key risk management processes

Policies and procedures are regularly reviewed. Global policies and procedures require the prompt identification and escalation of any actual or potential regulatory breach to Regulatory Compliance. Reportable events are escalated to the RMM and the Risk Committee, as appropriate.

Conduct of business

In 2019, good conduct through people's behaviour and decision making continued to be promoted and encouraged in order to deliver fair outcomes for customers, and to maintain financial market integrity. During 2019:

- We continued to focus on the needs of vulnerable customers in our product and process design. In specific markets, we provided awareness and training initiatives, and we also deployed staff with specialist knowledge of conditions such as dementia. Financial inclusion initiatives progressed in specific markets, combatting financial abuse and developing financial education schemes for older customers.

- We further defined roles and responsibilities for our people as part of the enterprise risk management framework across the Group and the Bank to consider the customer in decision making and action.

- We delivered our fifth annual global mandatory training course on conduct, and reinforced the importance of conduct by highlighting examples of good conduct.

- We continued the expansion of recognition programmes across business areas for our people when they deliver exceptional service, when working directly with customers or in supporting roles.

g) Financial crime and fraud risk

(i) Overview

Financial crime and fraud risk is the risk that we knowingly or unknowingly help parties to commit or to further potentially illegal activity. Financial crime and fraud risk arises from day-to-day banking operations.

(ii) Financial crime and fraud risk management

Key developments in 2019

During 2019, we continued to increase our efforts to strengthen our ability to combat financial crime. We integrated into our day-to-day operations the majority of the financial crime risk core capabilities delivered through the Global Standards programme, which we set up in 2013 to enhance our risk management policies, processes and systems. The global programme infrastructure closed in 2019 and we have begun several initiatives to define the next phase of financial crime risk management.

- We continued to strengthen our anti-fraud capabilities, focusing on threats posed by new and existing technologies, and have delivered a comprehensive fraud training programme to our people.

- We continued to invest in the use of artificial intelligence (AI) and advanced analytics techniques to develop a financial crime risk management framework for the future.

- We launched industry-leading anti-money laundering (AML) and sanctions automation systems to detect and disrupt financial crime in international trade. These systems will strengthen our ability to fight financial crime through the identification of criminal activity and networks.

Governance and structure

Since establishing a global framework of Financial Crime Risk Management Committees in the first quarter of 2018, we have continued to strengthen and review the effectiveness of our governance framework to manage financial crime risk. Formal governance committees is held and chaired by the chief executive officer. They help to enable compliance with the letter and the spirit of all applicable financial crime compliance laws and regulations, as well as our own standards, values and policies relating to financial crime risks.

Key risk management processes

We continued to deliver an anti-bribery and corruption transformation programme to further enhance the policies and controls around identifying and managing the risks of bribery and corruption across our business. Our transformation programme continued to focus on our anti-fraud and anti-tax evasion capabilities. Further enhancements have been made to our governance and policy frameworks, and to our management information reporting on standardised financial crime controls.

We are investing in the next generation of capabilities to fight financial crime by applying advanced analytics and AI. We remain committed to enhancing our risk assessment capabilities and aim to deliver more proactive risk management and improve the customer experience.

Working in partnership with the public sector and other financial institutions is vital to managing financial crime risk. We are a strong proponent of public-private partnerships and participates in information-sharing initiatives around the world to better understand these risks so that they can be mitigated more effectively.

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 2019

In September 2019, a number of initiatives were undertaken to further develop and embed the new Model Risk Management sub-function, including:

- Appointing Head of Model Risk Management.
- Refining the model risk policy to enable a more risk-based approach to model risk management.
- Conducting a full review of model governance arrangements overseeing model risk across the HSBC Group, resulting in a range of enhancements to the underlying structure to improve effectiveness and increase business engagement.
- Designing a new target operating model for Model Risk Management, referring to internal and industry best practice.

(iii) Governance and structure

We have placed greater focus on our model risk activities during 2019. To reflect this, HSBC Group has created the role of Chief Model Risk Officer, which is undertaken by the Head of Model Risk Management. Model Risk Management is structured as a sub-function within Regional Risk Strategy. Regional Model Risk Management support and advise all areas of the HSBC Group, headed by the Regional Model Risk Steward.

As part of country's model risk governance framework, the Chief Risk Officer assumes the role of the Model Risk Steward and together with regional Model Risk Management, provides oversight, challenge and ensures compliance to HSBC's model risk management policies.

(iv) Key risk management processes

Regular reviews are conducted for model risk management policies and procedures and the first line of defence is required to demonstrate a set of comprehensive and effective controls based on a library of model risk controls provided by Model Risk Management.

Model Risk Management report on model risk to senior management on a regular basis through use of the risk map and regular key updates. The effectiveness of these processes is reviewed on a regular basis to ensure that appropriate understanding and ownership of model risk is embedded in the businesses and functions.

6 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.

- 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.

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

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%.

7 Use of estimates and judgments

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 4.

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 judgment 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 4(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 5(b)(v) sets out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

7 Use of estimates and judgments (Cont'd)

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 4(g)(iv).

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

	Group			
	Level 1	**Level 2**	**Level 3**	**Total**
2019	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial assets at FVTPL (Note 10)	**624,003**	**767,975**	**-**	**1,391,978**
Financial investments at FVOCI [1] (Note 11)	**10,236,216**	**1,474,717**	**197,021**	**11,907,954**
Derivative financial assets (Note 43)	**3,161**	**1,429,085**	**7,951**	**1,440,197**
	10,863,380	**3,671,777**	**204,972**	**14,740,129**
Structured liabilities (Note 24)	**-**	**4,367,472**	**493,373**	**4,860,845**
Derivative financial liabilities (Note 43)	**17,238**	**1,264,521**	**510**	**1,282,269**
Multi-Currency Sukuk Programme (Note 26)	**-**	**1,265,929**	**-**	**1,265,929**
	17,238	**6,897,922**	**493,883**	**7,409,043**
2018				
Financial assets at FVTPL (Note 10)	1,687,312	640,073	-	2,327,385
Financial investments at FVOCI [1] (Note 11)	9,220,769	4,312,084	187,464	13,720,317
Derivative financial assets (Note 43)	4,485	1,295,307	147	1,299,939
	10,912,566	6,247,464	187,611	17,347,641
Structured liabilities (Note 24)	26,520	3,987,210	171,031	4,184,761
Derivative financial liabilities (Note 43)	15,225	1,100,022	1,038	1,116,285
Multi-Currency Sukuk Programme (Note 26)	-	1,755,281	-	1,755,281
	41,745	6,842,513	172,069	7,056,327

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

7 Use of estimates and judgments (Cont'd)

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

	Bank			
2019	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial assets at FVTPL (Note 10)	**624,003**	**767,975**	**-**	**1,391,978**
Financial investments at FVOCI [2] (Note 11)	**7,516,241**	**1,474,717**	**197,021**	**9,187,979**
Derivative financial assets (Note 43)	**3,671**	**1,428,435**	**7,951**	**1,440,057**
	8,143,915	**3,671,127**	**204,972**	**12,020,014**
Structured liabilities (Note 24)	**-**	**3,284,907**	**280,580**	**3,565,487**
Derivative financial liabilities (Note 43)	**17,240**	**1,305,078**	**5,764**	**1,328,082**
	17,240	**4,589,985**	**286,344**	**4,893,569**
2018				
Financial assets at FVTPL (Note 10)	1,687,312	640,073	-	2,327,385
Financial investments at FVOCI [2] (Note 11)	6,694,400	4,112,770	187,464	10,994,634
Derivative financial assets (Note 43)	4,855	1,298,260	147	1,303,262
	8,386,567	6,051,103	187,611	14,625,281
Structured liabilities (Note 24)	26,520	3,121,146	152,217	3,299,883
Derivative financial liabilities (Note 43)	14,956	1,118,422	1,184	1,134,562
	41,476	4,239,568	153,401	4,434,445

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

7 Use of estimates and judgments (Cont'd)

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 judgment 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.

7 Use of estimates and judgments (Cont'd)

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

(iii) Valuation techniques

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

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgmental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit (day 1 gain or loss) or greater than 10% 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.

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

(iv) Fair value adjustments

Fair value adjustments are adopted when the Group and the Bank 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.

Bid-offer

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

7 Use of estimates and judgments (Cont'd)

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.

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

(iv) Fair value adjustments (Cont'd)

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.

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:

	2019			2018		
	Derivative financial assets	**Derivative financial liabilities**	**Structured liabilities**	Derivative financial assets	Derivative financial liabilities	Structured liabilities
Group (RM'000)						
Balance at 1 January	**147**	**1,038**	**171,031**	4,704	1,808	469,125
Total gains or losses						
- In profit or loss	**7,804**	**(528)**	**10,190**	(2,660)	(655)	(38,338)
- In OCI	**-**	**-**	**(1,387)**	-	-	-
Issues	**-**	**-**	**331,729**	-	-	19,588
Settlements	**-**	**-**	**(18,190)**	-	-	(162,762)
Transfer out of Level 3	**-**	**-**	**-**	(1,897)	(115)	(116,582)
Balance at 31 December	**7,951**	**510**	**493,373**	147	1,038	171,031

	2019			2018		
	Derivative financial assets	**Derivative financial liabilities**	**Structured liabilities**	Derivative financial assets	Derivative financial liabilities	Structured liabilities
Bank (RM'000)						
Balance at 1 January	**147**	**1,184**	**152,217**	4,704	1,808	469,125
Total gains or losses in						
- In profit or loss	**7,804**	**4,580**	**10,426**	(2,660)	(509)	(37,564)
- In OCI			**(1,304)**			
Issues	**-**	**-**	**137,131**	-	-	-
Settlements	**-**	**-**	**(17,890)**	-	-	(162,762)
Transfer out of Level 3	**-**	**-**	**-**	(1,897)	(115)	(116,582)
Balance at 31 December	**7,951**	**5,764**	**280,580**	147	1,184	152,217

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'.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

7 Use of estimates and judgments (Cont'd)

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

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

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

	Derivative financial assets	Derivative financial liabilities	Structured liabilities
2019			
Group (RM'000)			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	**-**	**-**	**(137)[2]**
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	**7,804[2]**	**528[1]**	**(10,053)[2]**
2018			
Group (RM'000)			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	(2,549)[1]	1,694[1]	35,994[1]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	(111)[1]	(1,039)[2]	2,344[1]
2019			
Bank (RM'000)			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	**-**	**-**	**(137)[2]**
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	**7,804[2]**	**4,580[1]**	**(10,289)[2]**
2018			
Bank (RM'000)			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	(2,549)[1]	1,694[1]	35,994[1]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	(111)[1]	(1,185)[2]	1,570[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	**2019 : 3.21% - 11.07%** 2018 : NIL
Structured liabilities	Option model	Foreign currency volatility	**2019 : 2.68% - 17.88%** 2018 : 2.02% - 17.88%
		Long term equity volatility	**2019 : 15.87% - 23.31%** 2018 : 18.00% - 21.74%
		Equity/Equity Index Correlation	**2019 : 0.48 - 0.51** 2018 : 0.48[1]
		MMM Lambda	**2019 : -14%** 2018 : NIL

[1] Upper and lower ranges are the same.

(vii) Key unobservable inputs to Level 3 financial instruments

Volatility

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

Volatility varies by underlying reference market price, and by strike and maturity of the option. Volatility also varies over time. Certain volatilities, typically those of a longer-dated nature, are unobservable. The unobservable volatility is then estimated from observable data. For example, longer-dated volatilities may be extrapolated from shorter-dated volatilities.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

7 Use of estimates and judgments (Cont'd)

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

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

Interest rate/cross currency basis

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

(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:

	2019 Effect on profit or loss		2018 Effect on profit or loss	
	Favourable changes	**Unfavourable changes**	Favourable changes	Unfavourable changes
Group (RM'000)				
Derivative financial assets	**88**	**(88)**	-	-
Derivative financial liabilities	**131**	**(131)**	-	-
Structured liabilities	**131**	**(131)**	119	(119)
	350	**(350)**	119	(119)

Favourable and unfavourable changes are determined on the sensitivity analysis. The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data. When the available data is not amenable to statistical analysis, the quantification of uncertainty is judgmental, but remains guided by the 95% confidence interval.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

7 Use of estimates and judgments (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 2019 Carrying amount RM'000	**31 Dec 2019 Fair value RM'000**	31 Dec 2018 Carrying amount RM'000	31 Dec 2018 Fair value RM'000
Financial Assets				
Loans, advances and financing	**51,289,860**	**51,447,675**	53,308,493	52,962,512
Financial Liabilities				
Deposits from customers	**59,407,190**	**59,402,893**	57,147,153	57,042,782
Deposits and placements from banks and other financial institutions	**3,683,684**	**3,683,250**	5,518,751	5,583,452
Subordinated liabilities	**1,089,612**	**1,137,333**	1,095,987	1,138,665

	Bank			
	31 Dec 2019 Carrying amount RM'000	**31 Dec 2019 Fair value RM'000**	31 Dec 2018 Carrying amount RM'000	31 Dec 2018 Fair value RM'000
Financial Assets				
Loans, advances and financing	**38,246,907**	**38,388,119**	39,171,156	38,831,233
Financial Liabilities				
Deposits from customers	**46,086,878**	**46,084,561**	45,702,597	45,647,517
Deposits and placements from banks and other financial institutions	**1,770,927**	**1,770,708**	2,798,088	2,813,325
Subordinated liabilities	**1,089,612**	**1,137,333**	1,095,987	1,120,201

The methods and assumptions used in estimating the fair values of financial instruments other than those already mentioned in Note 4(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.

7 Use of estimates and judgments (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 Bank believes 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 2019 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	**-**	**-**	**51,447,675**	**51,447,675**	**51,289,860**
Financial Liabilities					
Deposits from customers	**-**	**59,402,893**	**-**	**59,402,893**	**59,407,190**
Deposits and placements from banks and other financial institutions	**-**	**3,683,250**	**-**	**3,683,250**	**3,683,684**
Subordinated liabilities	**-**	**1,137,333**	**-**	**1,137,333**	**1,089,612**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

7 Use of estimates and judgments (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 2018 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	-	-	52,962,512	52,962,512	53,308,493
Financial Liabilities					
Deposits from customers	-	57,042,782	-	57,042,782	57,147,153
Deposits and placements from banks and other financial institutions	-	5,583,452	-	5,583,452	5,518,751
Subordinated liabilities	-	1,138,665	-	1,138,665	1,095,987

Bank					
31 December 2019 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	**-**	**-**	**38,388,119**	**38,388,119**	**38,246,907**
Financial Liabilities					
Deposits from customers	**-**	**46,084,561**	**-**	**46,084,561**	**46,086,878**
Deposits and placements from banks and other financial institutions	**-**	**1,770,708**	**-**	**1,770,708**	**1,770,927**
Subordinated liabilities	**-**	**1,137,333**	**-**	**1,137,333**	**1,089,612**

Bank					
31 December 2018 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	-	-	38,831,233	38,831,233	39,171,156
Financial Liabilities					
Deposits from customers	-	45,647,517	-	45,647,517	45,702,597
Deposits and placements from banks and other financial institutions	-	2,813,325	-	2,813,325	2,798,088
Subordinated liabilities	-	1,120,201	-	1,120,201	1,095,987

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

8 Cash and Short-Term Funds

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Cash and balances with banks and other financial institutions	**956,880**	851,050	**740,937**	685,654
Money at call and interbank placements maturing within one month	**8,667,082**	7,057,109	**4,106,300**	4,451,586
	9,623,962	7,908,159	**4,847,237**	5,137,240

Money at call and interbank placements maturing within one month is within Stage 1 allocation (12 -months ECL) with RM69,000 impairment allowance as at 31 December 2019 (31 December 2018: RM15,000).

9 Deposits and Placements with Banks and Other Financial Institutions

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Licensed banks	**-**	20,685	**1,011,570**	1,162,398
Bank Negara Malaysia	**139,153**	206,850	**-**	206,850
Net deposit and placements	**139,153**	**227,535**	**1,011,570**	**1,369,248**

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 RM1,011.6 million (31 December 2018: RM1,141.7 million). The balance is within Stage 1 allocation (12 -months ECL) with nil impairment allowance as at 31 December 2019 (31 December 2018: nil).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financial Assets at Fair Value through Profit and Loss (FVTPL)

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Money market instruments:				
Malaysian Government treasury bills	**48,736**	573,248	**48,736**	573,248
Islamic treasury bills	**19,668**	-	**19,668**	-
Malaysian Government securities	**397,683**	1,355,514	**397,683**	1,355,514
Malaysian Government Islamic Sukuk	**198,991**	315,653	**198,991**	315,653
Cagamas bonds and notes	**13,458**	9,115	**13,458**	9,115
	678,536	2,253,530	**678,536**	2,253,530
Unquoted:				
Corporate bonds and Sukuk	**113,388**	73,855	**113,388**	73,855
Loans, advances and financing [1]	**600,054**	-	**600,054**	-
	1,391,978	2,327,385	**1,391,978**	2,327,385

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 2019	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
		RM'000	RM'000	**RM'000**	RM'000
Money market instruments:					
Malaysian Government treasury bills	*A+ to A-*	**48,736**	573,248	**48,736**	573,248
Islamic treasury bills	*A+ to A-*	**19,668**	-	**19,668**	-
Malaysian Government securities	*A+ to A-*	**397,683**	1,355,514	**397,683**	1,355,514
Malaysian Government Islamic Sukuk	*A+ to A-*	**198,991**	315,653	**198,991**	315,653
Cagamas bonds and notes	*A+ to A-*	**13,458**	9,115	**13,458**	9,115
Unquoted:					
Corporate bonds and Sukuk	- [2]	**94,259**	40,472	**94,259**	40,472
(including commercial paper)	AA+ to AA-	**15,139**	15,082	**15,139**	15,082
	A+ to A-	**3,437**	18,203	**3,437**	18,203
	BBB+ to BBB-	**553**	-	**553**	-
	B	**-**	98	**-**	98
		791,924	2,327,385	791,924	2,327,385

All the financial assets at fair value through profit and loss as disclosed above are not pledged to any counterparties.

[1] Included in Financial Assets at FVTPL of the Bank as at 31 December 2019 is a financing exposure of RM600,054,000 held for the purpose of sale in the near term. This exposure is classified as ‘other’ business model and its cash flow does not represent solely for the collection of principal and interest (the ”SPPI” test). Hence it is being classified as FVTPL.

This exposure is also an SIAF/IAA financing which is being disclosed as “Asset Under Management” in the financial statements of HBMS. Syndicated Investment Account for Financing/Investment Agency Account (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.

The recognition and derecognition treatments of the above are in accordance to Note 4(g).

[2] Rated separately by another rating agency.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Financial Investments at Fair Value through Other Comprehensive Income (FVOCI)

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Debt instruments				
Money market instruments:				
Bank Negara Malaysia bills and notes	**840,066**	3,281,519	**840,066**	3,281,519
Islamic Bank Negara bills	**499,459**	411,266	**499,459**	411,266
Malaysian Government securities	**4,685,666**	4,442,265	**4,685,666**	4,442,265
Malaysian Government Islamic Sukuk	**4,323,458**	4,118,043	**1,603,483**	1,591,674
Malaysian Government Islamic treasury bills	**-**	199,314	**-**	-
Cagamas bonds and notes	**135,065**	419,789	**135,065**	419,789
US treasury bond	**1,221,297**	654,097	**1,221,297**	654,097
	11,705,011	13,526,293	**8,985,036**	10,800,610
Unquoted:				
Corporate bonds and Sukuk	**5,922**	6,560	**5,922**	6,560
Financial Investments Designated as FVOCI				
Equity instruments				
Unquoted:				
Shares	**197,021**	187,464	**197,021**	187,464
of which				
Cagamas Holdings Berhad	***159,741***	*150,667*	***159,741***	*150,667*
Credit Guarantee Corporation Malaysia Berhad	***31,196***	*30,388*	***31,196***	*30,388*
Others	***6,084***	*6,409*	***6,084***	*6,409*
	11,907,954	13,720,317	**9,187,979**	10,994,634

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. None of these equity instruments were disposed during the financial year.

The maturity structure of money market instruments held as financial investments at FVOCI is as follows:

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Maturing within one year	**4,837,044**	5,784,454	**3,136,455**	4,844,009
More than one year to three years	**5,667,297**	5,867,787	**4,647,911**	4,313,785
More than three years to five years	**1,200,670**	1,321,194	**1,200,670**	1,089,958
Over five years	**-**	552,858	**-**	552,858
	11,705,011	13,526,293	**8,985,036**	10,800,610

There are no FVOCI balances that are pledged against Repurchase Agreement as at 31 December 2019 (31 December 2018: RM150.8 million).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Loans, Advances and Financing

(i) By type

	Group		*Bank*	
At amortised cost	**31 Dec 2019 RM'000**	31 Dec 2018 RM'000	**31 Dec 2019 RM'000**	31 Dec 2018 RM'000
Overdrafts/cash line	**811,630**	952,685	**738,499**	877,351
Term loans/financing:				
Housing loans/financing	**17,790,451**	18,570,714	**13,626,079**	14,241,494
Syndicated term loans/financing	**3,432,114**	3,674,894	**2,703,816**	2,340,238
Factoring receivables	**613,197**	509,453	**613,197**	509,453
Hire purchase receivables	**194,049**	195,636	**-**	-
Lease receivables	**-**	539	**-**	-
Other term loans/financing	**10,089,398**	10,154,802	**6,250,324**	5,837,382
Bills receivable	**2,066,044**	3,449,649	**1,595,124**	2,993,071
Trust receipts	**2,511,619**	2,140,273	**1,985,793**	1,616,648
Claims on customers under acceptance credits	**1,404,798**	1,579,135	**1,081,526**	1,156,842
Staff loans/financing	**75,179**	90,539	**72,935**	87,395
Credit/charge cards	**4,009,507**	3,663,256	**2,750,943**	2,587,622
Revolving financing	**8,811,969**	8,806,637	**7,095,804**	7,172,272
Other loans/financing	**15,694**	12,159	**11,391**	8,733
Gross loans, advances and financing [1]	**51,825,649**	53,800,371	**38,525,431**	39,428,501
Less: - Impairment allowances	**(535,789)**	(491,878)	**(278,524)**	(257,345)
Total net loans, advances and financing	**51,289,860**	53,308,493	**38,246,907**	39,171,156

[1] Included in gross loans, advances and financing of the Bank are SIAF/IAA financing which are disclosed as "Asset Under Management" in the financial statements of HBMS (refer to Note 10 for more details). These comprise of the following types of financing:

	Bank	
	31 Dec 2019 RM'000	31 Dec 2018 RM'000
Syndicated term financing	**1,910,351**	1,820,336
Other term financing	**15,087**	-
Revolving financing	**839,000**	751,515
	2,764,438	2,571,851

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Loans, Advances and Financing (Cont'd)

(ii) By type of customer

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Domestic non-bank financial institutions	**1,312,978**	1,198,133	**818,092**	578,712
Domestic business enterprises:				
Small medium enterprises	**2,316,481**	6,498,801	**1,379,084**	4,515,578
Others	**21,248,961**	17,020,804	**17,027,935**	13,239,148
Government and statutory bodies	**1,917**	4,527	**-**	-
Individuals	**21,675,316**	22,010,122	**15,412,214**	15,867,488
Other domestic entities	**4,390**	4,804	**3,253**	3,546
Foreign entities/individuals	**5,265,606**	7,063,180	**3,884,853**	5,224,029
	51,825,649	53,800,371	**38,525,431**	39,428,501

(iii) By residual contractual maturity

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Maturity within one year	**21,320,575**	26,228,589	**16,778,704**	20,332,762
More than one year to three years	**5,208,744**	2,526,451	**3,453,335**	1,360,321
More than three years to five years	**3,638,797**	2,999,636	**2,625,964**	1,710,272
More than five years	**21,657,533**	22,045,695	**15,667,428**	16,025,146
	51,825,649	53,800,371	**38,525,431**	39,428,501

(iv) By interest/profit rate sensitivity

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Fixed rate:				
Housing loans/financing	**7,677**	194	**7,677**	194
Hire purchase receivables	**194,049**	195,636	**-**	-
Other fixed rate loans/financing	**11,129,738**	13,491,626	**7,686,187**	10,191,085
Variable rate:				
Base Rate/Base Lending/Financing Rate plus	**21,179,066**	22,218,713	**15,981,634**	16,826,043
Cost-plus	**19,315,119**	17,894,202	**14,849,933**	12,411,179
	51,825,649	53,800,371	**38,525,431**	39,428,501

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Loans, Advances and Financing (Cont'd)

(v) By sector

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Agricultural, hunting, forestry and fishing	**183,220**	224,321	**166,505**	205,335
Mining and quarrying	**361,643**	353,554	**177,453**	121,880
Manufacturing	**7,693,137**	7,512,804	**6,489,904**	6,017,712
Electricity, gas and water	**278,428**	156,677	**79,117**	28,415
Construction	**3,747,741**	3,354,705	**2,696,662**	2,571,017
Real estate	**4,039,836**	4,297,149	**3,280,067**	3,161,642
Wholesale & retail trade and restaurants & hotels	**3,860,439**	3,984,139	**3,036,125**	2,988,570
Transport, storage and communication	**547,990**	484,495	**370,418**	270,204
Finance, insurance and business services	**3,376,985**	3,624,914	**2,508,676**	2,584,242
Household-retail	**24,673,823**	25,169,688	**17,888,637**	18,463,543
Others	**3,062,407**	4,637,925	**1,831,867**	3,015,941
	51,825,649	53,800,371	**38,525,431**	39,428,501

(vi) By purpose

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Purchase of property:				
Residential	**17,838,858**	18,629,663	**13,673,312**	14,298,874
Non residential	**1,427,087**	1,515,174	**627,338**	679,307
Purchase of securities	**3,177**	4,215	**3,177**	4,215
Purchase of transport vehicles	**17,103**	21,661	**16,332**	20,406
Purchase of fixed assets excluding land & building	**-**	740	**-**	740
Consumption credit	**6,420,319**	6,069,767	**4,037,542**	3,942,490
Construction	**2,906,066**	2,798,190	**2,088,817**	2,230,805
Working capital	**20,935,035**	20,843,932	**16,661,495**	15,614,802
Other purpose	**2,278,004**	3,917,029	**1,417,418**	2,636,862
	51,825,649	53,800,371	**38,525,431**	39,428,501

(vii) By geographical distribution

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Northern Region	**6,568,954**	6,719,839	**5,011,671**	5,222,530
Southern Region	**6,046,981**	6,334,271	**4,476,077**	4,870,102
Central Region	**37,011,516**	38,380,783	**27,218,490**	27,369,954
Eastern Region	**2,198,198**	2,365,478	**1,819,193**	1,965,915
	51,825,649	53,800,371	**38,525,431**	39,428,501

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

The Northern region consists of the states of Perlis, Kedah, Penang, Perak, Pahang, Kelantan and Terengganu.
The Southern region consists of the states of Johor, Malacca and Negeri Sembilan.
The Central region consists of the state of Selangor, 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 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Gross carrying amount as at 1 January	**973,287**	888,267	**616,975**	606,218
Transfer within stages	**140,107**	195,005	**80,658**	123,315
Net remeasurement due to changes in credit risk	**96,662**	130,268	**26,021**	14,557
Written-off	**(206,609)**	(240,278)	**(105,510)**	(127,122)
Others	**-**	25	**-**	7
Gross carrying amount as at 31 December	**1,003,447**	973,287	**618,144**	616,975

(ii) By sector

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Mining and quarrying	**1,611**	2,704	**1,611**	2,000
Manufacturing	**79,934**	41,970	**63,687**	24,616
Electricity, gas and water	**600**	-	**600**	-
Construction	**34,177**	41,263	**29,978**	38,121
Real estate	**12,151**	12,855	**12,116**	12,855
Wholesale & retail trade, restaurants & hotels	**36,021**	29,776	**18,017**	18,637
Transport, storage and communication	**18,223**	22,007	**17,854**	17,854
Finance, insurance and business services	**29,614**	32,875	**893**	4,214
Household-retail	**757,974**	755,218	**465,409**	489,885
Others	**33,142**	34,619	**7,979**	8,793
	1,003,447	973,287	**618,144**	616,975

(iii) By purpose

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Purchase of property:				
Residential	**379,762**	446,416	**273,771**	321,427
Non residential	**50,238**	43,517	**31,931**	31,693
Purchase of transport vehicles	**109**	207	**77**	61
Consumption credit	**368,637**	297,811	**183,578**	159,584
Construction	**29,622**	26,565	**26,898**	24,163
Working capital	**152,212**	133,931	**101,831**	80,029
Other purpose	**22,867**	24,840	**58**	18
	1,003,447	973,287	**618,144**	616,975

(iv) By geographical distribution

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Northern Region	**120,756**	129,940	**87,578**	92,192
Southern Region	**112,952**	115,479	**73,391**	76,026
Central Region	**712,067**	670,297	**406,430**	397,236
Eastern Region	**57,672**	57,571	**50,745**	51,521
	1,003,447	973,287	**618,144**	616,975

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 loan and advances:

	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	Lifetime ECL credit impaired Specific provision RM'000	Collective provision RM'000	Total RM'000
Group						
Balance at 1 January 2019	**99,954**	**132,892**	**259,032**	**-**	**-**	**491,878**
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	**58,006**	**(49,322)**	**(8,684)**	**-**	**-**	**-**
- Transferred to Stage 2	**(7,907)**	**21,435**	**(13,528)**	**-**	**-**	**-**
- Transferred to Stage 3	**(733)**	**(8,888)**	**9,621**	**-**	**-**	**-**
New financial assets originated or purchased	**28,358**	**-**	**-**	**-**	**-**	**28,358**
Net remeasurement due to changes in credit risk	**(84,983)**	**33,307**	**274,845**	**-**	**-**	**223,169**
Asset written-off	**-**	**-**	**(206,609)**	**-**	**-**	**(206,609)**
Others	**(1,007)**	**-**	**-**	**-**	**-**	**(1,007)**
Balance at 31 December 2019	**91,688**	**129,424**	**314,677**	**-**	**-**	**535,789**
Balance at 1 January 2018 [1]	-	-	-	208,249	518,836	727,085
- adoption of MFRS 9 [1]	137,218	135,296	269,048	(208,249)	(518,836)	(185,523)
Balance restated [1]	137,218	135,296	269,048	-	-	541,562
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	39,936	(35,006)	(4,930)	-	-	-
- Transferred to Stage 2	(10,019)	22,902	(12,883)	-	-	-
- Transferred to Stage 3	(967)	(8,878)	9,845	-	-	-
New financial assets originated or purchased	32,948	-	-	-	-	32,948
Net remeasurement due to changes in credit risk	(97,894)	18,578	237,931	-	-	158,615
Asset written-off	-	-	(240,278)	-	-	(240,278)
Others [1]	(1,268)	-	299	-	-	(969)
Balance at 31 December 2018 [1]	99,954	132,892	259,032	-	-	491,878

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.

The total ECL allowances increased by RM43.9 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 (RM223.2 million) and new financial assets originated or purchased (RM28.4 million), partially offset by asset written-off (RM206.6 million).

- 12-months ECL not credit impaired (Stage 1) – decreased by RM8.3 million for the Group, mainly from remeasurement due to changes in credit risk based on HSBC Group's model. This was partially offset by migration of loans from Stages 2 and 3 as well as new financial assets during the year.

- Lifetime ECL not credit-impaired (Stage 2) – decreased by RM3.5 million for the Group, mainly from migration of loans mostly to stage 1 as a result of improved credit quality and partially offset by remeasurement due to changes in credit risk.

- Lifetime ECL credit-impaired (Stage 3) – increased by RM55.6 million for the Group, primarily due to remeasurement due to changes in credit risk offset by asset written-off and transfers to stages 1 and 2 as a result of credit quality improvement.

[1] Balances have been restated as disclosed in Note 48.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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	Lifetime ECL credit impaired Specific provision RM'000	Collective provision RM'000	Total RM'000
Bank						
Balance at 1 January 2019	**55,966**	**68,428**	**132,951**	**-**	**-**	**257,345**
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	**36,259**	**(31,147)**	**(5,112)**	**-**	**-**	**-**
- Transferred to Stage 2	**(3,612)**	**13,084**	**(9,472)**	**-**	**-**	**-**
- Transferred to Stage 3	**(290)**	**(5,057)**	**5,347**	**-**	**-**	**-**
New financial assets originated or purchased	**10,703**	**-**	**-**	**-**	**-**	**10,703**
Net remeasurement due to changes in credit risk	**(53,052)**	**16,113**	**153,714**	**-**	**-**	**116,775**
Asset written-off	**-**	**-**	**(105,510)**	**-**	**-**	**(105,510)**
Others	**(789)**	**-**	**-**	**-**	**-**	**(789)**
Balance at 31 December 2019	**45,185**	**61,421**	**171,918**	**-**	**-**	**278,524**
Balance at 1 January 2018 [1]	-	-	-	133,984	277,928	411,912
- adoption of MFRS 9 [1]	76,084	69,776	158,912	(133,984)	(277,928)	(107,140)
Balance restated [1]	76,084	69,776	158,912	-	-	304,772
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	25,897	(22,456)	(3,441)	-	-	-
- Transferred to Stage 2	(5,352)	12,891	(7,539)	-	-	-
- Transferred to Stage 3	(329)	(5,057)	5,386	-	-	-
New financial assets originated or purchased	13,808	-	-	-	-	13,808
Net remeasurement due to changes in credit risk	(53,470)	13,274	106,697	-	-	66,501
Asset written-off	-	-	(127,122)	-	-	(127,122)
Others [1]	(672)	-	58	-	-	(614)
Balance at 31 December 2018 [1]	55,966	68,428	132,951	-	-	257,345

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, advances and financing 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 RM21.2 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 (RM116.8 million) and new financial assets originated or purchased (RM10.7 million), partially offset by asset written-off (RM105.5 million).

- 12-months ECL not credit impaired (Stage 1) – decreased by RM10.8 million for the Bank, primarily contributed by remeasurement due to changes in credit risk based on the HSBC Group's model. This was partially offset by loans migrated to Stage 1 due to improved credit quality, as well as new financial assets.

- Lifetime ECL not credit-impaired (Stage 2) – decreased by RM7.0 million for the Bank, mainly from migration of loans mostly to stage 1 due to credit quality improvement and offset by remeasurement due to changes in credit risk.

- Lifetime ECL credit-impaired (Stage 3) – Stage 3 ECL increased by RM39.0 million, primarily contributed by remeasurement due to changes in credit risk. This was partially offset by impaired loans written off and migration of loans to stages 1 and 2.

[1] Balances have been restated as disclosed in Note 48.

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 2019	**4,415**	**3,358**	**825**	**8,598**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	**532**	**(532)**	**-**	**-**
- Transferred to Stage 2	**(228)**	**228**	**-**	**-**
- Transferred to Stage 3	**-**	**(1)**	**1**	**-**
New financial assets originated or purchased	**1,242**	**-**	**-**	**1,242**
Net remeasurement due to changes in credit risk	**(1,129)**	**52**	**(177)**	**(1,254)**
Others	**(2)**	**-**	**-**	**(2)**
Balance at 31 December 2019	**4,830**	**3,105**	**649**	**8,584**
Balance at 1 January 2018	-	-	-	-
- adoption of MFRS 9	3,984	5,618	1,006	10,608
Balance restated	3,984	5,618	1,006	10,608
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	574	(574)	-	-
- Transferred to Stage 2	(223)	227	(4)	-
- Transferred to Stage 3	(2)	(2)	4	-
New financial assets originated or purchased	1,102	-	-	1,102
Net remeasurement due to changes in credit risk	(906)	(1,911)	(181)	(2,998)
Others	(114)	-	-	(114)
Balance at 31 December 2018	4,415	3,358	825	8,598

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 2019	**3,306**	**2,433**	**-**	**5,739**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	**451**	**(451)**	**-**	**-**
- Transferred to Stage 2	**(140)**	**140**	**-**	**-**
- Transferred to Stage 3	**-**	**(1)**	**1**	**-**
New financial assets originated or purchased	**589**	**-**	**-**	**589**
Net remeasurement due to changes in credit risk	**(658)**	**110**	**246**	**(302)**
Others	**6**	**-**	**-**	**6**
Balance at 31 December 2019	**3,554**	**2,231**	**247**	**6,032**
Balance at 1 January 2018	-	-	-	-
- adoption of MFRS 9	3,038	3,738	9	6,785
Balance restated	3,038	3,738	9	6,785
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	422	(422)	-	-
- Transferred to Stage 2	(167)	171	(4)	-
- Transferred to Stage 3	(1)	-	1	-
New financial assets originated or purchased	862	-	-	862
Net remeasurement due to changes in credit risk	(807)	(1,054)	(6)	(1,867)
Others	(41)	-	-	(41)
Balance at 31 December 2018	3,306	2,433	-	5,739

Allowance for drawn amount and provisions for the undrawn commitments are not able to be split for retail portfolio, and 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 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Settlements	**2,417**	6,257	**2,417**	2,826
Interest/profit receivable	**143,547**	129,644	**119,776**	109,063
Income receivable	**35,255**	53,578	**29,021**	45,845
Deposits and prepayments	**1,451**	27,004	**1,451**	26,814
Amount due from subsidiary company	**-**	-	**57,735**	73,163
ROU assets [1]	**82,620**	-	**58,116**	-
Cash collateral	**40,143**	289,271	**40,143**	289,271
Other receivables	**126,820**	128,941	**116,000**	111,374
	432,253	634,695	**424,659**	658,356

[1] ROU assets comprise solely of properties. Additions during the financial year amounted to RM403,000.

Lease related expenses and cash outflows during the financial year:

	Group	*Bank*
	31 Dec 2019	**31 Dec 2019**
	RM'000	**RM'000**
Interest expense/ Finance expense (included in income from Islamic banking operations)	**4,642**	**3,225**
Expense related to short-term leases (included in establishment related expenses)	**1,206**	**984**
Cash outflow for lease payments	**35,572**	**28,215**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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.

17 Investments in Subsidiary Companies

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	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 2019	31 Dec 2018
HSBC (Kuala Lumpur) Nominees Sdn Bhd	Nominees, trustees or agents	**100%**	100%
HSBC Nominees (Tempatan) Sdn Bhd	to receive securities for safe custody and management	**100%**	100%
HSBC Nominees (Asing) Sdn Bhd		**100%**	100%
HSBC Amanah Malaysia Berhad	Islamic banking and related financial services	**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 2019 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. As the joint arrangement is immaterial, no further disclosure is made in this financial statements. Since 26 June 2019, HOUSe is under liquidation and is in the progress of winding up.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Property and equipment

2019	*Group*						
	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	187,560	116,090	246,857	128,353	3,059	116,903	798,822
Additions	228,111	1,780	14,160	5,383	541	136,112	386,087
Disposals	-	-	(80)	(6)	(573)	-	(659)
Written off	-	(13)	(7,294)	(2,709)	-	-	(10,016)
Reclassification/other movements	-	-	1,506	-	-	(1,506)	-
Adjustments for revaluation	1,719	(3,016)	-	-	-	-	(1,297)
Balance at 31 December	417,390	114,841	255,149	131,021	3,027	251,509	1,172,937
Representing items at:							
Cost	-	-	255,149	131,021	3,027	251,509	640,706
Valuation - 2019	417,390	114,841	-	-	-	-	532,231
	417,390	114,841	255,149	131,021	3,027	251,509	1,172,937
Accumulated depreciation							
Balance at 1 January	-	-	221,935	107,749	1,408	-	331,092
Charge for the financial year	1,297	3,408	10,586	7,008	587	-	22,886
Disposals	-	-	(80)	(6)	(438)	-	(524)
Written off	-	(9)	(7,270)	(2,698)	-	-	(9,977)
Adjustments for revaluation	(1,297)	(3,399)	-	-	-	-	(4,696)
Balance at 31 December	-	-	225,171	112,053	1,557	-	338,781
Net book value at 31 December	417,390	114,841	29,978	18,968	1,470	251,509	834,156
Carrying amounts that would have been recognised if land and building were stated at cost	235,330	50,534	29,978	18,968	1,470	251,509	587,789

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Property and equipment (Cont'd)

	Group						
2018	*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	186,870	124,500	249,552	117,620	3,114	14,577	696,233
Additions	-	558	6,079	11,976	633	102,326	121,572
Disposals	-	-	(11)	-	(688)	-	(699)
Written off	-	-	(8,763)	(1,243)	-	-	(10,006)
Adjustments for revaluation	690	(8,968)	-	-	-	-	(8,278)
Balance at 31 December	187,560	116,090	246,857	128,353	3,059	116,903	798,822
Representing items at:							
Cost	-	-	246,857	128,353	3,059	116,903	495,172
Valuation - 2018	187,560	116,090	-	-	-	-	303,650
	187,560	116,090	246,857	128,353	3,059	116,903	798,822
Accumulated depreciation							
Balance at 1 January	-	-	221,270	102,162	1,542	-	324,974
Charge for the financial year	1,257	3,530	9,416	6,826	554	-	21,583
Disposals	-	-	(11)	-	(688)	-	(699)
Written off	-	-	(8,740)	(1,239)	-	-	(9,979)
Adjustments for revaluation	(1,257)	(3,530)	-	-	-	-	(4,787)
Balance at 31 December	-	-	221,935	107,749	1,408	-	331,092
Net book value at 31 December	187,560	116,090	24,922	20,604	1,651	116,903	467,730
Carrying amounts that would have been recognised if land and building were stated at cost	7,288	51,727	24,922	20,604	1,651	116,903	223,095

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Property and equipment (Cont'd)

2019	*Land*	*Buildings*	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Work in progress*	*Total*
				Bank			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation							
Balance at 1 January	187,560	116,090	210,725	108,647	2,760	115,397	741,179
Additions	228,111	1,780	12,830	4,786	240	136,112	383,859
Disposals	-	-	(80)	(6)	(274)	-	(360)
Written off	-	(13)	(6,223)	(2,624)	-	-	(8,860)
Adjustments for revaluation	1,719	(3,016)	-	-	-	-	(1,297)
Balance at 31 December	417,390	114,841	217,252	110,803	2,726	251,509	1,114,521
Representing items at:							
Cost			217,252	110,803	2,726	251,509	582,290
Valuation - 2019	417,390	114,841	-	-	-	-	532,231
	417,390	114,841	217,252	110,803	2,726	251,509	1,114,521
Accumulated depreciation							
Balance at 1 January	-	-	188,912	90,237	1,168	-	280,317
Charge for the financial year	1,297	3,408	9,426	6,290	503	-	20,924
Disposals	-	-	(80)	(6)	(169)	-	(255)
Written off	-	(9)	(6,202)	(2,613)	-	-	(8,824)
Adjustments for revaluation	(1,297)	(3,399)	-	-	-	-	(4,696)
Balance at 31 December	-	-	192,056	93,908	1,502	-	287,466
Net book value at 31 December	417,390	114,841	25,196	16,895	1,224	251,509	827,055
Carrying amounts that would have been recognised if land and building were stated at cost	235,330	50,534	25,196	16,895	1,224	251,509	580,688

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Property and equipment (Cont'd)

	Bank						
2018	*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	186,870	124,500	212,133	99,218	2,815	14,577	640,113
Additions	-	558	5,318	10,570	633	100,820	117,899
Disposals	-	-	(11)	-	(688)	-	(699)
Written off	-	-	(6,715)	(1,141)	-	-	(7,856)
Adjustments for revaluation	690	(8,968)	-	-	-	-	(8,278)
Balance at 31 December	187,560	116,090	210,725	108,647	2,760	115,397	741,179
Representing items at:							
Cost	-	-	210,725	108,647	2,760	115,397	437,529
Valuation - 2018	187,560	116,090	-	-	-	-	303,650
	187,560	116,090	210,725	108,647	2,760	115,397	741,179
Accumulated depreciation							
Balance at 1 January	-	-	187,227	85,785	1,362	-	274,374
Charge for the financial year	1,257	3,530	8,388	5,590	494	-	19,259
Disposals	-	-	(11)	-	(688)	-	(699)
Written off	-	-	(6,692)	(1,138)	-	-	(7,830)
Adjustments for revaluation	(1,257)	(3,530)	-	-	-	-	(4,787)
Balance at 31 December	-	-	188,912	90,237	1,168	-	280,317
Net book value at 31 December	187,560	116,090	21,813	18,410	1,592	115,397	460,862
Carrying amounts that would have been recognised if land and building were stated at cost	7,288	51,727	21,813	18,410	1,592	115,397	216,227

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Intangible Assets

Computer software	***Group***	***Bank***
2019	**RM'000**	**RM'000**
Cost		
Balance at 1 January	**278,691**	**273,638**
Additions	**10,101**	**10,101**
Written off	**(168)**	**(167)**
Balance at 31 December	**288,624**	**283,572**
Accumulated amortisation		
Balance at 1 January	**233,624**	**228,571**
Charge for the financial year	**10,991**	**10,991**
Written off	**(168)**	**(167)**
At 31 December	**244,447**	**239,395**
Accumulated impairment loss		
Balance at 1 January	**5,376**	**5,376**
Release for the financial year	**(53)**	**(53)**
At 31 December	**5,323**	**5,323**
Net book value at 31 December	**38,854**	**38,854**
2018	RM'000	RM'000
Cost		
Balance at 1 January	266,077	261,024
Additions	12,676	12,676
Written off	(62)	(62)
Balance at 31 December	278,691	273,638
Accumulated amortisation		
Balance at 1 January	214,181	209,128
Charge for the financial year	19,505	19,505
Written off	(62)	(62)
At 31 December	233,624	228,571
Accumulated impairment loss		
Balance at 1 January	5,323	5,323
Charge for the financial year	53	53
Balance at 31 December	5,376	5,376
Net book value at 31 December	39,691	39,691

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Deferred tax assets	**225,506**	287,228	**199,342**	269,552
Deferred tax liabilities	**(99,811)**	(78,333)	**(97,555)**	(78,020)
	125,695	208,895	**101,787**	191,532

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 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Deferred tax assets:				
- settled more than 12 months	**17,136**	20,341	**8,547**	14,188
- settled within 12 months	**208,370**	266,887	**190,795**	255,364
Deferred tax liabilities:				
- settled more than 12 months	**(96,012)**	(60,428)	**(95,083)**	(60,325)
- settled within 12 months	**(3,799)**	(17,905)	**(2,472)**	(17,695)
	125,695	208,895	**101,787**	191,532

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

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Property and equipment				
- Capital allowances	**(6,786)**	3,985	**(6,464)**	4,195
- Revaluation	**(38,400)**	(38,570)	**(38,400)**	(38,570)
FVOCI reserve	**(54,625)**	(39,553)	**(52,691)**	(39,450)
Own credit reserve	**5,740**	2,167	**3,133**	1,224
Provision for accrued expenses	**177,758**	243,786	**170,583**	235,848
Deferred income	**27,693**	25,968	**18,391**	23,130
Lease receivables	**215**	218	**-**	-
Loans, advances and financing	**14,100**	10,894	**7,235**	5,155
	125,695	208,895	**101,787**	191,532

21 Deferred Tax Assets (Cont'd)

Movement in temporary differences during the financial year

	Group						
	Balance at 1 Jan 2018	*Recognised in profit or loss*	*Recognised in other comprehensive income*	***Balance at 31 Dec 2018 / 1 Jan 2019***	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***Balance at 31 Dec 2019***
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Provision for accrued expenses	162,091	81,695	-	**243,786**	**(66,028)**	-	**177,758**
Property and equipment							
capital allowances	-	4,195	-	**4,195**	**(4,195)**	-	-
Loans, advances and financing	-	10,894	-	**10,894**	**3,206**	-	**14,100**
Deferred income	26,233	(265)	-	**25,968**	**1,725**	-	**27,693**
Lease receivables	208	10	-	**218**	**(3)**	-	**215**
Own credit reserve	(64)	-	2,231	**2,167**	-	**3,573**	**5,740**
Deferred Tax Assets	188,468	96,529	2,231	**287,228**	**(65,295)**	**3,573**	**225,506**
Property and equipment							
capital allowances	(9,966)	9,756	-	**(210)**	**(6,576)**	-	**(6,786)**
revaluation	(33,229)	769	(6,111)	**(38,571)**	**741**	**(570)**	**(38,400)**
Own credit reserve	(805)	583	222	-	-	-	-
FVOCI reserve	(41,577)	-	2,025	**(39,552)**	-	**(15,073)**	**(54,625)**
Deferred Tax Liabilities	(85,577)	11,108	(3,864)	**(78,333)**	**(5,835)**	**(15,643)**	**(99,811)**
Net Deferred Tax Assets	102,891	107,637	(1,633)	**208,895**	**(71,130)**	**(12,070)**	**125,695**

21 Deferred Tax Assets (Cont'd)

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

	Bank						
	Balance at 1 Jan 2018	*Recognised in profit or loss*	*Recognised in other comprehensive income*	***Balance at 31 Dec 2018 / 1 Jan 2019***	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***Balance at 31 Dec 2019***
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Provision for accrued expenses	155,011	80,837	-	**235,848**	**(65,265)**	**-**	**170,583**
Property and equipment capital allowances	-	4,195	-	**4,195**	**(4,195)**	**-**	**-**
Loans, advances and financing	-	5,155	-	**5,155**	**2,080**	**-**	**7,235**
Deferred income	23,853	(723)	-	**23,130**	**(4,739)**	**-**	**18,391**
Own credit reserve	(64)	-	1,288	**1,224**	**-**	**1,909**	**3,133**
Deferred Tax Assets	178,800	89,464	1,288	**269,552**	**(72,119)**	**1,909**	**199,342**
Property and equipment							
capital allowances	(9,647)	9,647	-	**-**	**(6,464)**	**-**	**(6,464)**
revaluation	(33,229)	769	(6,111)	**(38,571)**	**741**	**(570)**	**(38,400)**
FVOCI reserve	(41,520)	-	2,071	**(39,449)**	**-**	**(13,242)**	**(52,691)**
Deferred Tax Liabilities	(84,396)	10,416	(4,040)	**(78,020)**	**(5,723)**	**(13,812)**	**(97,555)**
Net Deferred Tax Assets	94,404	99,880	(2,752)	**191,532**	**(77,842)**	**(11,903)**	**101,787**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

22 Deposits from Customers

	Group		Bank	
(i) By type of deposit	**31 Dec 2019**	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Demand deposits	**21,252,995**	20,716,131	**17,801,805**	18,945,779
Savings deposits	**12,647,639**	12,061,066	**10,774,990**	10,371,643
Fixed deposits	**25,506,556**	24,369,956	**17,510,083**	16,385,175
	59,407,190	57,147,153	**46,086,878**	45,702,597

The maturity structure of fixed deposits is as follows:

	Group		Bank	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Due within six months	**20,111,102**	19,229,277	**13,521,017**	12,626,859
More than six months to one year	**4,560,534**	4,540,646	**3,460,754**	3,497,763
More than one year to three years	**493,239**	415,621	**319,059**	151,171
More than three years to five years	**340,941**	184,412	**208,513**	109,382
Over five years	**740**	-	**740**	-
	25,506,556	24,369,956	**17,510,083**	16,385,175

	Group		Bank	
(ii) By type of customer	**31 Dec 2019**	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Government and statutory bodies	**29,979**	15,677	**16,993**	11,897
Business enterprises	**21,235,228**	21,664,510	**18,481,598**	19,314,594
Individuals	**24,079,749**	24,049,104	**17,857,275**	17,765,003
Foreign entities/individuals	**13,014,439**	9,694,069	**9,068,476**	7,182,182
Others	**1,047,795**	1,723,793	**662,536**	1,428,921
	59,407,190	57,147,153	**46,086,878**	45,702,597

23 Deposits and Placements from Banks and Other Financial Institutions

	Group		Bank	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Licensed banks	**822**	3,539	**822**	3,539
Bank Negara Malaysia	**22,262**	27,971	**1,850**	-
Other financial institutions	**3,660,600**	5,487,241	**1,768,255**	2,794,549
	3,683,684	5,518,751	**1,770,927**	2,798,088

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24 Structured Liabilities Designated at Fair Value through Profit or Loss

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Structured liabilities	**4,860,845**	4,158,241	**3,565,487**	3,273,364

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 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Settlements	**194**	31,095	**98**	31,095
Interest/profit payable	**250,172**	254,430	**165,739**	167,386
Deferred income	**115,485**	108,296	**76,725**	96,472
Marginal deposit	**90,086**	48,358	**86,321**	44,113
Amount due to subsidiary company	**-**	-	**2,093**	360
Accrued expenses	**707,423**	1,014,982	**680,452**	982,054
Lease liabilities	**87,923**	-	**62,869**	-
Cash collateral	**439,106**	255,078	**439,106**	255,078
Other creditors	**779,103**	668,260	**676,292**	610,165
Provisions on loan and credit related commitments; and financial guarantees	**8,584**	8,598	**6,032**	5,739
	2,478,076	2,389,097	**2,195,727**	2,192,462

26 Multi-Currency Sukuk Programme

	Group	
	31 Dec 2019	31 Dec 2018
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	**1,265,929**	1,755,281

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 2019	Carrying Value (RM'000) 31 Dec 2018
At fair value					
2nd series [1]	500,000	16 Oct 2014	16 Oct 2019	**-**	501,173
3rd series	750,000	27 Mar 2015	27 Mar 2020	**751,732**	751,993
4th series	500,000	2 Oct 2018	2 Oct 2023	**514,197**	502,115
Total	1,750,000			**1,265,929**	1,755,281

Movement in MCSP

	2nd series	**3rd series**	**4th series**
	RM'000	**RM'000**	**RM'000**
2019			
Balance at 1 January	**501,173**	**751,993**	**502,115**
Change in fair value other than from own credit risk	**(917)**	**(1,455)**	**8,446**
Change in fair value from own credit risk	**(256)**	**1,194**	**3,636**
Redemption of Multi-Currency Sukuk	**(500,000)**	**-**	**-**
Balance at 31 December	**-**	**751,732**	**514,197**

	2nd series	3rd series	4th series
	RM'000	RM'000	RM'000
2018			
Balance at 1 January	501,201	751,628	-
New issuance during the financial year	-	-	500,000
Change in fair value other than from own credit risk	(1,811)	445	1,054
Change in fair value from own credit risk	1,783	(80)	1,061
Balance at 31 December	501,173	751,993	502,115

	Group	
	31 Dec 2019	31 Dec 2018
	RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk	**4,574**	2,764

[1] Redeemed on 16 October 2019.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Subordinated Liabilities

	Group		*Bank*	
	31 Dec 2019 RM'000	31 Dec 2018 RM'000	**31 Dec 2019 RM'000**	31 Dec 2018 RM'000
Subordinated Liabilities	**1,089,612**	1,095,987	**1,089,612**	1,095,987
(i) Subordinated liabilities, at par				
- Second tranche issued on 2 November 2007 [1]	**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 Capital Adequacy Framework (Capital Components), the par value of the subordinated liabilities are amortised on a straight line basis, with 10% of the par value phased out each year, with effect from 2013 for regulatory capital base purposes.

	Group		*Bank*	
	31 Dec 2019 RM'000	31 Dec 2018 RM'000	**31 Dec 2019 RM'000**	31 Dec 2018 RM'000
(ii) Subordinated term loan				
- First tranche issued on 25 June 2014	**317,957**	321,395	**317,957**	321,395
- Second tranche issued on 30 June 2015	**271,655**	274,592	**271,655**	274,592
	589,612	595,987	**589,612**	595,987

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

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

28 Share Capital

Group and Bank	**31 Dec 2019**		31 Dec 2018	
	Number of Ordinary Shares ('000)	**RM'000**	Number of Ordinary Shares ('000)	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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 Other Equity and Reserves

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Other equity				
Other equity instrument[1]	**500,000**	-	**500,000**	-
Reserves				
Revaluation reserve	**205,363**	204,890	**205,363**	204,890
FVOCI reserve	**173,673**	125,969	**167,379**	125,490
Own credit reserve	**(18,179)**	(6,863)	**(9,922)**	(3,876)
Capital contribution reserve[2]	**100,010**	99,586	**99,473**	99,087
Regulatory reserve[3]	**486,200**	559,200	**433,100**	468,100
Retained profits	**8,201,963**	8,148,816	**6,942,952**	7,075,642
Total reserves	**9,149,030**	9,131,598	**7,838,345**	7,969,333
Total other equity and reserves	**9,649,030**	9,131,598	**8,338,345**	7,969,333

[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 compliance 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 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	**1,762,355**	1,767,638	**1,762,355**	1,767,638
- Interest income recognised from impaired loans	**35,593**	50,289	**35,593**	50,289
Money at call and deposit placements with financial institutions	**204,503**	294,939	**241,968**	344,930
Financial investments at FVOCI	**364,160**	267,565	**364,160**	267,565
	2,366,611	2,380,431	**2,404,076**	2,430,422
Interest expense				
Deposits and placements of banks and other financial institutions	**(43,411)**	(39,344)	**(43,411)**	(39,344)
Deposits from customers	**(687,179)**	(667,201)	**(687,179)**	(667,201)
Subordinated liabilities	**(52,575)**	(50,130)	**(52,575)**	(50,130)
Lease liabilities	**(3,225)**	-	**(3,225)**	-
Others	**(654)**	(349)	**(654)**	(349)
	(787,044)	(757,024)	**(787,044)**	(757,024)
Net interest income	**1,579,567**	1,623,407	**1,617,032**	1,673,398

31 Net Fee and Commission Income

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Fee and commission income				
Credit cards	**130,661**	145,808	**130,661**	145,808
Service charges	**119,389**	123,959	**119,389**	123,959
Credit facilities	**59,966**	59,917	**59,966**	59,917
Agency	**110,090**	104,147	**110,090**	104,147
Others	**33,032**	31,152	**30,583**	31,152
	453,138	464,983	**450,689**	464,983
Fee and commission expense				
Debit/credit cards	**(33,436)**	(47,683)	**(33,436)**	(47,683)
Interbank and clearing	**(1,209)**	(1,377)	**(1,209)**	(1,377)
Brokerage	**(1,911)**	(1,987)	**(1,911)**	(1,987)
Cash management	**(1,159)**	(1,790)	**(1,159)**	(1,790)
Others	**(20,380)**	(13,235)	**(20,380)**	(13,235)
	(58,095)	(66,072)	**(58,095)**	(66,072)
Net fee and commission income	**395,043**	398,911	**392,594**	398,911

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Net Trading Income

	Group		Bank	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Realised gains on financial assets/liabilities at FVTPL and other financial instruments	**37,123**	6,915	**35,854**	4,721
Net interest income from financial assets at FVTPL	**97,262**	86,853	**97,262**	86,853
Net unrealised gains/(losses) on revaluation of financial assets at FVTPL	**11,313**	(1,804)	**9,231**	(853)
Net realised gains arising from dealing in foreign currency	**501,836**	208,465	**501,527**	207,595
Net unrealised gains/(losses) from dealing in foreign currency	**3,435**	110,738	**(59,583)**	239,525
Net realised (losses)/gains arising from dealing in derivatives	**(31,700)**	(130,290)	**69,440**	(129,554)
Net unrealised gains/(losses) on revaluation of derivatives	**57,062**	182,243	**(41,506)**	170,208
Gains/(losses) arising from fair value hedges	**151**	(544)	**151**	(544)
	676,482	462,576	**612,376**	577,951

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 2019	31 Dec 2018
	RM'000	RM'000
Income derived from investment of depositor funds and others [1]	**826,138**	823,353
Income derived from investment of shareholders funds [1]	**162,451**	147,435
Total income before allowance for impairment losses on financing and advances	**988,589**	970,788
Income attributable to the depositors	**(438,635)**	(434,346)
	549,954	536,442
Elimination of intercompany income and expenses	**(31,418)**	162,966
Income from Islamic Banking operations reported in the statement of profit or loss of the Group	**518,536**	699,408

[1] Included in the following funds are net losses on financial instruments designated at fair value through profit or loss for the year ended 31 December:

Income derived from investment of depositors' funds and others	**(39,395)**	(14,143)
Income derived from investment of shareholder's funds	**-**	(1,938)

34 Other Operating Income

	Group		Bank	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Gain on disposal of financial investments at FVOCI	**18,585**	11,755	**18,585**	11,755
Dividend income from financial investments designated at FVOCI				
- Unquoted in Malaysia	**3,463**	1,363	**3,463**	1,363
which all related to investment held as at reporting date				
Dividend income from subsidiary	**-**	-	**40,000**	10,000
Rental income	**8,007**	8,362	**8,007**	8,362
Net gain on disposal of property and equipment	**44**	134	**44**	134
Net upwards revaluation on property	**8**	8	**8**	8
Income recharges from subsidiary	**-**	-	**125,211**	126,164
Other operating income	**19,348**	20,184	**19,348**	20,184
	49,455	41,806	**214,666**	177,970

35 Impairment Allowance/Provisions

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
New and increased allowance (net of releases)	**251,580**	189,770	**127,812**	79,381
Recoveries	**(115,206)**	(108,245)	**(66,874)**	(67,262)
Written off	**319**	425	**272**	387
Total charge to the statements of profit or loss	**136,693**	81,950	**61,210**	12,506

Breakdown of the impairment allowance/provisions by financial instruments type.

(i) Loan, advances and financing

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
New and increased allowance (net of releases)	**251,527**	191,563	**127,478**	80,309
Recoveries	**(115,206)**	(108,245)	**(66,874)**	(67,262)
Written off	**319**	425	**272**	387
Total charge to the statements of profit or loss	**136,640**	83,743	**60,876**	13,434

(ii) Deposits and placements with banks and other financial institutions

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
New and increased allowance (net of releases)	**37**	(33)	**33**	(34)
Total charge to the statements of profit or loss	**37**	(33)	**33**	(34)

(iii) Debt securities - FVOCI

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
New and increased allowance (net of releases)	**28**	136	**14**	111
Total charge to the statements of profit or loss	**28**	136	**14**	111

(iv) Loan Commitments and Contingencies

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
New and increased allowance (net of releases)	**(12)**	(1,896)	**287**	(1,005)
Total charge to the statements of profit or loss	**(12)**	(1,896)	**287**	(1,005)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Other Operating Expenses

	Group		*Bank*	
	31 Dec 2019 RM'000	31 Dec 2018 RM'000	**31 Dec 2019 RM'000**	31 Dec 2018 RM'000
Personnel expenses	**803,605**	754,442	**754,815**	705,480
Promotion and marketing related expenses	**71,107**	70,060	**61,441**	54,359
Establishment related expenses	**131,860**	141,115	**115,841**	123,799
General administrative expenses	**167,068**	179,489	**131,361**	140,065
Related company charges	**490,575**	380,284	**483,215**	374,822
	1,664,215	1,525,390	**1,546,673**	1,398,525
Personnel expenses				
Salaries, allowances and bonuses	**573,665**	582,743	**536,227**	543,911
Employees Provident Fund contributions	**96,737**	97,970	**90,103**	91,082
Share based payment	**11,827**	11,390	**11,099**	11,203
Others	**121,376**	62,339	**117,386**	59,284
	803,605	754,442	**754,815**	705,480
Promotion and marketing related expenses	**71,107**	70,060	**61,441**	54,359
Establishment related expenses				
Depreciation of property and equipment	**22,886**	21,583	**20,924**	19,259
Depreciation of ROU assets	**26,027**	-	**19,353**	-
Amortisation of intangible assets	**10,991**	19,505	**10,991**	19,505
Impairment of intangible assets	**(53)**	53	**(53)**	53
Information technology costs	**17,444**	19,269	**14,877**	16,286
Hire of equipment	**9,510**	9,359	**9,197**	9,359
Rental of premises	**3,050**	37,335	**2,732**	29,184
Property and equipment written off	**39**	27	**36**	26
General repairs and maintenance	**18,590**	12,146	**17,237**	11,013
Utilities	**14,217**	14,328	**12,153**	12,320
Others	**9,159**	7,510	**8,394**	6,794
	131,860	141,115	**115,841**	123,799
General administrative expenses				
Auditors' remuneration				
Statutory audit fees	**1,042**	692	**886**	536
Regulatory related fees	**427**	582	**267**	372
Non-audit fees	**150**	55	**150**	47
Professional fees	**10,088**	11,484	**8,309**	9,665
Communication	**20,071**	17,954	**18,655**	16,457
Others	**135,290**	148,722	**103,094**	112,988
	167,068	179,489	**131,361**	140,065

Included in professional fees are fees paid to the Shariah Committee members of HBMS:

	Group	
	31 Dec 2019 RM'000	31 Dec 2018 RM'000
Shariah Committee members	**410**	410

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Other Operating Expenses (Cont'd)

	Group		Bank	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Related company charges	**490,575**	380,284	**483,215**	374,822
Of which by:				
Type of service				
- Information technology related cost	**213,830**	157,641	**213,830**	157,641
- Non information technology related cost	**276,745**	222,643	**269,385**	217,181
Countries				
- Hong Kong	**313,413**	237,592	**313,413**	237,592
- United Kingdom	**118,752**	81,490	**117,700**	80,726
- Malaysia	**54,967**	58,099	**48,659**	53,401
- Others	**3,443**	3,103	**3,443**	3,103

37 Tax expense

	Group		Bank	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Malaysian income tax				
- Current year	**258,922**	467,928	**204,116**	416,287
- Prior years	**(28,645)**	(10,444)	**(22,120)**	(15,429)
Total current tax recognised in profit or loss	**230,277**	457,484	**181,996**	400,858
Deferred tax				
Origination and reversal of temporary differences				
- Current year	**71,130**	(107,637)	**77,842**	(99,880)
Total deferred tax recognised in profit or loss	**71,130**	(107,637)	**77,842**	(99,880)
Total tax expense	**301,407**	349,847	**259,838**	300,978

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

	Group		Bank	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Profit before income tax	**1,303,322**	1,528,732	**1,113,932**	1,327,163
Income tax using Malaysian tax rate	**322,398**	369,296	**267,344**	318,519
Non-deductible expenses	**27,029**	1,490	**25,049**	643
Tax exempt income	**(19,375)**	(10,495)	**(10,435)**	(2,755)
Overprovision in respect of prior years	**(28,645)**	(10,444)	**(22,120)**	(15,429)
Tax expense	**301,407**	349,847	**259,838**	300,978

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Earnings per Share

The earnings per ordinary share have been calculated based on profit for the financial year and 229,000,000 (2018: 229,000,000) ordinary shares in issue 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. Key management personnel include all members of the Board of Directors of HSBC Bank Malaysia Berhad and its subsidiaries (including close family members). Transactions, arrangements and agreements 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					
	2019			2018		
	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	**848**	**169**	**-**	1,573	147	-
Interest/finance income on loans, advances and financing from customers	**-**	**-**	**66**	-	-	327
Fees and commission	**7,702**	**26,002**	**-**	5,061	28,492	-
Other income	**5,225**	**9,529**	**-**	5,333	13,087	-
Net trading income/(expenses)	**79,186**	**82,573**	**-**	(475,637)	35,176	-
	92,961	**118,273**	**66**	(463,670)	76,902	327
Expenditure						
Interest/finance expense on deposits and placements from banks and other financial institutions	**76,256**	**13,738**	**-**	87,984	7,956	-
Interest/finance expense on deposits from customers	**-**	**-**	**64**	-	-	767
Fees and commission	**4,767**	**9,517**	**-**	2,137	6,424	-
Operating expenses	**313,412**	**177,163**	**-**	237,592	142,692	-
	394,435	**200,418**	**64**	327,713	157,072	767
Amount due from						
Deposits and placements with banks and other financial institutions (including cash and short-term funds)	**151,375**	**210,070**	**-**	106,802	209,053	-
Loans, advances and financing	**-**	**-**	**2,107**	-	-	7,453
Derivative financial assets	**240,264**	**313,907**	**-**	164,898	212,285	-
Other assets	**3,369**	**7,175**	**-**	250,989	9,098	-
	395,008	**531,152**	**2,107**	522,689	430,436	7,453
Amount due to						
Deposit and placements from banks and other financial institutions	**591,998**	**913,148**	**-**	2,752,241	1,011,079	-
Deposit from customers	**-**	**-**	**9,801**	-	-	34,958
Derivative financial liabilities	**127,110**	**143,072**	**-**	317,368	152,131	-
Other liabilities	**273,132**	**338,667**	**-**	503,482	259,986	-
Subordinated liabilities	**589,612**	**-**	**-**	595,987	-	-
	1,581,852	**1,394,887**	**9,801**	4,169,078	1,423,196	34,958

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			
	2019			
	Parent	***Subsidiary bank***	***Other related companies***	***Key management personnel***
	RM'000	**RM'000**	**RM'000**	**RM'000**
Income				
Interest/finance income on deposits and placements with Banks and other financial institutions	**848**	**37,465**	**169**	**-**
Interest/finance income on loans, advances and financing from customers	**-**	**-**	**-**	**30**
Fees and commission	**7,694**	**-**	**19,312**	**-**
Other income	**5,225**	**122,762**	**9,524**	**-**
Net trading income/(expenses)	**79,186**	**(64,106)**	**103,584**	**-**
	92,953	**96,121**	**132,589**	**30**
Expenditure				
Interest/finance expense on deposits and placements from Banks and other financial institutions	**43,803**	**-**	**7,801**	**-**
Interest/finance expense on deposits from customers	**-**	**-**	**-**	**25**
Fees and commission	**4,752**	**-**	**9,089**	**-**
Operating expenses	**313,413**	**2,328**	**167,474**	**-**
	361,968	**2,328**	**184,364**	**25**
Amount due from				
Deposits and placements with banks and other financial institutions (including cash and short-term funds)	**147,780**	**1,016,809**	**149,703**	**-**
Loans, advances and financing	**-**	**-**	**-**	**1,194**
Derivative financial assets	**240,264**	**48,454**	**313,907**	**-**
Other assets	**3,369**	**58,954**	**6,408**	**-**
	391,413	**1,124,217**	**470,018**	**1,194**
Amount due to				
Deposit and placements from banks and other financial institutions	**315,545**	**-**	**675,004**	**-**
Deposit from customers	**-**	**-**	**-**	**6,546**
Derivative financial liabilities	**127,110**	**77,080**	**143,072**	**-**
Other liabilities	**272,938**	**2,093**	**336,132**	**-**
Subordinated liabilities	**589,612**	**-**	**-**	**-**
	1,305,205	**79,173**	**1,154,208**	**6,546**

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			
	2018			
	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	1,573	49,991	147	-
Interest/finance income on deposits from customers	-	-	-	315
Fees and commission	5,058	-	23,215	-
Other income	5,333	126,184	13,065	-
Net trading income/(expenses)	(475,637)	115,375	59,214	-
	(463,673)	291,550	95,641	315
Expenditure				
Interest/finance expense on deposits and placements from Banks and other financial institutions	50,142	-	4,304	-
Interest/finance expense on deposits from customers	-	-	-	767
Fees and commission	2,123	-	6,118	-
Operating expenses	237,592	2,400	134,830	-
	289,857	2,400	145,252	767
Amount due from				
Deposits and placements with banks and other financial institutions (including cash and short-term funds)	104,381	1,175,288	147,915	-
Loans, advances and financing	-	-	-	7,300
Derivative financial assets	164,898	207,763	212,285	-
Other assets	250,989	73,965	9,098	-
	520,268	1,457,016	369,298	7,300
Amount due to				
Deposit and placements from banks and other financial institutions	1,139,712	-	697,516	-
Deposit from customers	-	-	-	34,911
Derivative financial liabilities	317,368	37,844	152,131	-
Other liabilities	500,632	360	256,939	-
Subordinated liabilities	595,987	-	-	-
	2,553,699	38,204	1,106,586	34,911

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 compensation

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Directors of the Bank and its subsidiaries:				
- Fees	**1,604**	1,356	**911**	688
- Salaries and bonuses	**4,361**	8,203	**4,361**	8,203
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	**1,149**	2,208	**1,149**	2,208
Total short-term employee benefits	**7,114**	11,767	**6,421**	11,099
- Share-based payments	**1,282**	8,247	**1,282**	8,247
Total Directors' Remuneration	**8,396**	20,014	**7,703**	19,346

During the financial years ended 31 December 2019 and 31 December 2018, there were no such compensation incurred for the following:
- Professional fees paid to Directors or any firms of which the Directors are members for services rendered.
- Amount paid to or receivable by any third party for services provided by Directors.
- Indemnity given or insurance effected for any Director.

Other key management personnel:				
- Short-term employee benefits	**23,112**	27,242	**20,900**	24,995
- Share-based payments	**2,710**	4,221	**2,688**	4,221
	25,822	31,463	**23,588**	29,216
Total key management personnel compensation	**34,218**	51,477	**31,291**	48,562

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

i) Directors/CEO' Remuneration

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:

2019

Group (RM'000)	Salaries and bonuses	Other short term employee benefits	Share-based payment	Fees	Total
Executive Directors of the Bank					
Mukhtar Malik Hussain	-	-	-	-	-
Stuart Paterson Milne	4,361	1,149	1,282	-	6,792
Non Executive Directors of the Bank and subsidiary					
Adil Ahmad	-	-	-	136	136
Albert Quah Chei Jin	-	-	-	137	137
Choo Yoo Kwan @ Choo Yee Kwan	-	-	-	205	205
Ho Chai Huey	-	-	-	121	121
Datuk Kamaruddin Taib	-	-	-	166	166
Lee Choo Hock	-	-	-	318	318
Tan Kar Leng @ Chen Kar Leng	-	-	-	184	184
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	265	265
Datin Che Teh Ija bt Mohd Jalil [1]	-	-	-	72	72
	4,361	1,149	1,282	1,604	8,396
CEO of the Bank's subsidiary					
Arsalaan Ahmed	1,658	554	23	-	2,235

[1] Appointed on 1 August 2019

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

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

i) Directors/CEO' Remuneration (Cont'd)

2018

Group (RM'000)	Salaries and bonuses	Other short term employee benefits	Share-based payment	Fees	Total
Executive Directors of the Bank					
Mukhtar Malik Hussain [1]	5,889	1,614	8,247	-	15,750
Stuart Paterson Milne [2]	2,314	594	-	-	2,908
Non Executive Directors of the Bank and subsidiary					
Adil Ahmad	-	-	-	117	117
Albert Quah Chei Jin	-	-	-	119	119
Choo Yoo Kwan @ Choo Yee Kwan	-	-	-	169	169
Ho Chai Huey [3]	-	-	-	94	94
Datuk Kamaruddin Taib [4]	-	-	-	142	142
Lee Choo Hock	-	-	-	271	271
Dr. Mohamed Ashraf bin Mohamed Iqbal [5]	-	-	-	77	77
Tan Kar Leng @ Chen Kar Leng	-	-	-	151	151
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	216	216
	8,203	2,208	8,247	1,356	20,014
CEO of the Bank's subsidiary					
Arsalaan Ahmed	1,688	559	-	-	2,247

[1] Resigned and redesignated on 24 April 2018
[2] Appointed on 24 May 2018
[3] Appointed on 2 January 2018
[4] Appointed on 2 January 2018
[5] Resigned on 31 October 2018

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

i) Directors/CEO' Remuneration (Cont'd)

2019

Bank (RM'000)	Salaries and bonuses	Other short term employee benefits	Share-based payment	Fees	Total
Non-Independent Exceutive Directors					
Mukhtar Malik Hussain	-	-	-	-	-
Stuart Paterson Milne	4,361	1,149	1,282	-	6,792
Independent Non-Executive Directors					
Choo Yoo Kwan @ Choo Yee Kwan	-	-	-	205	205
Lee Choo Hock	-	-	-	185	185
Tan Kar Leng @ Chen Kar Leng	-	-	-	184	184
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	265	265
Datin Che Teh Ija bt Mohd Jalil [1]	-	-	-	72	72
	4,361	1,149	1,282	911	7,703

[1] Appointed on 1 August 2019

2018

Bank (RM'000)	Salaries and bonuses	Other short term employee benefits	Share-based payment	Fees	Total
Non-Independent Exceutive Director					
Mukhtar Malik Hussain [1]	5,889	1,614	8,247	-	15,750
Stuart Paterson Milne [2]	2,314	594	-	-	2,908
Independent Non-Executive Directors					
Choo Yoo Kwan @ Choo Yee Kwan	-	-	-	169	169
Lee Choo Hock	-	-	-	152	152
Tan Kar Leng @ Chen Kar Leng	-	-	-	151	151
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	216	216
	8,203	2,208	8,247	688	19,346

[1] Resigned and redesignated on 24 April 2018
[2] Appointed on 24 May 2018

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

ii) Total value of remuneration awards for the financial year

Group

	31 Dec 2019		31 Dec 2018	
	Unrestricted RM'000	**Deferred RM'000**	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
Cash	**14,754**	**-**	16,757	-
Shares and share-linked instruments	**-**	**-**	-	-
	14,754	**-**	16,757	-
Variable remuneration				
Cash	**4,354**	**2,972**	6,873	1,803
Shares and share-linked instruments	**3,580**	**3,058**	2,130	2,781
	7,934	**6,030**	9,003	4,584
	22,688	**6,030**	25,760	4,584

Number of officers having received a variable remuneration during the financial year: 13 (2018: 15)

	31 Dec 2019		31 Dec 2018	
	Number	**Amount RM'000**	Number	Amount RM'000
Outstanding deferred remuneration				
Cash	**4**	**3,747**	7	4,614
Shares and share-linked instruments	**12**	**6,508**	13	10,021
		10,255		14,635
Deferred remuneration paid out	**11**	**6,241**	12	10,126

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

ii) Total value of remuneration awards for the financial year (Cont'd)

Bank

	31 Dec 2019		31 Dec 2018	
	Unrestricted RM'000	**Deferred RM'000**	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
Cash	**13,583**	**-**	15,606	-
Shares and share-linked instruments	**-**	**-**	-	-
	13,583	**-**	15,606	-
Variable remuneration				
Cash	**4,084**	**2,792**	6,385	1,803
Shares and share-linked instruments	**3,310**	**2,878**	2,130	2,659
	7,394	**5,670**	8,515	4,462
	20,977	**5,670**	24,121	4,462

Number of officers having received a variable remuneration during the financial year: 12 (2018: 14)

	31 Dec 2019		31 Dec 2018	
	Number	**Amount RM'000**	Number	Amount RM'000
Outstanding deferred remuneration				
Cash	**4**	**3,747**	7	4,614
Shares and share-linked instruments	**11**	**6,285**	12	9,942
		10,032		14,556
Deferred remuneration paid out	**10**	**6,215**	12	10,126

40 Credit exposure to connected parties

	Group		Bank	
	31 Dec 2019 RM'000	31 Dec 2018 RM'000	**31 Dec 2019 RM'000**	31 Dec 2018 RM'000
Aggregate value of outstanding credit exposures to connected parties	**5,284,778**	4,759,397	**4,343,440**	3,785,509
As a percentage of total credit exposures	**7.3%**	6.4%	**7.8%**	6.6%
Aggregate value of total outstanding credit exposures to connected parties which is impaired or in default	**-**	-	**-**	-
As a percentage of total credit exposures	**-**	-	**-**	-

41 Capital Adequacy

	Group 31 Dec 2019 RM'000	31 Dec 2018 RM'000
Common Equity Tier 1 (CET1) capital		
Paid-up ordinary share capital	**1,045,875**	1,045,875
Retained profits	**8,201,963**	8,148,816
Other reserves	**1,034,352**	1,058,737
Regulatory adjustments	**(1,147,716)**	(1,229,423)
Total CET1 capital	**9,134,474**	9,024,005
Tier 1 capital		
Additional Tier 1 capital	**500,000**	-
Total Tier 1 capital	**9,634,474**	9,024,005
Tier 2 capital		
Subordinated liabilities	**300,000**	400,000
Subordinated term loan	**589,613**	595,987
Collective impairment allowance (unimpaired portion) & regulatory reserves	**636,923**	636,819
Regulatory adjustments	**109,693**	109,557
Total Tier 2 capital	**1,636,229**	1,742,363
Capital base	**11,270,703**	10,766,368
Inclusive of proposed dividend		
CET 1 Capital ratio	**15.682%**	15.475%
Tier 1 Capital ratio	**16.540%**	15.475%
Total Capital ratio	**19.350%**	18.463%
Net of proposed dividend		
CET 1 Capital ratio	**15.368%**	15.021%
Tier 1 Capital ratio	**16.226%**	15.021%
Total Capital ratio	**19.035%**	18.009%

The total capital and capital adequacy ratios of the Group and the Bank have been computed based on Standardised Approach in accordance with the 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 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 categories of risk-weights:

	Group 31 Dec 2019 RM'000	31 Dec 2018 RM'000
Total RWA for credit risk	**50,953,924** [1]	50,945,497 [1]
Total RWA for market risk	**1,496,214**	1,712,316
Total RWA for operational risk	**5,797,822**	5,655,153
	58,247,960	58,312,966

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

	Group 31 Dec 2019 RM'000	31 Dec 2018 RM'000
Under SIAF/IAA arrangement	**2,991,025**	2,129,589

41 Capital Adequacy (Cont'd)

	Bank	
	31 Dec 2019	31 Dec 2018
	RM'000	RM'000
Common Equity Tier 1 (CET1) capital		
Paid-up ordinary share capital	**1,045,875**	1,045,875
Retained profits	**6,942,952**	7,075,642
Other reserves	**983,351**	970,486
Regulatory adjustments	**(1,736,309)**	(1,794,661)
Total CET1 capital	**7,235,869**	7,297,342
Tier 1 capital		
Additional Tier 1 capital	**500,000**	-
Total Tier 1 capital	**7,735,869**	7,297,342
Tier 2 capital		
Subordinated liabilities	**300,000**	400,000
Subordinated term loan	**589,613**	595,987
Collective impairment allowance (unimpaired portion) & regulatory reserves	**494,431**	488,880
Regulatory adjustments	**(479,920)**	(486,430)
Total Tier 2 capital	**904,124**	998,437
Capital base	**8,639,993**	8,295,779
Inclusive of proposed dividend		
CET 1 Capital ratio	**15.700%**	15.948%
Tier 1 Capital ratio	**16.785%**	15.948%
Total Capital ratio	**18.747%**	18.129%
Net of proposed dividend		
CET 1 Capital ratio	**15.303%**	15.368%
Tier 1 Capital ratio	**16.388%**	15.368%
Total Capital ratio	**18.350%**	17.550%

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

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

	Bank	
	31 Dec 2019	31 Dec 2018
	RM'000	RM'000
Total RWA for credit risk	**39,554,516** [1]	39,110,393 [1]
Total RWA for market risk	**1,414,415**	1,620,465
Total RWA for operational risk	**5,119,212**	5,027,602
	46,088,143	45,758,460

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

	Bank	
	31 Dec 2019	31 Dec 2018
	RM'000	RM'000
Under SIAF/IAA arrangement	**2,991,025**	2,129,589

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*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
Principal amount	**RM'000**	RM'000	**RM'000**	RM'000
Direct credit substitutes	**2,096,249**	2,289,301	**1,607,366**	1,797,498
Transaction-related contingent items	**8,502,326**	9,402,996	**7,221,124**	8,264,405
Short-term self-liquidating trade-related contingencies	**360,628**	374,060	**324,718**	310,949
Formal standby facilities and credit lines				
- Maturity not exceeding one year	**4,894,040**	6,064,570	**4,223,566**	4,689,703
- Maturity exceeding one year	**12,704,811**	12,067,621	**10,374,147**	9,911,365
Other unconditionally cancellable	**15,637,826**	14,109,814	**13,997,344**	12,568,266
Unutilised credit card lines	**13,419,320**	12,699,419	**9,676,249**	9,246,569
Foreign exchange related contracts:				
- Less than one year	**92,637,058**	83,850,057	**95,234,573**	86,707,857
- Over one year to less than five years	**5,313,386**	7,157,153	**5,313,386**	7,157,153
- Over five years	**1,270,378**	1,039,804	**1,270,378**	1,039,804
Interest/profit rate related contracts:				
- Less than one year	**9,908,087**	8,647,061	**11,126,606**	9,227,061
- Over one year to less than five years	**27,577,699**	27,940,646	**28,496,681**	29,611,812
- Over five years	**2,123,874**	1,386,770	**2,123,874**	1,386,770
Gold and other precious metals contracts:				
- Less than one year	**6,593**	6,559	**6,593**	6,559
Equity related contracts:				
- Less than one year	**1,113,308**	471,745	**1,579,752**	588,628
- Over one year to less than five years	**778,815**	1,041,419	**1,175,112**	1,403,647
	198,344,398	188,548,995	**193,751,469**	183,918,046

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

Formal standby facilities and credit lines:				
- Maturity not exceeding one year	**35,000**	794,750	**35,000**	794,750
- Maturity exceeding one year	**437,750**	-	**437,750**	-
	472,750	**794,750**	**472,750**	**794,750**

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:

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
Group	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**
At 31 Dec 2019	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trading derivatives:												
Foreign exchange contracts												
- Forwards	87,634,546	749,151	-	88,383,697	663,508	4,505	-	668,013	732,752	14,184	-	746,936
- Swaps	4,396,472	4,564,235	1,270,378	10,231,085	153,659	233,307	102,544	489,510	100,570	138,570	29,875	269,015
- Options	606,040	-	-	606,040	670	-	-	670	1,997	-	-	1,997
Interest/profit rate related contracts												
- Futures	-	-	-	-	-	-	-	-	-	-	-	-
- Options	647,149	884,883	-	1,532,032	5,143	5,263	-	10,406	284	4,937	-	5,221
- Swaps	9,010,938	25,172,816	2,123,874	36,307,628	18,657	166,956	38,144	223,757	26,650	153,817	40,147	220,614
Equity related contracts												
- Options	1,113,308	778,815	-	1,892,123	25,194	22,627	-	47,821	-	124	12,299	12,423
Precious metal contracts												
- Options	6,593	-	-	6,593	20	-	-	20	30	-	-	30
Sub- total	103,415,046	32,149,900	3,394,252	138,959,198	866,851	432,658	140,688	1,440,197	862,283	311,632	82,321	1,256,236
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	250,000	1,520,000	-	1,770,000	-	-	-	-	901	25,132	-	26,033
Sub- total	250,000	1,520,000	-	1,770,000	-	-	-	-	901	25,132	-	26,033
Total	103,665,046	33,669,900	3,394,252	140,729,198	866,851	432,658	140,688	1,440,197	863,184	336,764	82,321	1,282,269

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			
Group	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**
At 31 Dec 2018	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trading derivatives:												
Foreign exchange contracts												
- Forwards	77,928,953	552,750	-	78,481,703	448,545	2,949	-	451,494	460,640	13,481	-	474,121
- Swaps	5,571,728	6,604,403	1,039,804	13,215,935	209,031	345,023	142,627	696,681	158,710	251,729	34,035	444,474
- Options	349,376	-	-	349,376	1,773	-	-	1,773	335	-	-	335
Interest/profit rate related contracts												
- Options	297,827	1,157,812	-	1,455,639	55	5,619	-	5,674	4,537	74	-	4,611
- Swaps	8,199,234	25,012,834	1,386,770	34,598,838	14,752	97,750	11,242	123,744	13,918	93,691	25,019	132,628
Equity related contracts												
- Options	471,745	1,041,419	-	1,513,164	3,180	17,048	-	20,228	14,861	35,519	-	50,380
Precious metal contracts												
- Options	6,559	-	-	6,559	16	-	-	16	50	-	-	50
Sub- total	92,825,422	34,369,218	2,426,574	129,621,214	677,352	468,389	153,869	1,299,610	653,051	394,494	59,054	1,106,599
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	150,000	1,770,000	-	1,920,000	-	329	-	329	158	9,528	-	9,686
Sub- total	150,000	1,770,000	-	1,920,000	-	329	-	329	158	9,528	-	9,686
Total	92,975,422	36,139,218	2,426,574	131,541,214	677,352	468,718	153,869	1,299,939	653,209	404,022	59,054	1,116,285

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 2019	**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	**90,232,061**	**749,151**	**-**	**90,981,212**	**663,134**	**4,505**	**-**	**667,639**	**732,115**	**14,184**	**-**	**746,299**
- Swaps	**4,396,472**	**4,564,235**	**1,270,378**	**10,231,085**	**153,491**	**233,307**	**102,544**	**489,342**	**100,570**	**138,570**	**29,875**	**269,015**
- Options	**606,040**	**-**	**-**	**606,040**	**670**	**-**	**-**	**670**	**1,997**	**-**	**-**	**1,997**
Interest rate related contracts												
- Options	**817,668**	**1,130,865**	**-**	**1,948,533**	**5,143**	**5,263**	**-**	**10,406**	**2,904**	**6,897**	**-**	**9,801**
- Swaps	**10,058,938**	**25,845,816**	**2,123,874**	**38,028,628**	**18,657**	**167,038**	**38,144**	**223,839**	**27,747**	**163,863**	**40,147**	**231,757**
Equity related contracts												
- Options	**1,579,752**	**1,175,112**	**-**	**2,754,864**	**25,390**	**22,751**	**-**	**48,141**	**16,084**	**14,767**	**12,299**	**43,150**
Precious metal contracts												
- Options	**6,593**	**-**	**-**	**6,593**	**20**	**-**	**-**	**20**	**30**	**-**	**-**	**30**
Sub- total	**107,697,524**	**33,465,179**	**3,394,252**	**144,556,955**	**866,505**	**432,864**	**140,688**	**1,440,057**	**881,447**	**338,281**	**82,321**	**1,302,049**
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	**250,000**	**1,520,000**	**-**	**1,770,000**	**-**	**-**	**-**	**-**	**901**	**25,132**	**-**	**26,033**
Sub- total	**250,000**	**1,520,000**	**-**	**1,770,000**	**-**	**-**	**-**	**-**	**901**	**25,132**	**-**	**26,033**
Total	**107,947,524**	**34,985,179**	**3,394,252**	**146,326,955**	**866,505**	**432,864**	**140,688**	**1,440,057**	**882,348**	**363,413**	**82,321**	**1,328,082**

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 2018	**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	80,786,753	552,750	-	81,339,503	449,477	2,949	-	452,426	460,779	13,481	-	474,260
- Swaps	5,571,728	6,604,403	1,039,804	13,215,935	209,817	344,425	142,627	696,869	158,710	251,729	34,035	444,474
- Options	349,376	-	-	349,376	1,773	-	-	1,773	335	-	-	335
Interest rate related contracts												
- Options	297,827	1,578,978	-	1,876,805	55	6,561	-	6,616	4,537	3,515	-	8,052
- Swaps	8,859,234	26,262,834	1,386,770	36,508,838	14,763	97,750	11,000	123,513	14,412	95,537	25,058	135,007
Equity related contracts												
- Options	588,628	1,403,647	-	1,992,275	3,180	18,540	-	21,720	16,894	45,804	-	62,698
Precious metal contracts												
- Options	6,559	-	-	6,559	16	-	-	16	50	-	-	50
Sub- total	96,460,105	36,402,612	2,426,574	135,289,291	679,081	470,225	153,627	1,302,933	655,717	410,066	59,093	1,124,876
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	70,000	1,770,000	-	1,840,000	-	329	-	329	158	9,528	-	9,686
Sub- total	70,000	1,770,000	-	1,840,000	-	329	-	329	158	9,528	-	9,686
Total	96,530,105	38,172,612	2,426,574	137,129,291	679,081	470,554	153,627	1,303,262	655,875	419,594	59,093	1,134,562

	Group		*Bank*	
Included in the net non-interest income is the net losses arising from fair value hedges during the financial period as follows:	**31 Dec 2019** **RM'000**	31 Dec 2018 RM'000	**31 Dec 2019** **RM'000**	31 Dec 2018 RM'000
(Loss)/gain on hedging instruments	**(16,017)**	(1,411)	**(16,017)**	(1,411)
Gain/(loss) on the hedged items attributable to the hedged risk	**16,168**	867	**16,168**	867
Net Gain/(loss) from fair value hedges	**151**	(544)	**151**	(544)

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 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Carrying amount of assets and collateral pledged				
- Sold under repurchase agreements	**-**	150,000	**-**	150,000
- Collateral pledged on derivative contracts (ISDA[1])	**40,143**	289,271	**40,143**	289,271
Fair value of assets and collateral accepted				
- Securities bought under reverse repurchase agreement	**6,768,271**	2,613,723	**6,768,271**	2,613,723
- Securities sold under regulated short selling	**16,383**	26,520	**16,383**	26,520
- Collateral accepted on derivative contracts (ISDA[1])	**439,106**	255,078	**439,106**	255,078

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

45 Lease Commitments

The Group and the Bank have lease commitments in respect of rented premises. A summary of the non-cancellable long term commitments net of sub-leases (if any) are as follows:

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Less than one year	30,202	36,052	23,080	28,827
Between one and three years	15,053	48,574	10,109	42,486
Between three and five years	550	4,391	315	4,300
	45,805	89,017	**33,504**	75,613

46 Capital Commitments

	Group		*Bank*	
	31 Dec 2019	31 Dec 2018	**31 Dec 2019**	31 Dec 2018
	RM'000	RM'000	**RM'000**	RM'000
Property and equipment				
- Authorised and contracted, but not provided for	**205,825**	329,601	**205,825**	329,408

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

47 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. Employees may make monthly contributions up to £250 (or its equivalent in RM) over a period of one, three or five years with the option to use the savings to acquire shares. Alternatively the employee may elect to have the savings repaid in cash. The last grant of options under this plan was in 2012. The options are exercisable within three months following the first anniversary of the commencement of a one-year savings contract or within six months following either the third or the fifth anniversary of the commencement of three-year or five-year savings contracts, respectively. The exercise price is set at a 20% discount to the market value immediately preceding the date of invitation. The cost of the awards is amortised over the vesting period.

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

Group

	2019		2018	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Balance at 1 January	**1**	**4.21**	12	4.41
Granted in the financial year	**7**	**4.68**	-	-
Exercised in the financial year	**(3)**	**4.40**	(5)	4.39
Cancelled in the financial year	**-**		(5)	4.46
Expired in the financial year	**-**		(1)	4.46
Balance at 31 December	**5**	**4.70**	1	4.21
Options vested at 31 December	**3**		5	

	2019 RM'000	2018 RM'000
Compensation cost recognised during the financial year	**-**	1

Bank

	2019		2018	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Balance at 1 January	**1**	**4.21**	12	4.41
Granted in the financial year	**7**	**4.68**	-	-
Exercised in the financial year	**(3)**	**4.40**	(5)	4.39
Cancelled in the financial year	**-**		(5)	4.46
Expired in the financial year	**-**		(1)	4.46
Balance at 31 December	**5**	**4.70**	1	4.21
Options vested at 31 December	**3**		5	

	2019 RM'000	2018 RM'000
Compensation cost recognised during the financial year	**-**	1

The weighted average remaining contractual life for the share options is 2.9 years (2018: 1.9 years).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

47 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 to which the award relates.

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*	
	2019 Number ('000)	2018 Number ('000)	**2019 Number ('000)**	2018 Number ('000)
Balance at 1 January	**708**	751	**703**	747
Granted in the financial year	**128**	479	**119**	475
Exercised in the financial year	**(270)**	(442)	**(269)**	(442)
Released in the financial year	**(47)**	(67)	**(46)**	(65)
Cancelled in the financial year	**(13)**	(12)	**(12)**	(11)
Transferred out in the financial year	**(38)**	(1)	**(38)**	(1)
Balance at 31 December	**468**	708	**457**	703

	2019 RM'000	2018 RM'000	**2019 RM'000**	2018 RM'000
Compensation cost recognised during the financial year	**11,827**	11,389	**11,099**	11,202

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan and the Share Match Schemes is £5.96 (2018: £6.42). The weighted average fair value of the HSBC share at 31 December 2019 for the share granted during the year was £6.18 (2018: £5.66). The weighted average remaining vesting period as at 31 December 2019 was 1.21 years (2018: 1.90 years).

48 Comparative Figures

Presentation and classification of items in the financial statements are consistent with those in previous financial year except for those listed below. The Group and the Bank's prior year profit and loss and retained profits brought forward are not affected by these reclassifications.

(i) Comparatives for loans, advances and financing, impaired loans, advances and financing, and ECL allowances were restated to exclude retail unsecured loans/ financing which have been written off but subsequently rescheduled and reinstated. Until 31 December 2018, such loans/ financing were recognised in the statement of financial position with full provision, with no impact to profit or loss. With effect from the financial year ended 31 December 2019, these loans/ financing are no longer being recognised in the statement of financial position to be in line with industry practice.

Notes to the Financial Statements
31 December 2018

a) Loans, advances and financing	*Group*		*Bank*	
	RM'000 As restated	RM'000 As previously stated	RM'000 As restated	RM'000 As previously stated
Gross loans, advances and financing	53,800,371	53,932,240	39,428,501	39,486,369
Impairment allowances (MFRS 9)	(491,878)	(623,747)	(257,345)	(315,213)
Total net loans, advances and financing	53,308,493	53,308,493	39,171,156	39,171,156
(of which the affected components are disclosed below) :				
By type				
Term loans/financing:				
Other term loans/financing	10,154,802	10,286,671	5,837,382	5,895,250
By type of customer				
Individuals	22,010,122	22,141,739	15,867,488	15,925,155
Foreign entities/individuals	7,063,180	7,063,432	5,224,029	5,224,230
By residual contractual maturity				
Maturity within one year	26,228,589	26,229,546	20,332,762	20,333,551
More than one year to three years	2,526,451	2,531,922	1,360,321	1,364,163
More than three years to five years	2,999,636	3,018,651	1,710,272	1,720,044
More than five years	22,045,695	22,152,121	16,025,146	16,068,611
By interest/profit rate sensitivity				
Fixed rate:				
Other fixed rate loans/financing	13,491,626	13,567,734	10,191,085	10,226,274
Variable rate:				
Cost-plus	17,894,202	17,949,963	12,411,179	12,433,858
By sector				
Household-retail	25,169,688	25,301,557	18,463,543	18,521,411
By purpose				
Consumption credit	6,069,767	6,201,636	3,942,490	4,000,358
By geographical distribution				
Northern Region	6,719,839	6,722,844	5,222,530	5,223,824
Southern Region	6,334,271	6,336,194	4,870,102	4,871,195
Central Region	38,380,783	38,506,545	27,369,954	27,424,841
Eastern Region	2,365,478	2,366,657	1,965,915	1,966,509

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

48 Comparative Figures (Cont'd)

b) Impaired Loans, Advances and Financing
(of which the affected components are disclosed below) :

	Group		*Bank*	
	RM'000 As restated	RM'000 As previously stated	RM'000 As restated	RM'000 As previously stated
Gross carrying amount movement of loans, advances and financing classified as credit impaired				
Gross carrying amount as at 1 January	888,267	975,557	606,218	652,874
Others	25	44,604	7	11,219
Gross carrying amount as at 31 December	973,287	1,105,156	616,975	674,843
By sector				
Household-retail	755,218	887,087	489,885	547,753
By purpose				
Consumption credit	297,811	429,680	159,584	217,452
By geographical distribution				
Northern Region	129,940	132,945	92,192	93,486
Southern Region	115,479	117,402	76,026	77,119
Central Region	670,297	796,059	397,236	452,123
Eastern Region	57,571	58,750	51,521	52,115

c) ECL allowances
(of which the affected components are disclosed below) :

Movements in ECL allowances for loans, advances and financing	**Stage 3** Lifetime ECL credit impaired RM'000 As restated	Lifetime ECL credit impaired Specific provision RM'000 As restated	**Stage 3** Lifetime ECL credit impaired RM'000 As previously stated	Lifetime ECL credit impaired Specific provision RM'000 As previously stated
Group				
Balance at 1 January 2018	-	208,249	-	295,539
- adoption of MFRS 9	269,048	(208,249)	356,338	(295,539)
Balance restated	269,048	-	356,338	-
Others	299	-	44,878	-
Balance at 31 December 2018	259,032	-	390,901	-
Bank				
Balance at 1 January 2018	-	133,984	-	180,640
- adoption of MFRS 9	158,912	(133,984)	205,568	(180,640)
Balance restated	158,912	-	205,568	-
Others	58	-	11,270	-
Balance at 31 December 2018	132,951	-	190,819	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

48 Comparative Figures (Cont'd)

(ii) Comparatives for interest expense, other operating expenses and income from Islamic banking operations were restated to reclassify deposit protection insurance costs from interest expense/ finance expense to other operating expenses. This cost represents an annual holding cost for deposits to customers as opposed to an initial transaction cost incurred in accepting the deposit.

Statement of Profit or Loss	*Group*		*Bank*	
	RM'000	RM'000	RM'000	RM'000
31 December 2018	As restated	As previously stated	As restated	As previously stated
a) Net interest income	1,623,407	1,612,902	1,673,398	1,662,893
(of which the affected components are disclosed below) :				
Interest expense				
Others	(349)	(10,854)	(349)	(10,854)
b) Other operating expenses	(1,525,390)	(1,508,555)	(1,398,525)	(1,388,020)
(of which the affected components are disclosed below) :				
General administrative expenses				
Others	(148,722)	(131,887)	(112,988)	(102,483)
c) Income from Islamic banking operations	699,408	693,078	-	-
(of which the affected components are disclosed below) :				
Income attributable to the depositors	(434,346)	(440,676)	-	-