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

# FINANCIAL STATEMENTS – 31 DECEMBER 2020

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

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

## BOARD OF DIRECTORS

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

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

Mukhtar Malik Hussain
Non-Independent 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

## CORPORATE GOVERNANCE DISCLOSURES

The 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, 69**
**Independent Non-Executive Chairman**
*Member of the Nominations and Remuneration Committee*
Appointed to the Board: April 2014
Independent Non-Executive Chairman since March 2017

Tan Sri Dato' Krishnan Tan has been appointed as Independent Non-Executive Chairman of the Bank on 15 March 2017. He was previously appointed as Independent Non-Executive Director on 2 April 2014. He is a member of the Nominations and Remuneration Committee of the Bank. He resigned as a member of the Audit Committee and Risk Committee on 1 April 2020.

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, 61**
**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 17.

## CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

### Directors (Cont'd)

**Mukhtar Malik Hussain, 61**
**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.

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 17.

**Lee Choo Hock, 68**
**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.

**Directors (Cont'd)**

**Tan Kar Leng @ Chen Kar Leng, 77**
**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, 68**
**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.

**Directors (Cont'd)**

**Datin Che Teh Ija Binti Mohd Jalil, 68**
**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.

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 subjected to annual re-election by shareholder at the Bank's Annual General Meeting. Non-Executive Directors are appointed for an initial three-year term and, subject to re-election by shareholder at Annual General Meetings, are typically expected to serve two three-year terms. Any term beyond six (6) years is subject to rigorous review. Tenure of Independent Non-Executive Directors shall not exceed a cumulative term of nine 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 five (5) public listed companies. Time devoted to the Bank could be considerably more, particularly if serving on Board committees. All Non-Executive Directors have confirmed that they can meet this requirement.

Independent Non-Executive Directors are not HSBC employees and do not participate in the daily business management of the Bank. 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 judgement, and there are no relationships or circumstances likely to affect the judgement of the Independent Non-Executive Directors.

The roles of the Independent Chairman 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**
Five (5) Board meetings were held in 2020. The table below show each Director's attendance (including attendance via video conferencing) at meetings of all Board and Committee meetings during 2020. 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.

| 2020 Board and Committee meeting attendance | Board | Audit Committee | Risk Committee | Nominations and Remuneration Committee |
|---|---|---|---|---|
| **Total number of meetings held** | **5** | **4** | **5** | **5** |
| **Independent Non-Executive Chairman** | | | | |
| Tan Sri Dato' Tan Boon Seng @ Krishnan[1] | 5 | 1 | 1 | 5 |
| **Non-Independent Executive Directors** | | | | |
| Stuart Paterson Milne | 5 | - | - | - |
| Mukhtar Malik Hussain | 5 | - | - | - |
| **Independent Non-Executive Directors** | | | | |
| Lee Choo Hock | 5 | 4 | - | 5 |
| Tan Kar Leng @ Chen Kar Leng | 4 | - | 4 | 4 |
| Choo Yoo Kwan @ Choo Yee Kwan | 5 | 4 | 5 | 5 |
| Datin Che Teh Ija Binti Mohd Jalil | 5 | 4 | 5 | - |

[1] Resigned as member of Audit Committee and Risk Committee with effect from 1 April 2020.

**Directors' Emoluments**

Details of the emoluments of the Directors of the Bank for 2020, disclosed in accordance with the Companies Act 2016, are shown in Note 39(b) to the financial statements.

**Training and Development**

Formal induction programmes are tailored for newly appointed Directors. The 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.

Directors are also provided continuous training and their development requirements 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.

## BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

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 Individual Liquidity Adequacy Assessment, Internal Liquidity Metric, Model Risk, Cybersecurity updates and Clouds application. The Audit Committee and Risk Committee Chairmen have attended a one-day forum for the HSBC Group's Non-Executive Directors held in September 2020.

### 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
- Datin Che Teh Ija bt Mohd Jalil

During 2020, 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.

**CORPORATE GOVERNANCE DISCLOSURES (Cont'd)**

## BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

### Board Committees (Cont'd)

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.

### 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 Kar Leng @ Chen Kar Leng
- Datin Che Teh Ija bt Mohd Jalil

During 2020, the Risk Committee held 5 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 2020.

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 2020, the Nominations and Remuneration Committee held 5 meetings. Attendance is set out in the table on page 7.

## BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

### Board Committees (Cont'd)

### Delegations by the Board

#### *Connected Party Transactions Committee*

The Connected Party Transactions Committee is delegated with the authority 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

#### *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 pertaining to capital, liquidity and funding as well as interest rate risk, structural foreign exchange and structural/strategic equity risk.

**(ii) Risk Management Meeting**

The Risk Management Meeting is responsible for the oversight of the risk framework. Regular Risk Management Meetings (RMM), 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 a formal governance committee established to ensure effective enterprise-wide management of financial crime risk and to support the CEO (the Chair) 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.

## BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

### Board Committees (Cont'd)

#### 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 2021, the date of approval of the audited financial statements of the Group and the Bank for the financial year ended 31 December 2020.

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

- **Group's Global Principles**
  The Global Principles set an overarching standard for all other policies and procedures throughout the HSBC Group and are fundamental to the Group and the Bank's risk management structure. 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.

- **Risk management framework (RMF)**
  The RMF 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**
  Subject to certain matters reserved for the Board, the Group and the Bank's Chief Executive Officer, Chief Risk Officer and other authorised persons, have been delegated authority limits and powers within which to manage the day-to-day affairs of the Group, including the right to sub-delegate those limits and powers. Each relevant Executive Committee member has delegated authority within which to manage the day-to-day affairs of the business or function for which he or she is accountable. Delegation of authority from the Board requires those individuals to maintain a clear and appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control that are appropriate to their business or function. Authorities to enter into credit and market risk exposures are delegated with limits to line management of the Bank. However, credit proposals with specified higher-risk characteristics require the concurrence of the appropriate regional and global function. Credit and market risks are measured and reported at subsidiary company level and aggregated for risk concentration analysis on a Group-wide basis.

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

## INTERNAL CONTROL FRAMEWORK (Cont'd)

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

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

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

- **Strategic plans**
  Strategic plans are prepared for global businesses 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.

### Internal control over financial reporting

As subsidiaries of HSBC, the Group and the Bank are required to comply with section 404 of the US Sarbanes- Oxley Act of 2002 and assess its effectiveness of internal control over financial reporting at 31 December 2020. In 2014, HSBC Group Audit Committee (GAC) endorsed the adoption of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) 2013 framework for the monitoring of risk management and internal control systems to satisfy the requirements of section 404 of the Sarbanes-Oxley Act.

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

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

  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.

**INTERNAL CONTROL FRAMEWORK (Cont'd)**

- **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 subjected to certification by the Chief Financial Officer and Board's approval.

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

During 2020, the Group and the Bank continued to focus on operational resilience and invest in the non-financial risk infrastructure. There was a particular focus on material and emerging risks with significant progress made enhancing the end-to-end risk and control assessment process.

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

**REMUNERATION POLICY**

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.

## RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

| Rating Agency | Date | Rating Classification | Ratings Received |
|---|---|---|---|
| RAM Ratings Services Berhad | July 2020 | • Long term<br>• Short term<br>• Subordinated liabilities<br>• Outlook | AAA<br>P1<br>AA1<br>Stable |
| Moody's Investors Service | December 2020 | • Foreign currency long term deposits<br>• Local currency long term deposits<br>• Foreign currency short term deposits<br>• Local currency short term deposits<br>• Outlook | A1<br>A1<br>P-1<br>P-1<br>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 | July 2020 | • Long term<br>• Short term<br>• Multi-currency Sukuk Programme<br>• Outlook | AAA<br>P1<br>AAA<br>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 2020.

### 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

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

### PRINCIPAL ACTIVITIES

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

### FINANCIAL RESULTS

| | Group | Bank |
|---|---|---|
| | RM'000 | RM'000 |
| **Profit for the financial year attributable to the owner of the Bank** | | |
| Profit before tax | 496,725 | 425,436 |
| Tax expense | (139,157) | (111,835) |
| Profit for the financial year | 357,568 | 313,601 |

### 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 1.1.2020 | Acquired | Disposed | As at 31.12.2020 |
| **HSBC Holdings plc** | | | | |
| **Ordinary shares of USD0.50** | | | | |
| Stuart Paterson Milne [1] | 251,170 | 28,208 | - | 279,378 |
| Mukhtar Malik Hussain | 1,616,915 | 96,938 | - | 1,713,853 |

| | Number of Shares | | | |
|---|---|---|---|---|
| | Shares held at 1.1.2020 | Shares issued during the year[2] | Shares vested during the year | Shares held at 31.12.2020 |
| **HSBC Holdings plc** | | | | |
| **HSBC Share Plan** | | | | |
| Stuart Paterson Milne [1] | 89,382 | 41,135 | - | 130,517 |
| Mukhtar Malik Hussain | 180,243 | 75,574 | (73,136) | 182,681 |

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

None of the other Directors holding office at 31 December 2020 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

## DIVIDENDS

Since the end of the previous financial year, the Bank paid a final dividend of 79.9 sen per ordinary share amounting to RM183.0 million for the financial year ended 31 December 2019. The dividend was paid on 1 June 2020.

The Board of Directors via a resolution on 5 February 2021, has approved the payment of a final dividend of 82.2 sen per ordinary share, amounting to net dividend payment of RM188.2 million in respect of the financial year ended 31 December 2020. The dividend will be accounted for in the shareholder's equity as an appropriation of retained earnings in the subsequent financial year.

## HOLDING COMPANIES

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

## OTHER STATUTORY INFORMATION

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

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

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

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

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

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

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

## OTHER STATUTORY INFORMATION (Cont'd)

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

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

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

No contingent liability or other liability of any Bank in the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group and of the Bank to meet their obligations as and when they fall due.

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

In the opinion of the Directors:

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

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

## SIGNIFICANT AND SUBSEQUENT EVENTS

There were no significant events and events subsequent to the date of the statement of financial position that require disclosure or adjustment to the audited financial statements, except as set out in Note 47 to the 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 RM496.7 million for the financial year ended 31 December 2020, a decrease of RM806.6 million or 61.9% compared to the prior year. The lower PBT was mainly contributed by higher impairment allowance/provisions by RM 339.0 million, lower operating income by RM243.1 million and higher operating expenses by RM224.5 million.

Impairment allowance/ provisions increased as the impact of COVID-19 outbreak has been considered in deriving the Expected Credit Loss (ECL) for loans and advances and other financial assets. Operating income were impacted by lower net interest income as a result of reductions in Bank Negara Malaysia (BNM)'s Overnight Policy Rate (OPR) by 125 basis points to 1.75% between January 2020 to December 2020 and lower non-interest income from the generally weak market sentiment impacting business and consumer spending activities. Operating expenses was higher during the year mainly due to property revaluation loss on the Group's new head office building, coupled with higher related company expenses in respect of mainly IT and digital services.

Despite lower PBT, total balance sheet size as at 31 December 2020 has grown by 1.6% or RM1.4 billion to RM86.3 billion (31 December 2019: RM85.0 billion). The Group's capital and liquidity ratios have also remained strong and well above regulatory requirements.

### Business Strategy during the Year 2020

2020 has been a year marked with unprecedented challenges, disruptions and uncertainties caused by the COVID-19 outbreak. Global and domestic economies were severely impacted as a result of the pandemic, affecting households and businesses.

For 2020, Malaysia's GDP contracted by 5.6% compared to an expansion of 4.3% in year 2019. This was primarily due to weaker private sector expenditure and subdued consumer and business sentiments as a result of COVID-19 impact. Five economic sectors that were identified as most affected by COVID-19, were (i) retail and wholesale trading; (ii) accommodation; (iii) travel agencies/ tourism; (iv) airline/ aviation; and (v) food and beverage services/ restaurants. As at 31 December 2020, the gross outstanding loans, advances and financing extended by the Group to these sectors were approximately RM3.5 billion or 6.85% of our total gross loan, advances and financing.

During the year, the Government has implemented various relief actions and economic stimulus packages to support household income, safeguard jobs and to spur the economy. BNM also rolled-out measures to assist individuals, SMEs and corporates affected by COVID-19. Pursuant to its circular on 25 March 2020, banking institutions, including HSBC Malaysia, has offered an automatic deferment of loan, advances and financing repayment for six months to all individual and small-medium enterprise (SME) in order to help them cope with the financial adversity. The automatic moratorium was given to Ringgit-denominated loans, advances and financing that were not in arrears exceeding 90 days as at 1 April 2020. For outstanding credit card balances, customers have the option to convert the outstanding balances into financing and advances of not more than three years. After converting into financing and advances, these customers can seek to opt-in for moratorium.

Post expiry of the 6-month moratorium programme on 30 September 2020, banks have continued to offer targeted extension moratorium and repayment flexibilities to selected customers who are significantly impacted from reduction in income and loss of employment due to COVID-19 pandemic. The eligible customers can request to either defer monthly instalments for three months or reduce monthly instalments for further six months. As at 31 December 2020, the gross outstanding loans, advances and financing extended by the Group to these individuals under the targeted relief assistance programme were approximately RM1.6 billion or 3.15% of our total gross loan, advances and financing.

**Performance Review, Strategy and Outlook (Cont'd)**

**Business Strategy during the Year 2020 (Cont'd)**

In addition, BNM also reduced the Overnight Policy Rate (OPR) by a cumulative 125 basis points to 1.75% during the year, and the Statutory Reserve Requirement (SRR) ratio by 100 basis points to 2.0% with allowance for Government securities to be recognised for SRR compliance.

Despite the extraordinarily challenging environment, the Group and the Bank have made remarkable achievements including the launch of more than thirty new digital innovations, embarking on sustainability initiatives, having received more than twenty industry awards, and assisted our customers diligently to help them cross the hurdles in this difficult time.

Our Wealth and Personal Banking (WPB) business has supported our customers during the COVID-19 crisis through payment holidays, non-compounding of interest or profit during payment holidays, and restructuring of financing. During the various phases of Movement Control Order (MCO) imposed by the Malaysian Government for COVID-19 containment, new digital capabilities were introduced for customers to perform banking from the comfort and safety of their home.

The prominent ones, which were also the first of their kind in the Malaysia banking industry, were, i) Remote Engagement Service (RES) which enables customers to engage with HSBC remotely via Zoom without walking into branch; ii) Digital account opening journey with 24/7 self-service machine for identification and verification process; iii) Voice-ID Biometrics solution for telebanking which enables authentication using voice capabilities in place of password or PIN code; and iv) 24/7 Unit Trust Browser (UTB) platform with powerful funds research functions and detailed information on open-ended unit trusts that are offered by HSBC.

Commercial Banking (CMB) has continued to support customers' liquidity and working capital needs. To its business banking customers which are mainly comprising small and medium enterprises (SME), CMB has taken proactive efforts by offering repayment flexibility with extension of trade loans / financing payment period without additional fee or penalty rate. Government-guaranteed borrowing facilities were also made available to those who need access to financing. Various new products and services were rolled out, which include the enhanced functionality for Mobile Collections (Omni Channel and DuitNow QR), Treasury API, and NextGen Virtual Accounts.

Our Global Banking & Markets (GBM) has focused on supporting customers across structured product solutions, including debt capital market, advisory and structured trade, coupled with sustainability-linked financing and innovative cash management solutions. GBM launched Sustainable Supply Chain Financing First Strategy and acted as the sole structuring and bank financing for Malaysia's first Sustainability-Linked Financing (SLF) for a leading energy solution provider, which reinforces the bank's commitment to supporting a low carbon economy. We have also continued to deliver our expertise in debt capital to secure key deals which yielded other ancillary income and opportunities. We are also on track to launch a new system for Equity Derivatives, which will allow the Group and the Bank to re-introduce equity linked quanto structured products to our retail customers. Our offshore FX capability were also enhanced though our affiliates' network and expanded product offerings.

In line with our aspiration to "build a bank fit for the future", GBM worked alongside CMB to integrate their business operation functions, and performed joint initiatives on digital penetration including electronic signature solution, credit & lending robotics and electronic audit confirmations to improve customer experience. CMB also signed its first Memorandum of Understanding (MoU) with Malaysia Digital Economy Corporation (MDEC) to focus on enhancing the adoption of technology among companies in Malaysia.

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 (12th consecutive year). HSS has also continued to offer new products and services through 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 2020 (Cont'd)**

HSBC Malaysia's strong liquidity and capital position against a backdrop of the continuing impacts of COVID-19 was well recognised by external parties including RAM Ratings Services Berhad, which in 2020 reaffirmed the Bank and its subsidiary, HSBC Amanah Malaysia Berhad (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 won in 2020 including the prestigious awards such as 'Best International Bank in Malaysia' by both Asiamoney Awards and The FinanceAsia Country Awards. Other notable recognitions are disclosed on page 24 to 25 under Directors' Report of this financial statement.

On the sustainability front, the Group via HBMS, has launched Project Cocoon in April 2020, in conjunction with the 50th anniversary of the World Earth Day, with a pledge to deliver sustainable banking at local level, as well as supporting HSBC Group's sustainability strategy at global level. This is also in line with Bank Negara's Value Based Intermediation (VBI). VBI 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.

HBMS also recently marked another milestone in Malaysia by becoming an official member of the United Nations Global Compact (UNGC) via UNGC's local chapter, the Global Compact Malaysia (GCMY). This follows in the footsteps of the HSBC Group that has been an active member of UNGC since it was launched in 2000. HBMS is currently the only international bank in Malaysia that is a member of GCMY.

During the year, HBMS has acted as lead arranger for the ASEAN Green Sustainable and Responsible Investment (SRI) Sukuk for a company focused on renewable power generation. We were also the sole sustainability structuring bank for Malaysia's first Sustainability-Linked Financing (SLF) for a leading energy solutions provider. For all its sustainability focus journey, HBMS was recently awarded the 'Islamic ESG (Environmental, Social and Governance) Bank of the Year' from The Asset Triple A Islamic Finance Awards 2020 and 'Islamic Finance House of the Year' from FinanceAsia.

Furthermore, the Group and the Bank have exceptionally accomplished the three main pillars of its corporate social responsibilities in 2020 including developing Future Skills, Sustainable Network & Entrepreneurship and Sustainable Finance. To help the communities address the challenges of COVID-19, we have donated RM1 million to MERCY Malaysia in support of its COVID-19 Strategic Preparedness and Response Plan through The Association of Banks Malaysia (ABM). We have participated in a number of other initiatives to support rural communities impacted by the MCO. We have also launched a 'We Can We Do' initiative to cultivate the Can-Do spirit amongst Malaysians by encouraging and facilitating financial empowerment for individuals, entrepreneurs, and business owners. Internally, a 'Matching Fund' has been launched to provide a channel for employees to give back to the at-risk communities impacted by COVID-19.

Our people are our most important asset. This year, more than ever, our priority has been the safety, health and well-being of our people. To ensure we maintained essential banking services and met the surge in customer demand for assistance during COVID-19, we quickly adapted our branches to maintain physical distancing measures and keep our people and customers safe. We also quickly scaled our remote working technologies allowing our people to work from home. New and enhanced well-being support programmes were given to our employees including medical guidance, education on mental health awareness, employee counselling, training on how to lead remote teams, and advice on managing stress and working remotely.

We will continue to support our employees and customers in these challenging times.

**Performance Review, Strategy and Outlook (Cont'd)**

**Outlook for 2021**

The outlook on the global economy remains uncertain, with the pace and strength of recovery being subject to the ability in controlling the COVID-19 pandemic and the effective rollout of vaccination plans.

The World Bank has forecasted Malaysia's economy to grow by 6.7% in 2021. The domestic economy activities are expected to improve gradually, underpinned by recovery in domestic demand and turnaround in both public and private sector expenditure with the support from various economic stimulus packages and relief measures rolled out by the Government. The expected commencement of COVID-19 vaccination programme by 1Q2021 is also expected to further uplift the local sentiments.

The events of 2020 have not dampened the inclination of most Malaysian businesses to invest to grow. More businesses expect to see expansion in digital platforms and channels as an important driver of growth to target consumers, improve the customer experience and promote collaboration.

HSBC Malaysia will continue to focus on enhancing customer experience, accelerating digital transformation and investing in employees to help develop new skills, in line with HSBC Group's vision to "build a bank fit for the future" which will be key to our success. These are in addition to our commitment of maintaining a robust risk management culture and framework.

The Group and the Bank will also continue to capture cross-border opportunities in the ASEAN and Belt and Road Initiative (BRI) corridors through HSBC Group's international network and capabilities. Sustainability-linked propositions will also be one of our key focus in 2021, leveraging on HSBC Amanah's sustainability and VBI initiatives.

2021 will also mark a landmark year for HSBC Malaysia as we transit our head office from Leboh Ampang to the new, LEED Gold Standard, head office building in TRX. We strive to provide the best and conducive banking environment for our customers as well as a modern and sustainable working environment for our employees.

We remain committed to supporting our customers through these trying times, and will continue delivering products and services that meet customers' ever-changing banking needs.

**Awards won during the financial year:**

HSBC Bank Malaysia Berhad

1. **Best International Bank, Malaysia** – FinanceAsia Country Awards 2020

2. **Best International Bank in Malaysia** – Asiamoney Awards 2020 (2nd consecutive year)

3. **Best Service Provider, Cash Management (Malaysia)** – The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2020

4. **Client Solutions Awards, Best Payments & Collections Solution category for KPJ Healthcare Bhd** – The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2020

5. **Client Solutions Awards, Best Liquidity and Investments Solution category** – The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2020

6. **Best Renminbi Bank** – The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2020 (3rd consecutive year)

7. **Petrochemical Deal of the Year (Malaysia)** – The Asset Infrastructure Awards 2020

8. **Petrochemical Deal of the Year (Regional)** – The Asset Infrastructure Awards 2020

9. **Information Management (Banking)** – Malaysia Technology Excellence Awards 2020

10. **Online services (Banking)** – Malaysia Technology Excellence Awards 2020

11. **No 1 Sub-Custodian in Malaysia 2020 (Unweighted Category)** – Global Investor / ISF Sub Custody Survey 2020 (12th consecutive year)

12. **Best Frictionless Customer Relationship Management** – Global Retail Banking Innovation Awards 2020, The Digital Banker

13. **Best Bank (Global)** – The Asset Country Awards (3rd consecutive year)

14. **Best Bond Adviser (Global)** – The Asset Country Awards (14th consecutive year)

15. **Best Corporate Bond, PETRONAS US$6 billion triple-tranche bond** - The Asset Country Awards

16. **Best Bank Capital Bond, United Overseas Bank (Malaysia) 750 million ringgit tier 2 subordinated notes** – The Asset Country Awards

17. **Best Syndicated Loan, Yinson Boronia Production US$400 million syndicated bridge loan facility** – The Asset Country Awards

18. **Best Foreign Currency Bond Deal of the Year 2020** – Alpha Southeast Asia

19. **Best Domestic Cash Manager in Malaysia** as voted by Corporates – Euromoney Cash Management Survey 2020 – Market Leader (4th consecutive year)

20. **COVID-19 Response Award 2020 for KPJ Healthcare Berhad** – Treasury Management International (TMI) Innovation and Excellence Awards and Treasury4Good Awards

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

HSBC Amanah Malaysia Berhad

1. **Islamic ESG Bank of the Year** – The Asset Triple A Islamic Finance Awards 2020

2. **Best Islamic Trade Finance Bank** – The Asset Triple A Islamic Finance Awards 2020 (3rd consecutive year)

3. **Best Quasi-Sovereign Sukuk** – The Asset Triple A Islamic Finance Awards 2020

4. **Best New Sukuk** – The Asset Triple A Islamic Finance Awards 2020

5. **Best Structured Financing** – The Asset Triple A Islamic Finance Awards 2020

6. **Best Trade Finance Product** – The Asset Triple A Islamic Finance Awards 2020

7. **Islamic Finance House of the Year** – FinanceAsia Achievement Awards 2020

8. **Best Islamic Syndicated Financing Deal of the Year 2020** – Alpha Southeast Asia

**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 2021.

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

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

Kuala Lumpur, Malaysia
5 February 2021

**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 33 to 185 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 2020 and financial performance of the Group and of the Bank for the financial year ended 31 December 2020 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 2021.

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

Kuala Lumpur, Malaysia
5 February 2021

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

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

I, Sun Wenyun, being the officer primarily responsible for the financial management of HSBC Bank Malaysia Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 33 to 185 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 2021.

....................................................................
**SUN WENYUN**

BEFORE ME:

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

**INDEPENDENT AUDITORS' REPORT**
**TO THE MEMBERS 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 2020, and of their financial performance and their cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Bank, which comprise the statements of financial position as at 31 December 2020 of the Group and of the Bank, and the statements of profit or loss, the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 33 to 185.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

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.

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.

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

<u>Auditors' responsibilities for the audit of the financial statements</u> (continued)

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

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

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

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

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

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

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

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 | WILLIAM MAH JIN CHIEK |
| LLP0014401-LCA & AF 1146 | 03085/07/2021 J |
| Chartered Accountants | Chartered Accountant |

Kuala Lumpur
18 February 2021

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

## STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

| | | *Group* | | *Bank* | |
|---|---|---|---|---|---|
| | | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **Note** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Assets** | | | | | |
| Cash and short-term funds | *7* | **12,663,196** | 9,623,962 | **9,441,441** | 4,847,237 |
| Securities purchased under resale agreements | | **6,826,369** | 6,645,298 | **6,826,369** | 6,645,298 |
| Deposits and placements with banks and other financial institutions | *8* | **48,204** | 139,153 | **1,403,411** | 1,011,570 |
| Financial assets at fair value through profit and loss (FVTPL) | *9* | **1,089,673** | 1,391,978 | **1,089,673** | 1,391,978 |
| Financial investments at fair value through other comprehensive income (FVOCI) | *10* | **10,827,545** | 11,907,954 | **9,527,730** | 9,187,979 |
| Financial investments at amortised cost | *11* | **199,743** | - | **199,743** | - |
| Loans, advances and financing | *12* | **50,752,784** | 51,289,860 | **37,260,208** | 38,246,907 |
| Derivative financial assets | *43* | **2,033,429** | 1,440,197 | **2,037,229** | 1,440,057 |
| Other assets | *15* | **588,905** | 432,253 | **605,867** | 424,659 |
| Statutory deposits with Bank Negara Malaysia | *16* | **55,511** | 992,351 | **30,009** | 662,689 |
| Investments in subsidiary companies | *17* | **-** | - | **660,021** | 660,021 |
| Property and equipment | *19* | **900,381** | 834,156 | **891,297** | 827,055 |
| Intangible assets | *20* | **29,099** | 38,854 | **29,099** | 38,854 |
| Tax recoverable | | **172,190** | 89,458 | **169,872** | 89,458 |
| Deferred tax assets | *21* | **130,069** | 125,695 | **102,309** | 101,787 |
| **Total assets** | | **86,317,098** | 84,951,169 | **70,274,278** | 65,575,549 |
| **Liabilities** | | | | | |
| Deposits from customers | *22* | **63,410,436** | 59,407,190 | **51,263,508** | 46,086,878 |
| Deposits and placements from banks and other financial institutions | *23* | **2,858,341** | 3,683,684 | **2,135,227** | 1,770,927 |
| Bills payable | | **169,111** | 176,652 | **121,104** | 154,616 |
| Derivative financial liabilities | *43* | **1,840,252** | 1,282,269 | **1,899,404** | 1,328,082 |
| Structured liabilities designated at fair value through profit and loss | *24* | **3,748,193** | 4,860,845 | **2,634,940** | 3,565,487 |
| Other liabilities | *25* | **2,368,130** | 2,478,076 | **2,188,958** | 2,195,727 |
| Provision for taxation | | **-** | 12,007 | **-** | - |
| Multi-Currency Sukuk Programme | *26* | **523,841** | 1,265,929 | **-** | - |
| Subordinated liabilities | *27* | **500,000** | 1,089,612 | **500,000** | 1,089,612 |
| **Total liabilities** | | **75,418,304** | 74,256,264 | **60,743,141** | 56,191,329 |
| **Equity** | | | | | |
| Share capital | *28* | **1,045,875** | 1,045,875 | **1,045,875** | 1,045,875 |
| Other equity and reserves | *29* | **9,852,919** | 9,649,030 | **8,485,262** | 8,338,345 |
| **Total equity attributable to owner of the Bank** | | **10,898,794** | 10,694,905 | **9,531,137** | 9,384,220 |
| **Total liabilities and equity** | | **86,317,098** | 84,951,169 | **70,274,278** | 65,575,549 |
| **Commitments and contingencies** | *42* | **182,549,756** | 198,344,398 | **173,674,916** | 193,751,469 |

*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 2020

| | | *Group* | | *Bank* | |
|---|---|---|---|---|---|
| | *Note* | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Interest income | *30* | **1,912,201** | 2,366,611 | **1,937,807** | 2,404,076 |
| Interest expense | *30* | **(574,664)** | (787,044) | **(574,664)** | (787,044) |
| Net interest income | *30* | **1,337,537** | 1,579,567 | **1,363,143** | 1,617,032 |
| Fee and commission income | *31* | **397,595** | 453,138 | **396,480** | 450,689 |
| Fee and commission expense | *31* | **(71,069)** | (58,095) | **(71,069)** | (58,095) |
| Net fee and commission income | *31* | **326,526** | 395,043 | **325,411** | 392,594 |
| Net trading income | *32* | **768,973** | 676,482 | **630,588** | 612,376 |
| Income from Islamic banking operations | *33* | **423,788** | 518,536 | **-** | - |
| Net expenses from financial liabilities designated at fair value | | **(75,980)** | (114,853) | **(75,980)** | (114,853) |
| Other operating income | *34* | **80,335** | 49,455 | **268,037** | 214,666 |
| Operating income before impairment losses | | **2,861,179** | 3,104,230 | **2,511,199** | 2,721,815 |
| Impairment allowance/provisions | *35* | **(475,692)** | (136,693) | **(311,440)** | (61,210) |
| Net operating income | | **2,385,487** | 2,967,537 | **2,199,759** | 2,660,605 |
| Other operating expenses | *36* | **(1,888,762)** | (1,664,215) | **(1,774,323)** | (1,546,673) |
| Profit before tax | | **496,725** | 1,303,322 | **425,436** | 1,113,932 |
| Tax expense | *37* | **(139,157)** | (301,407) | **(111,835)** | (259,838) |
| **Profit for the financial year** | | **357,568** | 1,001,915 | **313,601** | 854,094 |
| Basic earnings per RM0.50 ordinary share | *38* | **156.1 sen** | 437.5 sen | **136.9 sen** | 373.0 sen |
| Dividends per RM0.50 ordinary share (net) | | | | | |
| - final dividend paid in respect of prior year | | **79.9 sen** | 115.7 sen | **79.9 sen** | 115.7 sen |
| - interim dividend paid in respect of the year | | **-** | 106.6 sen | **-** | 106.6 sen |
| - special dividend paid in respect of the 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 COMPREHENSIVE INCOME
## FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

| | | *Group* | | *Bank* | |
|---|---|---|---|---|---|
| | | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | ***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: | | | | | |
| (Deficit)/Surplus on revaluation properties | | **(14,200)** | 3,391 | **(14,200)** | 3,391 |
| Income tax effect | | **1,982** | (570) | **1,982** | (570) |
| Own credit reserve: | | | | | |
| Change in fair value | | **16,439** | (14,889) | **7,052** | (7,955) |
| Income tax effect | | **(3,945)** | 3,573 | **(1,692)** | 1,909 |
| ***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 | | **148,428** | 107,635 | **124,992** | 91,350 |
| Amount transferred to profit or loss | | **(110,389)** | (54,386) | **(94,271)** | (45,733) |
| Impairment charges | | **302** | 28 | **290** | 14 |
| Income tax effect | | **(13,204)** | (15,073) | **(11,448)** | (13,242) |
| Financial assets designated as fair value through other comprehensive income: | | | | | |
| Change in fair value | | **16,982** | 9,557 | **16,982** | 9,557 |
| Other comprehensive income for the financial year, net of income tax | | **42,395** | 39,266 | **29,687** | 38,721 |
| Profit attributable to the owner of the Bank | | **357,568** | 1,001,915 | **313,601** | 854,094 |
| Total comprehensive income attributable to the owner of the Bank | | **399,963** | 1,041,181 | **343,288** | 892,815 |

*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 2020**

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

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

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

## STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (Cont'd)

| **Group (RM'000)** | *Non-distributable* | | | | | | | *Distributable* | |
|---|---|---|---|---|---|---|---|---|---|
| | *Share capital* | *Other equity instrument* | *Revaluation reserve* | *FVOCI reserve* | *Own credit reserve* | *Capital contribution reserve* | *Regulatory reserve* | *Retained profits* | *Total equity* |
| 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 2020 (Cont'd)**

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

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

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

**STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (Cont'd)**

| **Bank (RM'000)** | *Non-distributable* | | | | | | | *Distributable* | |
|---|---|---|---|---|---|---|---|---|---|
| | *Share capital* | *Other equity instrument* | *Revaluation reserve* | *FVOCI reserve* | *Own credit reserve* | *Capital contribution reserve* | *Regulatory reserve* | *Retained profits* | *Total equity* |
| 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 CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

| | *Group* | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 |
| **Cash Flows from Operating Activities** | | |
| Profit before tax | **496,725** | 1,303,322 |
| Adjustments for : | | |
| Property and equipment written off | **6,999** | 39 |
| Depreciation of property and equipment | **28,676** | 22,886 |
| Depreciation of Right of Use assets | **26,777** | 26,027 |
| Amortisation of intangible assets | **11,796** | 10,991 |
| Impairment of intangible assets | **681** | (53) |
| Net gains on disposal of property and equipment | **(10)** | (44) |
| Net upwards revaluation on property | **-** | (8) |
| Revaluation loss on property | **137,802** | - |
| Share-based payment transactions | **9,907** | 11,827 |
| Dividend income | **(1,591)** | (3,463) |
| Net expenses on financial instrument at FVTPL | **125,347** | 154,248 |
| Unrealised losses/(gains) on revaluation of financial assets at FVTPL | **3,974** | (11,313) |
| Unrealised gains of foreign exchange translation on subordinated liabilities | **-** | (6,375) |
| Unrealised gains on revaluation of derivatives | **(53,204)** | (57,062) |
| Unrealised gains from dealing in foreign currency | **(141,588)** | (3,435) |
| Allowance for impairment losses | **571,294** | 251,899 |
| Net modification loss on loans, advances and financing | **5,961** | - |
| Operating profit before changes in operating assets and liabilities | **1,229,546** | 1,699,486 |
| | | |
| Decrease/(Increase) in operating assets | | |
| Securities purchased under resale agreements | **(181,071)** | (4,088,100) |
| Deposits and placements with banks and other financial institutions | **90,955** | 88,345 |
| Financial assets at FVTPL | **298,331** | 946,720 |
| Loans, advances and financing | **(39,505)** | 1,766,785 |
| Derivative financial assets | **(398,442)** | (79,759) |
| Other assets | **(195,611)** | 96,853 |
| Statutory deposits with Bank Negara Malaysia | **936,840** | 208,311 |
| Total decrease/(increase) in operating assets | **511,497** | (1,060,845) |
| | | |
| Increase/(Decrease) in operating liabilities | | |
| Deposits from customers | **4,003,245** | 2,260,038 |
| Deposits and placements from banks and other financial institutions | **(825,343)** | (1,835,067) |
| Repurchase agreements | **-** | (147,871) |
| Structured liabilities designated at FVTPL | **(1,213,647)** | 544,115 |
| Bills payable | **(7,541)** | (74,052) |
| Derivative financial liabilities | **557,983** | 165,984 |
| Other liabilities | **(40,261)** | 196,747 |
| Total increase in operating liabilities | **2,474,436** | 1,109,894 |
| | | |
| Cash generated from operating activities | **4,215,479** | 1,748,535 |
| Income tax paid | **(253,437)** | (451,608) |
| Net cash generated from operating activities | **3,962,042** | 1,296,927 |

*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 2020 (Cont'd)**

| | ***Group*** | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 |
| **Cash Flows from Investing Activities** | | |
| Purchase of financial investment at FVOCI | **(19,584,973)** | (19,661,986) |
| Proceeds from disposal/redemption of financial investment at FVOCI | **20,732,571** | 21,616,718 |
| Purchase of financial investment at amortised cost | **(200,000)** | - |
| Purchase of property and equipment | **(254,256)** | (386,087) |
| Purchase of intangible assets | **(2,722)** | (10,101) |
| Proceeds from disposal of property and equipment | **364** | 179 |
| Dividends received | **1,591** | 3,463 |
| Net cash generated from investing activities | **692,575** | 1,562,186 |
| **Cash Flows from Financing Activities** | | |
| Redemption of subordinated liabilities | **(589,612)** | - |
| Interest paid on subordinated liabilities | **(43,739)** | (52,741) |
| Issuance of other equity instrument | **-** | 500,000 |
| Redemption of Multi-Currency Sukuk Programme | **(750,000)** | (500,000) |
| Profits paid on Multi-Currency Sukuk Programme | **(30,458)** | (70,024) |
| Dividends paid | **(183,000)** | (1,009,000) |
| Discretionary coupon paid on other equity instrument issued | **(18,574)** | (11,545) |
| Net cash used in financing activities | **(1,615,383)** | (1,143,310) |
| **Net increase in Cash and Cash Equivalents** | **3,039,234** | 1,715,803 |
| **Cash and Cash Equivalents at beginning of the financial year** | **9,623,962** | 7,908,159 |
| **Cash and Cash Equivalents at end of the financial year** | **12,663,196** | 9,623,962 |
| **Analysis of Cash and Cash Equivalents** | | |
| Cash and short-term funds | **12,663,196** | 9,623,962 |

*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 2020 (Cont'd)**

| | ***Bank*** | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 |
| **Cash Flows from Operating Activities** | | |
| Profit before tax | **425,436** | 1,113,932 |
| Adjustments for : | | |
| Property and equipment written off | **6,734** | 36 |
| Depreciation of property and equipment | **26,540** | 20,924 |
| Depreciation of Right of Use assets | **19,513** | 19,353 |
| Amortisation of intangible assets | **11,796** | 10,991 |
| Impairment of intangible assets | **681** | (53) |
| Net gains on disposal of property and equipment | **(10)** | (44) |
| Net upwards revaluation on property | **-** | (8) |
| Revaluation loss on property | **137,802** | - |
| Share-based payment transactions | **9,654** | 11,099 |
| Dividend income | **(51,591)** | (43,463) |
| Net expenses on financial instrument at FVTPL | **75,980** | 114,853 |
| Unrealised losses/(gains) on revaluation of financial assets at FVTPL | **3,264** | (9,231) |
| Unrealised gains of foreign exchange translation on subordinated liabilities | **-** | (6,375) |
| Unrealised losses on revaluation of derivatives | **6,665** | 41,506 |
| Unrealised (gains)/losses from dealing in foreign currency | **(19,680)** | 59,583 |
| Allowance for impairment losses | **360,882** | 128,084 |
| Operating profit before changes in operating assets and liabilities | **1,013,666** | 1,461,187 |
| Decrease/(Increase) in operating assets | | |
| Securities purchased under resale agreements | **(181,071)** | (4,088,100) |
| Deposits and placements with banks and other financial institutions | **(391,834)** | 357,645 |
| Financial assets at FVTPL | **299,041** | 944,638 |
| Loans, advances and financing | **626,703** | 796,498 |
| Derivative financial assets | **(584,158)** | (237,883) |
| Other assets | **(226,393)** | 130,404 |
| Statutory deposits with Bank Negara Malaysia | **632,680** | 173,311 |
| Total decrease/(increase) in operating assets | **174,968** | (1,923,487) |
| Increase/(Decrease) in operating liabilities | | |
| Deposits from customers | **5,176,630** | 384,281 |
| Deposits and placements from banks and other financial institutions | **364,300** | (1,027,161) |
| Repurchase agreements | **-** | (147,871) |
| Structured liabilities designated at FVTPL | **(999,474)** | 169,315 |
| Bills payable | **(33,512)** | (77,494) |
| Derivative financial liabilities | **571,321** | 193,521 |
| Other liabilities | **32,187** | 41,362 |
| Total increase/(decrease) in operating liabilities | **5,111,452** | (464,047) |
| Cash generated from/(used in) operating activities | **6,300,086** | (926,347) |
| Income tax paid | **(203,929)** | (385,791) |
| Net cash generated from/(used in) operating activities | **6,096,157** | (1,312,138) |

*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 2020 (Cont'd)

| | ***Bank*** | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 |
| **Cash Flows from Investing Activities** | | |
| Purchase of financial investment at FVOCI | **(18,467,393)** | (17,606,510) |
| Proceeds from disposal/redemption of financial investment at FVOCI | **18,201,004** | 19,552,279 |
| Purchase of financial investment at amortised cost | **(200,000)** | - |
| Purchase of property and equipment | **(249,872)** | (383,859) |
| Purchase of intangible assets | **(2,722)** | (10,101) |
| Proceeds from disposal of property and equipment | **364** | 149 |
| Dividends received | **51,591** | 43,463 |
| Net cash (used in)/generated from investing activities | **(667,028)** | 1,595,421 |
| **Cash Flows from Financing Activities** | | |
| Redemption of subordinated liabilities | **(589,612)** | - |
| Interest paid on subordinated liabilities | **(43,739)** | (52,741) |
| Issuance of other equity instrument | **-** | 500,000 |
| Dividends paid | **(183,000)** | (1,009,000) |
| Discretionary coupon paid on other equity instrument issued | **(18,574)** | (11,545) |
| Net cash used in financing activities | **(834,925)** | (573,286) |
| **Net increase/(decrease) in Cash and Cash Equivalents** | **4,594,204** | (290,003) |
| **Cash and Cash Equivalents at beginning of the financial year** | **4,847,237** | 5,137,240 |
| **Cash and Cash Equivalents at end of the financial year** | **9,441,441** | 4,847,237 |
| **Analysis of Cash and Cash Equivalents** | | |
| Cash and short-term funds | **9,441,441** | 4,847,237 |

*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 2020 (Cont'd)**

**Change in liabilities arising from financing activities**

**Group (RM'000)**

| **2020** | **At 1 Jan** | **Cash outflow** | **Foreign exchange adjustment** | **Fair value movement** | **Interest/ Profit accrual** | **At 31 Dec** |
|---|---|---|---|---|---|---|
| Multi-Currency Sukuk Programme | 1,265,929 | (750,000) | - | 7,912 | - | 523,841 |
| Subordinated liabilities | 1,089,612 | (589,612) | - | - | - | 500,000 |
| Other liabilities of which: | | | | | | |
| Profit paid on Multi-Currency Sukuk Programme | 13,724 | (30,458) | - | - | 22,094 | 5,360 |
| Interest paid on Subordinated liabilities | 4,292 | (43,739) | - | - | 43,598 | 4,151 |
| | 2,373,557 | (1,413,809) | - | 7,912 | 65,692 | 1,033,352 |
| | | | | | | |
| 2019 | | | | | | |
| 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 Programme | 18,175 | (70,024) | - | - | 65,573 | 13,724 |
| Interest paid on Subordinated liabilities | 4,458 | (52,741) | - | - | 52,575 | 4,292 |
| | 2,873,901 | (622,765) | (6,375) | 10,648 | 118,148 | 2,373,557 |

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

## STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (Cont'd)

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

**Bank (RM'000)**

| **2020** | **At 1 Jan** | **Cash outflow** | **Foreign exchange adjustment** | **Fair value movement** | **Interest accrual** | **At 31 Dec** |
|---|---|---|---|---|---|---|
| Subordinated liabilities | 1,089,612 | (589,612) | - | - | - | 500,000 |
| Other liabilities of which: | | | | | | |
| Interest paid on Subordinated liabilities | 4,292 | (43,739) | - | - | 43,598 | 4,151 |
| | 1,093,904 | (633,351) | - | - | 43,598 | 504,151 |
| 2019 | | | | | | |
| 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 |
| | 1,100,445 | (52,741) | (6,375) | - | 52,575 | 1,093,904 |

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

## NOTES TO THE FINANCIAL STATEMENTS

### 1 General Information

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

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

The Bank is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 10th Floor, South 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 2021.

### 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 2020 are as follows:

- The Conceptual Framework for Financial Reporting (Revised 2018)
- Amendments to MFRS 101 and MFRS 108 "Definition of Material"
- Amendments to MFRS 3 "Definition of a Business"
- Amendments to MFRS 9, 139 & 7 "Interest Rate Benchmark Reform"

The amendments to published standards that are effective and applicable to the Group and the Bank for the financial year beginning on 1 June 2020 are as follows:

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

The Group and the Bank had early adopted the amendments to MFRS 139 and MFRS 7 of the Interest Rate Benchmark Reform from 1 January 2019. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by inter-bank offered rate (IBOR) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the statement of comprehensive income. The reliefs will cease to apply when the uncertainty arising from interest rate benchmark reform is no longer present. These amendments had no impact on the amounts recognised in the prior or current period.

The other amendments listed above did not give rise to any material financial impact to the Group and the Bank on the current period or any prior period and is not likely to affect future period.

## 2 Basis of Preparation (Cont'd)

### *(a) Statement of compliance (Cont'd)*

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

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

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

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

  The amendments address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of the reform. Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

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

- Amendments to MFRS 116 "Proceeds before Intended Use"

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

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

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

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

  - Amendment to MFRS 1 First-time Adoption of MFRS: Subsidiary as First-time Adopter.
  - Amendment to Illustrative Example accompanying MFRS 16 Leases: Lease Incentives.
  - Amendment to MFRS 141 Agriculture: Taxation in Fair Value Measurements.
  - Amendment to MFRS 9 Financial Instruments: Fees in the '10 per cent' Test for Derecognition of Financial Liabilities.

## 2 Basis of Preparation (Cont'd)

### *(a) Statement of compliance (Cont'd)*

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

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

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

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

Effective for annual periods commencing on or after 1 January 2023

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

  The amendments clarify that a liability is classified as non-current if an entity has a substantive right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. A liability is classified as current if a condition is breached, at or before the reporting date, and a waiver is obtained after the reporting date. A loan is classified as non-current if a covenant is breached after the reporting date. The amendments shall be applied retrospectively.

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

#### (iii) Going concern

The Board, having made appropriate enquiries, is satisfied that the Group and the Bank as a whole has adequate resources to continue operations for a period of at least 12 months from the date of this report, and it therefore continues to adopt the going concern basis in preparing the financial statement.

### *(b) Basis of measurement*

The financial statements of the Group and the Bank have been prepared under the historical cost convention, except for the following assets and liabilities as disclosed in their respective accounting policy notes:

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

### *(c) Functional and presentation currency*

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

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 2 Basis of Preparation (Cont'd)

### *(d) Use of estimates and judgements*

The results of the Group and the Bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the financial statements. The significant accounting policies are described in Note 3. The preparation of the financial statements in conformity with MFRSs requires management to make estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared.

Management believes that the Group and the Bank's critical accounting policies where judgement is necessarily applied are those which relate to impairment of loans, advances and financing and the valuation of financial instruments (refer Note 6). There are no other significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed above.

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

## 3 Significant Accounting Policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and have been applied consistently by the Group and the Bank.

### *(a) Basis of consolidation*

The Group financial statements include the financial statements of the Bank and its subsidiaries made up to 31 December 2020.

#### (i) Subsidiaries

Subsidiaries are all entities, including structured entities, controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date the control ceases.

The Group controls and consequently consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct activities over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group and the Bank also consider having de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return. They are deconsolidated from the date that control ceases.

Investments in subsidiaries are measured in the Bank's statement of financial position at cost less any impairment losses, unless the investment is held for sale or distribution. The cost of investments includes transaction cost.

#### (ii) Business combinations

Business combinations are accounted for using the acquisition method.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:
- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

#### (iii) Acquisitions of non-controlling interests

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

## 3 Significant Accounting Policies (Cont'd)

### *(a) Basis of consolidation (Cont'd)*

#### (iv) Loss of control

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

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

#### (v) Joint arrangements

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

The Group adopted MFRS 11, Joint Arrangements. Joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as "joint operation" when the Group or the Bank has the direct rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Bank account for each of its share of the assets, liabilities and transactions, including the share of those held or incurred jointly with the other investors, in relation to the joint operation.
- A joint arrangement is classified as a "joint venture" when the Group has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method as described in MFRS 128.

#### (vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

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

### *(b) Foreign currencies*

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(c) Interest income and expense/Islamic financing income and expense***

Interest income and expense/Islamic financing income and expense for all financial instruments of the Group and the Bank, except those classified as financial instruments designated at fair value through profit or loss (FVTPL) are recognised in "interest income" and "interest expense" and "Income from Islamic Banking Operation" in the statement of profit or loss using the effective interest/profit rate method. The effective interest/profit rate method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or expense/Islamic financing income or expense over the relevant period.

The effective interest/profit rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. When calculating the effective interest/profit rate, the Group and the Bank estimate cash flows considering all contractual terms of the financial instrument but not future credit losses.

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

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

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

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

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

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

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

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

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

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

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

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

- all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss, including liabilities under investment contracts;
- all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities designated at fair value through profit or loss; and
- interest/profit income, interest/profit expense and dividend income in respect of:
  - financial assets and financial liabilities designated at fair value through profit or loss; and
  - derivatives managed in conjunction with the above, except for interest/profit arising from debt securities issued by the Group and the Bank and derivatives managed in conjunction with those debt securities, which is recognised in 'Interest income and expense/Islamic financing income and expense' (Note 3(c)).

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

### *(e) Income tax*

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

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

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

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

Deferred tax relating to fair value of FVOCI investments and cash flow hedging instruments which are charged or credited directly to other comprehensive income, is also charged or credited to other comprehensive income and is subsequently recognised in the profit or loss when the deferred fair value gain or loss is recognised in the profit or loss.

### *(f) Cash and cash equivalents*

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

### *(g) Financial instruments*

**(i) Initial recognition and measurement**

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

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

**(ii) Financial instruments categories and subsequent measurement**

The Group and the Bank categorise financial instruments as follows:

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

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

**(iii) Derecognition of financial assets and liabilities**

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

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

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

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is 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.

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

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

***(g) Financial instruments (Cont'd)***

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

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

**(v) Valuation of financial instruments**

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the Group and the Bank recognise the difference as a trading gain or loss at inception ("day 1 gain or loss"). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction when the inputs become observable, the transaction matures or is closed out, or when the Group and the Bank enter into an offsetting transaction.

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

Subsequent to initial recognition, the fair values of financial instruments measured at fair value are measured in accordance with the Group and the Bank's valuation methodologies, which are described in Note 6(b)(ii).

**(vi) Derivative financial instruments and hedge accounting**

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value, 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 not part of fair value designated relationships, if held for risk management purposes, they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. The Group and the Bank uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to accounting for the risk being hedged.

- *Fair value hedge*

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

***(g) Financial instruments (Cont'd)***

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

Hedge accounting (Cont'd)

- *Cash flow hedge*

  The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income and the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net Trading Income'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. 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.

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

  The second set of amendments (Phase 2), which will only be effective from 1 January 2021 allows for modification of hedge documentation to reflect the components of hedge relationships which have transitioned to RFRs on an economically equivalent basis as a direct result of the IBOR transition.

  The Group and the Bank has adopted Phase 1 since 1 January 2019 and will adopt Phase 2 from 1 January 2021.

  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 market-wide benchmarks reform.

  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. For details on the hedging derivatives, see note 43.

***(g) Financial instruments (Cont'd)***

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

Hedge accounting (Cont'd)

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

The notional contract amounts of interest rate 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.

The Group and the Bank continue to monitor market-wide IBOR reform changes and plans to effect the transition of IBOR hedged items, hedged risks and hedging instruments to RFRs following methodologies which are not expected to result in discontinuation of designated hedge relationships.

***(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 3(l). They are derecognised when either the borrower repays its obligations, or the loans, advances and financing are sold or written off, or substantially all the risks and rewards of ownership are transferred.

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

**(i) Sale and repurchase agreements**

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

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

**(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

### *(k) Financial instruments designated at fair value through profit or loss (Cont'd)*

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.

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### *(l) Impairment of amortised cost and FVOCI financial assets*

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

**(i) Credit-impaired (stage 3)**

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

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

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

## 3 Significant Accounting Policies (Cont'd)

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

**(i) Credit-impaired (stage 3) (Cont'd)**

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

**(ii) Write-off**

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

**(iii) Renegotiation**

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

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

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

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

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

Loans, advances and financing modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan, advance and financing contract) such that the Group and the Bank's rights to the cash flows under the original contract have expired, the old loans, advances and financing is derecognised and the new loans, advances and financing is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. Mandatory and general offer of loans, advances and financing modifications that are not borrower-specific, for example under market-wide customer relief programmes, have not been classified as renegotiated loans, advances and financing, and generally have not resulted in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy.

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

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

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

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

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

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

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

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

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

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

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

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

### *(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 (LGD) and the exposure at default (EAD).

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

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

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

**3 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, advance and financing commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

**(x) Forward-looking economic inputs**

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

***(m) Property and equipment***

**(i) Land and buildings**

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

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

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

The gains or losses on disposal of land and buildings are determined by comparing the proceeds from disposal with the carrying amount of the land and buildings and is recognised net within "other operating income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

***(m) Property and equipment (Cont'd)***

**(i) Land and buildings (Cont'd)**

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

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

**(ii) Equipment**

Equipment, fixtures and fittings, and motor vehicles are stated at cost less accumulated depreciation and any accumulated impairment losses. The related capital work-in-progress is stated at cost and is not depreciated. Depreciation of capital work-in-progress commences when the assets are ready for their intended use. Depreciation of all other equipment is calculated on a straight-line basis to write off the assets over their useful lives as follows:

| | |
|---|---|
| Office equipment, fixtures and fittings | 5 to 7 years |
| Computer equipment | 4 to 5 years |
| Motor vehicles | 5 years |

During the year, the Group and the Bank revised the minimum equipment capitalisation estimate amount. Additions to equipment costing RM2,000 (2019: RM1,000) and below are expensed to profit or loss in the month of purchase. For those assets costing more than RM2,000 (2019: RM1,000), it will be capitalised and depreciated accordingly. The change in estimate is immaterial to the Group and the Bank.

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.

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***(n) Leases***

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.

## 3 Significant Accounting Policies (Cont'd)

### *(n) Leases (Cont'd)*

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

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

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

### *(o) Intangible assets*

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

Amortisation of intangible assets is calculated to write off the cost of the intangible assets on a straight line basis over the estimated useful lives 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.

## 3 Significant Accounting Policies (Cont'd)

### *(r) Employee benefits*

#### (i) Short term employee benefits

Short term employee benefits obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured at the amounts expected to be paid when the liabilities are settled and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group and the Bank have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### (ii) Defined contribution plan

As required by law, companies in Malaysia make contributions to the Employees Provident Fund (EPF). Such contributions are recognised as an expense in the statement of profit or loss.

#### (iii) Termination benefits

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

### *(s) Share based payments*

The Bank's ultimate holding company operates a number of equity-settled share based payment arrangements with the Bank's employees as compensation for services provided by the employees. Equity-settled share based payment arrangements entitle employees to receive equity instruments of the ultimate holding company, HSBC Holdings plc.

The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted, and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to the equity. The credit to equity is treated as capital contribution as the ultimate holding company is compensating the Bank's employees with no expense to the Bank. The vesting period is the period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied. The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately.

Fair value is determined by using market prices or appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Vesting conditions include service conditions and performance conditions; any other features of a share-based payment arrangement are non-vesting conditions. Market performance conditions and non-vesting conditions are taken into account when estimating the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition or non-vesting condition is satisfied, provided all other vesting conditions are satisfied.

Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Significant Accounting Policies (Cont'd)**

***(s) Share based payments (Cont'd)***

Where an award has been modified, as a minimum, the expense of the original award continues to be recognised as if it had not been modified. Where the effect of a modification is to increase the fair value of an award or increase the number of equity instruments, the incremental fair value of the award or incremental fair value of the extra equity instruments is recognised in addition to the expense of the original grant, measured at the date of modification, over the modified vesting period.

A cancellation that occurs during the vesting period is treated as an acceleration of vesting, and recognised immediately for the amount that would otherwise have been recognised for services over the remaining vesting period.

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

***(t) Share capital and other equity instruments***

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

***(u) Earnings per share***

The Group and the Bank present basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholder of the Group and the Bank by the weighted average number of shares outstanding during the year.

## 4 Risk

### *(a) Introduction and overview*

#### (i) Risk appetite

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

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

<u>Financial position</u>

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

<u>Operating model</u>

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

<u>Business practice</u>

- Zero tolerance for any of the employees 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.

<u>Enterprise-wide application</u>

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 and to material operating entities such as the Group and the Bank. It continues to evolve and expand its scope as part of its regular review process.

## *(a) Introduction and overview (Cont'd)*

### (i) Risk appetite (Cont'd)

Enterprise-wide application (Cont'd)

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

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

The Group and the Bank formally articulate risk appetite through the risk appetite statement (RAS), which is approved by the Board on the recommendation of the Risk Committee (RC). Setting out risk appetite helps to make sure that 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. We are focused upon implementation of our business strategy, as part of which we are carrying out a major change programme, and it is critical that we ensure we use active risk management to manage the execution risks. Periodic risk assessments will also be performed, including strategies to ensure retention of key personnel for our continued safe operation.

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

The framework fosters continual monitoring, promotes risk awareness and encourages 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.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**4 Risk (Cont'd)**

***(a) Introduction and overview (Cont'd)***

**(ii) Risk management (Cont'd)**

Risk management framework

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

| HSBC Values and risk culture | | |
|---|---|---|
| **Risk governance** | **Non-executive risk governance** | The Board approves the risk appetite, plans and performance targets. It sets the 'tone from the top' and is advised by the Risk Committee. |
| | **Executive risk governance** | Executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the HSBC Group. |
| **Roles and responsibilities** | **Three lines of defence model** | The 'three lines of defence' model defines roles and responsibilities for risk management. An independent Risk function helps ensure the necessary balance in risk/return decisions. |
| **Processes and tools** | **Risk appetite**<br>**Enterprise-wide risk**<br>**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** | Operational and resilience risk management defines minimum standards and processes for managing operational risks and internal controls. |
| | **Systems and infrastructure** | HSBC Group has systems and/or processes that support the identification, capture and exchange of information to support risk management activities. |

***(a) Introduction and overview (Cont'd)***

**(ii) Risk management (Cont'd)**

Risk governance

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

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

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

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

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

Responsibilities for risk management

All our people are responsible for identifying and managing risk within the scope of their 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 responsibility, and encouraging collaboration, as well as enabling efficient coordination of risk and control activities.

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

*Risk function*

The Risk function, headed by the Chief Risk Officer, is responsible for the risk management framework. This responsibility includes establishing and monitoring of risk profiles, and 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.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**4 Risk (Cont'd)**

***(a) Introduction and overview (Cont'd)***

**(ii) Risk management (Cont'd)**

Responsibilities for risk management (Cont'd)

*Risk function (Cont'd)*

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

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

Non-financial risk includes some of the most material risks the Group and the Bank face, such as cyber-attacks, poor customer outcomes and the loss of data. Actively managing non-financial risk is crucial to serving our customers effectively and having a positive impact on society. During 2020, we continued to strengthen the control environment and our approach to the management of non-financial risk, as broadly set out in our risk management. The management of non-financial risk focuses on governance and risk appetite, and providing a single view of the non-financial risks that matter the most, and associated controls. It incorporates a risk management system designed to enable the active management of non-financial risk. Our ongoing focus is on simplifying our approach to non-financial risk management, while driving more effective oversight and better end-to-end identification and management of non-financial risks. This is overseen by the Operational and Resilience Risk function, headed by the HSBC Group Head of Operational and Resilience Risk.

*Stress testing*

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

*Key developments in 2020*

During the year, we have actively managed the risks resulting from the COVID-19 pandemic and its impacts on our customers and operations during 2020, as well as other key risks described in this section.

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

- In January 2020, we simplified our approach and articulation of risk management through the combination of our enterprise risk management framework and our operational risk management framework.

***(a) Introduction and overview (Cont'd)***

**(ii) Risk management (Cont'd)**

Responsibilities for risk management (Cont'd)

*Key developments in 2020 (Cont'd)*

- The global model risk policy and associated standards were revised to improve how we manage model risk and meet enhanced external expectations.

- We continued to focus on simplifying our approach to non-financial risk management. We are driving more effective oversight and better end-to-end identification and management of non-financial risks.

- We continue to support the business and our customers throughout the pandemic, while continuing to manage financial crime risk. We continued to invest in both advanced analytics and artificial intelligence, which remain key components of our next generation of tools to fight financial crime. From 2021, we will combine our RMM and Financial Crime Risk Management Meetings to ensure a holistic view of all risks.

- In line with the increasing threat landscape that the industry faces within non-financial risk, we formed a new Operational & Resilience Risk combined sub-function. The sub-function provides robust first line of defence oversight and risk steward oversight, supported by clear plans and evidenced by effective and timely independent challenge. The sub-function challenges the status quo ensuring that the first line of defence are focused firmly on priority tasks. By bringing the two teams together, we expect to benefit from improved stewardship, better risk management capabilities and better outcomes for our customers.

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 within one year, and which 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 material effect on a combination of our long term strategy, profitability and reputation. Existing mitigation 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:
- COVID-19 Outbreak
- Geopolitical risk
- System resilience, cyber threat and unauthorised access to systems
- Climate-related risk
- Third Party Risk Management
- People risk

## 4 Risk (Cont'd)

### *(a) Introduction and overview (Cont'd)*

#### (ii) Risk management (Cont'd)

Top and emerging risks management (Cont'd)

*Area of Special Interest - Risks related to COVID-19*

The COVID-19 pandemic and its effects on the global economy have impacted our customers and our performance, and the future effects of the pandemic are uncertain. The outbreak necessitated governments to respond at unprecedented levels to protect public health, local economies and livelihoods. It has affected regions at different times and varying degrees as it has developed. The varying government measures in response have added challenges, given the rapid pace of change and significant operational demands. The speed at which countries and territories will be able to unwind their lockdown measures and return to pre-COVID-19 economic levels will vary based on the levels of infection, local political decisions and access and ability to roll out vaccines. There remains a risk of subsequent waves of infection.

Government restrictions imposed around the world to limit the spread of COVID-19 resulted in a sharp contraction in global economic activity during 2020. At the same time, governments also took steps designed to soften the extent of the damage to investment, trade and labour markets. Economic activity is expected to gradually recover, but renewed lockdowns in several economies including Malaysia will curtail or delay this recovery.

There is a material risk of a renewed drop in economic activity. The economic fallout from COVID-19 risks increasing inequality across markets that have already suffered from social unrest. This will leave the burden on governments and central banks to maintain or increase fiscal and monetary stimulus. After financial markets suffered a sharp fall in the early phases of the spread of COVID-19, they rebounded but still remain volatile. Depending on the degree to which global economic growth suffers permanent losses, financial asset prices may suffer a further sharp fall.

The Group and the Bank have implemented BNM-led measures to support our retail and small & medium enterprises (SMEs) through these challenging times. The rapid introduction and varying nature of the government support schemes, as well as rising customer expectations, have also led to risks, due to large scale implementation within a short period of time. Such risks include operational risks, reputational risk and fraud risk. These risks are likely to heighten further once the new schemes are rolled out as a result of unavailability of system readiness, insufficient testing at times and manual workarounds introduced during the challenging times.

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

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

***(a) Introduction and overview (Cont'd)***

**(ii) Risk management (Cont'd)**

Top and emerging risks management (Cont'd)

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

The performance and usage of models over the 12 months will continue to be impacted by the consequences of the COVID-19 outbreak. It is too early in the current situation to be certain of the magnitude of change required for models but the models may need to be recalibrated.

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

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

**(iii) Material banking risks**

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

- credit risk
- liquidity and funding risk
- market risks (includes foreign exchange, interest/profit rate 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.

***(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.

***(b) Credit risk management (Cont'd)***

### (ii) Credit risk management framework

Key developments in 2020

There were no material changes to the policies and practices for the management of credit risk in 2020 except for those that are specially-mentioned in relation to COVID-19. We continued to apply the requirements of MFRS 9 'Financial Instruments' within Credit Risk.

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 Wealth and Personal Banking Risk, as well as the Chief Financial Officer and the Financial Controller.

*Concentration of exposure*

Concentrations of credit risk arise when 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 4(b)(vi).

*Credit quality of financial instruments*

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

- Wholesale lending

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

- Retail lending

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

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

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

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

- Credit quality of renegotiated loans

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

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

- Renegotiated loans and recognition of expected credit losses

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

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

*Impairment assessment*

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

*Write-off of loans, advances and financing*

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

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

***(b) Credit risk management (Cont'd)***

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

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

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

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

**(iv) Credit risk profile**

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

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

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

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

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

**(v) Credit deterioration of financial instruments**

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

The recognition and measurement of expected credit losses (ECL) involves the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

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

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

***(b) Credit risk management (Cont'd)***

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

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

In 2020, four economic scenarios have been used to capture the exceptional nature of the current economic environment and to articulate management's view of the range of potential outcome. Scenarios produced to calculate ECL are aligned to HSBC's Top and Emerging Risks. Three of these scenarios are drawn from consensus forecasts and distributional estimates. These include a central scenario, representing a most likely outcome, a downside and an upside scenario that represent meaningfully different outcomes from the central. The central scenario is created using the average of a panel of external forecasters ('the consensus') while consensus upside and downside scenarios are created with reference to distributions for select markets that capture forecasters views of the entire range of outcomes. Management have chosen to use a fourth scenario to represent their view of severe downside risks. The use of an additional scenario is in line with HSBC's forward economic guidance (FEG) methodology and has been regularly used over the course of 2020. Management may include additional scenarios if they feel that the consensus scenarios do not adequately capture the Top and Emerging Risks. Unlike the consensus scenarios, these additional scenarios are driven by narrative assumptions, country-specific and may result in shocks that drive economic activity permanently away from trend.

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

| | **2020** | | | | 2019 | | |
|---|---|---|---|---|---|---|---|
| | **Scenario** | | | | Scenario | | |
| | **Central (%)** | **Upside (%)** | **Downside (%)** | **Alternative Downside (%)** | Central (%) | Upside (%) | Downside (%) |
| GDP growth rate | **4.9** | **6.4** | **3.6** | **3.1** | 4.6 | 5.2 | 4.0 |
| Inflation | **2.2** | **2.8** | **1.6** | **1.0** | 2.4 | 2.7 | 2.1 |
| Unemployment rate | **3.6** | **3.4** | **3.8** | **5.2** | 3.2 | 3.0 | 3.4 |
| Property price growth | **2.0** | **2.8** | **0.9** | **-4.7** | 3.3 | 3.9 | 2.5 |
| Short term interest /profit rate | **2.0** | **2.1** | **1.6** | **0.8** | 2.9 | 3.0 | 2.6 |
| **Probability** | **70.0** | **10.0** | **15.0** | **5.0** | 80.0 | 10.0 | 10.0 |

Critical accounting estimates and judgements

The calculation of ECL under MFRS 9 involves significant judgements, assumptions and estimates, as set out in the Note 2(d). The level of estimation uncertainty and judgement has increased during 2020 as a result of the economic effects of the COVID-19 outbreak, including significant judgements relating to:

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

***(b) Credit risk management (Cont'd)***

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

Critical accounting estimates and judgements (Cont'd)

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

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

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

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 MFRS 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.

Management judgemental adjustments

The methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail loans, advances and financing and portfolios are set out above. These models are based largely on historical observations and correlations with default rates.

During 2020, the projections of macroeconomic variables are outside the historical observations on which MFRS 9 models have been built and calibrated to operate. Moreover, the complexities of the relief programme and regulatory guidance on treatment of customer impacts (such as forbearance and deferment of payments) and the unpredictable pathways of the pandemic have never been modelled. Consequently, HSBC's MFRS 9 models, in some cases, generate outputs that appear overly sensitive when compared with other economic and credit metrics. Management judgemental adjustments are required to ensure that an appropriate amount of ECL impairment is recognised.

***(b) Credit risk management (Cont'd)***

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

Management judgemental adjustments (Cont'd)

These data and model limitations have been addressed in the short term using in-model and post-model adjustments. This includes refining model input and outputs and using post-model adjustments based on management judgement and higher level quantitative analysis for impacts that are difficult to model. To ensure a consistent framework, we identified the model segments where results were overly conservative based on historical benchmarks and defined the worst economic inputs where the model output is considered reliable. For the wholesale portfolio, this analysis produced a 'credit expert best estimate' to act as a benchmark against the modelled outcomes, and inform management judgemental adjustments. In the short term, the focus is on refining model inputs and outputs in a consistent and explainable manner, using management judgemental adjustments. Wider-ranging model changes will take time to develop and need more real data on which models can be trained.

Models will be recalibrated over time once the full impacts of COVID-19 are observed over time.

Management judgemental adjustments made in respect of COVID-19 in estimating the reported ECL for the Group and the Bank as at 31 December 2020 are RM225,726,000 and RM131,773,000 respectively.

Economic scenarios sensitivity analysis of ECL estimates

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

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

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

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

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

Wholesale and retail sensitivity

The wholesale and retail sensitivity analysis is stated inclusive of post-model adjustments, as appropriate to each scenario. The results tables exclude small portfolios.

***(b) Credit risk management (Cont'd)***

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

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** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Reported ECL (RM'000) | **139,857** | 36,288 | **126,596** | 25,424 |
| Gross carrying value/ nominal amount [3] (RM'000) | **90,671,566** | 85,605,706 | **73,361,549** | 67,671,487 |
| Reported ECL coverage (%) | **0.15%** | 0.04 % | **0.17%** | 0.04 % |
| *Coverage ratios by scenario (%)* | | | | |
| Consensus central scenario | **0.13%** | 0.04 % | **0.15%** | 0.04 % |
| Consensus upside scenario | **0.11%** | 0.04 % | **0.12%** | 0.03 % |
| Consensus downside scenario | **0.21%** | 0.05 % | **0.24%** | 0.04 % |
| Alternative downside scenario | **0.41%** | N/A | **0.45%** | N/A |

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

Retail analysis

**MFRS 9 ECL sensitivity to future economic conditions [1]**

| **ECL coverage of financing and advances at 31 December[2]** | **Group** | | **Bank** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Reported ECL (RM'000) | **429,077** | 375,625 | **184,482** | 175,028 |
| Drawn amount (RM'000) | **21,006,931** | 23,391,973 | **15,277,010** | 17,052,335 |
| Reported ECL coverage (%) | **2.04%** | 1.61 % | **1.21%** | 1.03 % |
| *Coverage ratios by scenario (%)* | | | | |
| Consensus central scenario | **2.01%** | 1.60 % | **1.19%** | 1.02 % |
| Consensus upside scenario | **1.85%** | 1.46 % | **1.09%** | 0.95 % |
| Consensus downside scenario | **2.19%** | 1.81 % | **1.30%** | 1.16 % |
| Alternative downside scenario | **2.54%** | N/A | **1.54%** | N/A |

*[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 2019 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 judgement 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.

***(b) Credit risk management (Cont'd)***

**(vi) Credit quality**

Credit quality of financial instruments

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**4 Risk (Cont'd)**

***(b) Credit risk 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 2020** | | | | | | | | |
| Cash and short-term funds | **12,663,254** | **-** | **-** | **-** | **-** | **12,663,254** | **(58)** | **12,663,196** |
| Securities purchased under resale agreements | **6,415,253** | **411,116** | **-** | **-** | **-** | **6,826,369** | **-** | **6,826,369** |
| Deposits and placements with banks and other financial institution | **48,204** | **-** | **-** | **-** | **-** | **48,204** | **-** | **48,204** |
| Financial assets at FVTPL | **1,047,109** | **654** | **41,910** | **-** | **-** | **1,089,673** | **-** | **1,089,673** |
| Financial assets at FVOCI [1] | **10,613,542** | **-** | **-** | **-** | **-** | **10,613,542** | **-** | **10,613,542** |
| Financial assets at amortised cost | **-** | **200,000** | **-** | **-** | **-** | **200,000** | **(257)** | **199,743** |
| Loans, advances and financing to customers held at amortised cost | **17,473,366** | **16,181,212** | **14,649,803** | **1,471,297** | **1,831,501** | **51,607,179** | **(854,395)** | **50,752,784** |
| *of which:* | | | | | | | | |
| *- retail* | ***7,606,632*** | ***7,070,911*** | ***6,404,944*** | ***645,697*** | ***1,471,206*** | ***23,199,390*** | ***(571,527)*** | ***22,627,863*** |
| *- corporate and commercial* | ***9,866,734*** | ***9,110,301*** | ***8,244,858*** | ***825,601*** | ***360,295*** | ***28,407,789*** | ***(282,868)*** | ***28,124,921*** |
| Derivatives financial assets | **1,722,314** | **185,996** | **124,811** | **211** | **97** | **2,033,429** | **-** | **2,033,429** |
| Other financial assets | **408,390** | **-** | **-** | **-** | **-** | **408,390** | **-** | **408,390** |
| Irrevocable loan commitments and financial guarantees | **19,613,000** | **6,951,000** | **3,963,000** | **204,000** | **9,000** | **30,740,000** | ***(6,000)*** | **30,734,000** |

| 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 af 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 |

[1] Financial investments at FVOCI excludes equity securities.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**4 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 | | | | | | ECL allowances | Carrying amount (net of impairment provision) |
|---|---|---|---|---|---|---|---|---|
| | **Strong** | **Good** | **Satisfactory** | **Sub-standard** | **Credit Impaired** | **Total** | | |
| **As at 31 December 2020** | | | | | | | | |
| Cash and short-term funds | **9,441,488** | **-** | **-** | **-** | **-** | **9,441,488** | **(47)** | **9,441,441** |
| Securities purchased under resale agreements | **6,415,253** | **411,116** | **-** | **-** | **-** | **6,826,369** | **-** | **6,826,369** |
| Deposits and placements with banks and other financial institution | **1,403,411** | **-** | **-** | **-** | **-** | **1,403,411** | **-** | **1,403,411** |
| Financial assets at FVTPL | **1,047,109** | **654** | **41,910** | **-** | **-** | **1,089,673** | **-** | **1,089,673** |
| Financial assets at FVOCI [1] | **9,313,727** | **-** | **-** | **-** | **-** | **9,313,727** | **-** | **9,313,727** |
| Financial assets at amortised cost | **-** | **200,000** | **-** | **-** | **-** | **200,000** | **(257)** | **199,743** |
| Loans, advances and financing to customers held at amortised cost | **13,864,525** | **11,508,813** | **10,259,028** | **909,116** | **1,224,806** | **37,766,288** | **(506,080)** | **37,260,208** |
| *of which:* | | | | | | | | |
| *- retail* | ***5,977,951*** | ***4,962,241*** | ***4,423,373*** | ***391,982*** | ***924,859*** | ***16,680,406*** | ***(251,501)*** | ***16,428,905*** |
| *- corporate and commercial* | ***7,886,574*** | ***6,546,572*** | ***5,835,655*** | ***517,134*** | ***299,947*** | ***21,085,882*** | ***(254,579)*** | ***20,831,303*** |
| Derivatives financial assets | **1,743,795** | **185,894** | **107,389** | **54** | **97** | **2,037,229** | **-** | **2,037,229** |
| Other financial assets | **457,296** | **-** | **-** | **-** | **-** | **457,296** | **-** | **457,296** |
| Irrevocable loan commitments and financial guarantees | **15,360,000** | **5,590,000** | **2,811,000** | **95,000** | **8,000** | **23,864,000** | ***(4,000)*** | **23,860,000** |

| Bank (RM'000) | Gross Carrying Amount | | | | | | ECL allowances | Carrying amount (net of impairment provision) |
|---|---|---|---|---|---|---|---|---|
| | **Strong** | **Good** | **Satisfactory** | **Sub-standard** | **Credit Impaired** | **Total** | | |
| 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 af 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 |

[1] Financial investments at FVOCI excludes equity securities.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**4 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 de faulted or otherwise credit impaired.

Collateral and other credit enhancements

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

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

- under the residential and real estate business; mortgages over residential and financed properties;
- under certain Islamic specialised financing and leasing transactions (such as machinery financing) where physical assets form the principal source of facility repayment, physical collateral is typically taken;
- in the commercial and industrial sectors, charges over business assets such as premises, stock and debtors;
- facilities provided to small and medium enterprises are commonly granted against guarantees by their owners/directors;
- guarantees from third parties can arise where facilities are extended without the benefit of any alternative form of security, e.g. where the Group and the Bank issue a bid or performance bond in favour of a non-customer at the request of another bank;
- under the institutional sector, certain trading facilities are supported by charges over financial instruments such as cash, debt securities and equities; and
- financial collateral in the form of marketable securities is used in much of the over-the-counter (OTC) derivatives activities and in the Group and the Bank's securities financing business (securities lending and borrowing or repos and reverse repos).

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

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 2020 are 59.9% (2019: 58.1%) and 64.3% (2019: 62.6%) respectively.

## 4 Risk (Cont'd)

### *(b) Credit risk management (Cont'd)*

#### (vi) Credit quality (Cont'd)

Collateral and other credit enhancements (Cont'd)

The financial effect of collateral held for other remaining on-balance sheet financial assets is not significant.

Collateral especially properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. If excess funds arise after the debt/financing has been repaid, they are made available either to repay other secured lenders/financier with lower priority or are returned to the customer. The Group and the Bank do not generally occupy repossessed properties for its business use.

Derivatives

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**4 Risk (Cont'd)**

***(b) Credit Risk 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[1] does not meet the criteria for offsetting in the statement of financial position. The ISDA[1] creates for the parties to the agreement, a right of set off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Group and the Bank, or its counterparties. Financial instruments subject to offsetting, enforceable master netting agreements and similar agreements are shown as follows:

[1] *International Swaps and Derivatives Association*

| | (i) | (ii) | (iii) = (i) + (ii) | (iv)a | (iv)b | (v) = (iii) - (iv) |
|---|---|---|---|---|---|---|
| | | | | Gross amounts not offset in the statement of financial position | | |
| **Description** | **Gross amounts of recognised assets RM'000** | **Gross amounts offset in the statement of financial position RM'000** | **Net amount of assets presented in the statement of financial position RM'000** | **Financial instruments RM'000** | **Cash collateral RM'000** | **Net amount RM'000** |
| **2020** | | | | | | |
| **Group** | | | | | | |
| Securities purchased under resale agreements | **6,826,369** | **-** | **6,826,369** | **6,826,369** | **-** | **-** |
| Derivative financial assets | **2,033,429** | **-** | **2,033,429** | **-** | **100,711** | **1,932,718** |
| Derivative financial liabilities | **1,840,252** | **-** | **1,840,252** | **-** | **615,800** | **1,224,452** |
| **Bank** | | | | | | |
| Securities purchased under resale agreements | **6,826,369** | **-** | **6,826,369** | **6,826,369** | **-** | **-** |
| Derivative financial assets | **2,037,229** | **-** | **2,037,229** | **-** | **100,711** | **1,936,518** |
| Derivative financial liabilities | **1,899,404** | **-** | **1,899,404** | **-** | **615,800** | **1,283,604** |
| 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 |

### *(c) Liquidity and funding risk management*

#### (i) Overview

Liquidity risk is the risk that the Group and the Bank do not have sufficient financial resources to meet their obligations when they fall due. Liquidity risk arise from mismatches in the timing of cash flows.

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

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

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

#### (ii) Governance and structure

The management of liquidity and funding is primarily carried out through HSBC Group's liquidity and funding risk framework (LFRF) and BNM's Liquidity Coverage Ratio and Net Stable Funding Ratio Framework. Limits are proposed by Asset, Liability and Capital Management (ALCM) through the RMM and approved by the Board. These limits vary to take account of the depth and liquidity of the local market in which the Group and the Bank operate. The Group and the Bank maintain strong liquidity positions and manage the liquidity profile of the assets, liabilities and commitments to ensure that cash flows are appropriately balanced and all obligations are met when due.

The Asset and Liability Committee (ALCO) is responsible for managing all ALCM issues including liquidity and funding risk management. Compliance with liquidity and funding requirements is monitored by ALCO through the following processes:

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

**4 Risk (Cont'd)**

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

**(iii) Management of liquidity and funding risk**

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

Funding and liquidity plans form part of the annual operating plan that is approved by the Board. The critical Board risk appetite measures are the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). An appropriate funding and liquidity profile is managed through a wider set of measures:

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 4 Risk (Cont'd)

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

**(iv) Liquidity risk**

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

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

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**4 Risk (Cont'd)**

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

**(iv) Liquidity risk (Cont'd)**

| Group<br>31 December 2019 | Non-trading book<br>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)

### 4 Risk (Cont'd)

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

**(iv) Liquidity risk (Cont'd)**

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

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 4 Risk (Cont'd)

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

**(iv) Liquidity risk (Cont'd)**

| **Bank**<br>31 December 2019 | **Non-trading book**<br>**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 |

***(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.

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

| Group (RM'000) | On Demand | Due within 3 months | Due between 3 months to 12 months | Due between 1 and 5 years | Due after 5 years | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2020** | | | | | | |
| ***Non-derivative liabilities*** | | | | | | |
| Deposits from customers | **38,110,729** | **16,365,870** | **8,007,318** | **1,171,303** | **-** | **63,655,220** |
| Deposits and placements of banks and other financial institutions | - | **1,742,537** | **50,356** | **978,696** | **164,632** | **2,936,221** |
| Structured liabilities designated as fair value through profit or loss | **525,996** | **401,957** | **1,476,496** | **1,344,414** | - | **3,748,863** |
| Bills payable | **169,111** | - | - | - | - | **169,111** |
| Other liabilities | **776,581** | **192,579** | **126,335** | **95,631** | **707,561** | **1,898,687** |
| Multi Currency Sukuk Programme | - | **-** | **21,500** | **543,000** | - | **564,500** |
| Subordinated liabilities | - | **-** | **25,250** | **525,250** | - | **550,500** |
| Loans and other credit-related commitments | **43,511,620** | **1,337,615** | **5,199,705** | **546,552** | - | **50,595,492** |
| Financial guarantees and similar contracts | **1,589,008** | **1,162,830** | **2,894,564** | **3,794,358** | **668,907** | **10,109,667** |
| | **84,683,045** | **21,203,388** | **17,801,524** | **8,999,204** | **1,541,100** | **134,228,261** |
| ***Derivative liabilities*** | | | | | | |
| Gross settled derivatives | | | | | | |
| - Inflow | **-** | **(30,471,034)** | **(11,129,099)** | **(1,318,085)** | **(500,157)** | **(43,418,375)** |
| - Outflow | **-** | **31,228,206** | **11,558,693** | **1,532,110** | **526,508** | **44,845,517** |
| Net settled derivatives | **-** | **68,578** | **173,033** | **323,215** | **13,427** | **578,253** |

| 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 | 3,732,149 |
| 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 | 1,950,988 |
| 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 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**4 Risk (Cont'd)**

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

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

| Bank (RM'000) | On Demand | Due within 3 months | Due between 3 months to 12 months | Due between 1 and 5 years | Due after 5 years | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2020** | | | | | | |
| ***Non-derivative liabilities*** | | | | | | |
| Deposits from customers | **33,168,979** | **11,430,194** | **6,061,218** | **776,733** | **-** | **51,437,124** |
| Deposits and placements of banks and other financial institutions | **-** | **1,738,448** | **50,356** | **208,170** | **164,632** | **2,161,606** |
| Structured liabilities designated as fair value through profit or loss | **491,066** | **349,280** | **964,997** | **830,019** | **-** | **2,635,362** |
| Bills payable | **121,104** | **-** | **-** | **-** | **-** | **121,104** |
| Other liabilities | **760,963** | **158,925** | **104,131** | **63,552** | **643,354** | **1,730,925** |
| Subordinated liabilities | **-** | **-** | **25,250** | **525,250** | **-** | **550,500** |
| Loans and other credit-related commitments | **35,412,029** | **1,098,701** | **3,987,673** | **413,278** | - | **40,911,681** |
| Financial guarantees and similar contracts | **1,474,720** | **1,041,252** | **2,289,667** | **3,367,415** | **565,751** | **8,738,805** |
| | **71,428,861** | **15,816,800** | **13,483,292** | **6,184,417** | **1,373,737** | **108,287,107** |
| ***Derivative liabilities*** | | | | | | |
| Gross settled derivatives | | | | | | |
| - Inflow | **-** | **(30,411,385)** | **(11,127,090)** | **(1,318,085)** | **(500,157)** | **(43,356,717)** |
| - Outflow | **-** | **31,168,375** | **11,558,932** | **1,532,110** | **526,508** | **44,785,925** |
| Net settled derivatives | **-** | **72,120** | **182,688** | **344,895** | **13,427** | **613,130** |

| 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 |

### *(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 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 2020.

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

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

#### (i) 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.

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.

***(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 2020** | **Average** | **Maximum** | **Minimum** |
|---|---|---|---|---|
| Foreign currency risk | **533** | **609** | **2,095** | **37** |
| Interest rate risk | **4,546** | **3,350** | **7,558** | **1,380** |
| Credit spread risk | **99** | **75** | **563** | **5** |
| Overall | **3,226** | **3,287** | **7,380** | **1,517** |
| | 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 |

**HSBC Amanah Malaysia Berhad (RM'000)**

| | **At 31 December 2020** | **Average** | **Maximum** | **Minimum** |
|---|---|---|---|---|
| Foreign currency risk | **73** | **43** | **169** | **11** |
| Profit rate risk | **247** | **201** | **822** | **66** |
| Credit spread risk | **-** | **-** | **18** | **-** |
| Overall | **270** | **208** | **829** | **78** |
| | 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 |

***(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) Interest Rate Risk in the Banking Book**

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

In order to manage structural interest rate risk, non-traded assets and liabilities are transferred to 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. ALCO is responsible for monitoring and reviewing their overall structural interest rate risk position. Interest rate behaviouralisation policies have to be formulated in line with the Group and the Bank's behaviouralisation policies and approved annually by ALCO.

Sensitivity of net interest income

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

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

***(d) Market risk management (Cont'd)***

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

Sensitivity of economic value of equity

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

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

Non-traded VaR

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

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

Sensitivity of projected Net Interest/Finance Income

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

| | Group (RM'000) | | | |
|---|---|---|---|---|
| | **31 Dec 20** | | 31 Dec 19 | |
| Basis point parallel shift in yield curve | ***+100bps*** | ***-100bps*** | *+100bps* | *-100bps* |
| RM | **232,718** | **(254,271)** | 189,028 | (238,453) |
| USD | **52,128** | **(23,906)** | 13,178 | (22,112) |
| Others | **4,570** | **(159)** | 6,735 | (12,873) |
| | **289,416** | **(278,336)** | 208,941 | (273,438) |

| | Bank (RM'000) | | | |
|---|---|---|---|---|
| | **31 Dec 20** | | 31 Dec 19 | |
| Basis point parallel shift in yield curve | ***+100bps*** | ***-100bps*** | *+100bps* | *-100bps* |
| RM | **247,136** | **(260,942)** | 171,348 | (203,452) |
| USD | **49,748** | **(23,650)** | 25,870 | (32,569) |
| Others | **(1,984)** | **(1,725)** | 507 | (6,993) |
| | **294,900** | **(286,317)** | 197,725 | (243,014) |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**4 Risk (Cont'd)**

***(d) Market risk management (Cont'd)***

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

Sensitivity of projected Economic value of equity

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

| | Group (RM'000) | | | |
|---|---|---|---|---|
| | **31 Dec 20** | | 31 Dec 19 | |
| Basis point parallel shift in yield curve | ***+200bps*** | ***-200bps*** | *+200bps* | *-200bps* |
| RM | **(6,220)** | **35,277** | (105,695) | 143,024 |
| USD | **(20,130)** | **11,540** | (26,619) | 29,191 |
| Others | **(2,151)** | **1,036** | (1,680) | 1,353 |
| | **(28,501)** | **47,853** | (133,994) | 173,568 |

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

| | Bank (RM'000) | | | |
|---|---|---|---|---|
| | **31 Dec 20** | | 31 Dec 19 | |
| Basis point parallel shift in yield curve | ***+200bps*** | ***-200bps*** | *+200bps* | *-200bps* |
| RM | **101,744** | **(88,846)** | (17,474) | 38,889 |
| USD | **(6,755)** | **4,621** | (27,636) | 30,779 |
| Others | **(109)** | **(77)** | 398 | (417) |
| | **94,880** | **(84,302)** | (44,712) | 69,251 |

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 20** | | 31 Dec 19 | |
| Basis point parallel shift in yield curve | ***+100bps*** | ***-100bps*** | *+100bps* | *-100bps* |
| RM | **(95,513)** | **95,513** | (106,454) | 106,454 |
| USD | **(5,055)** | **5,055** | (19,697) | 19,697 |
| CNY | **-** | **-** | (34) | 34 |
| | **(100,568)** | **100,568** | (126,185) | 126,185 |

| | Bank (RM'000) | | | |
|---|---|---|---|---|
| | **31 Dec 20** | | 31 Dec 19 | |
| Basis point parallel shift in yield curve | ***+100bps*** | ***-100bps*** | *+100bps* | *-100bps* |
| RM | **(71,838)** | **71,838** | (81,005) | 81,005 |
| USD | **(5,055)** | **5,055** | (19,697) | 19,697 |
| CNY | **-** | **-** | (34) | 34 |
| | **(76,893)** | **76,893** | (100,736) | 100,736 |

***(d) Market risk management (Cont'd)***

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

Foreign exchange risk

Foreign exchange risk arises as a result of movements in the relative value of currencies. The Group and the Bank control the foreign exchange risk within the trading portfolio by limiting the open exposure to individual currencies, and on an aggregate basis.

| | Group (RM'000) | | | |
|---|---|---|---|---|
| | **31 Dec 20** | | 31 Dec 19 | |
| Appreciation/depreciation | ***+1%*** | ***-1%*** | *+1%* | *-1%* |
| Impact to profit after tax | **959** | **(959)** | 837 | (837) |

| | Bank (RM'000) | | | |
|---|---|---|---|---|
| | **31 Dec 20** | | 31 Dec 19 | |
| Appreciation/depreciation | ***+1%*** | ***-1%*** | *+1%* | *-1%* |
| Impact to profit after tax | **890** | **(890)** | 890 | (890) |

Change in foreign exchange rate has no significant impact to other comprehensive income for the financial year ended 31 December 2020 and 31 December 2019.

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

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**4 Risk (Cont'd)**

***(d) Market risk 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.

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

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**4 Risk (Cont'd)**

***(d) Market risk management (Cont'd)***

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

| Group<br>31 December 2019 | Non-trading book<br>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 FVTP | 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 interest/profit sensitivity gap** | (2,056,226) | 24,200,621 | (5,545,631) | 2,519,694 | (30,754) | (10,898,928) | 1,164,318 | 9,353,094 | |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**4 Risk (Cont'd)**

***(d) Market risk management (Cont'd)***

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

| **Bank**<br>**31 December 2020** | **Non-trading book**<br>**Up to 1 month**<br>**RM'000** | **>1 - 3 months**<br>**RM'000** | **>3 - 12 months**<br>**RM'000** | **1 - 5 years**<br>**RM'000** | **Over 5 years**<br>**RM'000** | **Non-interest sensitive**<br>**RM'000** | **Trading book**<br>**RM'000** | **Total**<br>**RM'000** | **Effective interest rate**<br>**%** |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| Cash and short term funds | **9,151,994** | **-** | **-** | **-** | **-** | **289,494** | **-** | **9,441,488** | **1.70** |
| - impairment allowances | **-** | **-** | **-** | **-** | **-** | **(47)** | **-** | **(47)** | |
| Securities purchased under resale agreements | **4,985,768** | **1,840,601** | **-** | **-** | **-** | **-** | **-** | **6,826,369** | **2.22** |
| Deposits and placements with banks and other financial institutions | **200,000** | **546,655** | **78,056** | **578,700** | **-** | **-** | **-** | **1,403,411** | **1.87** |
| Financial assets at FVTPL | **-** | **-** | **-** | **-** | **-** | **-** | **1,089,673** | **1,089,673** | **2.79** |
| Financial investments at FVOCI | **499,009** | **3,351,586** | **792,912** | **4,670,220** | **-** | **214,003** | **-** | **9,527,730** | **2.12** |
| Financial assets at amortised cost | **-** | **-** | **200,000** | **-** | **-** | **-** | **-** | **200,000** | **2.86** |
| - impairment allowances | **-** | **-** | **-** | **-** | **-** | **(257)** | **-** | **(257)** | |
| Loans, advances and financing | | | | | | | | | |
| - performing | **16,246,133** | **19,669,658** | **601,880** | **23,658** | **153** | **-** | **-** | **36,541,482** | **3.90** |
| - impaired | **-** | **-** | **-** | **-** | **-** | **1,224,806** | **-** | **1,224,806** | **-** |
| - impairment allowances | **-** | **-** | **-** | **-** | **-** | **(506,080)** | **-** | **(506,080)** | **-** |
| Derivative financial assets | **-** | **-** | **-** | **-** | **-** | **-** | **2,037,229** | **2,037,229** | **-** |
| Other assets | **-** | **-** | **-** | **-** | **-** | **186,890** | **270,406** | **457,296** | **-** |
| **Total Financial Assets** | **31,082,904** | **25,408,500** | **1,672,848** | **5,272,578** | **153** | **1,408,809** | **3,397,308** | **68,243,100** | |
| **LIABILITIES AND EQUITY** | | | | | | | | | |
| Deposits from customers | **29,637,252** | **4,313,258** | **5,987,471** | **719,197** | **-** | **10,606,330** | **-** | **51,263,508** | **1.30** |
| Deposits and placements from banks and other financial institutions | **1,884,678** | **-** | **50,000** | **200,549** | **-** | **-** | **-** | **2,135,227** | **0.95** |
| Bills payable | **-** | **-** | **-** | **-** | **-** | **121,104** | **-** | **121,104** | **-** |
| Subordinated liabilities | **-** | **-** | **-** | **500,000** | **-** | **-** | **-** | **500,000** | **3.95** |
| Derivative financial liabilities | **-** | **-** | **4,440** | **44,929** | **-** | **-** | **1,850,035** | **1,899,404** | **-** |
| Structured liabilities designated at FVTP | **258,428** | **403,694** | **1,054,602** | **798,014** | **120,202** | **-** | **-** | **2,634,940** | **1.51** |
| Other liabilities | | | | | | | | | |
| - provision for credit commitments | **-** | **-** | **-** | **-** | **-** | **6,006** | **-** | **6,006** | **-** |
| - others | **-** | **-** | **-** | **-** | **-** | **863,742** | **619,068** | **1,482,810** | **-** |
| **Total Financial Liabilities** | **31,780,358** | **4,716,952** | **7,096,513** | **2,262,689** | **120,202** | **11,597,182** | **2,469,103** | **60,042,999** | |
| **Total interest sensitivity gap** | **(697,454)** | **20,691,548** | **(5,423,665)** | **3,009,889** | **(120,049)** | **(10,188,373)** | **928,205** | **8,200,101** | |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**4 Risk (Cont'd)**

***(d) Market risk management (Cont'd)***

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

| **Bank**<br>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-interest sensitive RM'000** | **Trading book RM'000** | **Total RM'000** | **Effective interest rate %** |
|---|---|---|---|---|---|---|---|---|---|
| | ← | | **Non-trading book** | | | → | | | |
| **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** | | | | | | | | | |
| 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 FVTP | 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 interest sensitivity gap** | (1,887,713) | 19,670,640 | (4,427,111) | 2,944,912 | (113,034) | (9,696,624) | 1,118,267 | 7,609,337 | |

## *(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 senior 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, during sustained and significant operational disruption. Sustained and significant operational disruptions are events that could affect:

- The stability of the wider financial system
- The viability of the bank and our industry peers
- The ability of our customers to access critical services
- The underlying trust of our customers, shareholders and regulators as a result of a poorly managed operational events.

### (ii) Resilience risk management

Key developments in 2020

In 2020 HSBC at the group level have:

- Developed regional hubs accountable for core Operational & Resilience Risk delivery.
- Implemented business and function aligned teams focused on emerging risks as well as material products and services.
- Deployed risk management oversight of the most material change programmes across HSBC Group.
- Implemented central services including governance, reporting and transformation.
- Created a standalone assurance capability providing independent review and evaluation of end-to-end processes, risks and key controls.
- Ensured we have in-place specialist risk teams providing expert oversight and guidance for highly technical areas of risk management.

HSBC Group prioritise these efforts on material risks and areas undergoing strategic growth, aligning our location strategy to this need.

In Malaysia, we formed new Operational & Resilience Risk combined sub-function in 2020, for which the Target Operating Model will take effect from 1 January 2021. This will provide robust non-financial risk steward oversight of the Group and the Bank's business, functions, legal entities and critical business services management of risk, supported by effective and timely independent challenge.

***(e) Resilience risk (Cont'd)***

**(ii) Resilience risk management (Cont'd)**

Governance and structure

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

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

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

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

Key risk management processes

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

Continuity of business operations during COVID-19 pandemic

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

## *(f) Regulatory Compliance Risk*

### (i) Overview

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

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

### (ii) Regulatory compliance risk management

Key developments in 2020

The key developments in the policies and practices for the management of regulatory compliance risk in 2020, included changes to our wider approach to the governance and structure of the Compliance function more generally and ongoing work to continue to raise standards related to the conduct of our business, in each case as described below.

Governance and structure

In May, a new operating model was introduced to transform the Compliance function. As a result, a new group capability has been formed, named Regulatory Conduct, which brings together the current group-level capabilities in regulatory compliance, regulatory affairs and the monitor liaison office team. The HSBC Group Head of Regulatory Conduct continues to report to the HSBC Group Chief Compliance Officer. The HSBC Group Regulatory Conduct capability works with the various newly appointed Regional Chief Compliance Officers and their teams to help them identify and manage regulatory compliance risks across the bank, to ensure good conduct outcomes and to provide enterprise-wide support on the regulatory agenda and similarly, in Malaysia, the Regulatory Conduct capability works with the Chief Compliance Officer.

Key risk management processes

The HSBC Group Regulatory Conduct capability is responsible for setting global policies, standards and risk appetite to guide the Group and the Bank's regulatory compliance risk management, devising clear frameworks and supporting processes to protect against regulatory compliance risks. The capability also provides oversight, review and challenge to the Regional and country Chief Compliance Officers and their teams to help them identify, assess and mitigate regulatory compliance risks, where required. 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 2020, 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 2020:

- We continued to champion a strong conduct and customer-focused culture. We have implemented a number of measures throughout the COVID-19 pandemic to support our customers in financial difficulties, and have maintained service and supported colleagues in unprecedented conditions.

- We have also continued our focus on culture and behaviours, adapting our controls and risk management processes to reflect significant levels of remote working throughout the year.

### *(f) Regulatory Compliance Risk (Cont'd)*

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

Conduct of business (Cont'd)

- We have continued to invest significant resources to improve our compliance systems and controls relating to our activities in global markets and to ensure market integrity. These include enhancements to pricing and disclosure, order management and trade execution; trade, voice and audio surveillance; front office supervision; and improvements to our enforcement and discipline framework for employee misconduct.

- We have also continued to emphasise and work to create an environment in which employees are encouraged and feel safe to speak up and have placed a particular focus on the importance of well-being during the current pandemic, through regular top down communications, virtual town halls, videos and podcasts.

- We continue to further embed conduct within our business line processes and work closely to consider and mitigate the conduct impacts of the Group's strategic transformation programme and in key business change programmes such as the IBOR transition.

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

- We are refreshing our approach to conduct arrangements across the Group and the Bank with a view to ensure that the arrangements remain appropriate for the nature of our business.

- The Board continues to maintain oversight of conduct matters through the Risk Committee.

### *(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 including money laundering, fraud, bribery and corruption, tax evasion, sanctions breaches, and terrorist and proliferation financing. Financial crime and fraud risk arises from day-to-day banking operations.

#### (ii) Financial crime and fraud risk management

Key developments in 2020

During 2020, we continue to strengthen our fight against financial crime and to enhance our financial crime risk management capability. The Group and Bank have faced challenges posed by COVID-19, and a number of measures were introduced during this period to support the business and our customers, these included:

- Supporting the most vulnerable customers and those in financial difficulty, including the raising of fraud awareness during this period.

- Proactive engagement with the business to ensure financial crime risks were considered as part of COVID-19 related decisions.

- Supporting customers and the business through policy exceptions, including the allowance of email instructions (within controls) instead of face-to-face, and the introduction of virtual onboarding.

### *(g) Financial crime and fraud risk (Cont'd)*

#### (ii) Financial crime and fraud risk management (Cont'd)

Key developments in 2020 (Cont'd)

As a result of the evolving geopolitical situation in 2020, we implemented measures to strengthen the Group and Bank's financial crime risk management framework. The sanctions regulatory environment has remained volatile and uncertain during the course of 2020 due to the ongoing geopolitical tensions between the US and China and the increasing divergence in sanctions policies between the US and the EU on Iran and Russia. We comply with all applicable sanctions regulations in the jurisdictions in which we operate, and continue to monitor the geopolitical landscape for ongoing developments. We also continue to progress several key financial crime risk management initiatives, including:

- We continue 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 continue to benefit from our continued investment in the use of artificial intelligence (AI) and advanced analytics techniques to manage financial crime and we also published our principles for the ethical use of Big Data and AI.

- We continue to work on strengthening our ability to combat money laundering and terrorist financing. In particular, we focused on the use of technology to enhance our risk management processes whilst minimising the impact to the customer. We also continue to develop our approach of intelligence led financial crime risk management, in part, through enhancements to our automated transaction monitoring systems.

Governance and structure

Since establishing a global framework of Financial Crime Risk Management Committees in 2018, we have continued to strengthen and review the effectiveness of our governance framework to manage financial crime risk. Formal governance committee 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. At a HSBC Group level, the Financial Crime Risk Management Meeting, chaired by the HSBC Group Chief Compliance Officer, has served as the pinnacle of this governance structure, ultimately responsible for the management of financial crime risk. As a reflection of the growing maturity and effectiveness of our financial crime risk management, this meeting will be integrated with the HSBC Group Risk Management Meeting in January 2021. During the course of 2021, we will review the management of financial crime risk across the Group and Bank to identify other areas that could be simplified.

During 2020, we re-designed and delivered an integrated operating model for our Compliance function, with the accompanying re-structure providing greater accountability to our regional Compliance teams. These teams, led by Regional Chief Compliance Officers, will support the Group Chief Compliance Officer in aligning the way in which we manage all compliance risks, including financial crime risk, to the needs and aims of the wider business, and in making our compliance risk management processes and procedures more efficient and effective.

Key risk management processes

We continue to deliver a programme to further enhance the policies and controls around identifying and managing the risks of bribery and corruption across our business. Recognising that the fight against financial crime is a constant challenge, we maintained our investment in operational controls and new technology to deter and detect criminal activity in the banking system.

We continue to simplify our governance and policy frameworks, and our management information reporting process which demonstrates the effectiveness of our financial crime controls.

## *(g) Financial crime and fraud risk (Cont'd)*

### (ii) Financial crime and fraud risk management (Cont'd)

Key risk management processes (Cont'd)

We remain committed to enhancing our risk assessment capabilities and aim to deliver more proactive risk management, including our ongoing investment in the next generation of capabilities to fight financial crime by applying advanced analytics and AI.

We are committed to working in partnership with the wider industry and the public sector in managing financial crime risk, protecting the integrity of the financial system, and helping to protect the communities we serve. We are a strong advocate of public-private partnerships and participate in a number of information-sharing initiatives around the world. We are a constructive partner to national governments and international standard setters, and support reforms being undertaken in key markets such as Singapore where we work closely with peer banks and with the Monetary Authority of Singapore. In Malaysia, Public-private partnership (PPP) initiative was formalised in November 2019 and HSBC Malaysia has been actively supporting the national agenda. Financial Services Professional Board (FSPB), through a Working Group led by HSBC Malaysia CCO with representatives from participating FIs, has produced a Guidance Document and issued in October 2020, setting out best practices to support the effective implementation of "adequate and proportionate procedures" to Bribery and Corruption ("B&C") risks for financial institutions in response to requirement under Section 17A(5) of the Malaysian Anti-Corruption Commission Act (MACC) that came into force on 1 June 2020.

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

## *(h) Model risk*

### (i) Overview

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

### (ii) Key developments in 2020

In 2020, a number of initiatives were undertaken to further develop and embed the new Model Risk Management sub-function, including:

- 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.
- Worked with the businesses and functions and developed new model risk controls in the Risk Control Library. These controls formed the basis for Model Risk Control Assessments that have been implemented for businesses and functions.
- Updated the target operating model for Model Risk Management, referring to internal and industry best practice.
- The Independent Model Validation team has begun a transformation program that will utilise advanced analytics and new workflow tools with the objective of providing a more risk based, efficient and effective management of model validation processes.
- The consequences of COVID-19 on IFRS9 model performance and reliability has resulted in enhanced monitoring of those models and related model adjustments. Dramatic changes to model inputs such as GDP and unemployment rates have made the model results less reliable. As a result, greater reliance has been placed on management underlays/overlays based on business judgement to derive expected credit losses.

***(h) Model risk (Cont'd)***

**(iii) Governance and structure**

We have placed greater focus on our model risk activities during 2020. To reflect this, HSBC Group has created the role of Chief Model Risk Officer, which is undertaken by the Head of Model Risk Management. We elevated Model Risk Management to a function in its own right within the Global Risk Structure, where it had previously been structured as a sub-function within Global Risk Strategy, the team now reports directly to the Chief Risk Officer. HSBC Group have also set up a Regional Model Risk Committee in Asia-Pacific to demonstrate effective oversight of our models. The Regional Model Risk Committee is supported by other forums such as Wholesale Model Oversight Forum (WMOF) and Retail Model Oversight Forum (RMOF).

**(iv) Key risk management processes**

We use a variety of modelling approaches, including regression, simulation, sampling, machine learning and judgemental scorecards for a range of business applications, in activities such as customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting.

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.

## 5 Capital management

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

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

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

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

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

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

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

- Tier 1 capital is divided into Common Equity Tier 1 (CET1) Capital and Additional Tier 1 Capital. CET1 Capital includes ordinary share capital, retained earnings, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. The Bank has also issued a perpetual capital term loan on 21 June 2019 which qualifies as Additional Tier 1 Capital.

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

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

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

### *(a) Externally imposed capital requirements*

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

### *(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.

On 24 March 2020, BNM in its circular on COVID-19 relief measures has allowed for banks to drawdown on the prudential buffer for CCB of 2.5%; to be gradually reinstated by 30 September 2021. Nevertheless, the Group and the Bank have continued to maintained this buffer as at 31 December 2020.

In line with the regulatory requirement, the Group and the Bank have also set further buffers to reflect risks not included in the regulatory capital calculation, arising from internal assessment of risks and the results of stress tests.

### *(c) Leverage ratio*

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

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

## 6 Use of estimates and judgements

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

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

### *(a) Impairment of loans, advances and financing*

The Group and the Bank's accounting policy for losses arising from the impairment of customer loans, advances and financing is described in Note 3(l). The calculation of the Group and the Bank's ECL under MFRS 9 require a number of judgements, assumptions and estimates to be made. The most significant are set out below:

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

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

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

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, in cases where the Group and the Bank manage a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Group and the Bank measure the fair value of the group of financial instruments on a net basis, but present the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the offsetting criteria as described in Note 3(g)(iv).

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**6 Use of estimates and judgements (Cont'd)**

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

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

| | Group | | | |
|---|---|---|---|---|
| **2020** | **Level 1 RM'000** | **Level 2 RM'000** | **Level 3 RM'000** | **Total RM'000** |
| Financial assets at FVTPL (Note 9) | **1,028,068** | **61,605** | **-** | **1,089,673** |
| Financial investments at FVOCI (Note 10) | **6,793,080** | **3,820,462** | **214,003** | **10,827,545** |
| Derivative financial assets (Note 43) | **8,213** | **2,007,484** | **17,732** | **2,033,429** |
| | **7,829,361** | **5,889,551** | **231,735** | **13,950,647** |
| Structured liabilities (Note 24) | **-** | **2,828,017** | **920,176** | **3,748,193** |
| Derivative financial liabilities (Note 43) | **18,350** | **1,813,465** | **8,437** | **1,840,252** |
| Other liabilities (Note 25) | **3,263** | **-** | **-** | **3,263** |
| Multi-Currency Sukuk Programme (Note 26) | **-** | **523,841** | **-** | **523,841** |
| | **21,613** | **5,165,323** | **928,613** | **6,115,549** |
| 2019 | | | | |
| Financial assets at FVTPL (Note 9) | 624,003 | 767,975 | - | 1,391,978 |
| Financial investments at FVOCI (Note 10) | 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 |
| Other liabilities (Note 25) | 16,383 | - | - | 16,383 |
| Multi-Currency Sukuk Programme (Note 26) | - | 1,265,929 | - | 1,265,929 |
| | 33,621 | 6,897,922 | 493,883 | 7,425,426 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 6 Use of estimates and judgements (Cont'd)

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

| | Bank | | | |
|---|---|---|---|---|
| **2020** | **Level 1 RM'000** | **Level 2 RM'000** | **Level 3 RM'000** | **Total RM'000** |
| Financial assets at FVTPL (Note 9) | **1,028,068** | **61,605** | **-** | **1,089,673** |
| Financial investments at FVOCI (Note 10) | **5,493,265** | **3,820,462** | **214,003** | **9,527,730** |
| Derivative financial assets (Note 43) | **8,281** | **2,011,168** | **17,780** | **2,037,229** |
| | **6,529,614** | **5,893,235** | **231,783** | **12,654,632** |
| Structured liabilities (Note 24) | **-** | **2,217,118** | **417,822** | **2,634,940** |
| Derivative financial liabilities (Note 43) | **18,385** | **1,859,065** | **21,954** | **1,899,404** |
| Other liabilities (Note 25) | **3,263** | **-** | **-** | **3,263** |
| | **21,648** | **4,076,183** | **439,776** | **4,537,607** |
| 2019 | | | | |
| Financial assets at FVTPL (Note 9) | 624,003 | 767,975 | - | 1,391,978 |
| Financial investments at FVOCI (Note 10) | 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 |
| Other liabilities (Note 25) | 16,383 | - | - | 16,383 |
| | 33,623 | 4,589,985 | 286,344 | 4,909,952 |

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

**(i) Control framework**

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

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

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

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

**(ii) Determination of fair value**

Fair values are determined according to the following hierarchy:

- Level 1 – Valuation technique using quoted market price
  Financial instruments with quoted prices for identical instruments in active markets that the Group and the Bank can access at the measurement date.

- Level 2 – Valuation technique using observable inputs
  Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

- Level 3 – Valuation technique with significant unobservable inputs
  Financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

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

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

**(iii) Valuation techniques**

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

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

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

**(iv) Fair value adjustments**

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

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.

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

**(iv) Fair value adjustments (Cont'd)**

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions, than those used in the Group and the Bank's valuation model.

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

The CVA is an adjustment to the valuation of over-the-counter (OTC) derivative contracts to reflect the possibility that the counterparty may default and the Group and the Bank may not receive the full market value of the transactions.

The DVA is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that the Group and the Bank may default, and that the Group and the Bank may not pay the full market value of the transactions.

The Group and the Bank calculate a separate CVA and DVA for each legal entity, and for each counterparty to which the entity has exposure. With the exception of central clearing parties, all third-party counterparties are included in the CVA and DVA calculations, and these adjustments are not netted across entities.

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

For most products the Group and the Bank use a simulation methodology, which incorporates a range of potential exposures over the life of the portfolio, to calculate the expected positive exposure to a counterparty. The simulation methodology includes credit mitigants, such as counterparty netting agreements and collateral agreements with the counterparty.

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

Funding fair value adjustment (FFVA)

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available and is adjusted for events that may terminate the exposure, such as the default of the Group or the Bank or the counterparty. The FFVA and DVA are calculated independently.

Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all material market characteristics. In these circumstances, model limitation adjustments are adopted.

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

**(iv) Fair value adjustments (Cont'd)**

Inception profit (Day 1 profit or loss reserves)

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

**(v) Reconciliation of fair value measurements in Level 3 of the fair value hierarchy**

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

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Derivative financial assets** | **Derivative financial liabilities** | **Structured liabilities** | Derivative financial assets | Derivative financial liabilities | Structured liabilities |
| **Group (RM'000)** | | | | | | |
| Balance at 1 January | **7,951** | **510** | **493,373** | 147 | 1,038 | 171,031 |
| Total gains or losses | | | | | | |
| - In profit or loss | **10,013** | **3,096** | **12,867** | 7,804 | (528) | 10,190 |
| - In OCI | **-** | **-** | **(9,995)** | - | - | (1,387) |
| Issues | **-** | **-** | **374,197** | - | - | 331,729 |
| Settlements | **-** | **-** | **57,342** | - | - | (18,190) |
| Transfer into Level 3 | **803** | **5,522** | **-** | - | - | - |
| Transfer out of Level 3 | **(1,035)** | **(691)** | **(7,608)** | - | - | - |
| Balance at 31 December | **17,732** | **8,437** | **920,176** | 7,951 | 510 | 493,373 |

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Derivative financial assets** | **Derivative financial liabilities** | **Structured liabilities** | Derivative financial assets | Derivative financial liabilities | Structured liabilities |
| **Bank (RM'000)** | | | | | | |
| Balance at 1 January | **7,951** | **5,764** | **280,580** | 147 | 1,184 | 152,217 |
| Total gains or losses | | | | | | |
| - In profit or loss | **10,061** | **11,356** | **5,548** | 7,804 | 4,580 | 10,426 |
| - In OCI | **-** | **-** | **(7,211)** | - | - | (1,304) |
| Issues | **-** | **-** | **65,000** | - | - | 137,131 |
| Settlements | **-** | **-** | **81,513** | - | - | (17,890) |
| Transfer into Level 3 | **803** | **5,525** | **-** | - | - | - |
| Transfer out of Level 3 | **(1,035)** | **(691)** | **(7,608)** | - | - | - |
| Balance at 31 December | **17,780** | **21,954** | **417,822** | 7,951 | 5,764 | 280,580 |

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'.

***(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:

| **2020**<br>**Group (RM'000)** | **Derivative financial assets** | **Derivative financial liabilities** | **Structured liabilities** |
|---|---|---|---|
| Total gains or losses included in profit or loss for the financial year ended: | | | |
| -Net trading income | **(1,062)[1]** | **(43)[2]** | **1,113[1]** |
| Total gains or losses included in profit or loss for assets and liabilities held at the end of the financial year | | | |
| -Net trading income | **11,075[2]** | **3,139[1]** | **11,754[1]** |
| 2019<br>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 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] |

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

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 6 Use of estimates and judgements (Cont'd)

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

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

| **2020**<br>**Bank (RM'000)** | **Derivative financial assets** | **Derivative financial liabilities** | **Structured liabilities** |
|---|---|---|---|
| Total gains or losses included in profit or loss for the financial year ended: | | | |
| -Net trading income | **(953)[1]** | **(447)[2]** | **1,397[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 | **11,014[2]** | **11,803[1]** | **4,151[1]** |
| 2019<br>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] |

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

## 6 Use of estimates and judgements (Cont'd)

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

#### (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 | 2020 : 3.43% - 20.97%<br>2019 : 3.21% - 11.07% |
| Structured liabilities | Option model | Foreign currency volatility | 2020 : 3.43% - 35.76%<br>2019 : 2.68% - 17.88% |
| | | Long term equity volatility | 2020 : 6.68% - 45.03%<br>2019 : 15.87% - 23.31% |
| | | Equity/Equity Index Correlation | 2020 : 0.47 – 0.80<br>2019 : 0.48 - 0.51 |
| | | MMM Lambda | 2020 : -14%<br>2019 : -14% |
| Cross currency swap | Discounted cashflow model | Cross currency interest rate basis | 2020 : 0.05% - 0.35%<br>2019 : NIL |

#### (vii) Key unobservable inputs to Level 3 financial instruments

The key unobservable inputs to Level 3 financial instruments include volatility and correlation for structured notes and deposits valued using option models, and private equity investments. In the absence of an active market, the fair value of private equity and strategic investments is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors, as well as by reference to market valuations for similar entities quoted in an active market, or the price at which similar companies have changed ownership.

## 6 Use of estimates and judgements (Cont'd)

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

#### (viii) Sensitivity of fair values to reasonably possible alternative assumptions

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

| | **2020 Effect on profit or loss** | | 2019 Effect on profit or loss | |
|---|---|---|---|---|
| | **Favourable changes** | **Unfavourable changes** | Favourable changes | Unfavourable changes |
| **Group (RM'000)** | | | | |
| Derivative financial assets | **299** | **(299)** | 88 | (88) |
| Derivative financial liabilities | **123** | **(123)** | 131 | (131) |
| Structured liabilities | **205** | **(205)** | 131 | (131) |
| | **627** | **(627)** | 350 | (350) |

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

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

## 6 Use of estimates and judgements (Cont'd)

### *c) Fair values of financial assets and liabilities not measured at fair value*

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

| | *Group* | | | |
|---|---|---|---|---|
| | **31 Dec 2020 Carrying amount RM'000** | **31 Dec 2020 Fair value RM'000** | 31 Dec 2019 Carrying amount RM'000 | 31 Dec 2019 Fair value RM'000 |
| **Financial Assets** | | | | |
| Loans, advances and financing | **50,752,784** | **51,285,074** | 51,289,860 | 51,447,675 |
| **Financial Liabilities** | | | | |
| Deposits from customers | **63,410,436** | **63,432,502** | 59,407,190 | 59,402,893 |
| Deposits and placements from banks and other financial institutions | **2,858,341** | **2,858,303** | 3,683,684 | 3,683,250 |
| Subordinated liabilities | **500,000** | **520,600** | 1,089,612 | 1,137,333 |

| | *Bank* | | | |
|---|---|---|---|---|
| | **31 Dec 2020 Carrying amount RM'000** | **31 Dec 2020 Fair value RM'000** | 31 Dec 2019 Carrying amount RM'000 | 31 Dec 2019 Fair value RM'000 |
| **Financial Assets** | | | | |
| Loans, advances and financing | **37,260,208** | **37,729,083** | 38,246,907 | 38,388,119 |
| **Financial Liabilities** | | | | |
| Deposits from customers | **51,263,508** | **51,278,869** | 46,086,878 | 46,084,561 |
| Deposits and placements from banks and other financial institutions | **2,135,227** | **2,135,219** | 1,770,927 | 1,770,708 |
| Subordinated liabilities | **500,000** | **520,600** | 1,089,612 | 1,137,333 |

The methods and assumptions used in estimating the fair values of financial instruments other than those already mentioned in Note 3(g)(v) are as follows:

- **Cash and short term funds**
- **Securities purchased under resale agreements**
- **Deposits and placements with banks and other financial institutions**
- **Repurchase agreement**
- **Bills payable**

The carrying amounts approximate fair values due to their relatively short-term nature or reprise to current market rates frequently.

## 6 Use of estimates and judgements (Cont'd)

### *(c) Fair values of financial assets and liabilities not measured at fair value (Cont'd)*

#### (i) Loans, advances and financing

To determine the fair value of loans, advances and financing to banks and customers, loans, advances and financing are segregated, as far as possible, into portfolios of similar characteristics. Fair values are based on observable market transactions, when available. When they are unavailable, fair values are estimated using valuation models incorporating a range of input assumptions. These assumptions may include: value estimates from third-party brokers reflecting over-the-counter trading activity; forward-looking discounted cash flow models, taking account of expected customer prepayment rates, using assumptions that the 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 2020**<br>**RM'000** | **Level 1** | **Level 2** | **Level 3** | **Total fair values** | **Total carrying amount** |
| **Financial Assets** | | | | | |
| Loans, advances and financing | **-** | **-** | **51,285,074** | **51,285,074** | **50,752,784** |
| **Financial Liabilities** | | | | | |
| Deposits from customers | **-** | **63,432,502** | **-** | **63,432,502** | **63,410,436** |
| Deposits and placements from banks and other financial institutions | **-** | **2,858,303** | **-** | **2,858,303** | **2,858,341** |
| Subordinated liabilities | **-** | **520,600** | **-** | **520,600** | **500,000** |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 6 Use of estimates and judgements (Cont’d)

### *(c) Fair values of financial assets and liabilities not measured at fair value (Cont'd)*

Fair value hierarchy (Cont'd)

| | | | Group | | |
|---|---|---|---|---|---|
| 31 December 2019<br>**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 |

| | | | Bank | | |
|---|---|---|---|---|---|
| **31 December 2020**<br>**RM'000** | **Level 1** | **Level 2** | **Level 3** | **Total fair values** | **Total carrying amount** |
| **Financial Assets** | | | | | |
| Loans, advances and financing | **-** | **-** | **37,729,083** | **37,729,083** | **37,260,208** |
| **Financial Liabilities** | | | | | |
| Deposits from customers | **-** | **51,278,869** | **-** | **51,278,869** | **51,263,508** |
| Deposits and placements from banks and other financial institutions | **-** | **2,135,219** | **-** | **2,135,219** | **2,135,227** |
| Subordinated liabilities | **-** | **520,600** | **-** | **520,600** | **500,000** |

| | | | Bank | | |
|---|---|---|---|---|---|
| 31 December 2019<br>**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 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 7 Cash and Short-Term Funds

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Cash and balances with banks and other financial institutions | **978,801** | 956,880 | **790,710** | 740,937 |
| Money at call and interbank placements maturing within one month | **11,684,395** | 8,667,082 | **8,650,731** | 4,106,300 |
| | **12,663,196** | 9,623,962 | **9,441,441** | 4,847,237 |

Money at call and interbank placements maturing within one month is within Stage 1 allocation (12 -months ECL) with impairment allowance of RM57,000 for the Group and RM47,000 for the Bank as at 31 December 2020 (31 December 2019: RM69,000 for the Group and RM63,000 for the Bank).

### 8 Deposits and Placements with Banks and Other Financial Institutions

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Licensed banks | **-** | - | **1,403,411** | 1,011,570 |
| Bank Negara Malaysia | **48,204** | 139,153 | **-** | - |
| | **48,204** | 139,153 | **1,403,411** | 1,011,570 |

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 RM1,403.4 million (31 December 2019: RM1,011.6 million).

The balance is within Stage 1 allocation (12 -months ECL) with nil impairment allowance for the Group and the Bank as at 31 December 2020 (31 December 2019: nil for the Group and the Bank).

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Money market instruments: | | | | |
| Malaysian Government treasury bills | **-** | 48,736 | **-** | 48,736 |
| Islamic treasury bills | **32,751** | 19,668 | **32,751** | 19,668 |
| Malaysian Government securities | **803,632** | 397,683 | **803,632** | 397,683 |
| Malaysian Government Islamic Sukuk | **204,624** | 198,991 | **204,624** | 198,991 |
| Cagamas bonds and notes | **2,552** | 13,458 | **2,552** | 13,458 |
| | **1,043,559** | 678,536 | **1,043,559** | 678,536 |
| Unquoted: | | | | |
| Corporate bonds and Sukuk | **46,114** | 113,388 | **46,114** | 113,388 |
| Loans, advances and financing [1] | **-** | 600,054 | **-** | 600,054 |
| | **1,089,673** | 1,391,978 | **1,089,673** | 1,391,978 |

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 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Money market instruments: | | | | | |
| Malaysian Government treasury bills | *A+ to A-* | **-** | 48,736 | **-** | 48,736 |
| Islamic treasury bills | *A+ to A-* | **32,751** | 19,668 | **32,751** | 19,668 |
| Malaysian Government securities | *A+ to A-* | **803,632** | 397,683 | **803,632** | 397,683 |
| Malaysian Government Islamic Sukuk | *A+ to A-* | **204,624** | 198,991 | **204,624** | 198,991 |
| Cagamas bonds and notes | *A+ to A-* | **2,552** | 13,458 | **2,552** | 13,458 |
| Unquoted: | | | | | |
| Corporate bonds and Sukuk | - [2] | **41,910** | 94,259 | **41,910** | 94,259 |
| (including commercial paper) | AA+ to AA- | **-** | 15,139 | **-** | 15,139 |
| | A+ to A- | **3,550** | 3,437 | **3,550** | 3,437 |
| | BBB+ to BBB | **654** | 553 | **654** | 553 |
| | | **1,089,673** | 791,924 | **1,089,673** | 791,924 |

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 has been sold during the current financial year.

This exposure is also an Syndicated Investment Account for Financing/Investment Agency Account (SIAF/IAA) financing which is being disclosed as "Asset Under Management" in the financial statements of HBMS. SIAF/IAA arrangement is with the Bank's wholly owned subsidiary, HBMS, and the contract is based on the Wakalah principle where the Bank, solely or together with other financial institutions provide the funds, whilst the assets are managed by HBMS (as the Wakeel or agent). However, in the arrangement, the profits of the underlying assets are recognised by the Bank proportionately in relation to the funding it provides in the syndication arrangement. At the same time, risks on the financing are also proportionately borne by the Bank. Hence, the underlying assets and allowances for impairment arising thereon, if any, are proportionately recognised and accounted for by the Bank.

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

[2] Rated separately by another rating agency.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| **Debt instruments** | | | | |
| Money market instruments: | | | | |
| Bank Negara Malaysia bills and notes | **3,820,462** | 840,066 | **3,820,462** | 840,066 |
| Islamic Bank Negara bills | **-** | 499,459 | **-** | 499,459 |
| Malaysian Government securities | **4,576,941** | 4,685,666 | **4,576,941** | 4,685,666 |
| Malaysian Government Islamic Sukuk | **2,216,139** | 4,323,458 | **916,324** | 1,603,483 |
| Cagamas bonds and notes | **-** | 135,065 | **-** | 135,065 |
| US treasury bond | **-** | 1,221,297 | **-** | 1,221,297 |
| | **10,613,542** | 11,705,011 | **9,313,727** | 8,985,036 |
| Unquoted: | | | | |
| Corporate bonds and Sukuk | **-** | 5,922 | **-** | 5,922 |
| ***Financial Investments Designated as FVOCI*** | | | | |
| **Equity instruments** | | | | |
| Unquoted: | | | | |
| Shares | **214,003** | 197,021 | **214,003** | 197,021 |
| *of which* | | | | |
| *Cagamas Holdings Berhad* | ***172,994*** | *159,741* | ***172,994*** | *159,741* |
| *Credit Guarantee Corporation Malaysia Berhad* | ***33,619*** | *31,196* | ***33,619*** | *31,196* |
| *Others* | ***7,390*** | *6,084* | ***7,390*** | *6,084* |
| | **10,827,545** | 11,907,954 | **9,527,730** | 9,187,979 |

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 of during the financial year.

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

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Maturing within one year | **4,668,705** | 4,837,044 | **4,643,507** | 3,136,455 |
| More than one year to three years | **5,355,227** | 5,667,297 | **4,080,610** | 4,647,911 |
| More than three years to five years | **589,610** | 1,200,670 | **589,610** | 1,200,670 |
| | **10,613,542** | 11,705,011 | **9,313,727** | 8,985,036 |

There are no FVOCI balances that are pledged against Repurchase Agreement as at 31 December 2020 (31 December 2019: nil).

Financial investments at FVOCI are within Stage 1 allocation (12 -months ECL) with RM992,000 impairment allowance for the Group and RM814,000 for the Bank as at 31 December 2020 (31 December 2019: RM690,000 for the Group and RM524,000 for the Bank). The carrying amount of financial investments at FVOCI is equivalent to their fair value. The impairment allowance is recognised in other comprehensive income and does not reduce the carrying amount in the statement of financial position.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 11 Financial Investments at Amortised Cost

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Debt instruments** | | | | |
| Unquoted: | | | | |
| Corporate Sukuk | **199,743** | - | **199,743** | - |

Financial investments at amortised cost are within Stage 1 allocation (12 -months ECL) with RM257,000 impairment allowance for the Group and the Bank as at 31 December 2020 (31 December 2019: nil for the Group and the Bank).

### 12 Loans, Advances and Financing

#### (i) By type

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| **At amortised cost** | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Overdrafts/cash line | **569,745** | 811,630 | **499,148** | 738,499 |
| Term loans/financing: | | | | |
| Housing loans/financing | **17,109,892** | 17,790,451 | **13,065,891** | 13,626,079 |
| Syndicated term loans/financing | **4,144,469** | 3,432,114 | **2,979,715** | 2,703,816 |
| Factoring receivables | **718,801** | 613,197 | **718,801** | 613,197 |
| Hire purchase receivables | **206,548** | 194,049 | **-** | - |
| Other term loans/financing | **10,383,133** | 10,089,398 | **6,713,647** | 6,250,324 |
| Bills receivable | **3,926,083** | 2,066,044 | **3,273,215** | 1,595,124 |
| Trust receipts | **2,408,497** | 2,511,619 | **1,961,314** | 1,985,793 |
| Claims on customers under acceptance credits | **874,799** | 1,404,798 | **592,705** | 1,081,526 |
| Staff loans/financing | **64,375** | 75,179 | **62,089** | 72,935 |
| Credit/charge cards | **3,372,936** | 4,009,507 | **2,282,613** | 2,750,943 |
| Revolving financing | **7,813,934** | 8,811,969 | **5,606,804** | 7,095,804 |
| Other loans/financing | **13,967** | 15,694 | **10,346** | 11,391 |
| Gross loans, advances and financing [1] | **51,607,179** | 51,825,649 | **37,766,288** | 38,525,431 |
| Less: - Impairment allowances | **(854,395)** | (535,789) | **(506,080)** | (278,524) |
| Total net loans, advances and financing | **50,752,784** | 51,289,860 | **37,260,208** | 38,246,907 |

[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 9 for more details). These comprise of the following types of financing:

| | Bank | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 |
| Syndicated term financing | **2,109,579** | 1,910,351 |
| Other term financing | **115,762** | 15,087 |
| Revolving financing | **1,261,295** | 839,000 |
| | **3,486,636** | 2,764,438 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 12 Loans, Advances and Financing (Cont'd)

#### (ii) By type of customer

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Domestic non-bank financial institutions | **1,196,950** | 1,312,978 | **742,284** | 818,092 |
| Domestic business enterprises: | | | | |
| Small medium enterprises | **3,018,099** | 2,316,481 | **1,922,892** | 1,379,084 |
| Others | **19,719,560** | 21,248,961 | **15,393,886** | 17,027,935 |
| Individuals | **20,304,894** | 21,675,316 | **14,283,075** | 15,412,214 |
| Other domestic entities | **3,727** | 6,307 | **2,635** | 3,253 |
| Foreign entities/individuals | **7,363,949** | 5,265,606 | **5,421,516** | 3,884,853 |
| | **51,607,179** | 51,825,649 | **37,766,288** | 38,525,431 |

#### (iii) By residual contractual maturity

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Maturity within one year | **21,045,884** | 21,320,575 | **15,881,974** | 16,778,704 |
| More than one year to three years | **6,429,386** | 5,208,744 | **4,434,098** | 3,453,335 |
| More than three years to five years | **3,441,574** | 3,638,797 | **2,535,261** | 2,625,964 |
| More than five years | **20,690,335** | 21,657,533 | **14,914,955** | 15,667,428 |
| | **51,607,179** | 51,825,649 | **37,766,288** | 38,525,431 |

#### (iv) By interest/profit rate sensitivity

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Fixed rate: | | | | |
| Housing loans/financing | **185** | 7,677 | **185** | 7,677 |
| Hire purchase receivables | **206,548** | 194,049 | **-** | - |
| Other fixed rate loans/financing | **11,766,456** | 11,129,738 | **8,409,708** | 7,686,187 |
| Variable rate: | | | | |
| Base Rate/Base Lending/Financing Rate plus | **20,233,453** | 21,179,066 | **15,175,072** | 15,981,634 |
| Cost-plus | **19,400,537** | 19,315,119 | **14,181,323** | 14,849,933 |
| | **51,607,179** | 51,825,649 | **37,766,288** | 38,525,431 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 12 Loans, Advances and Financing (Cont'd)

**(v) By sector**

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Agricultural, hunting, forestry and fishing | **117,778** | 183,220 | **102,386** | 166,505 |
| Mining and quarrying | **266,985** | 361,643 | **134,715** | 177,453 |
| Manufacturing | **6,731,762** | 7,693,137 | **5,226,247** | 6,489,904 |
| Electricity, gas and water | **108,032** | 278,428 | **25,990** | 79,117 |
| Construction | **3,715,488** | 3,747,741 | **2,659,102** | 2,696,662 |
| Real estate | **4,669,099** | 4,039,836 | **3,800,120** | 3,280,067 |
| Wholesale & retail trade and restaurants & hotels | **3,801,121** | 3,860,439 | **3,014,292** | 3,036,125 |
| Transport, storage and communication | **688,704** | 547,990 | **502,720** | 370,418 |
| Finance, insurance and business services | **3,035,842** | 3,376,985 | **2,051,940** | 2,508,676 |
| Household-retail | **23,199,390** | 24,673,823 | **16,680,406** | 17,888,637 |
| Others | **5,272,978** | 3,062,407 | **3,568,370** | 1,831,867 |
| | **51,607,179** | 51,825,649 | **37,766,288** | 38,525,431 |

**(vi) By purpose**

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Purchase of property: | | | | |
| Residential | **17,149,089** | 17,838,858 | **13,104,101** | 13,673,312 |
| Non residential | **1,404,442** | 1,427,087 | **618,148** | 627,338 |
| Purchase of securities | **3,130** | 3,177 | **3,130** | 3,177 |
| Purchase of transport vehicles | **15,574** | 17,103 | **14,763** | 16,332 |
| Consumption credit | **5,675,861** | 6,420,319 | **3,423,738** | 4,037,542 |
| Construction | **3,449,175** | 2,906,066 | **2,415,360** | 2,088,817 |
| Working capital | **19,435,094** | 20,935,035 | **15,157,502** | 16,661,495 |
| Other purpose | **4,474,814** | 2,278,004 | **3,029,546** | 1,417,418 |
| | **51,607,179** | 51,825,649 | **37,766,288** | 38,525,431 |

**(vii) By geographical distribution**

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Northern Region | **6,004,352** | 6,568,954 | **4,774,648** | 5,011,671 |
| Southern Region | **5,940,209** | 6,046,981 | **4,257,990** | 4,476,077 |
| Central Region | **37,644,928** | 37,011,516 | **27,064,114** | 27,218,490 |
| Eastern Region | **2,017,690** | 2,198,198 | **1,669,536** | 1,819,193 |
| | **51,607,179** | 51,825,649 | **37,766,288** | 38,525,431 |

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 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Gross carrying amount as at 1 January | **1,003,447** | 973,287 | **618,144** | 616,975 |
| Transfer within stages | **828,778** | 140,107 | **589,655** | 80,658 |
| Net remeasurement due to changes in credit risk | **247,202** | 96,662 | **145,825** | 26,021 |
| Written-off | **(247,926)** | (206,609) | **(128,818)** | (105,510) |
| **Gross carrying amount as at 31 December** | **1,831,501** | 1,003,447 | **1,224,806** | 618,144 |

**(ii) By sector**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Agricultural, hunting, forestry and fishing | **319** | - | **-** | - |
| Mining and quarrying | **-** | 1,611 | **-** | 1,611 |
| Manufacturing | **109,880** | 79,934 | **92,757** | 63,687 |
| Electricity, gas and water | **487** | 600 | **487** | 600 |
| Construction | **16,381** | 34,177 | **12,671** | 29,978 |
| Real estate | **12,164** | 12,151 | **12,164** | 12,116 |
| Wholesale & retail trade, restaurants & hotels | **66,298** | 36,021 | **54,919** | 18,017 |
| Transport, storage and communication | **118,069** | 18,223 | **117,856** | 17,854 |
| Finance, insurance and business services | **8,111** | 29,614 | **2,123** | 893 |
| Household-retail | **1,471,206** | 757,974 | **924,859** | 465,409 |
| Others | **28,586** | 33,142 | **6,970** | 7,979 |
| | **1,831,501** | 1,003,447 | **1,224,806** | 618,144 |

**(iii) By purpose**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Purchase of property: | | | | |
| Residential | **883,350** | 379,762 | **619,049** | 273,771 |
| Non residential | **43,267** | 50,238 | **29,765** | 31,931 |
| Purchase of transport vehicles | **71** | 109 | **9** | 77 |
| Consumption credit | **581,031** | 368,637 | **299,643** | 183,578 |
| Construction | **13,793** | 29,622 | **10,143** | 26,898 |
| Working capital | **290,653** | 152,212 | **266,131** | 101,831 |
| Other purpose | **19,336** | 22,867 | **66** | 58 |
| | **1,831,501** | 1,003,447 | **1,224,806** | 618,144 |

**(iv) By geographical distribution**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Northern Region | **205,739** | 120,756 | **154,295** | 87,578 |
| Southern Region | **200,401** | 112,952 | **136,847** | 73,391 |
| Central Region | **1,325,153** | 712,067 | **847,871** | 406,430 |
| Eastern Region | **100,208** | 57,672 | **85,793** | 50,745 |
| | **1,831,501** | 1,003,447 | **1,224,806** | 618,144 |

**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 | Total RM'000 |
| **Group** | | | | |
| Balance at 1 January 2020 | **91,688** | **129,424** | **314,677** | **535,789** |
| Changes due to financial assets recognised in the opening balance that have: | | | | |
| - Transferred to Stage 1 | **46,271** | **(38,130)** | **(8,141)** | **-** |
| - Transferred to Stage 2 | **(6,165)** | **14,259** | **(8,094)** | **-** |
| - Transferred to Stage 3 | **(2,379)** | **(13,825)** | **16,204** | **-** |
| New financial assets originated or purchased | **39,447** | **-** | **-** | **39,447** |
| Net remeasurement due to changes in credit risk | **(28,763)** | **150,729** | **408,401** | **530,367** |
| Asset written-off | **-** | **-** | **(247,926)** | **(247,926)** |
| Others | **(3,282)** | **-** | **-** | **(3,282)** |
| **Balance at 31 December 2020[1]** | **136,817** | **242,457** | **475,121** | **854,395** |
| | | | | |
| 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 |

[1] Included in the Balance at 31 December 2020 are management judgemental adjustments made in respect of COVID-19. Please refer to Note 4(b)(v).

The Group measures the expected credit losses (ECL) using the three-stage approach. The following section explains how significant changes in the gross carrying amount of loans, advances and financing during the year have contributed to the changes in the ECL allowances for the Group under the expected credit loss model.

Total ECL allowances increased by RM318.6 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 (RM530.4 million) and new financial assets originated or purchased (RM39.4 million), partially offset by asset written-off (RM247.9 million).

- 12-months ECL not credit impaired (Stage 1) – increased by RM45.1 million for the Group, due to net migration of loans from stages 2 and 3, new financial assets and partially offset by remeasurement due to changes in credit risk based on HSBC Group's model.

- Lifetime ECL not credit-impaired (Stage 2) – increased by RM113.0 million for the Group, mainly from remeasurement due to changes in credit risk and partially offset by net migration of loans mostly to stage 1 as a result of improved credit quality.

- Lifetime ECL credit-impaired (Stage 3) – increased by RM160.4 million for the Group, primarily from remeasurement due to changes in credit risk and partially offset by asset written-off.

**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 | Total RM'000 |
| **Bank** | | | | |
| Balance at 1 January 2020 | **45,185** | **61,421** | **171,918** | **278,524** |
| Changes due to financial assets recognised in the opening balance that have: | | | | |
| - Transferred to Stage 1 | **23,323** | **(17,647)** | **(5,676)** | **-** |
| - Transferred to Stage 2 | **(3,234)** | **8,590** | **(5,356)** | **-** |
| - Transferred to Stage 3 | **(978)** | **(7,708)** | **8,686** | **-** |
| New financial assets originated or purchased | **11,463** | **-** | **-** | **11,463** |
| Net remeasurement due to changes in credit risk | **(24,598)** | **122,037** | **250,603** | **348,042** |
| Asset written-off | **-** | **-** | **(128,818)** | **(128,818)** |
| Others | **(3,131)** | **-** | **-** | **(3,131)** |
| **Balance at 31 December 2020**[1] | **48,030** | **166,693** | **291,357** | **506,080** |
| | | | | |
| 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 |

[1] Included in the Balance at 31 December 2020 are management judgemental adjustments made in respect of COVID-19. Please refer to Note 4(b)(v).

The Bank measures the expected credit losses (ECL) using the three-stage approach. The following section explains how significant changes in the gross carrying amount of loans, 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 RM227.6 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 (RM348.0 million) and new financial assets originated or purchased (RM11.5 million), partially offset by asset written-off (RM128.8 million).

- 12-months ECL not credit impaired (Stage 1) – increased by RM2.8 million for the Bank, contributed by net migration of loans from stages 2 and 3 due to improved credit quality and new financial assets, partially offset by remeasurement due to changes in credit risk.

- Lifetime ECL not credit-impaired (Stage 2) – increased by RM105.3 million for the Bank, mainly from remeasurement due to changes in credit risk and offset by migration of loans mostly to stage 1 due to credit quality improvement.

- Lifetime ECL credit-impaired (Stage 3) – increased by RM119.4 million, primarily contributed by remeasurement due to changes in credit risk. This was partially offset by impaired loans written off.

**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 2020 | **4,830** | **3,105** | **649** | **8,584** |
| Changes due to financial assets recognised in the opening balance that have: | | | | |
| - Transferred to Stage 1 | **582** | **(582)** | **-** | **-** |
| - Transferred to Stage 2 | **(205)** | **205** | **-** | **-** |
| - Transferred to Stage 3 | **-** | **(1)** | **1** | **-** |
| New financial assets originated or purchased | **1,335** | **-** | **-** | **1,335** |
| Net remeasurement due to changes in credit risk | **(1,515)** | **471** | **(186)** | **(1,230)** |
| Others | **(415)** | **-** | **-** | **(415)** |
| **Balance at 31 December 2020** | **4,612** | **3,198** | **464** | **8,274** |
| | | | | |
| 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 |

## 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<br>12-month ECL not credit impaired<br>RM'000 | Stage 2<br>Lifetime ECL not credit impaired<br>RM'000 | Stage 3<br>Lifetime ECL credit impaired<br>RM'000 | Total<br>RM'000 |
|---|---|---|---|---|
| **Bank** | | | | |
| Balance at 1 January 2020 | **3,554** | **2,231** | **247** | **6,032** |
| Changes due to financial assets recognised in the opening balance that have: | | | | |
| - Transferred to Stage 1 | **412** | **(412)** | **-** | **-** |
| - Transferred to Stage 2 | **(185)** | **185** | **-** | **-** |
| - Transferred to Stage 3 | **-** | **(1)** | **1** | **-** |
| New financial assets originated or purchased | **789** | **-** | **-** | **789** |
| Net remeasurement due to changes in credit risk | **(1,109)** | **436** | **216** | **(457)** |
| Others | **(358)** | **-** | **-** | **(358)** |
| **Balance at 31 December 2020** | **3,103** | **2,439** | **464** | **6,006** |
| | | | | |
| 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 |

For retail portfolio, the split of ECL allowance for drawn amount and provision for undrawn commitments is not available. In accordance to MFRS 7 Financial Instruments disclosure, the provisions for the loans, financing and other credit related commitments for retail portfolio are presented together with the allowance for the drawn loans, advances and financing.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 15 Other Assets

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Settlements | **168,206** | 2,417 | **168,206** | 2,417 |
| Interest/profit receivable | **105,379** | 143,547 | **91,906** | 119,776 |
| Income receivable | **31,763** | 35,255 | **63,922** | 29,021 |
| Deposits and prepayments | **2,331** | 1,451 | **2,031** | 1,451 |
| Amount due from subsidiary company | **-** | - | **30,520** | 57,735 |
| Rights of Use (ROU) assets | **72,672** | 82,620 | **52,769** | 58,116 |
| Cash collateral | **100,711** | 40,143 | **100,711** | 40,143 |
| Other receivables | **107,843** | 126,820 | **95,802** | 116,000 |
| | **588,905** | 432,253 | **605,867** | 424,659 |

[1] ROU assets comprise solely of properties. There is no new lease during the year (2019: RM403,000 for the Group and the Bank). Existing leases that were subjected to modification during the year were RM16,830,000 for the Group and RM14,167,000 for the Bank (2019: nil for the Group and the Bank).

Lease related expenses and cash outflows during the financial year:

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Interest/Finance expense (included in income from Islamic banking operations) | **4,868** | 4,642 | **3,530** | 3,225 |
| Expense related to short-term leases (included in establishment related expenses) | **-** | 1,206 | **-** | 984 |
| Cash outflow for lease payments | **31,974** | 35,572 | **24,290** | 28,215 |

### 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.

In 2020, BNM has reduced the Statutory Reserve Requirement (SRR) Ratio requirement from 3% to 2% effective 20 March 2020. BNM also allowed banks to recognise Malaysia Government Securities (MGS) and Malaysian Government Investment Issues (MGII) securities as part of SRR compliance until 31 December 2022.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 17 Investments in Subsidiary Companies

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **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 2020** | 31 Dec 2019 |
| HSBC Amanah Malaysia Berhad | Islamic banking and related financial services | **100%** | 100% |
| HSBC (Kuala Lumpur) Nominees Sdn Bhd | Nominees, trustees or agents to receive securities for safe custody and management | **100%** | 100% |
| HSBC Nominees (Tempatan) Sdn Bhd | | **100%** | 100% |
| HSBC Nominees (Asing) Sdn Bhd | | **100%** | 100% |

All income and expenditure arising from the activities of subsidiaries which are nominee companies were recognised in the Bank's results, in respect of which the right of recovery has been waived. Audit reports for all the subsidiaries' financial statements as at 31 December 2020 were not qualified. None of the subsidiaries hold shares in holding company and other related corporations.

### 18 Investment in a Joint Venture

HSBC Bank Malaysia Berhad is a joint venture partner in House Network Sdn Bhd (HOUSe). HOUSe's principal activity is the management of the shared Automated Teller Machine network amongst its member banks. The other three joint venture partners of HOUSe are Standard Chartered Bank Malaysia Berhad, United Overseas Bank Malaysia Berhad and OCBC Bank Malaysia Berhad, each holding RM1 paid up ordinary share. 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**

| 2020 | *Land* | *Buildings* | *Office equipment, fixtures and fittings* | *Computer equipment* | *Motor vehicles* | *Work in progress* | *Total* |
|---|---|---|---|---|---|---|---|
| | *Group* | | | | | | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Cost or valuation** | | | | | | | |
| Balance at 1 January | 417,390 | 114,841 | 255,149 | 131,021 | 3,027 | 251,509 | 1,172,937 |
| Additions | - | 200 | 3,181 | 16,960 | - | 233,915 | 254,256 |
| Disposals | - | - | (192) | (419) | - | - | (611) |
| Written off | - | (75) | (82,317) | (55,768) | (412) | (3,796) | (142,368) |
| Reclassification/other movements | - | 952 | 4,464 | - | - | (5,416) | - |
| Adjustments for revaluation | (49,170) | (10,228) | - | - | - | (99,700) | (159,098) |
| Balance at 31 December | 368,220 | 105,690 | 180,285 | 91,794 | 2,615 | 376,512 | 1,125,116 |
| Representing items at: | | | | | | | |
| Cost | - | - | 180,285 | 91,794 | 2,615 | 376,512 | 651,206 |
| Valuation - 2020 | 368,220 | 105,690 | - | - | - | - | 473,910 |
| | 368,220 | 105,690 | 180,285 | 91,794 | 2,615 | 376,512 | 1,125,116 |
| **Accumulated depreciation** | | | | | | | |
| Balance at 1 January | - | - | 225,171 | 112,053 | 1,557 | - | 338,781 |
| Charge for the financial year | 1,340 | 5,828 | 12,855 | 8,140 | 513 | - | 28,676 |
| Disposals | - | - | (192) | (65) | - | - | (257) |
| Written off | - | (72) | (80,536) | (54,349) | (412) | - | (135,369) |
| Adjustments for revaluation | (1,340) | (5,756) | - | - | - | - | (7,096) |
| Balance at 31 December | - | - | 157,298 | 65,779 | 1,658 | - | 224,735 |
| **Net book value at 31 December** | 368,220 | 105,690 | 22,987 | 26,015 | 957 | 376,512 | 900,381 |
| **Carrying amounts that would have been recognised if land and building were stated at cost** | 235,261 | 46,435 | 22,987 | 26,015 | 957 | 376,512 | 708,167 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**19 Property and equipment (Cont'd)**

| | *Group* | | | | | | |
|---|---|---|---|---|---|---|---|
| **2019** | *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)

| | Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| **2020** | *Land* | *Buildings* | *Office equipment, fixtures and fittings* | *Computer equipment* | *Motor vehicles* | *Work in progress* | *Total* |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Cost or valuation** | | | | | | | |
| Balance at 1 January | 417,390 | 114,841 | 217,252 | 110,803 | 2,726 | 251,509 | 1,114,521 |
| Additions | - | 200 | 2,693 | 13,064 | - | 233,915 | 249,872 |
| Disposals | - | - | (192) | (419) | - | - | (611) |
| Written off | - | (75) | (78,031) | (44,145) | (412) | (3,796) | (126,459) |
| Reclassification | - | 952 | 4,464 | - | - | (5,416) | - |
| Adjustments for revaluation | (49,170) | (10,228) | - | - | - | (99,700) | (159,098) |
| Balance at 31 December | 368,220 | 105,690 | 146,186 | 79,303 | 2,314 | 376,512 | 1,078,225 |
| Representing items at: | | | | | | | |
| Cost | - | - | 146,186 | 79,303 | 2,314 | 376,512 | 604,315 |
| Valuation - 2020 | 368,220 | 105,690 | - | - | - | - | 473,910 |
| | 368,220 | 105,690 | 146,186 | 79,303 | 2,314 | 376,512 | 1,078,225 |
| **Accumulated depreciation** | | | | | | | |
| Balance at 1 January | - | - | 192,056 | 93,908 | 1,502 | - | 287,466 |
| Charge for the financial year | 1,340 | 5,828 | 11,451 | 7,468 | 453 | - | 26,540 |
| Disposals | - | - | (192) | (65) | - | - | (257) |
| Written off | - | (72) | (76,403) | (42,838) | (412) | - | (119,725) |
| Adjustments for revaluation | (1,340) | (5,756) | - | - | - | - | (7,096) |
| Balance at 31 December | - | - | 126,912 | 58,473 | 1,543 | - | 186,928 |
| **Net book value at 31 December** | 368,220 | 105,690 | 19,274 | 20,830 | 771 | 376,512 | 891,297 |
| **Carrying amounts that would have been recognised if land and building were stated at cost** | 235,261 | 46,435 | 19,274 | 20,830 | 771 | 376,512 | 699,083 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 19 Property and equipment (Cont'd)

| | Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| **2019** | *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 | 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)

### 20 Intangible Assets

| Computer software | *Group* | *Bank* |
|---|---|---|
| **2020** | **RM'000** | **RM'000** |
| **Cost** | | |
| Balance at 1 January | **288,624** | **283,572** |
| Additions | **2,722** | **2,722** |
| Written off | **(1,622)** | **(949)** |
| Balance at 31 December | **289,724** | **285,345** |
| **Accumulated amortisation** | | |
| Balance at 1 January | **244,447** | **239,395** |
| Charge for the financial year | **11,796** | **11,796** |
| Written off | **(1,622)** | **(949)** |
| At 31 December | **254,621** | **250,242** |
| **Accumulated impairment loss** | | |
| Balance at 1 January | **5,323** | **5,323** |
| Charge for the financial year | **681** | **681** |
| At 31 December | **6,004** | **6,004** |
| **Net book value at 31 December** | **29,099** | **29,099** |
| 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) |
| Balance at 31 December | 5,323 | 5,323 |
| **Net book value at 31 December** | 38,854 | 38,854 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 21 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Deferred tax assets | **233,737** | 225,506 | **202,110** | 199,342 |
| Deferred tax liabilities | **(103,668)** | (99,811) | **(99,801)** | (97,555) |
| | **130,069** | 125,695 | **102,309** | 101,787 |

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 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Deferred tax assets: | | | | |
| - settled more than 12 months | **51,999** | 17,136 | **39,427** | 8,547 |
| - settled within 12 months | **181,738** | 208,370 | **162,683** | 190,795 |
| Deferred tax liabilities: | | | | |
| - settled more than 12 months | **(71,559)** | (96,012) | **(67,823)** | (95,083) |
| - settled within 12 months | **(32,109)** | (3,799) | **(31,978)** | (2,472) |
| | **130,069** | 125,695 | **102,309** | 101,787 |

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Property and equipment | | | | |
| - Capital allowances | **25,707** | (6,786) | **25,884** | (6,464) |
| - Revaluation | **(35,662)** | (38,400) | **(35,662)** | (38,400) |
| Rights of Use (ROU) assets | **1,143** | - | **877** | - |
| FVOCI reserve | **(67,829)** | (54,625) | **(64,139)** | (52,691) |
| Own credit reserve | **1,795** | 5,740 | **1,441** | 3,133 |
| Provision for accrued expenses | **160,882** | 177,758 | **145,040** | 170,583 |
| Deferred income | **17,720** | 27,693 | **15,075** | 18,391 |
| Lease receivables | **-** | 215 | **-** | - |
| Loans, advances and financing | **26,313** | 14,100 | **13,793** | 7,235 |
| | **130,069** | 125,695 | **102,309** | 101,787 |

## 21 Deferred Tax Assets (Cont'd)

**Movement in temporary differences during the financial year**

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Balance at 1 Jan 2019* | *Recognised in profit or loss* | *Recognised in other comprehensive income* | ***Balance at 31 Dec 2019 / 1 Jan 2020*** | ***Recognised in profit or loss*** | ***Recognised in other comprehensive income*** | ***Balance at 31 Dec 2020*** |
| | RM'000 | RM'000 | RM'000 | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Provision for accrued expenses | 243,786 | (66,028) | **-** | **177,758** | **(16,876)** | **-** | **160,882** |
| Property and equipment capital allowances | 4,195 | (4,195) | **-** | **-** | **25,884** | **-** | **25,884** |
| Rights of Use (ROU) assets | - | - | **-** | **-** | **1,143** | | **1,143** |
| Loans, advances and financing | 10,894 | 3,206 | **-** | **14,100** | **12,213** | **-** | **26,313** |
| Deferred income | 25,968 | 1,725 | **-** | **27,693** | **(9,973)** | **-** | **17,720** |
| Lease receivables | 218 | (3) | **-** | **215** | **(215)** | **-** | **-** |
| Own credit reserve | 2,167 | - | 3,573 | **5,740** | **-** | **(3,945)** | **1,795** |
| ***Deferred Tax Assets*** | 287,228 | (65,295) | 3,573 | **225,506** | **12,176** | **(3,945)** | **233,737** |
| Property and equipment | | | | | | | |
| capital allowances | (210) | (6,576) | - | **(6,786)** | **6,609** | **-** | **(177)** |
| revaluation | (38,571) | 741 | (570) | **(38,400)** | **756** | **1,982** | **(35,662)** |
| Own credit reserve | - | - | - | **-** | **-** | **-** | **-** |
| FVOCI reserve | (39,552) | - | (15,073) | **(54,625)** | **-** | **(13,204)** | **(67,829)** |
| ***Deferred Tax Liabilities*** | (78,333) | (5,835) | (15,643) | **(99,811)** | **7,365** | **(11,222)** | **(103,668)** |
| **Net Deferred Tax Assets** | 208,895 | (71,130) | (12,070) | **125,695** | **19,541** | **(15,167)** | **130,069** |

## 21 Deferred Tax Assets (Cont'd)

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

| | *Bank* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Balance at 1 Jan 2019* | *Recognised in profit or loss* | *Recognised in other comprehensive income* | ***Balance at 31 Dec 2019 / 1 Jan 2020*** | ***Recognised in profit or loss*** | ***Recognised in other comprehensive income*** | ***Balance at 31 Dec 2020*** |
| | RM'000 | RM'000 | RM'000 | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Provision for accrued expenses | 235,848 | (65,265) | - | **170,583** | **(25,543)** | **-** | **145,040** |
| Property and equipment | | | | | | | |
| capital allowances | 4,195 | (4,195) | - | **-** | **25,884** | **-** | **25,884** |
| Rights of Use (ROU) assets | - | - | - | **-** | **877** | **-** | **877** |
| Loans, advances and financing | 5,155 | 2,080 | - | **7,235** | **6,558** | **-** | **13,793** |
| Deferred income | 23,130 | (4,739) | - | **18,391** | **(3,316)** | **-** | **15,075** |
| Own credit reserve | 1,224 | - | 1,909 | **3,133** | **-** | **(1,692)** | **1,441** |
| ***Deferred Tax Assets*** | 269,552 | (72,119) | 1,909 | **199,342** | **4,460** | **(1,692)** | **202,110** |
| | | | | | | | |
| Property and equipment | | | | | | | |
| capital allowances | - | (6,464) | - | **(6,464)** | **6,464** | - | - |
| revaluation | (38,571) | 741 | (570) | **(38,400)** | **756** | **1,982** | **(35,662)** |
| FVOCI reserve | (39,449) | - | (13,242) | **(52,691)** | **-** | **(11,448)** | **(64,139)** |
| ***Deferred Tax Liabilities*** | (78,020) | (5,723) | (13,812) | **(97,555)** | **7,220** | **(9,466)** | **(99,801)** |
| | | | | | | | |
| **Net Deferred Tax Assets** | 191,532 | (77,842) | (11,903) | **101,787** | **11,680** | **(11,158)** | **102,309** |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 22 Deposits from Customers

**(i) By type of deposit**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Demand deposits | **22,378,777** | 21,252,995 | **19,940,987** | 17,801,805 |
| Savings deposits | **15,639,505** | 12,647,639 | **13,227,992** | 10,774,990 |
| Fixed deposits | **25,392,154** | 25,506,556 | **18,094,529** | 17,510,083 |
| | **63,410,436** | 59,407,190 | **51,263,508** | 46,086,878 |

The maturity structure of fixed deposits is as follows:

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Due within six months | **19,825,209** | 20,111,102 | **13,919,094** | 13,521,017 |
| More than six months to one year | **4,482,405** | 4,560,534 | **3,456,238** | 3,460,754 |
| More than one year to three years | **723,856** | 493,239 | **474,542** | 319,059 |
| More than three years to five years | **360,684** | 340,941 | **244,655** | 208,513 |
| Over five years | **-** | 740 | **-** | 740 |
| | **25,392,154** | 25,506,556 | **18,094,529** | 17,510,083 |

**(ii) By type of customer**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Government and statutory bodies | **33,855** | 29,979 | **15,577** | 16,993 |
| Business enterprises | **24,899,520** | 21,235,228 | **21,536,979** | 18,481,598 |
| Individuals | **25,145,896** | 24,079,749 | **19,413,603** | 17,857,275 |
| Foreign entities/individuals | **12,208,780** | 13,014,439 | **9,506,879** | 9,068,476 |
| Others | **1,122,385** | 1,047,795 | **790,470** | 662,536 |
| | **63,410,436** | 59,407,190 | **51,263,508** | 46,086,878 |

## 23 Deposits and Placements from Banks and Other Financial Institutions

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Licensed banks | **50,607** | 822 | **50,607** | 822 |
| Bank Negara Malaysia | **139,992** | 22,262 | **135,932** | 1,850 |
| Other financial institutions | **2,667,742** | 3,660,600 | **1,948,688** | 1,768,255 |
| | **2,858,341** | 3,683,684 | **2,135,227** | 1,770,927 |

Included in Deposits and Placements from Banks and Other Financial Institutions are amounts received under the Government scheme as part of the COVID-19 relief measures, for the purpose of lending/ financing to SMEs at a concessionary rate amounting to RM133,864,000 for the Group and the Bank.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 24 Structured Liabilities Designated at Fair Value through Profit or Loss

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Structured liabilities | **3,748,193** | 4,860,845 | **2,634,940** | 3,565,487 |

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 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Settlements | **92,826** | 194 | **92,826** | 98 |
| Interest/profit payable | **179,958** | 250,172 | **126,246** | 165,739 |
| Deferred income | **74,395** | 115,485 | **62,813** | 76,725 |
| Marginal deposit | **65,734** | 90,086 | **58,181** | 86,321 |
| Amount due to subsidiary company | **-** | - | **1,856** | 2,093 |
| Accrued expenses | **689,486** | 707,423 | **658,493** | 680,452 |
| Lease liabilities | **77,492** | 87,923 | **56,325** | 62,869 |
| Cash collateral | **615,805** | 439,106 | **615,805** | 439,106 |
| Other creditors | **564,160** | 779,103 | **510,407** | 676,292 |
| Provisions on loan and credit related commitments; and financial guarantees[1] | **8,274** | 8,584 | **6,006** | 6,032 |
| | **2,368,130** | 2,478,076 | **2,188,958** | 2,195,727 |

[1] Refer Note 14(ii) for movement in provision.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 26 Multi-Currency Sukuk Programme

| | Group | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 |
| Multi-Currency Sukuk Programme (MCSP) | **523,841** | 1,265,929 |

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 2020 | Carrying Value (RM'000) 31 Dec 2019 |
|---|---|---|---|---|---|
| **At fair value** | | | | | |
| 3rd series [1] | 750,000 | 27 Mar 2015 | 27 Mar 2020 | **-** | 751,732 |
| 4th series | 500,000 | 2 Oct 2018 | 2 Oct 2023 | **523,841** | 514,197 |
| Total | 1,250,000 | | | **523,841** | 1,265,929 |

Movement in MCSP

| | 3rd series | 4th series |
|---|---|---|
| | **RM'000** | **RM'000** |
| 2020 | | |
| Balance at 1 January | **751,732** | **514,197** |
| Change in fair value other than from own credit risk | **489** | **15,791** |
| Change in fair value from own credit risk | **(2,221)** | **(6,147)** |
| Redemption of Multi-Currency Sukuk | **(750,000)** | **-** |
| Balance at 31 December | **-** | **523,841** |

| | 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 |

| | Group | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 |
| The cumulative (gain)/ loss from change in fair value due to changes in own credit risk | **(8,368)** | 4,574 |

[1] Redeemed on 27 March 2020.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 27 Subordinated Liabilities

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Subordinated liabilities, at par [1] | | | | |
| - Second tranche issued on 2 November 2007 | **500,000** | 500,000 | **500,000** | 500,000 |
| Subordinated term loan [2] | | | | |
| - First tranche issued on 25 June 2014 | **-** | 317,957 | **-** | 317,957 |
| - Second tranche issued on 30 June 2015 | **-** | 271,655 | **-** | 271,655 |
| | **-** | 589,612 | **-** | 589,612 |
| Subordinated Liabilities | **500,000** | 1,089,612 | **500,000** | 1,089,612 |

[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 is amortised on a straight line basis, with 10% of the par value phased out each year, with effect from 2013 for regulatory capital base purposes.

[2] 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. Under the Capital Adequacy Framework (Capital Components), the par value of Tranche 1 of the subordinated term loans are amortised on a straight line basis, with 20% of the par value phased out each year, with effect from 2020 for regulatory capital base purposes.

The subordinated term loans constitute direct, unsecured and subordinated obligations of the Bank. The subordinated term loans were repaid to HBAP during the year.

## 28 Share Capital

| *Group and Bank* | **31 Dec 2020** | | 31 Dec 2019 | |
|---|---|---|---|---|
| | **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 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Other equity** | | | | |
| Other equity instrument[1] | **500,000** | 500,000 | **500,000** | 500,000 |
| **Reserves** | | | | |
| Revaluation reserve | **190,751** | 205,363 | **190,751** | 205,363 |
| FVOCI reserve | **215,792** | 173,673 | **203,924** | 167,379 |
| Own credit reserve | **(5,685)** | (18,179) | **(4,562)** | (9,922) |
| Capital contribution reserve[2] | **103,790** | 100,010 | **103,013** | 99,473 |
| Regulatory reserve[3] | **298,100** | 486,200 | **292,000** | 433,100 |
| Retained profits | **8,550,171** | 8,201,963 | **7,200,136** | 6,942,952 |
| **Total reserves** | **9,352,919** | 9,149,030 | **7,985,262** | 7,838,345 |
| **Total other equity and reserves** | **9,852,919** | 9,649,030 | **8,485,262** | 8,338,345 |

[1] On 21 June 2019, the Group and the Bank issued a perpetual capital term loan with nominal amounting to RM500 million. The capital instrument qualifies to constitute as Additional Tier 1 capital of the Group and the Bank as per the Capital Adequacy Framework (Capital Components) issued by Bank Negara Malaysia (BNM). Coupon payments are non-cumulative and may be cancelled at the sole discretion of the Group and the Bank. On the occurrence of a trigger event as defined by BNM, the capital instruments will be written down at the point of non-viability. They rank higher than ordinary shares in the event of a wind-up. The capital instrument meets the requirements of equity classification as per MFRS 132.

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

[3] The regulatory reserve is maintained in line with paragraph 10.5 of BNM's policy document on Financial Reporting and Financial Reporting for Islamic Banking Institutions issued on 2 February 2018, to maintain, in aggregate, loss allowance for non-credit-impaired exposures and regulatory reserve of no less than 1.0% of total credit exposures, net of loss allowance for credit-impaired exposures.

The regulatory reserve is debited against retained profits.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 30 Net Interest Income

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Interest income** | | | | |
| Loans and advances | | | | |
| - Interest income other than from impaired loans | **1,436,003** | 1,762,355 | **1,436,003** | 1,762,355 |
| - Interest income recognised from impaired loans | **28,813** | 35,593 | **28,813** | 35,593 |
| Money at call and deposit placements with financial institutions | **238,184** | 204,503 | **263,790** | 241,968 |
| Financial investments at FVOCI | **207,569** | 364,160 | **207,569** | 364,160 |
| Financial investments at amortised cost | **1,632** | - | **1,632** | - |
| | **1,912,201** | 2,366,611 | **1,937,807** | 2,404,076 |
| **Interest expense** | | | | |
| Deposits and placements of banks and other financial institutions | **(16,747)** | (43,411) | **(16,747)** | (43,411) |
| Deposits from customers | **(510,045)** | (687,179) | **(510,045)** | (687,179) |
| Subordinated liabilities | **(43,598)** | (52,575) | **(43,598)** | (52,575) |
| Lease liabilities | **(3,530)** | (3,225) | **(3,530)** | (3,225) |
| Others | **(744)** | (654) | **(744)** | (654) |
| | **(574,664)** | (787,044) | **(574,664)** | (787,044) |
| **Net interest income** | **1,337,537** | 1,579,567 | **1,363,143** | 1,617,032 |

## 31 Net Fee and Commission Income

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Fee and commission income** | | | | |
| Credit cards | **93,152** | 130,661 | **93,152** | 130,661 |
| Service charges | **106,402** | 119,389 | **106,402** | 119,389 |
| Credit facilities | **56,212** | 59,966 | **56,212** | 59,966 |
| Agency | **113,112** | 110,090 | **113,112** | 110,090 |
| Others | **28,717** | 33,032 | **27,602** | 30,583 |
| | **397,595** | 453,138 | **396,480** | 450,689 |
| **Fee and commission expense** | | | | |
| Debit/credit cards | **(51,168)** | (33,436) | **(51,168)** | (33,436) |
| Interbank and clearing | **(798)** | (1,209) | **(798)** | (1,209) |
| Brokerage | **(2,557)** | (1,911) | **(2,557)** | (1,911) |
| Cash management | **(1,160)** | (1,159) | **(1,160)** | (1,159) |
| Others | **(15,386)** | (20,380) | **(15,386)** | (20,380) |
| | **(71,069)** | (58,095) | **(71,069)** | (58,095) |
| **Net fee and commission income** | **326,526** | 395,043 | **325,411** | 392,594 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 32 Net Trading Income

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Realised gains on financial assets/liabilities at FVTPL and other financial instruments | **65,197** | 37,123 | **59,880** | 35,854 |
| Net interest income from financial assets at FVTPL | **54,341** | 97,262 | **54,341** | 97,262 |
| Net unrealised (losses)/gains on revaluation of financial assets at FVTPL | **(3,974)** | 11,313 | **(3,264)** | 9,231 |
| Net realised gains arising from dealing in foreign currency | **455,358** | 501,836 | **448,467** | 501,527 |
| Net unrealised gains/(losses) from dealing in foreign currency | **141,588** | 3,435 | **19,680** | (59,583) |
| Net realised gains/(losses) arising from dealing in derivatives | **3,178** | (31,700) | **58,068** | 69,440 |
| Net unrealised gains/(losses) on revaluation of derivatives | **53,204** | 57,062 | **(6,665)** | (41,506) |
| Gains arising from fair value hedges | **81** | 151 | **81** | 151 |
| | **768,973** | 676,482 | **630,588** | 612,376 |

Net trading income for the Group is presented in both Note 32 and Note 33. A reconciliation of the net trading income for the Group is as as follows:

| | *Group* | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 |
| Total net trading income (net of elimination with subsidiary) | **678,185** | 641,230 |
| of which: | | |
| - is disclosed in Note 32 | **768,973** | 676,482 |
| - is included under Income from Islamic Banking operations of the Group (Note 33) | **(90,788)** | (35,252) |

### 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 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 |
| Income derived from investment of depositor funds and others [1][2] | **653,063** | 826,138 |
| Income derived from investment of shareholders funds [2] | **159,932** | 162,451 |
| Total income before allowance for impairment losses on financing and advances | **812,995** | 988,589 |
| Income attributable to the depositors | **(273,397)** | (438,635) |
| | **539,598** | 549,954 |
| Elimination of intercompany income and expenses | **(115,810)** | (31,418) |
| Income from Islamic Banking operations reported in the statement of profit or loss of the Group | **423,788** | 518,536 |
| [1] Included in the Income derived from investment of depositors' funds and others are net losses on financial instruments designated at fair value through profit or loss for the year ended 31 December | **(49,367)** | (39,395) |
| [2] Included in the following funds are day 1 modification loss relating to COVID-19 relief measures for the year ended 31 December: | | |
| Income derived from investment of depositors' funds and others | **(11,398)** | - |
| Income derived from investment of shareholder's funds | **(1,308)** | - |

## 34 Other Operating Income

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Gain on disposal of financial investments at FVOCI | **50,402** | 18,585 | **50,402** | 18,585 |
| Dividend income from financial investments designated at FVOCI | | | | |
| - Unquoted in Malaysia | **1,591** | 3,463 | **1,591** | 3,463 |
| Dividend income from subsidiary | **-** | - | **50,000** | 40,000 |
| Rental income | **7,766** | 8,007 | **7,766** | 8,007 |
| Net gain on disposal of property and equipment | **10** | 44 | **10** | 44 |
| Net upwards revaluation on property | **-** | 8 | **-** | 8 |
| Income recharges from subsidiary | **-** | - | **137,702** | 125,211 |
| Other operating income[1] | **20,566** | 19,348 | **20,566** | 19,348 |
| | **80,335** | 49,455 | **268,037** | 214,666 |

[1] Included in Other operating income is day 1 modification loss relating to COVID-19 relief measures of RM2,023,000 for the Bank.

## 35 Impairment Allowance/Provisions

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| New and increased allowance (net of releases)[1] | **570,486** | 251,580 | **360,390** | 127,812 |
| Recoveries | **(95,602)** | (115,206) | **(49,442)** | (66,874) |
| Written off | **808** | 319 | **492** | 272 |
| **Total charge to the statements of profit or loss** | **475,692** | 136,693 | **311,440** | 61,210 |

[1] Included in the New and increased allowance are management judgemental adjustments made in respect of COVID-19. Please refer to Note 4(b)(v).

Breakdown of the impairment allowance/provisions by financial instruments type

**(i) Loans, advances and financing**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| New and increased allowance (net of releases) | **569,814** | 251,527 | **359,505** | 127,478 |
| Recoveries | **(95,602)** | (115,206) | **(49,442)** | (66,874) |
| Written off | **808** | 319 | **492** | 272 |
| **Total charge to the statements of profit or loss** | **475,020** | 136,640 | **310,555** | 60,876 |

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| New and increased allowance (net of releases) | **(6)** | 37 | **(7)** | 33 |
| **Total charge to the statements of profit or loss** | **(6)** | 37 | **(7)** | 33 |

**(iii) Debt securities - FVOCI**

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| New and increased allowance (net of releases) | **316** | 28 | **303** | 14 |
| **Total charge to the statements of profit or loss** | **316** | 28 | **303** | 14 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 35 Impairment Allowance/Provisions (Cont'd)

Breakdown of the impairment allowance/provisions by financial instruments type (Cont'd)

### (iv) Financial investments at amortised costs

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| New and increased allowance (net of releases) | **257** | - | **257** | - |
| **Total charge to the statements of profit or loss** | **257** | - | **257** | - |

### (v) Loan commitments and contingencies

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| New and increased allowance (net of releases) | **105** | (12) | **332** | (287) |
| **Total charge to the statements of profit or loss** | **105** | (12) | **332** | (287) |

## 36 Other Operating Expenses

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Personnel expenses | **704,609** | 803,605 | **657,142** | 754,815 |
| Promotion and marketing related expenses | **36,755** | 71,107 | **29,173** | 61,441 |
| Establishment related expenses | **287,802** | 131,860 | **270,438** | 115,841 |
| General administrative expenses | **213,555** | 167,068 | **179,910** | 131,361 |
| Related company charges | **646,041** | 490,575 | **637,660** | 483,215 |
| | **1,888,762** | 1,664,215 | **1,774,323** | 1,546,673 |
| Personnel expenses | | | | |
| Salaries, allowances and bonuses | **539,783** | 573,665 | **502,074** | 536,227 |
| Employees Provident Fund contributions | **90,868** | 96,737 | **84,205** | 90,103 |
| Share based payment | **9,907** | 11,827 | **9,654** | 11,099 |
| Others | **64,051** | 121,376 | **61,209** | 117,386 |
| | **704,609** | 803,605 | **657,142** | 754,815 |
| Promotion and marketing related expenses | **36,755** | 71,107 | **29,173** | 61,441 |

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 36 Other Operating Expenses (Cont'd)

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Establishment related expenses | | | | |
| Depreciation of property and equipment | **28,676** | 22,886 | **26,540** | 20,924 |
| Depreciation of ROU assets | **26,777** | 26,027 | **19,513** | 19,353 |
| Amortisation of intangible assets | **11,796** | 10,991 | **11,796** | 10,991 |
| Impairment of intangible assets | **681** | (53) | **681** | (53) |
| Information technology costs | **28,538** | 17,444 | **26,275** | 14,877 |
| Revaluation loss on property | **137,802** | - | **137,802** | - |
| Property and equipment written off | **6,999** | 39 | **6,734** | 36 |
| General repairs and maintenance | **12,434** | 18,590 | **11,008** | 17,237 |
| Utilities | **13,666** | 14,217 | **11,717** | 12,153 |
| Others | **20,433** | 21,719 | **18,372** | 20,323 |
| | **287,802** | 131,860 | **270,438** | 115,841 |
| General administrative expenses | | | | |
| Auditors' remuneration | | | | |
| Statutory audit fees | **1,080** | 1,042 | **924** | 886 |
| Regulatory related fees | **327** | 427 | **198** | 267 |
| Non-audit fees | **-** | 150 | **-** | 150 |
| Professional fees [1] | **9,734** | 10,088 | **8,174** | 8,309 |
| Communication | **22,335** | 20,071 | **20,366** | 18,655 |
| Others | **180,079** | 135,290 | **150,248** | 103,094 |
| | **213,555** | 167,068 | **179,910** | 131,361 |

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

| | Group | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 |
| Shariah Committee members | **565** | 410 |

| | Group | | Bank | |
|---|---|---|---|---|
| Related company charges | **646,041** | 490,575 | **637,660** | 483,215 |
| Of which by: | | | | |
| Type of service | | | | |
| - Information technology related cost | **285,382** | 213,830 | **285,382** | 213,830 |
| - Non information technology related cost | **360,659** | 276,745 | **352,278** | 269,385 |
| Countries/territories | | | | |
| - Hong Kong | **383,519** | 313,413 | **383,505** | 313,413 |
| - United Kingdom | **187,335** | 118,752 | **186,448** | 117,700 |
| - Malaysia | **70,146** | 54,967 | **62,666** | 48,659 |
| - Others | **5,041** | 3,443 | **5,041** | 3,443 |

## 37 Tax expense

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Malaysian income tax | | | | |
| - Current year | **163,598** | 258,922 | **128,516** | 204,116 |
| - Prior years | **(4,900)** | (28,645) | **(5,001)** | (22,120) |
| Total current tax recognised in profit or loss | **158,698** | 230,277 | **123,515** | 181,996 |
| | | | | |
| Deferred tax | | | | |
| Origination and reversal of temporary differences | | | | |
| - Current year | **(25,062)** | 71,130 | **(11,680)** | 77,842 |
| - Over provision in prior years | **5,521** | - | **-** | - |
| Total deferred tax recognised in profit or loss | **(19,541)** | 71,130 | **(11,680)** | 77,842 |
| | | | | |
| Total tax expense | **139,157** | 301,407 | **111,835** | 259,838 |

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Profit before income tax | **496,725** | 1,303,322 | **425,436** | 1,113,932 |
| | | | | |
| Income tax using Malaysian tax rate | **119,214** | 322,398 | **102,105** | 267,344 |
| | | | | |
| Non-deductible expenses | **35,129** | 27,029 | **27,113** | 25,049 |
| Tax exempt income | **(10,286)** | (19,375) | **(12,382)** | (10,435) |
| Overprovision in respect of prior years | **(4,900)** | (28,645) | **(5,001)** | (22,120) |
| Tax expense | **139,157** | 301,407 | **111,835** | 259,838 |

## 38 Earnings per Share

The earnings per ordinary share have been calculated based on profit for the financial year and 229,000,000 (2019: 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 | | | | | |
|---|---|---|---|---|---|---|
| | **2020** | | | 2019 | | |
| | ***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 | **488** | **121** | **-** | 848 | 169 | - |
| Interest/finance income on loans, advances and financing from customers | **-** | **-** | **219** | - | - | 289 |
| Fees and commission | **7,152** | **15,101** | **-** | 7,702 | 26,002 | - |
| Other income | **6,989** | **13,927** | **-** | 5,225 | 9,529 | - |
| Net trading income/(expenses) | **(49,533)** | **54,591** | **-** | 79,186 | 82,573 | - |
| | **(34,904)** | **83,740** | **219** | 92,961 | 118,273 | 289 |
| **Expenditure** | | | | | | |
| Interest/finance expense on deposits and placements from banks and other financial institutions | **32,459** | **6,458** | **-** | 76,256 | 13,738 | - |
| Interest/finance expense on deposits from customers | **-** | **-** | **197** | - | - | 222 |
| Fees and commission | **3,577** | **13,428** | **-** | 4,767 | 9,517 | - |
| Operating expenses | **383,519** | **262,522** | **-** | 313,412 | 177,163 | - |
| | **419,555** | **282,408** | **197** | 394,435 | 200,418 | 222 |
| **Amount due from** | | | | | | |
| Deposits and placements with banks and other financial institutions (including cash and short-term funds) | **55,493** | **422,252** | **-** | 151,375 | 210,070 | - |
| Loans, advances and financing | **-** | **-** | **7,111** | - | - | 7,105 |
| Derivative financial assets | **361,048** | **352,926** | **-** | 240,264 | 313,907 | - |
| Other assets | **2,098** | **74,381** | **-** | 3,369 | 7,175 | - |
| | **418,639** | **849,559** | **7,111** | 395,008 | 531,152 | 7,105 |
| **Amount due to** | | | | | | |
| Deposit and placements from banks and other financial institutions | **952,777** | **899,718** | **-** | 591,998 | 913,148 | - |
| Deposit from customers | **-** | **-** | **26,216** | - | - | 26,675 |
| Derivative financial liabilities | **182,855** | **180,526** | **-** | 127,110 | 143,072 | - |
| Other liabilities | **393,646** | **280,659** | **-** | 273,132 | 338,667 | - |
| Subordinated liabilities | **-** | **-** | **-** | 589,612 | - | - |
| | **1,529,278** | **1,360,903** | **26,216** | 1,581,852 | 1,394,887 | 26,675 |

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

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

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

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

| | *Bank* | | | |
|---|---|---|---|---|
| | **2020** | | | |
| | ***Parent*** | ***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 | **488** | **25,606** | **121** | **-** |
| Interest/finance income on loans, advances and financing from customers | **-** | **-** | **-** | **19** |
| Fees and commission | **7,138** | **-** | **13,906** | **-** |
| Other income | **6,989** | **137,702** | **13,921** | **-** |
| Net trading income/(expenses) | **(49,533)** | **(138,385)** | **68,193** | **-** |
| | **(34,918)** | **24,923** | **96,141** | **19** |
| **Expenditure** | | | | |
| Interest/finance expense on deposits and placements from Banks and other financial institutions | **23,108** | **-** | **4,816** | **-** |
| Interest/finance expense on deposits from customers | **-** | **-** | **-** | **59** |
| Fees and commission | **3,555** | **1,115** | **5,787** | **-** |
| Operating expenses | **383,505** | **1,916** | **252,239** | **-** |
| | **410,168** | **3,031** | **262,842** | **59** |
| **Amount due from** | | | | |
| Deposits and placements with banks and other financial institutions (including cash and short-term funds) | **53,467** | **1,433,539** | **362,693** | **-** |
| Loans, advances and financing | **-** | **-** | **-** | **1,051** |
| Derivative financial assets | **361,048** | **22,601** | **352,926** | **-** |
| Other assets | **2,098** | **66,312** | **74,381** | **-** |
| | **416,613** | **1,522,452** | **790,000** | **1,051** |
| **Amount due to** | | | | |
| Deposit and placements from banks and other financial institutions | **233,723** | **-** | **899,718** | **-** |
| Deposit from customers | **-** | **-** | **-** | **20,030** |
| Derivative financial liabilities | **182,855** | **212,533** | **180,526** | **-** |
| Other liabilities | **392,271** | **1,951** | **278,674** | **-** |
| Subordinated liabilities | **-** | **-** | **-** | **-** |
| | **808,849** | **214,484** | **1,358,918** | **20,030** |

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 deposits 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 | - | - | - | 43 |
| Fees and commission | 4,752 | - | 9,089 | - |
| Operating expenses | 313,413 | 2,328 | 167,474 | - |
| | 361,968 | 2,328 | 184,364 | 43 |
| **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 | - | - | - | 1,303 |
| Derivative financial assets | 240,264 | 48,454 | 313,907 | - |
| Other assets | 3,369 | 58,954 | 6,408 | - |
| | 391,413 | 1,124,217 | 470,018 | 1,303 |
| **Amount due to** | | | | |
| Deposit and placements from banks and other financial institutions | 315,545 | - | 675,004 | - |
| Deposit from customers | - | - | - | 17,660 |
| 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 | 17,660 |

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 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Directors of the Bank and its subsidiaries: | | | | |
| - Fees | **1,771** | 1,604 | **1,049** | 911 |
| - Salaries and bonuses | **4,612** | 4,361 | **4,612** | 4,361 |
| - Other short term employee benefits (including estimated monetary value of benefits-in-kind) | **1,675** | 1,149 | **1,675** | 1,149 |
| Total short-term employee benefits | **8,058** | 7,114 | **7,336** | 6,421 |
| - Share-based payments | **1,971** | 1,282 | **1,971** | 1,282 |
| **Total Directors' Remuneration** | **10,029** | 8,396 | **9,307** | 7,703 |

During the financial years ended 31 December 2020 and 31 December 2019, 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.

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Other key management personnel: | | | | |
| - Short-term employee benefits | **20,542** | 23,112 | **18,766** | 20,900 |
| - Share-based payments | **3,681** | 2,710 | **3,349** | 2,688 |
| | **24,223** | 25,822 | **22,115** | 23,588 |
| Total key management personnel compensation | **34,252** | 34,218 | **31,422** | 31,291 |

**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's 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:

**2020**

| Group (RM'000) | Salaries and bonuses | Other short term employee benefits | Share-based payment | Fees | Total |
|---|---|---|---|---|---|
| **Executive Directors of the Bank** | | | | | |
| Mukhtar Malik Hussain | 205 | - | 520 | - | 725 |
| Stuart Paterson Milne | 4,407 | 1,675 | 1,451 | - | 7,533 |
| | | | | | |
| **Non-Executive Directors of the Bank and subsidiary** | | | | | |
| Adil Ahmad | - | - | - | 143 | 143 |
| Albert Quah Chei Jin | - | - | - | 142 | 142 |
| Choo Yoo Kwan @ Choo Yee Kwan | - | - | - | 217 | 217 |
| Ho Chai Huey | - | - | - | 128 | 128 |
| Datuk Kamaruddin Taib | - | - | - | 173 | 173 |
| Lee Choo Hock | - | - | - | 332 | 332 |
| Tan Kar Leng @ Chen Kar Leng | - | - | - | 195 | 195 |
| Tan Sri Dato' Tan Boon Seng @ Krishnan | - | - | - | 251 | 251 |
| Datin Che Teh Ija bt Mohd Jalil | - | - | - | 190 | 190 |
| | 4,612 | 1,675 | 1,971 | 1,771 | 10,029 |
| | | | | | |
| **CEO of the Bank's subsidiary** | | | | | |
| Arsalaan Ahmed | 1,284 | 492 | 332 | - | 2,108 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

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

b) Key management personnel compensation (Cont'd)

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

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

**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's Remuneration (Cont'd)

**2020**

| **Bank (RM'000)** | **Salaries and bonuses** | **Other short term employee benefits** | **Share-based payment** | **Fees** | **Total** |
|---|---|---|---|---|---|
| **Non-Independent Executive Directors** | | | | | |
| Mukhtar Malik Hussain | **205** | **-** | **520** | **-** | **725** |
| Stuart Paterson Milne | **4,407** | **1,675** | **1,451** | **-** | **7,533** |
| **Independent Non-Executive Directors** | | | | | |
| Choo Yoo Kwan @ Choo Yee Kwan | **-** | **-** | **-** | **217** | **217** |
| Lee Choo Hock | **-** | **-** | **-** | **196** | **196** |
| Tan Kar Leng @ Chen Kar Leng | **-** | **-** | **-** | **195** | **195** |
| Tan Sri Dato' Tan Boon Seng @ Krishnan | **-** | **-** | **-** | **251** | **251** |
| Datin Che Teh Ija bt Mohd Jalil | **-** | **-** | **-** | **190** | **190** |
| | **4,612** | **1,675** | **1,971** | **1,049** | **9,307** |

2019

| **Bank (RM'000)** | Salaries and bonuses | Other short term employee benefits | Share-based payment | Fees | Total |
|---|---|---|---|---|---|
| **Non-Independent Executive 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

**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 2020** | | 31 Dec 2019 | |
|---|---|---|---|---|
| | **Unrestricted RM'000** | **Deferred RM'000** | Unrestricted RM'000 | Deferred RM'000 |
| Fixed remuneration | | | | |
| Cash | **14,587** | - | 14,754 | - |
| Shares and share-linked instruments | **-** | - | - | - |
| | **14,587** | - | 14,754 | - |
| Variable remuneration | | | | |
| Cash | **2,761** | **2,192** | 4,354 | 2,972 |
| Shares and share-linked instruments | **2,603** | **2,192** | 3,580 | 3,058 |
| | **5,364** | **4,384** | 7,934 | 6,030 |
| | **19,951** | **4,384** | 22,688 | 6,030 |

Number of officers having received a variable remuneration during the financial year: 9 (2019: 13)

| | **31 Dec 2020** | | 31 Dec 2019 | |
|---|---|---|---|---|
| | **Number** | **Amount RM'000** | Number | Amount RM'000 |
| Outstanding deferred remuneration | | | | |
| Cash | **9** | **4,964** | 4 | 3,747 |
| Shares and share-linked instruments | **11** | **6,838** | 12 | 6,508 |
| | | **11,802** | | 10,255 |
| Deferred remuneration paid out | **11** | **4,273** | 11 | 6,241 |

**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 2020** | | 31 Dec 2019 | |
|---|---|---|---|---|
| | **Unrestricted RM'000** | **Deferred RM'000** | Unrestricted RM'000 | Deferred RM'000 |
| Fixed remuneration | | | | |
| Cash | **13,413** | - | 13,583 | - |
| Shares and share-linked instruments | **-** | - | - | - |
| | **13,413** | - | 13,583 | - |
| Variable remuneration | | | | |
| Cash | **2,761** | **2,192** | 4,084 | 2,792 |
| Shares and share-linked instruments | **2,603** | **2,192** | 3,310 | 2,878 |
| | **5,364** | **4,384** | 7,394 | 5,670 |
| | **18,777** | **4,384** | 20,977 | 5,670 |

Number of officers having received a variable remuneration during the financial year: 9 (2019: 12)

| | **31 Dec 2020** | | 31 Dec 2019 | |
|---|---|---|---|---|
| | **Number** | **Amount RM'000** | Number | Amount RM'000 |
| Outstanding deferred remuneration | | | | |
| Cash | **8** | **4,784** | 4 | 3,747 |
| Shares and share-linked instruments | **10** | **6,501** | 11 | 6,285 |
| | | **11,285** | | 10,032 |
| Deferred remuneration paid out | **10** | **4,185** | 10 | 6,215 |

## 40 Credit exposure to connected parties

| | Group | | Bank | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Aggregate value of outstanding credit exposures to connected parties | **4,953,828** | 5,284,778 | **4,006,425** | 4,343,440 |
| As a percentage of total credit exposures | **6.9%** | 7.3% | **7.2%** | 7.8% |
| 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 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 |
| **Common Equity Tier 1 (CET1) capital** | | |
| Paid-up ordinary share capital | **1,045,875** | 1,045,875 |
| Retained profits | **8,550,171** | 8,201,963 |
| Other reserves | **904,446** | 1,034,352 |
| Regulatory adjustments | **(870,026)** | (1,147,716) |
| Total CET1 capital | **9,630,466** | 9,134,474 |
| **Tier 1 capital** | | |
| Additional Tier 1 capital | **500,000** | 500,000 |
| Total Tier 1 capital | **10,130,466** | 9,634,474 |
| **Tier 2 capital** | | |
| Subordinated liabilities | **200,000** | 300,000 |
| Subordinated term loan | **-** | 589,613 |
| Impairment allowance (unimpaired portion) & regulatory reserves | **519,281** | 636,923 |
| Regulatory adjustments | **101,886** | 109,693 |
| Total Tier 2 capital | **821,167** | 1,636,229 |
| **Capital base** | **10,951,633** | 11,270,703 |
| Inclusive of proposed dividend | | |
| CET 1 Capital ratio | **17.030%** | 15.682% |
| Tier 1 Capital ratio | **17.914%** | 16.540% |
| Total Capital ratio | **19.366%** | 19.350% |
| Net of proposed dividend | | |
| CET 1 Capital ratio | **16.697%** | 15.368% |
| Tier 1 Capital ratio | **17.581%** | 16.226% |
| Total Capital ratio | **19.033%** | 19.035% |

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 risk categories:

| | *Group* | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 |
| Total RWA for credit risk | **49,671,803** [1] | 50,953,924 [1] |
| Total RWA for market risk | **1,215,604** | 1,496,214 |
| Total RWA for operational risk | **5,662,957** | 5,797,822 |
| | **56,550,364** | 58,247,960 |

[1] The risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 9 for more details) are as follows:

| | *Group* | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 |
| Under SIAF/IAA arrangement | **2,743,531** | 2,991,025 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 41 Capital Adequacy (Cont'd)

| | *Bank* | |
|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| **Common Equity Tier 1 (CET1) capital** | | |
| Paid-up ordinary share capital | **1,045,875** | 1,045,875 |
| Retained profits | **7,200,136** | 6,942,952 |
| Other reserves | **883,486** | 983,351 |
| Regulatory adjustments | **(1,534,219)** | (1,736,309) |
| Total CET1 capital | **7,595,278** | 7,235,869 |
| **Tier 1 capital** | | |
| Additional Tier 1 capital | **500,000** | 500,000 |
| Total Tier 1 capital | **8,095,278** | 7,735,869 |
| **Tier 2 capital** | | |
| Subordinated liabilities | **200,000** | 300,000 |
| Subordinated term loan | **-** | 589,613 |
| Impairment allowance (unimpaired portion) & regulatory reserves | **398,668** | 494,431 |
| Regulatory adjustments | **(414,399)** | (479,920) |
| Total Tier 2 capital | **184,269** | 904,124 |
| **Capital base** | **8,279,547** | 8,639,993 |
| Inclusive of proposed dividend | | |
| CET 1 Capital ratio | **17.033%** | 15.700% |
| Tier 1 Capital ratio | **18.155%** | 16.785% |
| Total Capital ratio | **18.568%** | 18.747% |
| Net of proposed dividend | | |
| CET 1 Capital ratio | **16.612%** | 15.303% |
| Tier 1 Capital ratio | **17.733%** | 16.388% |
| Total Capital ratio | **18.146%** | 18.350% |

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 risk categories:

| | *Bank* | |
|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Total RWA for credit risk | **38,424,645** [1] | 39,554,516 [1] |
| Total RWA for market risk | **1,163,047** | 1,414,415 |
| Total RWA for operational risk | **5,002,558** | 5,119,212 |
| | **44,590,250** | 46,088,143 |

[1] The risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 9 for more details) are as follows:

| | *Bank* | |
|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Under SIAF/IAA arrangement | **2,743,531** | 2,991,025 |

## 41 Capital Adequacy (Cont'd)

Pursuant to BNM's Guidelines on Capital Adequacy Framework (Capital Component) issued on 9 December 2020 (the Guidelines), the Group and the Bank elected to apply the transitional arrangements as specified in paragraph 39.

Under transitional arrangements, the expected credit loss (ECL) allowance measured at an amount equal to 12-month and lifetime ECL to the extent they are related to non-credit-impaired exposures (hereinafter referred to as Stage 1 and Stage 2 provisions), are allowed to be added back to CET-1, subject to a capping. The transitional arrangement commenced beginning from financial year beginning 1 January 2020, with an add-back factor that will gradually reduce over the four-year transitional duration.

As required by the Guideline, below is the disclosure on the capital ratios with comparison of:
(i) the Capital Ratios, computed in accordance with the transitional arrangement
(ii) the Capital Ratios, had the transitional arrangement not been applied.
*As presented in the financial statement:*

| | *Group* | | | |
|---|---|---|---|---|
| **31 Dec 2020** | With Transitional Arrangement | | Without Transitional Arrangement | |
| Inclusive of proposed dividend | RM'000 | % | RM'000 | % |
| CET1 Capital | 9,630,466 | 17.030% | 9,472,058 | 16.750% |
| Tier 1 Capital | 10,130,466 | 17.914% | 9,972,058 | 17.634% |
| Tier 2 Capital | 821,167 | - | 922,784 | - |
| Total Capital | 10,951,633 | 19.366% | 10,894,842 | 19.266% |

| | *Bank* | | | |
|---|---|---|---|---|
| **31 Dec 2020** | With Transitional Arrangement | | Without Transitional Arrangement | |
| Inclusive of proposed dividend | RM'000 | % | RM'000 | % |
| CET1 Capital | 7,595,278 | 17.033% | 7,486,920 | 16.790% |
| Tier 1 Capital | 8,095,278 | 18.155% | 7,986,920 | 17.912% |
| Tier 2 Capital | 184,269 | - | 265,909 | - |
| Total Capital | 8,279,547 | 18.568% | 8,252,829 | 18.508% |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 42 Commitments and Contingencies

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

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

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| **Principal amount** | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| Direct credit substitutes | **571,769** | 2,096,249 | **551,207** | 1,607,366 |
| Transaction-related contingent items | **9,001,843** | 8,502,326 | **7,727,208** | 7,221,124 |
| Short-term self-liquidating trade-related contingencies | **536,055** | 360,628 | **460,390** | 324,718 |
| Formal standby facilities and credit lines | | | | |
| - Maturity not exceeding one year | **7,229,606** | 4,894,040 | **5,840,490** | 4,223,566 |
| - Maturity exceeding one year | **14,090,402** | 12,704,811 | **11,779,180** | 10,374,147 |
| Other unconditionally cancellable | **15,927,899** | 15,637,826 | **13,633,727** | 13,997,344 |
| Unutilised credit card lines | **13,347,584** | 13,419,320 | **9,658,284** | 9,676,249 |
| Foreign exchange related contracts: | | | | |
| - Less than one year | **79,984,757** | 92,637,058 | **79,946,550** | 95,234,573 |
| - Over one year to less than five years | **4,400,810** | 5,313,386 | **4,478,825** | 5,313,386 |
| - Over five years | **1,043,567** | 1,270,378 | **1,043,567** | 1,270,378 |
| Interest/profit rate related contracts: | | | | |
| - Less than one year | **10,115,382** | 9,908,087 | **10,569,974** | 11,126,606 |
| - Over one year to less than five years | **22,496,732** | 27,577,699 | **23,356,232** | 28,496,681 |
| - Over five years | **2,151,934** | 2,123,874 | **2,151,934** | 2,123,874 |
| Gold and other precious metals contracts: | | | | |
| - Less than one year | **15,559** | 6,593 | **15,559** | 6,593 |
| Equity related contracts: | | | | |
| - Less than one year | **629,277** | 1,113,308 | **957,558** | 1,579,752 |
| - Over one year to less than five years | **1,006,580** | 778,815 | **1,504,231** | 1,175,112 |
| | **182,549,756** | 198,344,398 | **173,674,916** | 193,751,469 |

of which the amount related to SIAF/IAA arrangement (refer Note 9 for more detail) are as below:

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 | **31 Dec 2020 RM'000** | 31 Dec 2019 RM'000 |
| *Formal standby facilities and credit lines:* | | | | |
| *- Maturity not exceeding one year* | **50,516** | 35,000 | **50,516** | 35,000 |
| *- Maturity exceeding one year* | **15,083** | 437,750 | **15,083** | 437,750 |
| | **65,599** | 472,750 | **65,599** | 472,750 |

**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 2020** | **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 | 75,909,799 | 552,972 | - | 76,462,771 | 923,016 | 2,409 | - | 925,425 | 976,257 | 9,002 | - | 985,259 |
| - Swaps | 3,572,306 | 3,847,838 | 1,043,567 | 8,463,711 | 182,779 | 257,764 | 72,198 | 512,741 | 85,871 | 100,520 | 33,247 | 219,638 |
| - Options | 502,652 | - | - | 502,652 | 1,459 | - | - | 1,459 | 2,978 | - | - | 2,978 |
| Interest/profit rate related contracts | | | | | | | | | | | | |
| - Options | 955,008 | 193,346 | - | 1,148,354 | 4,393 | 2,456 | - | 6,849 | 6,639 | - | - | 6,639 |
| - Swaps | 8,760,374 | 21,183,386 | 2,151,934 | 32,095,694 | 41,096 | 415,524 | 99,597 | 556,217 | 37,936 | 386,468 | 91,102 | 515,506 |
| Equity related contracts | | | | | | | | | | | | |
| - Options | 629,277 | 1,006,580 | - | 1,635,857 | 14,041 | 16,688 | - | 30,729 | 22,564 | 38,264 | - | 60,828 |
| Precious metal contracts | | | | | | | | | | | | |
| - Options | 15,559 | - | - | 15,559 | 9 | - | - | 9 | 36 | - | - | 36 |
| Sub- total | 90,344,975 | 26,784,122 | 3,195,501 | 120,324,598 | 1,166,793 | 694,841 | 171,795 | 2,033,429 | 1,132,281 | 534,254 | 124,349 | 1,790,884 |
| **Hedging Derivatives:** | | | | | | | | | | | | |
| **Fair Value Hedge** | | | | | | | | | | | | |
| Interest/profit rate related contracts | | | | | | | | | | | | |
| - Swaps | 400,000 | 1,120,000 | - | 1,520,000 | - | - | - | - | 4,440 | 44,928 | - | 49,368 |
| Sub- total | 400,000 | 1,120,000 | - | 1,520,000 | - | - | - | - | 4,440 | 44,928 | - | 49,368 |
| **Total** | 90,744,975 | 27,904,122 | 3,195,501 | 121,844,598 | 1,166,793 | 694,841 | 171,795 | 2,033,429 | 1,136,721 | 579,182 | 124,349 | 1,840,252 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**43 Derivative Financial Instruments (Cont'd)**

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

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

| | Contract / Notional Amount | | | | Positive Fair Value | | | | Negative Fair Value | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **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 | | | | | | | | | | | | |
| - 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 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Bank** | **Up to 1 Year** | **> 1 - 5 Years** | **> 5 Years** | **Total** | **Up to 1 Year** | **> 1 - 5 Years** | **> 5 Years** | **Total** | **Up to 1 Year** | **> 1 - 5 Years** | **> 5 Years** | **Total** |
| At 31 Dec 2020 | **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 | 75,871,592 | 552,972 | - | 76,424,564 | 922,628 | 2,409 | - | 925,037 | 974,754 | 9,002 | - | 983,756 |
| - Swaps | 3,572,306 | 3,925,853 | 1,043,567 | 8,541,726 | 182,765 | 262,095 | 72,198 | 517,058 | 85,871 | 100,520 | 33,247 | 219,638 |
| - Options | 502,652 | - | - | 502,652 | 1,459 | - | - | 1,459 | 2,978 | - | - | 2,978 |
| Interest rate related contracts | | | | | | | | | | | | |
| - Options | 1,198,600 | 193,346 | - | 1,391,946 | 4,393 | 2,456 | - | 6,849 | 10,510 | - | - | 10,510 |
| - Swaps | 8,971,374 | 22,042,886 | 2,151,934 | 33,166,194 | 41,096 | 415,347 | 99,597 | 556,040 | 38,982 | 419,128 | 91,102 | 549,212 |
| Equity related contracts | | | | | | | | | | | | |
| - Options | 957,558 | 1,504,231 | - | 2,461,789 | 14,041 | 16,736 | - | 30,777 | 32,343 | 51,563 | - | 83,906 |
| Precious metal contracts | | | | | | | | | | | | |
| - Options | 15,559 | - | - | 15,559 | 9 | - | - | 9 | 36 | - | - | 36 |
| Sub- total | 91,089,641 | 28,219,288 | 3,195,501 | 122,504,430 | 1,166,391 | 699,043 | 171,795 | 2,037,229 | 1,145,474 | 580,213 | 124,349 | 1,850,036 |
| **Hedging Derivatives:** | | | | | | | | | | | | |
| **Fair Value Hedge** | | | | | | | | | | | | |
| Interest rate related contracts | | | | | | | | | | | | |
| - Swaps | 400,000 | 1,120,000 | - | 1,520,000 | - | - | - | - | 4,440 | 44,928 | - | 49,368 |
| Sub- total | 400,000 | 1,120,000 | - | 1,520,000 | - | - | - | - | 4,440 | 44,928 | - | 49,368 |
| **Total** | 91,489,641 | 29,339,288 | 3,195,501 | 124,024,430 | 1,166,391 | 699,043 | 171,795 | 2,037,229 | 1,149,914 | 625,141 | 124,349 | 1,899,404 |

**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** | **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 | 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 |

| | *Group and Bank* | |
|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 |
| Included in the net non-interest income is the net losses arising from fair value hedges during the financial period as follows: | **RM'000** | RM'000 |
| Loss on hedging instruments | **(21,163)** | (16,017) |
| Gain on the hedged items attributable to the hedged risk | **21,244** | 16,168 |
| Net gain from fair value hedges | **81** | 151 |

As at 31 Dec 2020, RM1.5 billion (31 Dec 2019: RM1.8 billion) of the notional amounts of the interest rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the Group and the Bank that is impacted by market-wide IBORs reform.

**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 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| **Carrying amount of assets and collateral pledged** | | | | |
| - Sold under repurchase agreements | - | - | - | - |
| - Collateral accepted on derivative contracts (ISDA[1]) | **100,711** | 40,143 | **100,711** | 40,143 |
| **Fair value of assets and collateral accepted** | | | | |
| - Securities bought under reverse repurchase agreement | **6,911,292** | 6,768,271 | **6,911,292** | 6,768,271 |
| - Securities sold under regulated short selling | **3,263** | 16,383 | **3,263** | 16,383 |
| - Collateral accepted on derivative contracts (ISDA[1]) | **615,800** | 439,106 | **615,800** | 439,106 |

[1] ISDA: International Swaps and Derivatives Association

## 45 Capital Commitments

| | *Group* | | *Bank* | |
|---|---|---|---|---|
| | **31 Dec 2020** | 31 Dec 2019 | **31 Dec 2020** | 31 Dec 2019 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Property and equipment | | | | |
| - Authorised and contracted, but not provided for | **113,326** | 205,825 | **113,326** | 205,825 |

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

## 46 Equity-based Compensation

The Group and the Bank participated in the following equity settled share compensation plans operated by the HSBC Group for the acquisition of HSBC Holdings plc shares.

*(a) Savings-Related Share Option Schemes*

The Savings-Related Share Option Schemes aims to align the interests of all employees with the creation of shareholder value, under which eligible HSBC employees are granted options to acquire HSBC Holdings ordinary shares. For HSBC Malaysia, the last grant of options under this plan was in 2012. However, anyone employed within the HSBC Group and is working for HSBC UK at the time of invitation, will be eligible for this plan. Such employees who are transferred to HSBC Malaysia are entitled to apply or continue with the said plan.

Under this plan, employees may make monthly contributions up to £500 with the option to use the savings to acquire shares. The options are generally exercisable within six months following from either the third or fifth anniversary of the commencement of a three-year or five-year contract, respectively. The exercise price is set at a 20% discount to the market value immediately preceding the date of invitation. The cost of the awards is amortised over the vesting period.

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

**Group**

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Number ('000)** | **Weighted average exercise price (£)** | Number ('000) | Weighted average exercise price (£) |
| Balance at 1 January | **5** | **4.70** | 1 | 4.21 |
| Granted in the financial year | **-** | **-** | 7 | 4.68 |
| Exercised in the financial year | **-** | **-** | (3) | 4.40 |
| Transferred out in the financial year | **(4)** | **4.69** | - | - |
| Balance at 31 December | **1** | **4.05** | 5 | 4.70 |
| Options vested at 31 December | **-** | | 3 | |

| | **2020 RM'000** | 2019 RM'000 |
|---|---|---|
| Compensation cost recognised during the financial year | **-** | - |

**Bank**

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Number ('000)** | **Weighted average exercise price (£)** | Number ('000) | Weighted average exercise price (£) |
| Balance at 1 January | **5** | **4.70** | 1 | 4.21 |
| Granted in the financial year | **-** | **-** | 7 | 4.68 |
| Exercised in the financial year | **-** | **-** | (3) | 4.40 |
| Transferred out in the financial year | **(4)** | **4.69** | - | - |
| Balance at 31 December | **1** | **4.05** | 5 | 4.70 |
| Options vested at 31 December | **-** | | 3 | |

| | **2020 RM'000** | 2019 RM'000 |
|---|---|---|
| Compensation cost recognised during the financial year | **-** | - |

The weighted average remaining contractual life for the share options is 1.0 years (2019: 2.9 years).

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 46 Equity-based Compensation (Cont'd)

*(b) Restricted Share Plan and Share Match Schemes*

The HSBC Holdings Restricted Share Plan is intended to align the interests of executives with those of shareholders by linking executive awards to the creation of superior shareholder value. This is achieved by focusing on predetermined targets. An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. Deferred share awards generally vest over a period of three years. Vested shares may be subject to a retention requirement (restriction) post-vesting. The cost of the conditional awards is recognised through an annual charge based on the likely level of vesting of shares, apportioned over the period of service 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* | |
|---|---|---|---|---|
| | **2020 Number ('000)** | 2019 Number ('000) | **2020 Number ('000)** | 2019 Number ('000) |
| Balance at 1 January | **468** | 708 | **457** | 703 |
| Granted in the financial year | **467** | 128 | **439** | 119 |
| Exercised in the financial year | **(297)** | (270) | **(281)** | (269) |
| Released in the financial year | **(52)** | (47) | **(51)** | (46) |
| Cancelled in the financial year | **(23)** | (13) | **(22)** | (12) |
| Transferred out in the financial year | **(23)** | (38) | **(23)** | (38) |
| Balance at 31 December | **540** | 468 | **519** | 457 |
| | **2020 RM'000** | 2019 RM'000 | **2020 RM'000** | 2019 RM'000 |
| Compensation cost recognised during the financial year | **9,907** | 11,827 | **9,654** | 11,099 |

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan and the Share Match Schemes is £5.50 (2019: £5.96). The weighted average fair value of the HSBC share at 31 December 2020 for the share granted during the year was £5.75 (2019: £6.18). The weighted average remaining vesting period as at 31 December 2020 was 1.20 years (2019: 1.21 years).

### 47 Event Subsequent to the Balance Sheet Date

On 13 January 2021, the Government of Malaysia reintroduced the movement control order to curb the soaring number of COVID-19 cases. This may have an impact on the Group and the Bank's financial results. The Group and the Bank are not able to predict the potential future direct or indirect effects resulted from the movement control order. However, the Group and the Bank are taking actions to mitigate the impact, and will continue to closely monitor the related risks as they evolve.