HSBC AMANAH

Islamic Finance for Life

HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
(Incorporated in Malaysia)

FINANCIAL STATEMENTS
31 DECEMBER 2013

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

HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
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HSBC AMANAH MALAYSIA BERHAD
Company No. 807705-X
Incorporated in Malaysia

BOARD OF DIRECTORS

Louisa Cheang Wai Wan
Non-Independent Non-Executive Director/Chairman

Mukhtar Malik Hussain
Non-Independent Non-Executive Director

Mohamed Rafe bin Mohamed Haneef
Chief Executive Officer, Non-Independent Executive Director

Mohamed Ross bin Mohd Din
Independent Non-Executive Director

Azlan bin Abdullah
Independent Non-Executive Director

Mohamed Ashraf bin Mohamed Iqbal
Independent Non-Executive Director

Lee Choo Hock
Independent Non-Executive Director

PROFILE OF DIRECTORS

Louisa Cheang Wai Wan
Non-Independent Non-Executive Director/Chairman

Ms Cheang was appointed on 1 January 2012. She graduated from the University of Hong Kong majoring in Political Science and Management Studies. Ms Cheang is currently the Group General Manager, Regional Head of Retail Banking and Wealth Management Asia-Pacific of HSBC, Hong Kong. She has been Regional Director of Personal Financial Services Asia-Pacific since June 2009 overseeing HSBC's personal financial services business in Hong Kong and 18 other countries and territories in the region. Prior to this, Ms Cheang was Head of Personal Financial Services Hong Kong and Head of Marketing in Asia-Pacific. Before joining HSBC, Ms Cheang was the marketing head at Citibank, Smartone Mobile Communications and American Express.

Ms Cheang's other current roles include management committee member of the Pacific Credit Card Centre under the collaboration of Bank of Communications and HSBC, International Advisor of Visa International and China Union Pay, Director of the MasterCard Asia/Pacific, Middle East and Africa Regional Advisory Board, Director of HSBC Insurance (Asia) Limited and HSBC Life (International) Limited, HSBC Director of Asset Management (Hong Kong) Limited, Director of HSBC Bank (Taiwan) Limited, Director of Hubei Suizhou Cengdu HSBC Rural Bank Company Limited and Honorary Certified Financial Management Planner of the Hong Kong Institute of Bankers.

Mukhtar Malik Hussain
Non-Independent Non-Executive Director

Mr Mukhtar was appointed on 15 December 2009. He graduated from University of Wales, United Kingdom with a Bachelor of Science in Economics. Mr Mukhtar first joined the HSBC Group in 1982 as a Graduate Trainee in Midland Bank International. He was then appointed as Assistant Director in Samuel Montagu in 1991. After close to 11 years of working in the HSBC Group's London offices, Mr Mukhtar then held numerous posts in Dubai including Chief Executive Officer of HSBC Financial Services (Middle East) Limited from 1995 to 2003 and established the initiative to create the first foreign investment bank in Saudi Arabia for HSBC. In 2003, he assumed the position of Chief Executive Officer of Global Banking and Market and became the Co-Head of Global Banking in 2005. He headed back to London as the Global Head of Principal Investments, the proprietorial and fund investment arm of HSBC from 2006 to 2008. He was the Deputy Chairman of HSBC Bank Middle East Limited, Global Chief Executive Officer of HSBC Amanah and Chief Executive Officer of Global Banking and Markets, Middle East and North Africa, a dual role with global responsibilities for Islamic Finance and HSBC's wholesale banking activities in the Middle East and North Africa before he came to Malaysia.

In addition to his current role, Mr Mukhtar is also the Non-Independent Executive Director/Deputy Chairman and Chief Executive Officer of HSBC Bank Malaysia Berhad.

PROFILE OF DIRECTORS (Cont'd)

Mohamed Rafe bin Mohamed Haneef
Chief Executive Officer, Non-Independent Executive Director

En Rafe was appointed on 22 November 2010. He serves as a member of the Nominating Committee of the Bank. En Rafe holds a Bachelors of Law from International Islamic University of Malaysia and a Masters of Law from Harvard Law School, United States of America. He was admitted to the Malaysian Bar and practised law specialising in Islamic finance with Messrs. Mohamed Ismail & Co before joining the banking industry. En Rafe first joined HSBC Investment Bank plc, London in 1999 and thereafter HSBC Financial Services Middle East, Dubai from 2001-2004.He then assumed several positions including the Head of Global Islamic Finance of ABN Amro Bank NV, Dubai, Head of Islamic Banking of Citigroup Asia and Managing Director, Investments of Fajr Capital before rejoining HSBC Amanah as Managing Director Global Markets for the Asia Pacific region in July 2010.

Mohamed Ross bin Mohd Din
Independent Non-Executive Director

En Ross was appointed on 26 February 2008. He is the Chairman of the Risk Management Committee and a member of the Audit Committee and Nominating Committee of the Bank. En Ross joined HSBC Bank Malaysia Berhad ("HBMY") in early 1972 and served in various capacities in HBMY ranging from Corporate Banking and Retail Banking to Area and Branch Management. He also served as Head of Treasury Malaysia and Head of Group Audit Malaysia between 1987 and 1996. During this period he also worked for a year in Hong Kong, London and New York in the areas of Foreign Exchange and Treasury.

Beginning 2003, he managed HBMS's onshore business franchise in Malaysia as Managing Director and was responsible for the Islamic retail and corporate business emanating from the branch network. He retired from active service with the HSBC Group in December 2007.

From January 2008 to December 2008, he served as an Executive Director and Senior Advisor in HSBC Amanah Takaful Malaysia Sdn Bhd.

En Ross is currently a council member of the Outward Bound Trust of Malaysia and a Director of Kumpulan Perangsang Selangor Berhad.

Azlan bin Abdullah
Independent Non-Executive Director

En Azlan was appointed on 6 August 2008. He is a member of the Audit Committee and Nominating Committee of the Bank. En Azlan graduated from Trinity University, United States of America with a Bachelor of Science in Business Administration and Morehead State University, United States of America with a Masters in Business Administration. En Azlan began his career in Citibank N.A in the World Corporate Group, a division within the Corporate Banking Group in 1983. After 5 years, he then moved on to United Asian Bank which later merged with Bank of Commerce. In 1994, he joined Citibank Berhad as Vice President and Head of the Public Sector, a division in the Corporate Banking Group focusing on lending to government-owned entities.

En Azlan is currently the Executive Director of Melewar Industrial Group Berhad and the Chief Executive Officer of Mycron Steel Berhad and Mycron Steel CRC Sdn Bhd. He is also an Independent Director of Malaysian General Investment Corporation Berhad and several other private limited companies. In addition, he is a council member of Malaysian Iron and Steel Industry Federation and an alumni member of International Association of Traffic and Safety Sciences based in Japan.

PROFILE OF DIRECTORS (Cont'd)

Mohamed Ashraf bin Mohamed Iqbal
Independent Non-Executive Director

En Ashraf was appointed on 6 August 2008. He is the Chairman of Nominating Committee and a member of the Risk Management Committee of the Bank. En Ashraf graduated from California State University, United States of America with a Bachelor of Science in Mechanical Engineering and thereafter obtained a Masters in Business Administration from the same institution. His earlier career included a period of over 5 years with Shell Malaysia involved in a variety of human resource and business re-engineering projects. He then moved on to Proton Berhad where he assumed the positions of Managing Director of Proton Cars (UK) Ltd, Executive Director of Proton Cars (Europe) Ltd and Director of Proton Cars (Australia) Ltd. He then assumed the position of Director of Hay Group, Asia from 1999 to 2002 and Managing Director of Federal Auto Holdings Berhad from 2002 to 2005. He was formerly a Partner of CEO Solutions Sdn Bhd and an Advisor to Maestro Planning Solutions Sdn Bhd.

En Ashraf is currently a Director of MindSpring Sdn Bhd, a one person consulting firm that he started after 17 years of working in various industries and a Director of Fairview Schools Berhad.

Lee Choo Hock
Independent Non-Executive Director

Mr Lee was appointed on 2 January 2009. He is the Chairman of the Audit Committee and a member of the Risk Management Committee and Nominating Committee of the Bank. Mr Lee is a member of the Institute of Chartered Accountants in England and Wales as well as the Malaysian Institute of Accountants. He began his career with Miller, Brener & Co., London, a professional accounting firm in 1975 and joined Maybank in 1982. Having worked with Maybank for 27 years, Mr Lee has built a successful career as a professional accountant. He served various management positions during his tenure with Malayan Banking Berhad until he retired in 2008 and 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 Malayan Banking Berhad.

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

BOARD RESPONSIBILITY AND OVERSIGHT

BOARD OF DIRECTORS

Composition of the Board

At the date of this report, the Board consists of seven (7) members; comprising one (1) non-independent executive Director, two (2) non-independent non-executive Directors and four (4) independent non-executive Directors.

The concept of independence adopted by the Board is as defined in paragraph 2.27 of Bank Negara Malaysia's Guidelines on Corporate Governance for Licensed Islamic Banks (BNM/GP1-i).

There is a clear separation between the roles of Chairman and Chief Executive Officer to ensure an appropriate balance of role, responsibility, authority and accountability. The Board of Directors is led by Ms Louisa Cheang Wai Wan as the Chairman, Non-Independent Non-Executive Director and the executive management of the Bank is led by En Mohamed Rafe bin Mohamed Haneef, the Chief Executive Officer, Non-Independent Executive Director.

Roles and Responsibilities of the Board

The primary responsibility of the Board of Directors is to adopt an effective and high standard of corporate governance practices by the Bank which include reviewing and approving the Bank's strategies; the annual business plans and performance targets; the significant policies and procedures for monitoring and control of operations; appointments of key senior officers; acquisitions and disposals above pre-determined thresholds; and monitor the management's performance in implementing them.

The Board of Directors also carries out other various functions and responsibilities as laid down by the guidelines and directives issued by Bank Negara Malaysia from time to time.

Frequency and Conduct of Board Meetings

To discharge its duties effectively, the Board has met six (6) times during the year.

The Board receives reports on the progress of the Bank's business operations and minutes of meetings of Board and Management Committees for review at each of its meetings. At these meetings, the members also consider a variety of matters including the Bank's financial results, strategic decisions and corporate governance matters. The Board also receives presentations from each key business area, and on any other topic as they request.

The agenda for every Board meeting together with comprehensive management reports, proposal papers and supporting documents are distributed to the Directors in advance of all Board meetings, to allow time for appropriate review and to enable full discussion at the Board meetings. All proceedings from the Board meetings are minuted. Minutes of every Board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at the following Board meeting.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

BOARD OF DIRECTORS (Cont'd)

Frequency and Conduct of Board Meetings (Cont'd)

The Revised BNM/GP1-i requires the individual Directors to have a minimum attendance of at least 75% of all Board meetings. All the Directors of the Bank have complied with this requirement.

The attendance of Directors at the Board meetings held in the financial year ended 31 December 2013 was as follows:

Name of members	Designation	Attendance / No. of meetings
Louisa Cheang Wai Wan	Chairman, Non-Independent Non-Executive Director	6 / 6
Mukhtar Malik Hussain	Non-Independent Non-Executive Director	6 / 6
Mohamed Rafe bin Mohamed Haneef	Chief Executive Officer, Non-Independent Executive Director	6 / 6
Mohamed Ross bin Mohd Din	Independent Non-Executive Director	6 / 6
Azlan bin Abdullah	Independent Non-Executive Director	5 / 6
Mohamed Ashraf bin Mohamed Iqbal	Independent Non-Executive Director	6 / 6
Lee Choo Hock	Independent Non-Executive Director	6 / 6

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

BOARD COMMITTEES

The Board of Directors has established Board Committees to assist them in the overall management and the running of the Bank's business operations. The appointments of the members to these committees were approved by the Board of Directors upon recommendation by the Nominating Committee. The functions and the terms of reference of each committee, as well as the authority delegated by the Board of Directors to these committees, have been clearly defined by the Board of Directors.

The Board Committees in the Bank are as follows:

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

Pursuant to the Revised BNM/GP1-i, the Audit Committee, Risk Management Committee, Shariah Committee and Nominating Committee were established in September 2008. The revised BNM/GP1-i also requires the Board to establish a Remuneration Committee. The Bank, however, has obtained an exemption from Bank Negara Malaysia on 8 July 2008 from this requirement.

The Connected Party Transactions Committee was established in June 2009 pursuant to the requirements under the Bank Negara Malaysia Guidelines on Credit Transactions and Exposures with Connected Parties.

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE

Composition

The present members of the Audit Committee comprise:

- Lee Choo Hock (Chairman)
- Azlan bin Abdullah
- Mohamed Ross bin Mohd Din

Frequency of Meetings

A total of four (4) Audit Committee meetings were held during the financial year 2013 and all members attended every meeting held except for Encik Azlan bin Abdullah who attended three (3) out of the four (4) meetings during the year.

Terms of Reference

The revised Terms of Reference as set out below were tabled at the Audit Committee and approved at the Board of Directors' meetings held on 24 April 2012. No revisions were made to the Terms of Reference during the year.

<u>Membership</u>

The Committee shall comprise not less than three (3) members. All members shall be non-executive directors of which the majority shall be independent non-executive directors.

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

The Board may from time to time appoint to the Committee additional members it has determined to be independent. In the absence of sufficient independent non-executive directors, the Board may appoint individuals from elsewhere in the HSBC Group with no line or functional responsibility for the activities of the Bank.

The Chairman of the Committee shall be an independent director.

The Committee may invite any director, executive, external auditor or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.

<u>Meetings and Quorum</u>

The Committee shall meet with such frequency and at such times as it may determine. It is expected that the Committee shall meet at least four times each year.

The quorum for meetings shall be two non-executive directors, including one independent non-executive director.

At all meetings of the Committee, the Chairman of the Committee, if present, shall preside. If the Chairman is absent, the members present at the meeting shall elect a chairman of the meeting, who shall be an independent non-executive director.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Objective

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

Responsibilities of the Committee

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

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

   (i) any changes in accounting policies and practices;
   (ii) major judgmental areas;
   (iii) significant adjustments resulting from audit;
   (iv) the going concern assumptions and any qualifications;
   (v) compliance with accounting standards;
   (vi) compliance with legal requirements in relation to financial reporting;
   (vii) regulatory guidance on disclosure of areas of special interest;
   (viii) comment letters from appropriate regulatory authorities; and
   (ix) matters drawn to the attention of the Committee by the Bank's external auditor.

   In regard to the above:

   (i) members of the Committee shall liaise with the Board, members of senior management, the external auditor and head of internal audit; and
   (ii) the Committee shall consider any significant or unusual items that are, or may need to be, highlighted in the annual report and accounts and shall give due consideration to any matters raised by the principal financial officer, head of internal audit, head of compliance or external auditor.
   (iii) the Committee shall ensure that the accounts are prepared and published in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies and bad and doubtful debts.

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

3. To review and discuss with management the effectiveness of the Bank's internal control systems relating to financial reporting and, where appropriate, to endorse the content of the statement relating to internal controls over financial reporting in the annual report for submission to the Board including Shariah compliance.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

4. To monitor and review the effectiveness of the internal audit function, consider the major findings of internal investigations and management's response, and ensure that the internal audit function is adequately resourced, has appropriate standing within the Bank and is free from constraint by management or other restrictions. Where applicable, the Committee shall recommend to the Board the appointment and removal of the Head of Internal Audit.

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

6. To make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and shall be directly responsible for the approval of the remuneration and terms of engagement of the external auditor.

7. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements and reports from the external auditors on their own policies and procedures regarding independence and quality control and to oversee the appropriate rotation of audit partners with the external auditor.

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

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

9. To review the external auditor's annual report on the progress of the audit, its management letter, any material queries raised by the external auditor to the management in respect of the accounting records, financial accounts or systems of control and in each case, responses from management., Any material issues arising which relate to the management of risk or internal controls (other than internal financial controls) shall be referred to the Risk Management Committee as appropriate.

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

11. To discuss with the external auditor their general approach, nature and scope of their audit and reporting obligations before the audit commences including, in particular, the nature of any significant unresolved accounting and auditing problems and reservations arising from their interim reviews and final audits, major judgmental areas (including all critical accounting policies and practices used by the Bank and changes thereto), all alternative accounting treatments that have been discussed with management together with the potential ramifications of using those alternatives, the nature of any significant adjustments, the going concern assumption, compliance with accounting standards and legal requirements, reclassifications or additional disclosures proposed by the external auditor which are significant or which may in the future become material, the nature and impact of any material changes in accounting policies and practices, any written communications provided by the external auditor to management and any other matters the external auditor may wish to discuss (in the absence of management where necessary).

12. To review and discuss the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget and succession planning for key roles throughout the function.

13. To consider any findings of major investigations of internal control over financial reporting matters as delegated by the Board or on the Committee's initiative and assess management's response.

14. To receive an annual report, and other reports from time to time as may be required by applicable laws and regulations, from the principal executive officer and principal financial officer to the effect that such persons have disclosed to the Committee and to the external auditor all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which could adversely affect the Bank's ability to record and report financial data and any fraud, whether material or not, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

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

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

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

18. To report any significant actual, suspected or alleged fraud (involving misconduct or unethical behaviour related to financial reporting) or misrepresentation of assets, which has not been included in a report submitted by management to the Committee, to the non-executive committee responsible for oversight of risk established within the Bank's Regional Holding Company within the HSBC Group.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

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

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

21. Where applicable to review the composition, powers, duties and responsibilities of subsidiaries' non-executive audit committee. The HSBC Group Audit Committee and/or HSBC Group Risk Committee (as appropriate) will review the core terms of reference for adoption by such committees and approve material deviations from such core terms.

22. To undertake or consider on behalf of the Chairman or the Board such other related tasks or topics as the Chairman or the Board may from to time entrust to it.

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

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

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

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

27. To review any related party transactions that may arise within the Bank and the HSBC Group.

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

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

Where there is a perceived overlap of responsibilities between this Committee and the Risk Management Committee, the respective Committee Chairmen shall have the discretion to agree the most appropriate Committee to fulfill any obligation. An obligation under the terms of reference of this Committee or the Risk Management Committee will be deemed by the Board to have been fulfilled providing it is dealt with by either the Committee.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

Where the Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board on action needed to address the issue or to make improvements and, shall report any such concerns to the HSBC Group Audit Committee and/or HSBC Group Risk Committee as appropriate; or to any audit and/or risk committee of an immediate holding company as appropriate.

Written or Circulating Resolution

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK MANAGEMENT COMMITTEE

Composition

The present members of the Risk Management Committee comprise:

- Mohamed Ross bin Mohd Din (Chairman)
- Lee Choo Hock
- Mohamed Ashraf bin Mohamed Iqbal

Frequency of Meetings

A total of six (6) Risk Management Committee meetings were held during the financial year 2013 and all members attended every meeting held except for Encik Mohamed Ross bin Mohd Din who attended 5 out of the 6 meetings during the year.

Terms of Reference

The revised Terms of Reference as set out below were tabled at the Risk Management Committee and approved at Board of Directors' meetings held on 15 February 2012. No revisions were made to the Terms of Reference during the year.

<u>Membership</u>

The Committee shall comprise not less than three (3) non-executive directors. All members shall be non-executive directors.

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

The Chairman of the Committee shall be an independent non-executive director. The Board may from time to time appoint to the Committee additional members it has determined to be independent. In the absence of sufficient independent non-executive directors, the Board may appoint individuals from elsewhere in the HSBC Group with no line or functional responsibility for the activities of the Bank.

The Committee may invite any director, executive or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.

<u>Meetings and Quorum</u>

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

The quorum for meetings shall be two non-executive directors, including one independent non-executive director.

At all meetings of the Committee, the Chairman of the Committee, if present, shall preside. If the Chairman is absent, the members present at the meeting shall elect a chairman of the meeting, who shall be an independent non-executive director.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Objective

The Committee shall be accountable to the Board and shall have non-executive responsibility for oversight of and advice to the Board on matters relating to high level risk related matters and risk governance.

The purpose of the Committee is to oversee senior management's activities in managing financing, market, liquidity, operational, legal and other risk (including reputational risk) and to ensure that the risk management process is in place and functioning.

Responsibilities of the Committee

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

1. To oversee and advise the Board on all high level risk related matters.

   In providing such oversight and preparing advice to the Board, the Committee shall oversee (i) current and forward-looking risk exposures; (ii) the Bank's risk appetite and future risk strategy, including capital and liquidity management strategy; and (iii) management of risk within the Bank.

2. To advise the Board on risk appetite and tolerance in determining strategy.

   In preparing advice to the Board on risk appetite and tolerance, the Committee shall (i) satisfy itself that risk appetite informs the Bank's strategy; (ii) seek such assurance as it may deem appropriate that account has been taken of the current and prospective macroeconomic and financial environment, drawing on financial stability assessments published by authoritative sources that may be relevant; (iii) review and approve the methodology used in establishing the Bank's risk appetite including for example risk asset ratios, limits on exposures and concentrations, leverage ratios, economic capital ratios and stress and scenario testing; and (iv) review the results of appropriate stress and scenario testing.

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

4. To consider and advise the Board on the risks associated with proposed strategic acquisitions or disposals as requested from time to time by any Director in consultation with the Chairman of the Committee. In preparing such advice, the Committee shall satisfy itself that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the HSBC Group, drawing on independent external advice where appropriate and available, before the Board takes a decision whether to proceed.

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

   (i) enable the Committee to assess the risks involved in the Bank's business and how they are controlled and monitored by management; and
   (ii) give clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure which may require a complex assessment of the Bank's vulnerability to hitherto unknown or unidentified risks.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

6. To review the effectiveness of the Bank's risk management framework and internal control systems (other than internal financial control systems).

   In undertaking this responsibility, the Committee shall:

   (i) satisfy itself that there are adequate procedures for monitoring in a sufficiently timely and accurate manner, large exposures or risk types whose relevance may become of critical importance;
   (ii) satisfy itself that there are adequate procedures in place for requiring compliance with HSBC Group policies;
   (iii) consider any material findings from regulatory reviews and interactions with regulators in relation to risk governance or risk assessment or management process;
   (iv) discuss the internal control systems with management and satisfy itself that management has discharged its duty to have an effective internal control system. The Audit Committee of HSBC Bank Malaysia Berhad shall have primary responsibility in this regard in relation to internal financial controls;
   (v) satisfy itself that the risk management function is adequately resourced (including taking into account qualifications and experience of staff and training programmes and budget), has appropriate standing within the Bank and is free from constraint by management or other restrictions; and
   (vi) seek assurance from internal audit that internal control processes for risk management are adequate for the strategy determined by the Board.

7. Where applicable, the Committee shall approve the appointment and removal of the Chief Risk Officer.

   The Committee shall seek such assurance as it may deem appropriate that the Chief Risk Officer:

   (i) participates in the risk management and oversight process at the highest level on an enterprise-wide basis;
   (ii) has satisfied himself or herself that risk originators in the business units are aware of and aligned with the Bank's risk appetite;
   (iii) has a status of total independence from individual business units;
   (iv) reports to the Committee alongside an internal functional reporting line to the HSBC Group Chief Risk Officer;
   (v) cannot be removed from office without the prior agreement of the Board; and
   (vi) has direct access to the chairman of the Committee in the event of need.

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

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

10. To require a timely response to be provided by management on material issues relating to the management of risk or internal control (other than internal financial control) raised in the external auditor's management letter which are considered by the Committee.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

11. To review and endorse the content of the statements made in relation to internal controls (other than internal financial controls) in the annual report and accounts for submission to the Board.

12. Where applicable, to (i) review at least annually the terms of reference for the executive risk management meetings; and (ii) to review the minutes of such meetings and such further information as the executive risk management meeting may request from time to time.

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

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

15. To undertake or consider on behalf of the Chairman or the Board such other related tasks or topics as the Chairman or the Board may from to time entrust to it.

16. The Committee may appoint, employ or retain such professional advisors as the Committee may consider appropriate. In particular, the Committee shall consider whether external advice on risk matters should be taken to challenge analysis undertaken and assessments made by the Committee and the risk management function, for example an external advisor might be asked for input on the stress and scenario testing of a business strategy. Any such appointment shall be made through the Secretary to the Committee, who shall be responsible for the contractual arrangements and payment of fees by the Bank on behalf of the Committee.

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

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

19. To ensure a comprehensive risk management infrastructure is in place for managing all risks including unique Shariah risks. This includes risks associated with all Shariah contracts for all asset and liability based products (ALM) as well as those under the Treasury and Islamic Risk Management Tools such as derivatives. The comprehensive Shariah risk management infrastructure includes but is not limited to:

    (i) identifying and understanding the inherent Shariah non-compliance risks, taking into account existing controls that have been put in place and their effectiveness in mitigating such risks;
    (ii) measuring the potential impact of such risks to the Bank for instance based on the historical and actual de-recognition of income derived from Shariah non-compliant activities;
    (iii) monitoring of Shariah non-compliance risks and a report on the Shariah non-compliance risks indicators shall be escalated to the Board, the Shariah Committee;
    (iv) keeping track of income not recognised arising from Shariah non-compliant activities and assessing the probability of similar cases arising in the future in conjunction with the Shariah Department;
    (v) formulating and recommending appropriate Shariah non-compliance risk management policies and guidelines in consultation with Shariah Department;
    (vi) developing and implementing processes for Shariah non-compliance risk awareness programme in the Bank in consultation with Shariah Department.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

20. To ensure a comprehensive risk management infrastructure is in place for managing all risks including Shariah risks. This includes risk associated with contracts under the Mudharabah and Musharakah financing or investments, which encompasses at the minimum:

    (i) establishment of a process of periodic review on performance of Mudharabah and Musharakah financing or investments;
    (ii) identification and establishment of exit strategies for Mudharabah and Musharakah financing or investments, including extension and redemptions;
    (iii) update the Board on any material progress of Mudharabah and Musharakah financing or investments in a timely manner.

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

Where there is a perceived overlap of responsibilities between the Bank's Audit Committee and Risk Committee, the respective Committee Chairmen shall have the discretion to agree the most appropriate Committee to fulfill any obligation. An obligation under the terms of reference of the Bank's Audit Committee or the Risk Committee will be deemed by the Board to have been fulfilled providing it is dealt with by either of the Committees.

Where the Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board on action needed to address the issue or to make improvements and shall report any such concerns to the HSBC Group Audit Committee and/or HSBC Group Risk Committee as appropriate; or to any audit and/or risk committee of an intermediate holding company as appropriate.

Written or Circulating Resolution

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

NOMINATING COMMITTEE

Composition

The present members of the Nominating Committee comprise:

- Mohamed Ashraf bin Mohamed Iqbal (Chairman)
- Mohamed Ross bin Mohd Din
- Azlan bin Abdullah
- Lee Choo Hock
- Mohamed Rafe bin Mohamed Haneef

Frequency of Meetings

A total of six (6) Nominating Committee meetings were held during the financial year 2013 and all members attended every meeting held except for Encik Azlan bin Abdullah who attended five (5) out of the six (6) meetings during the year.

Terms of Reference

The revised Terms of Reference as set out below were tabled at the Nominating Committee meeting and approved at the Board of Directors meeting held on 23 October 2013.

Membership

The Committee shall consist of five (5) members, of which at least four (4) must be non-executive directors. The fifth person shall be an executive, who shall be the Chief Executive Officer of the Bank.

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

The Committee may invite any director, executive or other person to attend any meeting(s) of the Committee as it may from time to time consider appropriate to assist the Committee in the attainment of its objective.

Meetings and Quorum

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

The quorum for meetings shall be three (3) directors.

At all meetings of the Committee, the Chairman of the Committee, if present, shall preside. If the Chairman is absent, the members present at the meeting shall elect a Chairman, who shall be an independent non-executive director.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Objective

The Committee shall be responsible for ensuring that there are formal and transparent procedures for the appointment of directors, CEO, Company Secretary and members of Shariah Committee as well as assessment of the effectiveness of individual directors, board as a whole, Shariah Committee members, Company Secretary and the performance of CEO and the key Senior Management Officers of the Bank.

Responsibilities of the Committee

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

    (a) To assess and recommend the nominees for directorship, board committee members, Shariah Committee members as well as nominees for the CEO. This includes assessing and recommending directors and Shariah Committee members for reappointment, before an application is submitted to Bank Negara Malaysia for approval;

    (b) To review the structure, size and composition (including skills, knowledge and experience and other core competencies) required of the Board and make recommendations to the Board with regards to any changes through an annual review;

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

    (d) To recommend to the Board the removal of any director, CEO or Shariah Committee members, Company Secretary or key Senior Management Officers if he/ she is ineffective, errant and negligent in discharging his/ her responsibilities;

    (e) To ensure the establishment of performance evaluation processes on the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board, the contribution of the Board's various committee, the performance of the CEO, Company Secretary and key Senior Management Officers of the Bank. Annual assessment should be that are conducted based on objective performance criteria and such performance criteria should be approved by the full Board;

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

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

(i) To assess on an annual basis, to ensure that the directors and key Senior Management Officers are not disqualified under section 68, 70 and 71 of the Islamic Financial Services Act 2013; Company Secretary are not disqualified under Section 139C of the Companies Act 1965 and the Shariah Committee members are not disqualified under the Bank Negara Malaysia Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions (BNM/GPS 1).

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

(k) To assess and recommend to the Board any proposal for appointments and reappointments of CEO and key Senior Management Officers and ensure that there are established procedures to oversee succession planning for key Senior Management Officers.

(l) To review the list of key responsible persons and be satisfied that the list is comprehensive and has taken into account all key positions within the Bank.

(m) To ensure that all key responsible persons fulfill fit and proper requirements and be responsible for conducting assessments of the fitness and propriety of directors, members of Shariah Committee and the CEO. For other key responsible persons, this function may be performed by the CEO or a designated committee under the delegated authority of the Board and the Committee.

2. In respect of the Board of Directors, the Committee shall:

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

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

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

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

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

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

4. In order to be consistent with HSBC Group's global strategies, where strategies and policies related to the objective of this Committee are driven by the parent company, the Committee shall:

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

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

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

7. In respect of the Fit and Proper Criteria, the Committee:

   (a) shall be directly responsible for conducting assessments on the fitness and propriety of directors, members of the Shariah Committee, the CEO and the Company Secretary and making decisions on their appointments.
   (b) may delegate the responsibility for fit and proper assessments and decision on appointments to the CEO or a designated committee.
   (c) Where the board and the Committee delegates to the CEO or a designated committee, the board shall remain accountable for such assessments and decisions.

Written or Circulating Resolution

Any resolution in writing, signed or assented to by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly called and constituted. Any such resolution may consist of several documents in the like form each signed by one or more directors.

Amendment

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

CONNECTED PARTY TRANSACTIONS COMMITTEE

Composition

The Committee shall consist of at least four (4) members, of which two (2) must be non-executive directors. The present members comprise:

- Azlan bin Abdullah
- Mohamed Ashraf bin Mohamed Iqbal
- Amin Siru, Chief Risk Officer ('CRO')
- Alvin Choo, Head of Wholesale Credit and Market Risk

The Chief Risk Officer is empowered to delegate the exercise of his authorities as a member of the Committee, in his absence, to such executive(s) as he sees fit.

Terms of Reference

The Terms of Reference was revised and approved at the Board meeting on 15 February 2012. No revisions were made to the Terms of Reference during the year.

<u>Quorum</u>

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

<u>Meetings and Chairman</u>

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

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

<u>Written or Circular Resolution</u>

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

CONNECTED PARTY TRANSACTIONS COMMITTEE

Terms of Reference (Cont'd)

Powers delegated by the Board

The Committee is delegated with the authority of the Board to approve all corporate/commercial credit transactions up to RM50 million (inclusive of existing credit facilities) with a connected party of HBMS. This authority limit may be changed from time to time as delegated by the Board.

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

- Guidelines on Credit Transactions and Exposures with Connected Parties
- Business Instruction Manual – Volume 3 Credit
- Country Risk Plan
- Large Credit Exposure Policy
- Bank Negara Malaysia Guidelines on Single Customer Limit
- Bank Negara Guidelines on Credit Transactions and Exposure with Connected Parties
- Companies Act 1965
- Hong Kong Banking Ordinance
- Applicable laws and regulations

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

SHARIAH COMMITTEE

Composition

The present members of the Shariah Committee comprise:

- Assoc. Prof. Dr. Younes Soualhi (Chairman)
- Khairul Anuar Ahmad
- Professor Dr. Obiyathulla Ismath Bacha
- Dr. Muhammad Yusuf Saleem Ghulam Nabi
- Professor Dr Abdul Rahim Abdul Rahman

Terms of Reference

Membership

The Shariah Committee shall consist of at least five (5) members who must be individuals appointed upon recommendation of the Bank's Nominating Committee and approval of the Bank's Board of Directors and only after obtaining prior written approval of Bank Negara Malaysia. Such appointment shall be valid for a renewable term of two (2) years.

Meetings, Quorum, Frequency and Decision Making

1. The Shariah Committee should hold meetings at least once in every two (2) months and whenever required, and should report regularly to the Board of Directors.

2. The minimum quorum of a Shariah Committee meeting shall comprise of four (4) members with three (3) of attending members must be members with Shariah background.

3. At all meetings of the Shariah Committee, the Chairman of the Committee with qualified Shariah background, if present shall preside.

4. If the Chairman of the Shariah Committee is unable to attend the meeting, the members shall elect one (1) member among themselves to become the alternate Chairman to preside over the meeting. The alternate Chairman shall be a member with qualified Shariah background.

5. Decisions shall be made on the basis of two-third of the members present, with majority of the two-third votes shall be members with Shariah background**.**

6. A total of nine (9) Shariah Committee meetings were held during the financial year 2013. The attendance of the members at the Shariah Committee meeting held are as follows:

Name of members	Designation	Attendance / No. of meetings
Assoc. Prof. Dr. Younes Soualhi	Chairman	09 / 09
Khairul Anuar Ahmad	Member	09 / 09
Dr. Muhammad Yusuf Saleem Ghulam Nabi	Member	09 / 09
Prof. Dr. Obiyathulla Ismath Bacha	Member	09 / 09
Prof. Dr. Abdul Rahim Abdul Rahman	Member	08 / 09

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

SHARIAH COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Objectives

The primary objective of the Shariah Committee is to ensure that HSBC Amanah is operated and managed in accordance with the Shariah through performing its responsibilities set out below.

Responsibilities of the Committee

Without limiting the generality of the Shariah Committee's objectives, the Shariah Committee shall have the following responsibilities, authorities and discretion:

1. To make decisions on Shariah matters in an independent and objective manner without undue influence or duress and to be responsible and accountable for the Shariah decisions, opinions and views;

2. To advise the Board and provide input on Shariah matters to help the Bank to comply with the Shariah principles at all times;

3. To attend all the Board and/or Board Committee's meeting whenever required and accordingly update the Board on any pertinent Shariah matters relating to the Bank;

4. To endorse Shariah policies and procedures prepared by the Bank to ensure that the contents are Shariah compliant;

5. To approve the product structures and transactions that are being managed, executed and entered into by the Bank;

6. To endorse and validate the following documentations including but not limited to:

   (a) the terms and conditions contained in the forms, contracts, agreements or other legal documentations used in effecting the transactions; and
   (b) the product manual, marketing advertisements, sales illustrations and brochures used to describe the products;

7. To assess the work carried out by Shariah Review and Shariah Audit functions;

8. To perform an oversight role on Shariah matters related to the Bank's business operations and activities through the Shariah review and the Shariah audit functions;

9. To provide necessary assistance on Shariah matters to the Bank's related parties such as its legal counsel, compliance department and auditors to ensure compliance with Shariah;

10. To provide written Shariah opinions if the Bank makes a reference to the Shariah Advisory Council of BNM for further deliberation or in the event the Bank submits an application to BNM / Securities Commission for approval on any new product / transaction.

11. To ratify the list of approved matters prepared by the Shariah Department that the operations and business activities of the Bank are in compliance with Shariah;

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

SHARIAH COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

12. To provide Shariah compliant endorsement in the annual financial statement of the Bank, supported by the Annual Shariah Committee Report;

13. To provide consultation to the Audit Committee in the course of the Audit Committee in determining the deliverables of the Shariah audit function;

14. To identify issues that require its attention and where appropriate, to propose corrective measures based on regular Shariah review reports and Shariah audit observations; and

15. If the Shariah Committee has a reasonable ground to believe that the Bank is involved in non Shariah compliant activities, the Shariah Committee shall inform the Board and to advise, propose or rectify as necessary to ensure its conformity to Shariah requirements. In cases where Shariah non-compliant activities are not effectively or adequately addressed or no rectification measures are made by the Bank, the Shariah Committee shall inform BNM of the same.

Written or Circulating Resolution

Any resolution in writing, signed or assented to by all the members of the Shariah Committee shall be as valid and effectual as if it had been passed at a meeting of the Shariah Committee duly called and constituted and may consist of several documents in the like form each signed by one or more of such members.

Restrictions

A Shariah Committee member shall not have any relationship that could interfere or be reasonably perceived to interfere with the exercise of independent judgment, with the following persons:

a. an immediate family member such as spouse, children or siblings who are, or who were during the last financial year, employed by the Bank or any of its related companies as a senior executive officer (CEO) or non-independent board members; and

b. a substantial shareholder or a partner in (with a stake of 5% or more) or an executive officer of, or a director of any for-profit business organization to which the Bank or any of its subsidiaries made or from which the Bank or any of its subsidiaries received, significant payments in the current or immediate past financial year.

A Shariah Committee member shall not be:

a. an employee of the Bank or any of its related companies for the current or the last financial year;

b. a member of Shariah Advisory Council of BNM; and

c. another Shariah Committee member who is currently serving another Islamic financial institution as a Shariah Committee member.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

SHARIAH COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Recommendations

Where, in the course of meeting its objectives and performing its obligations, the Shariah Committee discovers an issue of concern or for which there is scope for improvement, it shall make recommendations to the Board of Directors on action needed to address the issue or to make improvements.

The Shariah Committee shall from time to time review these Terms of Reference (but at a minimum, once a year) and its own effectiveness and recommend to the Board of Directors any necessary changes.

Law and Guidelines

The provisions of these Terms of Reference must be read together with all applicable laws and guidelines including all relevant laws, regulations, as well as guidelines, circulars and directives issued by BNM and other relevant authorities, the Bank's Memorandum and Articles of Association, policies and manuals which the Bank must adhere to by virtue of being a member of the HSBC Group of companies.

In the event of any conflict between these Terms of Reference and such laws and guidelines, the provisions of such laws and guidelines must prevail.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

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, key reports submitted to the Board during the year include:

- Minutes of the Board Committees
- Business Progress Report
- Financial Performance Report
- Annual Operating Plan
- Market Risk Limits
- Risk Appetite Statement
- Internal Capital Adequacy Assessment Process
- Advanced Internal Ratings –Based Approach ("IRBA") Implementation Plan
- Risk Management Reports
- Operational Risk Report
- Credit Advances Reports
- Scenario Stress Testing and Reverse Stress Testing Results
- Credit Transactions and Exposures to Connected Parties
- Anti-Money Laundering and Counter Terrorist Financing Reports
- Capital Exercise
- Capital Contingency Plan
- Medium Term Outlook
- People's Strategy Update

INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

It is the responsibility of management at all levels to ensure that effective internal controls are in place for all the operations for which they are responsible. Controls within the internal control environment are provided by the implementation of established control frameworks and documented procedures / processes with first line oversight / monitoring effected through managerial /executive supervision and through the Business Risk Control Management teams. Internal Audit provides independent assurance on the effectiveness of the designs of the control frameworks / procedures / processes and on the effectiveness of their implementation.

Systems, processes and procedures are in place to identify, assess, monitor, control and report on all major risks including credit, volatility in the market prices of financial papers, liquidity, operational errors, breaches of law or regulations, unauthorized activities or frauds. These risks are reported to and monitored by the Risk Committee, the Asset and Liability Management Committee (ALCO), the Executive Committee (EXCO), the Audit Committee, the Risk Management Committee and the Board of Directors. Further, the Bank's holding company has a Risk Committee to oversee and ensure that risk issues across all businesses (including those in the Bank) are appropriately managed, as well as an Operational Risk and Internal Control committee to manage operational risk to ensure adequate controls are maintained.

Responsibilities for financial performance against plans and for capital expenditure, credit exposures and market risk exposures are delegated within limits to line management. Global functions in HSBC Group Head Office has been given responsibility to set policies, procedures and standards in the areas of finance, legal, financial crime compliance and regulatory compliance, internal audit, human resources, credit, market risk, operational risk, computer systems and operations, property management, and for selected global product lines. The Bank operates within these policies, procedures and standards set by the HSBC Group Head Office functions.

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

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

The Audit Committee has also reviewed the annual internal audit plan to ensure adequate scope and comprehensive coverage on the audit activities, effectiveness of the audit process, adequate resource deployment for the year and satisfactory performance of the Internal Audit Unit. The Committee has reviewed the internal audit reports, audit recommendations made and management's response to these recommendations. Where appropriate, the Committee has directed action to be taken by the Bank's management team to rectify any deficiencies identified by Internal Audit and to improve the system of internal controls based on the internal auditors' recommendations for improvements.

RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

Rating Agency	Date	Rating Classification	Ratings Received
RAM Ratings Services Berhad	June 2013	- Long term	AAA
		- Short term	P1
		- Outlook	Stable
		- Multi-currency Sukuk Programme	AAA

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The directors have pleasure in presenting their report together with the audited financial statements of HSBC Amanah Malaysia Berhad ("the Bank") for the year ended 31 December 2013.

Principal Activities

The principal activities of the Bank are Islamic banking business and related financial services.

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

Results

	RM'000
Profit for the year attributable to the owner of the Bank	
Profit before income tax expense	**187,657**
Income tax expense	**(43,683)**
Profit after income tax expense	**143,974**

Dividend

The directors do not recommend any dividend payment in respect of the current financial year.

Reserves and Provisions

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

Other statutory information

Before the financial statements of the Bank were finalised, the directors took reasonable steps to ascertain that:

i) all known bad debts have been written off and adequate provision made for doubtful debts, and
ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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

i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts, in the financial statements of the Bank inadequate to any substantial extent.
ii) that would render the value attributed to the current assets in the financial statements of the Bank misleading, or
iii) which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Bank misleading or inappropriate, or
iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Bank misleading.

Other statutory information (Cont'd)

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

i) any charge on the assets of the Bank that has arisen since the end of the financial year and which secures the liabilities of any other person; or
ii) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than in the ordinary course of business.

No contingent liability or other liability of the Bank 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 Bank to meet its obligations as and when they fall due.

In the opinion of the directors, the financial performance of the Bank for the financial year ended 31 December 2013 has not been substantially affected by any item, transaction, or event of a material and unusual nature, nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Business Strategy during the Year 2013

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

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

RAM Ratings Services Berhad has reaffirmed HSBC Amanah Malaysia Berhad's AAA/P1 ratings, reflecting the Bank's robust asset quality and strong financial standing. The Bank maintained its market leader position in various segments and won numerous awards in 2013.

In a move to embody values congruent with responsible sales conduct during the year, the Retail Banking and Wealth Management (RBWM) segment removed product based sales incentives, and focused on values based measures such as providing better customer experience and sales quality to the customers.

The Bank's Global Banking & Markets (GBM) segment continues to take advantage of its debt capital market (DCM) leadership and expertise to secure key deals, and once again asserted its market leadership position among foreign banks in the debt capital markets industry by maintaining HSBC's position as the No.1 foreign bookrunner for Islamic bonds.

At HSBC Malaysia, we continue to invest in the long-term future of the community in which we operate. We focus our community investment on education, the environment and philanthropic activities because we believe they provide the fundamental building blocks for the development of society. The Bank endeavours to contribute towards changing people's lives and the environment they live in for the better, and encourages active participation from our colleagues in all corporate sustainability initiatives. The Bank's approach to sustainability is about managing its business successfully, profitably and for the long term.

Performance Review for 2013

The Bank recorded profit before tax of RM187.7m, RM22.5m or 13.6% above history. The improvement was largely due to lower impairment losses on financing (fell RM73.7m), offset by lower income derived from investment of depositors' funds and others and shareholder's funds (fell RM34.4m), higher income attributable to depositors (rose RM11.5m) and higher operating expenses (rose RM5.4m).

Impairment losses on financing declined arising from higher write-back on collective impairment provision and lower net individual impairment provision, whilst a large sell down gain on Islamic commercial bonds in the previous financial year coupled with higher profit paid on trading liabilities contributed to the decline in income derived from investment of depositor's funds and others and shareholder's funds.

Customer deposits grew by 27.7% or RM2.4b, resulting in higher income attributable to depositors. Meanwhile, the increase in operating expenses were related to branches' operating costs, as the branches opened during 2012 incurred a full year's operating costs in the current financial year.

Balance sheet size grew by 19.9% to RM14.6b, largely driven by growth in customer deposits. The expansion of the Bank's branch network throughout 2012 was a major contributor towards this growth. Arising from slower economic growth coupled with stringent regulatory requirements, net customer advances increased by 8.2%.

Outlook for 2014

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

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

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

The Bank will also capitalise on the HSBC Group's international connectivity for cross border trade initiatives, and will engage with relevant Government bodies for early identification of inbound investments. As liquidity conditions in the domestic financial markets is expected to remain favourable for further expansion of bond-market activity, the Bank, with its leadership in Debt Capital Market, is well positioned to secure more key deals.

DIRECTORS' REPORT (Cont'd)

Awards won during the year

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

Directors and their Interests in Shares

The names of the directors of the Bank in office since the last report and at the date of this report are:

- Louisa Cheang Wai Wan
- Mukhtar Malik Hussain
- Mohamed Rafe bin Mohamed Haneef
- Mohamed Ross bin Mohd Din
- Azlan bin Abdullah
- Mohamed Ashraf bin Mohamed Iqbal
- Lee Choo Hock

In accordance with Articles 72 and 73 of the Articles of Association, all directors shall retire from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

According to the register of directors' shareholdings maintained by the Bank in accordance with Section 134 of the Companies Act, 1965, the directors holding office at year end (including the spouses or children of the Directors) who have beneficial interests in the shares of related corporations are as follows:

	Number of Shares			
Name **HSBC Holdings plc** **Ordinary Shares**	Balance at 1.1.2013	Bought	Sold	Balance at 31.12.2013
Mukhtar Malik Hussain	741,319	178,184	-	919,503

	Number of Shares			
Name **HSBC Holdings plc** **HSBC Share Plan**	Balance at 1.1.2013	Shares Issued Including Dividend	Shares Vested/ Forfeited	Balance at 31.12.2013
Mukhtar Malik Hussain	286,991	108,597	150,632	244,956

	Number of Shares			
Name **Options over HSBC Holdings** **plc shares**	Balance at 1.1.2013	Bought	Sold	Balance at 31.12.2013
Mohamed Ross bin Mohd Din	3,443	-	-	3,443

None of the other directors holding office at 31 December 2013 had any interest in the ordinary shares and options of the Bank and of its related corporations during the financial year.

Directors' Report (Cont'd)

Directors' Benefits

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full-time employee of the Bank or of a related company) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements to which the Bank is a party whereby Directors might 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.

Immediate and Ultimate Holding Company

The Directors regard HSBC Bank Malaysia Berhad, a company incorporated in Malaysia, and HSBC Holdings plc, a company incorporated in England, as the immediate and ultimate holding companies of the Bank respectively.

Zakat Obligation

The Bank is not obliged to pay zakat for the financial year ended 31 December 2013.

Auditors

The auditors, Messrs. KPMG, have indicated their willingness to accept re-appointment.

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

....Director
MUKHTAR MALIK HUSSAIN

....Director
MOHAMED RAFE BIN MOHAMED HANEEF

Kuala Lumpur, Malaysia
12 February 2014

HSBC AMANAH MALAYSIA BERHAD
Company No. 807705-X
Incorporated in Malaysia

DIRECTORS' STATEMENT

In the opinion of the directors:

We, Mukhtar Malik Hussain and Mohamed Rafe bin Mohamed Haneef, being two of the directors of HSBC Amanah Malaysia Berhad, do hereby state on behalf of the directors that, in our opinion, the financial statements set out on pages 44 to 116 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Bank as at 31 December 2013 and of the financial performance and cash flows of the Bank for the year then ended.

Signed at Kuala Lumpur, Malaysia this 12 February 2014

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

....Director
MUKHTAR MALIK HUSSAIN

....Director
MOHAMED RAFE BIN MOHAMED HANEEF

HSBC AMANAH MALAYSIA BERHAD
Company No. 807705-X
Incorporated in Malaysia

STATUTORY DECLARATION

I, Saw Say Pin, being the officer primarily responsible for the financial management of HSBC Amanah Malaysia Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 44 to 116 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 in Kuala Lumpur, Malaysia on 12 February 2014

....
SAW SAY PIN

BEFORE ME:

....
Signature of Commissioner for Oaths

PESURUHJAYA SUMPAH
No. W 633
MURALITHERAN
ART PILLAI
MALAYSIA

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

SHARIAH COMMITTEE'S REPORT

In the name of Allah, the most Beneficent, the most Merciful.

Praise to Allah, the Lord of the Worlds and peace and blessings be upon our Prophet Muhammad, his family and companions.

Assalamu 'Alaikum Warahmatullahi Wabarakatuh

In carrying out the roles and responsibilities as Shariah Committee of HSBC Amanah Malaysia Berhad as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia, the HSBC Amanah Shariah Governance Policy as well as the HSBC Amanah Shariah Committee's Terms of Reference, we hereby submit the following report for the financial year ended 31 December 2013:

1. We have conducted nine (9) meetings for the whole year of 2013 and reviewed the principles and the contracts relating to the transactions and applications introduced by HSBC Amanah Malaysia Berhad during the financial year ended 31 December 2013 to ensure conformity with Shariah requirements.

2. We have performed oversight role through the Shariah review and Shariah audit functions in ensuring HSBC Amanah Malaysia Berhad has complied with the Shariah principles and rulings issued by us and the Shariah Advisory Council of Bank Negara Malaysia.

3. The management of HSBC Amanah Malaysia Berhad is responsible for ensuring that the financial institution conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on our review of the operations of HSBC Amanah Malaysia Berhad, and to report to you.

4. We have assessed the work carried out by Shariah Department and its effectiveness to implement the Shariah Governance Framework which included pre and post examination, on a test basis, each type of transaction across business lines, the relevant documentations and procedures adopted and/or entered into by HSBC Amanah Malaysia Berhad.

5. In performing our duties, we planned and performed our review and had obtained all the information and explanations which we considered indispensable and necessary in order to provide us with satisfactory evidence to arrive at sound Shariah decisions and to give reasonable assurance that HSBC Amanah Malaysia Berhad has complied with Shariah requirements and has not violated the Shariah rules and principles based on the evidences which have been disclosed and tabulated before us.

On that note, we, being the members of the Shariah Committee of HSBC Amanah Malaysia Berhad, do hereby confirm that, with the exception of identified breaches that are being remedied, in our opinion:-

a) the contracts, transactions, dealings entered into by HSBC Amanah Malaysia Berhad during the financial year ended 31 December 2013 have been reviewed by us and are in compliance with Shariah rules and principles; and

b) the allocation of profit and charging of losses relating to the Bank's assets and liabilities conform to the basis that had been approved by us in accordance with Shariah principles;

c) all earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes; and

d) the Bank is not required to pay zakat for the financial year ended 31 December 2013 because its shareholder has no obligation to pay zakat.

HSBC AMANAH MALAYSIA BERHAD
Company No. 807705-X
Incorporated in Malaysia

SHARIAH COMMITTEE'S REPORT (Cont'd)

We, the members of the Shariah Committee of HSBC Amanah Malaysia Berhad, do hereby confirm that with the exception of identified breaches that are being remedied, the operations of HSBC Amanah Malaysia Berhad for the financial year ended 31 December 2013 have been conducted in conformity with the Shariah principles.

We pray to Allah the Almighty to grant us success and the path of straight forwardness.

Wassalamu 'Alaikum Warahmatullahi Wabarakatuh

Chairman of the Shariah Committee ....
Assoc. Prof. Dr. Younes Soualhi

Member of the Shariah Committee ....
Khairul Anuar Ahmad

Member of the Shariah Committee ....
Dr. Muhammad Yusuf Saleem Ghulam Nabi

Member of the Shariah Committee ....
Prof. Dr. Obiyathulla Ismath Bacha

Member of the Shariah Committee ....
Prof. Dr. Abdul Rahim Abdul Rahman

Kuala Lumpur, Malaysia
12 February 2014

KPMG (Firm No. AF 0758)
Chartered Accountants
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan, Malaysia

Telephone +60 (3) 7721 3388
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Internet www.kpmg.com.my

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HSBC AMANAH MALAYSIA BERHAD

Report on the Financial Statements

We have audited the financial statements of HSBC Amanah Malaysia Berhad, which comprise the statement of financial position as at 31 December 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 44 to 116.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

KPMG, a partnership established under Malaysian law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG

INDEPENDENT AUDITORS' REPORT (Cont'd)

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG

KPMG
Firm Number: AF 0758
Chartered Accountants

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

12 February 2014

Petaling Jaya

HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2013

	Note	**31 Dec 2013 RM'000**	31 Dec 2012 RM'000 Restated
Assets			
Cash and short-term funds	*6*	**3,093,206**	1,650,386
Deposits and placements with banks and other financial institutions	*7*	**163,950**	-
Financial assets held-for-trading	*8*	**89,659**	182,509
Financial investments available-for-sale	*9*	**1,341,006**	1,265,283
Financing and advances	*10*	**9,175,173**	8,483,879
Derivative financial assets	*36*	**85,464**	19,232
Other assets	*12*	**181,011**	131,988
Statutory deposits with Bank Negara Malaysia	*13*	**390,562**	343,561
Equipment	*14*	**22,793**	27,839
Intangible assets	*15*	**9**	29
Deferred tax assets	*16*	**7,093**	41,473
Tax recoverable	*20*	**14,472**	-
Total assets		**14,564,398**	12,146,179
Liabilities			
Deposits from customers	*17*	**11,030,564**	8,639,809
Deposits and placements from banks and other financial institutions	*18*	**1,580,469**	1,763,316
Bills and acceptances payable		**10,972**	15,426
Derivative financial liabilities	*36*	**117,031**	43,284
Other liabilities	*19*	**147,980**	141,257
Provision for taxation	*20*	**-**	3,307
Multi-Currency Sukuk Programme	*21*	**500,000**	500,000
Total liabilities		**13,387,016**	11,106,399
Equity			
Share capital	*22*	**50,000**	50,000
Reserves	*23*	**1,127,382**	989,780
Total equity attributable to owner of the Bank		**1,177,382**	1,039,780
Total liabilities and equity		**14,564,398**	12,146,179
Commitments and Contingencies	*35*	**12,007,406**	7,688,612

The financial statements were approved for issue by the Board of Directors on 12 February 2014.

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

HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	**31 Dec 2013 RM'000**	31 Dec 2012 RM'000 Restated
Income derived from investment of depositors' funds and others	*24*	**595,359**	623,650
Income derived from investment of shareholder's funds	*25*	**130,171**	136,241
Impairment losses on financing	*26*	**(68,313)**	(142,010)
Total distributable income		**657,217**	617,881
Income attributable to depositors	*27*	**(256,425)**	(244,965)
Total net income		**400,792**	372,916
Personnel expenses	*28*	**(36,376)**	(35,445)
Other overheads and expenditures	*29*	**(176,759)**	(172,300)
Profit before income tax		**187,657**	165,171
Income tax expense	*30*	**(43,683)**	(31,931)
Profit for the year		**143,974**	133,240
Other comprehensive income/ (expense)			
Items that will subsequently be reclassified to profit or loss when specific conditions are met:			
Available-for-sale reserve:			
Change in fair value		**(8,767)**	515
Amount transferred to profit or loss		**108**	-
Income tax credit/ (expense) relating to components of other comprehensive income		**2,165**	(129)
Other comprehensive (expense)/ income for the year, net of income tax		**(6,494)**	386
Total comprehensive income for the year		**137,480**	133,626
Profit attributable to the owner of the Bank		**143,974**	133,240
Total comprehensive income attributable to the owner of the Bank		**137,480**	133,626
Basic earnings per RM0.50 ordinary share	*31*	**144 sen**	133.2 sen

The financial statements were approved for issue by the Board of Directors on 12 February 2014.

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

HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

	Non-distributable						*Distributable*	
	Share capital	*Share premium*	*Statutory reserve*	*Available-for-sale reserve*	*Capital contribution reserve*	*Profit equalisation reserve*	*Retained profits*	*Total*
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2013								
Balance at 1 January	**50,000**	**610,000**	**50,000**	**534**	**1,161**	**-**	**328,085**	**1,039,780**
Total comprehensive income for the year								
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**143,974**	**143,974**
Other comprehensive income, net of income tax								
Available-for-sale reserve:								
Net change in fair value	**-**	**-**	**-**	**(6,575)**	**-**	**-**	**-**	**(6,575)**
Net amount transferred to profit or loss	**-**	**-**	**-**	**81**	**-**	**-**	**-**	**81**
Total other comprehensive (expense)/ income	**-**	**-**	**-**	**(6,494)**	**-**	**-**	**-**	**(6,494)**
Total comprehensive income for the year	**-**	**-**	**-**	**(6,494)**	**-**	**-**	**143,974**	**137,480**
Transactions with the owner (the ultimate holding company), recorded directly in equity								
Share based payment transactions	**-**	**-**	**-**	**-**	**131**	**-**	**(9)**	**122**
Balance at 31 December	**50,000**	**610,000**	**50,000**	**(5,960)**	**1,292**	**-**	**472,050**	**1,177,382**
2012								
Balance at 1 January	50,000	610,000	50,000	148	695	-	190,825	901,668
Total comprehensive income for the year								
Net profit for the year	-	-	-	-	-	-	133,240	133,240
Other comprehensive income, net of income tax								
Available-for-sale reserve:								
Net change in fair value	-	-	-	386	-	-	-	386
Total other comprehensive income	-	-	-	386	-	-	-	386
Total comprehensive income for the year	-	-	-	386	-	-	133,240	133,626
Transactions with the owner (the ultimate holding company), recorded directly in equity								
Share based payment transactions	-	-	-	-	466	-	-	466
Other transactions, recorded directly in equity								
Reclassification from other liabilities to equity	-	-	-	-	-	5,360	-	5,360
Reclassification to retained earnings	-	-	-	-	-	(5,360)	5,360	-
Deferred tax adjustment	-	-	-	-	-	-	(1,340)	(1,340)
Balance at 31 December	50,000	610,000	50,000	534	1,161	-	328,085	1,039,780

The financial statements were approved for issue by the Board of Directors on 12 February 2014.

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

HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	31 Dec 2013 RM'000	31 Dec 2012 RM'000 Restated
Cash Flows from Operating Activities		
Profit before income tax	**187,657**	165,171
Adjustments for :		
Equipment written off	**13**	1
Share based payment transactions	**131**	466
Net transfer of property and equipment from parent company	**80**	(144)
Depreciation of equipment	**10,192**	7,910
Amortisation of intangible assets	**21**	450
Operating profit before changes in operating assets and liabilities	**198,094**	173,854
(Increase)/ Decrease in operating assets		
Deposits and placements with banks and other financial institutions	**(163,950)**	-
Financial assets held-for-trading	**92,850**	34,207
Financing and advances	**(691,294)**	(698,061)
Derivative financial assets	**(66,232)**	1,219
Other assets	**(49,023)**	58,219
Statutory deposits with Bank Negara Malaysia	**(47,001)**	(114,999)
Increase/ (Decrease) in operating liabilities		
Deposits from customers	**2,390,755**	2,977,313
Deposits and placements from banks and other financial institutions	**(182,847)**	(1,977,209)
Bills and acceptances payable	**(4,454)**	7,826
Derivative financial liabilities	**73,747**	36,490
Other liabilities	**6,714**	54,115
Net cash generated from operating activities	**1,557,359**	552,974
Income tax paid	**(24,917)**	(80,000)
Net cash generated from operating activities	**1,532,442**	472,974
Cash Flows from Investing Activities		
Purchase of equipment	**(5,239)**	(16,680)
Purchase of intangible assets	**(1)**	(18)
Financial Investments available-for-sale	**(84,382)**	(842,682)
Net cash used in investing activities	**(89,622)**	(859,380)
Cash Flows from Financing Activity		
Issuance of Multi-Currency Sukuk	**-**	500,000
Net cash generated from financing activity	**-**	500,000
Net increase in Cash and Cash Equivalents	**1,442,820**	113,594
Cash and Cash Equivalents at beginning of the year	**1,650,386**	1,536,792
Cash and Cash Equivalents at end of the year	**3,093,206**	1,650,386
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**3,093,206**	1,650,386

The financial statements were approved for issue by the Board of Directors on 12 February 2014.

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

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

HSBC Amanah Malaysia Berhad ('the Bank') incorporated on 26 February 2008, is a licensed Islamic Bank under the Islamic Financial Services Act, 2013 (formerly known as Islamic Banking Act, 1983. The registered office of the Bank is at No. 2, Leboh Ampang, 50100 Kuala Lumpur. The principal activities of the Bank are Islamic banking and related financial services.

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

2 Basis of Preparation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with Malaysian Financial Reporting Standards ('MFRS'), International Financial Reporting Standards and the Companies Act, 1965 in Malaysia and BNM requirements on Shariah related disclosure.

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

- MFRS 10, Consolidated Financial Statements
- MFRS 11, Joint Arrangements
- MFRS 12, Disclosure of Interest in Other Entities
- MFRS 13, Fair Value Measurement
- MFRS 119, Employee Benefits (IAS 19 as amended by IASB in June 2011)
- MFRS 127, Separate Financial Statements (IAS 27 as revised by IASB in May 2011)
- MFRS 128, Investments in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011)
- Amendments to MFRS 1, (Government Loans)
- Amendments to MFRS 1, (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 7, Disclosures-Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 10, MFRS 11 and MFRS 12, Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
- Amendments to MFRS 101, Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 132, Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)
- Amendments to MFRS 134, Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)
- IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine

IC Interpretation 20 did not have any impact on the financial statements of the Bank as it is not relevant to the operations of the Bank. The adoption of the remaining standards, amendments and interpretations did not have any material impact on the financial results of the Bank.

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

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

<u>Interpretations and amendments effective for annual periods beginning on or after 1 January 2014</u>

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

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

<u>Amendments effective for annual periods beginning on or after 1 July 2014</u>
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)
- Amendments to MFRS 2, Share-based Payment (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 3, Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 8, Operating Segments (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 13, Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 119, Employee Benefits - Defined Benefit Plans: Employee Contributions
- Amendments to MFRS 138, Intangible Assets (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 124, Related Party Disclosures (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 140, Investment Properties (Annual Improvements 2011-2013 Cycle)

The Bank plans to apply the abovementioned amendments from the annual period beginning 1 July 2014.

<u>MFRSs and Amendments effective for a date yet to be confirmed</u>
- MFRS 9, Financial Instruments (IFRS 9 issued by IASB in November 2009)
- MFRS 9, Financial Instruments (IFRS 9 issued by IASB in October 2010)
- MFRS 9, Financial Instruments (2013)
- Amendments to MFRS 7 - Mandatory Effective Date of MFRS 9 and Transition Disclosures.

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

The initial application of the above accounting standards, amendments and interpretation are not expected to have any material financial impact to the current period and prior period financial statements of the Bank upon their first adoption, except as mentioned below:-

MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139: Financial Instruments, Recognition and Measurement on the classification and measurement of financial assets. The Bank is currently assessing the financial impact that may arise from the adoption of MFRS 9.

2 Basis of Preparation (Cont'd)

(b) Basis of measurement

The financial statements of the Bank have been prepared on the historical cost basis, except for the following assets and liabilities as explained in their respective accounting policy notes:

- Trading assets and liabilities
- Financial investments
- Equipment
- Derivatives and Hedge Accounting

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

Management believes that the Bank's critical accounting policies where judgement is necessarily applied are those which relate to impairment of financing and advances and the valuation of financial instruments (see Note 5). 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 estimate is 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 Bank.

(a) Foreign Currencies

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

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

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

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

3 Significant Accounting Policies (Cont'd)

(b) Revenue

Revenue comprises gross finance income, fee and commission income, net trading income, investment income and other operating income.

(c) Recognition of Financing Income and Financing Expenses

Financing income and attributable profits on deposits and borrowings are recognised on an accrual basis applying the effective profit rate method in accordance with the principles of Shariah. Financing expense and income attributable on deposits and borrowings are amortised using the effective profit rate method in accordance with the principles of Shariah.

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

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

Murabahah
Income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Ijarah Thumma Al-Bai
Income is recognised on effective profit rate over the term of the contract.

Musharakah (Co-ownership)
Income is accounted for on the basis of the reducing balance on a time-apportioned (the Bank's co-ownership portion) basis that reflects the effective yield on the asset.

Bai Al-Inah (Sale and Buy Back)
Income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Bai Bithaman Ajil
Income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Bai Al-Dayn
Income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Ujrah (rendering services for credit card-i (CC-i) holders)
Income is recognised based on actual costs incurred by the Bank to provide the facility to customers.

Ujrah (rendering services for facilities other than CC-i)
Income is recognised based on mutually agreed fee to provide the facility to customers.

3 Significant Accounting Policies (Cont'd)

(d) Recognition of Fees and Commission, Net Trading Income and Other Operating Income

Fee income is earned from a diverse range of services the Bank provides 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 significant act has been 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 profit rate of a financial instrument is recognised as an adjustment to the effective profit rate and recorded in 'financing income' (see Note 3c).

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

Dividend income from equity securities is recognised when the right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Net trading income comprises gains and losses from changes in the fair value of financial assets and financial liabilities held-for-trading, together with the related profit income and attributable profit on financial liabilities.

(e) Income tax

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

Current tax is the tax expected to be payable or receivable on the taxable income or loss for the year, calculated using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. The Bank provides 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 Bank intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised using the tax rates expected to apply in the periods in which the assets will be realized 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 Bank has a legal right to offset.

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 Bank have a legal right to offset.

Deferred tax relating to share-based payment transactions is recognised directly in equity to the extent that the amount of the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense. Deferred tax relating to fair value re-measurements of available-for-sale investments which are charged or credited directly to other comprehensive income, is also charged or credited to other comprehensive income and is subsequently recognised in the profit or loss when the deferred fair value gain or loss is recognised in the profit or loss.

3 Significant Accounting Policies (Cont'd)

(f) 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 Bank becomes a party to the contractual provisions of the instrument.

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

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

ii) Financial instrument categories and subsequent measurement

The Bank categorises financial assets as follows::
- financing and advances (See Note 3k)
- financial investments held to maturity (See Note 3j(i))
- available-for-sale (See Note 3j(ii)); or
- trading assets (see Note 3i):

The Bank classifies its financial liabilities, other than financial guarantees, as measured at amortised cost or fair value through statement of comprehensive income. (See accounting policies in Notes 3(i), 3(s), 3(t)).

iii) Derecognition of financial assets and liabilities

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

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

iv) Offsetting financial assets/liabilities and income/expense

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the Bank has a legal right to offset the amounts and intends either to settle them on a net basis, or realise the asset and settle the liability simultaneously.

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

v) Amortised cost measurement

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

3 Significant Accounting Policies (Cont'd)

(f) Financial instruments (Cont'd)

vi) Fair value measurement

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Bank recognise a trading gain or loss on inception of the financial instrument, being the difference between the transaction price and the fair value. When unobservable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value from the transaction price as indicated by the valuation model is not recognised immediately in the income statement. Instead, it is recognised over the life of the transaction on an appropriate basis, when the inputs become observable, the transaction matures or is closed out, or when the Bank enter into an offsetting transaction.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value are measured in accordance with the Bank's valuation methodologies, which are described in Note 5(ii).

(g) Cash and cash equivalents

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

(h) Contracts under Islamic Sell and Buyback Agreements

Securities purchased under resale agreements are securities which the Bank had purchased with a commitment to resell at future date. The commitment to resell the securities is reflected as an asset on the statement of financial position.

Conversely, obligation on securities sold under repurchase agreements are securities which the Bank had sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the statement of financial position.

(i) Trading assets and trading liabilities

Treasury bills, debt securities, equity securities, debt securities in issue, certain deposits and short positions in securities are classified as held for trading if they have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or they form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets or financial liabilities are recognised on trade date, when the Bank enters into contractual arrangements with counterparties to purchase or sell the financial instruments, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to the profit or loss. Subsequently, the fair values are remeasured, and gains and losses from changes therein are recognised in the profit or loss in 'Net trading income'.

3 Significant Accounting Policies (Cont'd)

(j) Financial investments

Treasury bills, debt securities and equity securities intended to be held on a continuing basis, other than those designated at fair value, are classified as available for sale or held to maturity. Financial investments are recognised on trade date when the Bank enters into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the securities are sold or the borrowers repay their obligations.

i Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank positively intends, and is able, to hold to maturity. These investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective profit rate method, less any impairment losses.

ii Available-for-sale

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

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

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

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

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

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

- Available-for-sale debt securities.
  When assessing available-for-sale debt securities for objective evidence of impairment at the end of the reporting date, the Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer.

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

3 Significant Accounting Policies (Cont'd)

(j) Financial investments (Cont'd)

ii Available-for-sale (Cont'd)

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

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

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

  - Available-for-sale security.
    A subsequent decline in the fair value of the instrument is recognised in the profit or loss when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss. If there is no longer objective evidence that the debt security is impaired, the impairment loss is also reversed through the profit or loss;
  - Available-for-sale equity security.
    All subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised on the equity security are not reversed through the profit or loss. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the profit or loss, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

(k) Financing and Advances

Financing and advances consist of Commodity Murabahah, Diminishing Musharakah, Bai Al-Inah, Bai Bithaman Ajil, Ijarah, Ijarah Thumma Al-Bai, Bai Al-Dayn and Ujrah contracts. They include financing and advances that originated from the Bank, which are not intended to be sold in the short term and have not been classified as held for trading or designated at fair value. Financing and advances are recognised when cash is advanced to customers. They are derecognised when either the customer repays its obligations, or the advances are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective profit rate method, less any impairment losses and unearned income.

(l) Impairment of financing and advances

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

The Bank's allowance for impaired financing are in conformity with MFRS 139 and Bank Negara Malaysia's "Guidelines on Classification and Impairment Provisions for Loans/Financing" issued on 1 January 2012.

3 Significant Accounting Policies (Cont'd)

(l) Impairment of financing and advances (Cont'd)

Individually assessed financing and advances

The factors considered in determining whether a financing is individually significant for the purposes of assessing impairment include:

- the size of the financing;
- the number of financing in the portfolio; and
- the importance of the individual financing relationship, and how this is managed.

Financing that meet the above criteria will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective assessment methodology. Financing considered as individually significant are typically to corporate and commercial customers and are for larger amounts, which are managed on an individual relationship basis. Retail financing portfolios are generally assessed for impairment on a collective basis as the portfolios generally consist of large pools of homogeneous financing.

For all financing that are considered individually significant, the Bank assesses on a case-by-case basis at each balance sheet date whether there is any objective evidence that a financing is impaired. The criteria used by the Bank to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the customer;
- contractual payments of either principal or profit being past due for more than 90 days;
- the probability that the customer will enter bankruptcy or other financial realisation;
- a concession granted to the customer for economic or legal reasons relating to the customer's financial difficulty that results in forgiveness or postponement of principal, profit or fees, where the concession is not insignificant; and
- there has been deterioration in the financial condition or outlook of the customerr such that its ability to repay is considered doubtful.

For those financing where objective evidence of impairment exists, impairment losses are determined considering the following factors:

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

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

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

(l) Impairment of financing and advances (Cont'd)

Collectively assessed financing and advances

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

Incurred but not yet identified impairment
Individually assessed financing for which no evidence of impairment has been specifically identified on an individual basis is grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective impairment. These credit risk characteristics may include country of origination, type of business involved, type of products offered, security obtained or other relevant factors. This reflects impairment losses that the Bank has incurred as a result of events occurring before the balance sheet date, which the Bank is not able to identify on an individual financing basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual financing within the group, those financing are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:
- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, financing grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual financing; and
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

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

Homogeneous groups of financing and advances
Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of financing and advances that are not considered individually significant, because individual financing assessment is impracticable.

Losses in these groups of financing are recorded on an individual basis when individual financing are written off, at which point they are removed from the group. Two alternative methods are used to calculate allowances on a collective basis:

- When appropriate empirical information is available, the Bank utilises roll rate methodology. This methodology employs statistical analyses of historical data and experience of delinquency and default to estimate the amount of financing that will eventually be written off as a result of the events occurring before the balance sheet date which the Bank is not able to identify on an individual financing basis, and that can be reliably estimated. Under this methodology, financing are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that financing in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable. In addition to the delinquency groupings, financing are segmented according to their credit characteristics as described above. Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss. The estimated loss is the difference between the present value of expected future cash flows, discounted at the original effective profit rate of the portfolio, and the carrying amount of the portfolio.

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

(l) Impairment of financing and advances (Cont'd)

Collectively assessed financing and advances (Cont'd)

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

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

Roll rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Write-off of financing and advances

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

Reversal of impairment

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

Renegotiated financing

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

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

(m) Equipment

Equipment, fixtures and fittings and motor vehicles are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis to write off the assets over their useful lives as follows: -

Office equipment, fixtures and fittings	5 to 10 years
Computer equipment	3 to 5 years
Motor vehicles	5 years

Additions to equipment costing RM1,000 and under are fully depreciated in the year of purchase; for those assets costing more than RM1,000, depreciation is provided at the above rates.

The gains or losses on disposal of an item of equipment is determined by comparing the proceeds from disposal with the carrying amount of the equipment and is recognised net within "other operating income" or "other operating expenses" respectively in the profit or loss.

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

(n) Operating Leases

Leases, where the the Bank does not assume substantially all the risks and rewards of ownership, are classified as operating leases and the leased assets are not recognised in the statement of financial position of the Bank. Rentals payable under operating leases are accounted for on a straight line basis over the periods of the leases and are included in 'General administrative expenses'.

(o) Intangible Assets

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

Amortisation of intangible assets is calculated to write off the cost of the intangible assets on a straight line basis over the estimated useful lives of 3 to 5 years. Intangible assets are subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

(p) Bills and Acceptances Payable

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

(q) Debt securities issued, multi-currency sukuk and deposits by customers and banks

Financial liabilities are recognised when the Bank enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities, other than those measured at fair value through profit or loss and financial guarantees, is at amortised cost, using the effective profit 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.

The multi-currency sukuk is carried at amortised cost, with profit payable recognised on an accruals basis.

3 Significant Accounting Policies (Cont'd)

(r) Provisions

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

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed (if there are any) unless the probability of settlement is remote.

(s) Financial guarantees

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

Fee income recognised on financial guarantee contracts are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in the statement of comprehensive income upon discharge of the guarantee.

(t) Derivative Financial Instruments and Hedge Accounting

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

Derivatives may be embedded in other financial instruments, for example, a convertible sukuk with an embedded conversion option. Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes therein recognised in the profit or loss.

Derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the statement of comprehensive income. When derivatives are designated as hedges, the Bank classifies them as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedges') or (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedges'). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

Hedge accounting

At the inception of a hedging relationship, the Bank documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Profit on designated qualifying hedges is included in 'Net finance income'.

3 Significant Accounting Policies (Cont'd)

(t) Derivative Financial Instruments and Hedge Accounting (Cont'd)

i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the profit or loss, along with changes in the fair value of the hedged assets, liabilities or group thereof that are attributable to the hedged risk. If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortised to statement of comprehensive income based on a recalculated effective profit rate over the residual period to maturity, unless the hedged item has been derecognised, in which case, it is released to the profit or loss immediately.

ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the profit or loss.

The accumulated gains and losses recognised in other comprehensive income are reclassified to statement of comprehensive income in the periods in which the hedged item will affect the profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are removed from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity until the forecast transaction is eventually recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the profit or loss.

(u) Profit Equalisation Reserves (PER)

PER refers to the amount appropriated out of total gross income in order to maintain an acceptable level of return to depositors as stipulated by BNM's "The Framework of Rate of Return". PER is a provision shared by both the depositors and the Bank.

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

(v) Employee Benefits

i Short term employee benefits

Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Bank has 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 profit or loss as incurred.

3 Significant Accounting Policies (Cont'd)

(w) Share based payments

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

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

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

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

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

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

(x) Earnings per share

The Bank presents 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 Bank by the weighted average number of shares outstanding during the period.

(y) Assets under management

The Bank had entered into a Restricted Profit Sharing Investment Account ("RPSIA") arrangement with its Parent company, HSBC Bank Malaysia Berhad (HBMY) to invest in certain identified financing assets ("underlying assets" or "RPSIA financing") of the Bank.

The RPSIA arrangement is a contract based on the Mudharabah principle between the Bank and HBMY to finance a financing where HBMY (as the investor) solely provides capital, whilst the assets are managed by the Bank (as the agent). The profit of the underlying assets is shared based on pre-agreed ratios, whilst risk on the financing is borne by HBMY.

Arising from the RPSIA arrangement, the underlying assets are derecognised by the Bank as substantially all the risks and rewards have been effectively transferred and borne by HBMY. Hence, the underlying assets and the allowances for impairment arising thereon, if any, are recognised and accounted by HBMY instead. The recognition and derecognition treatment is in accordance to Note 3(f) on Financial Instruments.

The RPSIA financing, nevertheless, will continue to be administered and managed by HBMS. Therefore, the Bank will record these exposures as assets under management.

Details of the assets under management in respect of the RPSIA financing are disclosed in Note 10(viii).

4 Financial risk management

a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks (includes foreign exchange, profit rate and equity/commodity price risk)
- operational risks

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

Risk management framework

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of reliable and up-to-date administrative and information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Training, individual responsibility and accountability, together with a disciplined, conservative and constructive culture of control, lie at the heart of the Bank's management of risk.

The Executive Committee, Risk Management Committee (constituted by non-executive directors) and Asset and Liability Management Committee, appointed by the Board of Directors, formulate risk management policy, monitor risk and regularly review the effectiveness of the Bank's risk management policies.

The Risk Management Committee is entrusted with the responsibility to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning. The Bank's holding company also has a Risk Committee and an internal Operational Risk and Internal Control Committee to oversee and manage operational risk and ensure that adequate controls are maintained over operational processes.

b) Credit risk management

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its payment obligations under a contract. It arises principally from cash and deposit placements, direct financing, trade finance and holdings of investment debt securities. The Bank has dedicated standards, policies and procedures to control and monitor all such risks.

A Credit and Risk Management structure under the Chief Risk Officer who reports to the Chief Executive Officer, is in place to ensure a more coordinated management of credit risk and a more independent evaluation of credit proposals. The Chief Risk Officer, who also has strong oversight of market, operational and environmental risk, has a functional reporting line to the HSBC Asia Regional Pacific Chief Risk Officer.

The Bank has established a credit process involving credit policies, procedures and financing guidelines which are regularly updated and credit approval authorities delegated from the Board of Directors to the Credit Committee. Excesses or deterioration in credit risk grade are monitored on a regular and ongoing basis and at the periodic, normally annual, review of the facility. The objective is to build and maintain risk assets of acceptable quality where risk and return are commensurate. Reports are produced for the Executive Committee, Risk Management Committee and the Board, covering:

- risk concentration and exposures to industry (main sectors exposures);
- large customer group exposures;
- exposures by Customer Risk Rating (asset quality by CRR);
- large impaired accounts and impairment allowances;
- risk identification 'Worry & Watch' List trend and Top 10 Distressed names;
- rescheduled and restructured financing.

b) Credit risk management (Cont'd)

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

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

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

Impairment assessment

Individually impaired financing and securities are financing and advances and investment debt securities for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and profit due according to the contractual terms of the financing/investment security. These advances are graded CRR 9-10 in the Bank's internal credit risk grading system. Please refer to Note 4b(i) for further information on the Bank's internal credit risk grading system.

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

Past due but not impaired financing and investment debt securities

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

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

Financing with renegotiated terms

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

Write-off of financing and advances

Financing are normally written off, either partially or in full, when there is no realistic prospect of further recovery. Where 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.

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

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

In line with HSBC Global policy, 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 Bank, takes many forms, the most common method of which is to take collateral. The principal collateral types employed by the Bank are as follows:

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

Collateral held as security

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

The estimated fair value of collateral and other security enhancements held against impaired financing as at 31 December 2013 amounted to RM105.3 million (31 December 2012 : RM64.9 million).

Collateral especially properties are made available for sale in an orderly fashion, with the proceeds used to reduce or pay the outstanding financing amount. If excess funds arise after the financing has been repaid, they are made available either to pay other secured financiers with lower priority or are returned to the customer. The Bank does not generally occupy repossessed properties for its business use.

Concentration of credit risk

The Bank monitors concentration of credit risk by sector and geographical location. The analysis of concentration of credit risk from financing and advances to customers is shown in Note 10 (v) and 10 (vii). The analysis of concentration of credit risk from financing and advances to banks and investment securities is shown in note 4 b (ii).

Financial assets held-for-trading

The Bank holds financial assets held-for-trading of RM89.7 million (2012: RM182.5 million). An analysis of the credit quality of the maximum credit exposure, based on the rating agency Standard & Poor's, is as disclosed in Note 8 to the financial statements.

Settlement risk

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt of cash, securities or equities. Daily settlement limits are established for counterparties to cover the aggregate of the Bank's transactions with each one on any single day. Settlement risk on many transactions, particularly those involving securities and equities, is substantially mitigated by settling through assured payment systems or on a delivery-versus-payment basis.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

i) Exposure to credit risk

	2013		
	Financing and advances to customers RM'000	**Financing and advances to banks* RM'000**	**Investment Securities** RM'000**
Carrying amount	**9,175,173**	**3,257,156**	**1,341,006**
Assets at amortised cost			
Individually impaired:			
Gross amount	**166,906**	**-**	**-**
Allowance for impairment	**(41,137)**	**-**	**-**
Carrying amount	**125,769**	**-**	**-**
Past due but not impaired:			
Carrying amount	**579,780**	**-**	**-**
Past due comprises:			
up to 29 days	**370,410**	**-**	**-**
30 - 59 days	**85,688**	**-**	**-**
60 - 89 days	**123,682**	**-**	**-**
	579,780	**-**	**-**
Neither past due nor impaired:			
Strong	**5,027,575**	**3,257,156**	**-**
Medium -good	**1,413,240**	**-**	**-**
Medium-satisfactory	**2,070,796**	**-**	**-**
Substandard	**77,303**	**-**	**-**
Carrying amount	**8,588,914**	**3,257,156**	**-**
of which includes accounts with renegotiated terms	**7,274**	**-**	**-**
Collective allowance for impairment	**(119,290)**	**-**	**-**
Carrying amount-amortised cost	**9,175,173**	**3,257,156**	**-**
Available-for-sale (AFS)			
Neither past due nor impaired:			
Strong	**-**	**-**	**1,341,006**
Carrying amount***	**-**	**-**	**1,341,006**
Carrying amount - fair value	**-**	**-**	**1,341,006**

* Consists of cash and short term funds and deposits and placements with banks and other financial institutions
** Excludes equity securities.
*** No available-for-sale accounts were renegotiated during the year.

In addition to the above, the Bank had entered into financing commitments of RM5,111.5 million. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM550.2 million.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

i) Exposure to credit risk

	2012		
	Financing and advances to customers RM'000	Financing and advances to banks* RM'000	Investment Securities** RM'000
Carrying amount	8,483,879	1,650,386	1,265,283
Assets at amortised cost			
Individually impaired:			
Gross amount	129,418	-	-
Allowance for impairment	(30,379)	-	-
Carrying amount	99,039	-	-
Past due but not impaired:			
Carrying amount	531,532	-	-
Past due comprises:			
up to 29 days	369,174	-	-
30 - 59 days	81,630	-	-
60 - 89 days	80,728	-	-
	531,532	-	-
Neither past due nor impaired:			
Strong	4,834,901	1,650,386	-
Medium -good	1,562,509	-	-
Medium-satisfactory	1,491,596	-	-
Substandard	109,155	-	-
Carrying amount	7,998,161	1,650,386	-
of which includes accounts with renegotiated terms	-	-	-
Collective allowance for impairment	(144,853)	-	-
Carrying amount-amortised cost	8,483,879	1,650,386	-
Available-for-sale (AFS)			
Neither past due nor impaired:			
Strong	-	-	1,265,283
Carrying amount	-	-	1,265,283
Carrying amount-fair value***	-	-	1,265,283

* Consists of cash and short term funds and deposits and placements with banks and other financial institutions and securities purchased under resale agreements.
** Excludes equity securities.
*** No available-for-sale accounts were renegotiated during the year.

In addition to the above, the Bank had entered into financing commitments of RM4,176.4 million. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM764.6 million.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

i) Exposure to credit risk

The five credit quality classifications set out and defined below describe the credit quality of HSBC’s financing, debt securities portfolios and derivatives. Since 2008, the medium classification has been subdivided into ‘medium-good’ and ‘medium satisfactory’ to provide further granularity. These five classifications each encompass a range of more granular, internal credit rating grades assigned to corporate and retail financing business, as well as the external ratings attributed by external agencies to debt securities. There is no direct correlation between the internal and external ratings at granular level, except to the extent each falls within a single quality classification.

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

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

Credit quality of the Bank's corporate financing	Internal Credit Rating
Strong	CRR1 - CRR2
Medium-good	CRR3
Medium-satisfactory	CRR4 - CRR5
Sub-standard	CRR6 - CRR8
Impaired	CRR9 - CRR10

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

ii) Concentration by sector and by location#

	31 Dec 2013		31 Dec 2012	
	Financing and advances to banks* RM'000	**Investment Securities** RM'000**	Financing and advances to banks* RM'000	Investment Securities** RM'000
Carrying amount	**3,257,156**	**1,341,006**	1,650,386	1,265,283
By Sector				
Finance, insurance and business services	**3,093,206**	**24,991**	1,650,386	48,631
Others	**163,950**	**1,316,015**	-	1,216,652
	3,257,156	**1,341,006**	1,650,386	1,265,283
By geographical location				
Within Malaysia	**3,033,855**	**1,341,006**	1,579,492	1,265,283
Outside Malaysia	**223,301**	**-**	70,894	-
	3,257,156	**1,341,006**	1,650,386	1,265,283

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

** Excludes equity securities

Concentration by sector and location for financing and advances is disclosed under Note 10v and 10vii to the financial statements.

4 Financial risk management (Cont'd)

c) Liquidity and funding management

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

The Bank maintains 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 Bank's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due and that wholesale market access is coordinated and cost effective.

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

The management of liquidity and funding is primarily carried out in accordance with the Bank Negara Malaysia New Liquidity Framework; and practices and limits set by ALCO and regional Head Office. These limits vary to take account of the depth and liquidity of the local market in which the Bank operates. The Bank maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flows are appropriately balanced and all obligations are met when due.

The Bank's liquidity and funding management process includes:

- projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet advances to core funding ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications for the business.
- stress testing and scenario analysis are important tools in HSBC's liquidity management framework. This will also include an assessment of asset liquidity under various stress scenerios.
- managing the maturities and diversify secured and unsecured funding liabilities across markets, products and counterparties.
- maintaining liabilities of appropriate term relative to asset base.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

c) Liquidity and funding management (Cont'd)

The balances in the tables below will not agree directly with the balances in the statement of financial position as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments. In addition, 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 financing commitments expire without being drawn upon.

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

RM'000	**On Demand**	**Due within 3 months**	**Due between 3 months to 12 months**	**Due between 1 and 5 years**	**Due after 5 years**
At 31 Dec 2013					
Non-derivative liabilities					
Deposits by customers	**4,478,253**	**5,197,252**	**1,384,350**	**46,289**	**-**
Deposits and placements from banks and other financial institutions	**26,815**	**349,858**	**1,064,734**	**168,513**	**-**
Bills and acceptances payable	**10,972**	**-**	**-**	**-**	**-**
Multi-Currency Sukuk Programme	**-**	**4,688**	**14,063**	**551,563**	**-**
Other liabilities	**110,166**	**36,524**	**-**	**-**	**-**
Financing and other credit-related commitments	**2,234,877**	**591,408**	**149,478**	**768,072**	**-**
Financial guarantees and similar contracts	**489,447**	**4,655**	**14,918**	**41,161**	**-**
	7,350,530	**6,184,385**	**2,627,543**	**1,575,598**	**-**
Derivative liabilities					
Outflow	**-**	**-**	**(2,668)**	**(11,361)**	**-**
Inflow	**-**	**-**	**2,261**	**9,632**	**-**
	-	**-**	**(407)**	**(1,729)**	**-**

RM'000	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years
At 31 Dec 2012 (Restated)					
Non-derivative liabilities					
Deposits by customers	3,193,551	4,352,814	1,113,413	633,561	-
Deposits and placements from banks and other financial institutions	9,775	101,066	1,659,359	20,493	-
Bills and acceptances payable	15,426	-	-	-	-
Multi-Currency Sukuk Programme	-	4,688	14,063	570,313	
Other liabilities	106,700	36,524	-	-	-
Financing and other credit-related commitments	2,190,094	395,046	1,995,067	557,385	-
Financial guarantees and similar contracts	680,927	17,387	16,765	49,538	-
	6,196,473	4,907,525	4,798,667	1,831,290	-
Derivative liabilities					
Outflow	-	-	-	-	-
Inflow	-	-	-	-	-
	-	-	-	-	-

d) Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates, profit rates, basis risk and equity/commodity prices will reduce the Bank's income or the value of its portfolios

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the HSBC Group's status as a premier provider of financial products and services.

The Bank separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market making, proprietary position taking and other marked-to-market positions so designated. Non-trading portfolios primarily arise from the profit rate management of the Bank's retail and commercial banking assets and liabilities, and financial investments available-for-sale.

The management of market risk is principally undertaken using risk limit mandates approved by HSBC's Regional Wholesale and Global Market Risk Management (WMR), an independent unit which develops HSBC Group's market risk management policies and measurement techniques. Market risks which arise on each product are transferred to either the Global Markets or to a separate book managed under the supervision of ALCO. The aim is to ensure that all market risks are consolidated within operations which have the necessary skills, tools, management and governance to manage such risks professionally. Limits are set for portfolios, products and risk types, with market liquidity being the principal factor in determining the level of limits set. The Bank has an independent market risk control function that is responsible for measuring market risk exposures in accordance with the policies defined by WMR. Positions are monitored daily and excesses against the prescribed limits are reported immediately to local senior management and WMR. The nature of the hedging and risk mitigation strategies corresponds to the market instruments available. These strategies range from the use of traditional market instruments, such as profit rate swaps, to more sophisticated hedging strategies to address a combination of risk factors arising at portfolio level.

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

i) Value at risk ('VAR')

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The VAR models used by the Bank are based predominantly on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as profit rates and foreign exchange rates. The models also incorporate the effect of option features on the underlying exposures. The historical simulation models used by the Bank incorporate the following features:

- potential market movements are calculated with reference to data from the past two years;
- historical market rates and prices are calculated with reference to foreign exchange rates and commodity prices, interest rates, equity prices and the associated volatilities; and
- VAR is calculated to a 99 per cent confidence level and for a one-day holding period. The nature of the VAR models means that an increase in observed market volatility will lead to an increase in VAR without any changes in the underlying positions. The Bank routinely validates the accuracy of its VAR models by back-testing the actual daily profit and loss results, adjusted to remove non-modelled items such as fees and commissions, against the corresponding VAR numbers. Statistically, the Bank would expect to see losses in excess of VAR only 1 per cent of the time over a one-year period. The actual number of excesses over this period can therefore be used to gauge how well the models are performing.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

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

A summary of the VAR position of the Bank's trading portfolio at the reporting date is as follows:

RM'000	**At 31 Dec 2013**	**Average**	**Maximum**	**Minimum**
Foreign currentcy risk	**130**	**65**	**279**	**7**
Profit rate risk	**84**	**141**	**336**	**84**
Credit spread risk	**-**	**-**	**-**	**-**
Overall	**176**	**147**	**328**	**89**

RM'000	At 31 Dec 2012	Average	Maximum	Minimum
Foreign currentcy risk	22	59	414	5
Profit rate risk	96	138	251	90
Credit spread risk	-	-	-	-
Overall	87	352	999	87

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

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a 1-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence;
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.
- VAR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

The Bank recognises these limitations by augmenting its VAR limits with other position and sensitivity limit structures. Stress tests are produced on a monthly basis based on the HSBC Group’s stress-testing parameters, and on a quarterly basis based on Bank Negara Malaysia’s parameters to determine the impact of changes in profit rates, exchange rates and other main economic indicators on the Bank’s profitability, capital adequacy and liquidity. The stress-testing provides the Risk Management Committee with an assessment of the financial impact of identified extreme events on the market risk exposures of the Bank.

Sensitivity measures are used to monitor the market risk positions within each risk type, for example, the present value of a basis point movement in profit rates, for profit rate risk. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

Derivative financial instruments (principally profit rate swaps) are used for hedging purposes in the management of asset and liability portfolios and structured positions. This enables the Bank to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of the assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

ii) Exposure to profit rate risk - non-trading portfolio

Market risk in non-trading portfolios arises principally from mismatches between the future yields on assets and their funding cost as a result of profit rate changes. This market risk is transferred to Global Markets and ALCO portfolios, taking into account both the contractual and behavioural characteristics of each product to enable the risk to be managed effectively. Behavioural assumptions for products with no contractual maturity are normally based on a two-year historical trend. These assumptions are important as they reflect the underlying profit rate risk of the products and hence are subject to scrutiny from ALCO, the regional head office and GMO WMR. The net exposure is monitored against the limits granted by GMO WMR for the respective portfolios and, depending on the view on future market movement, economically hedged with the use of financial instruments within agreed limits.

Profit rate risk in the banking book or Rate of Return risk in the Banking book (IRR/RORBB) is defined as the exposure of the non-trading products of the Bank to profit rates. Non-trading portfolios are subject to prospective profit rate movements which could reduce future net finance income. Non-trading portfolios include positions that arise from the profit rate management of the Bank’s retail and commercial banking assets and liabilities, and financial investments designated as available for sale. IRR/RORBB arises principally from mismatches between future yields on assets and their funding costs, as a result of profit rate changes. Analysis of this risk is complicated by having to make assumptions within certain product areas such as the incidence of financing prepayments, and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts.

The Bank manages market risk in non-trading portfolios by monitoring the sensitivity of projected net finance income under varying profit rate scenarios (simulation modeling). For simulation modeling, a combination of standard scenarios and non-standard scenarios relevant to the local market are used.

The standard scenarios monitored monthly include a 100 basis points parallel fall or rise in profit rates and a 25 basis points fall or rise in profit rates at the beginning of each quarter for the next 12 months.

The scenarios assume no management action. Hence, they do not incorporate actions that would be taken by the business units to mitigate the impact of the profit rate risk. In reality, the business units would proactively seek to change the profit rate profile to minimise losses and to optimise net revenues. Other simplifying assumptions are made, including that all positions run to maturity.

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

iii) Sensitivity of projected net finance income

Change in projected net finance income in next 12 months arising from a shift in profit rates of :	**31 Dec 2013 RM'000**	31 Dec 2012 RM'000
+ 100 basis points parallel shift in yield curves	**38,461**	16,102
- 100 basis points parallel shift in yield curves	**(35,768)**	(15,440)
+ 25 basis points at the beginning of each quarter	**27,253**	7,737
- 25 basis points at the beginning of each quarter	**(26,199)**	(7,721)

Sensitivity of reported reserves in "Other Comprehensive Income" to profit rate movements are monitored on a monthly basis by assessing the expected reduction in valuation of available-for-sale portfolios due to parallel movements of plus or minus 100 basis points in all yield curves.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

Exposure to profit rate risk - non-trading portfolio (Cont'd)

iii) Sensitivity of reported reserves in "Other Comprehensive Income" to profit rate movements

Change in projected net finance income in next 12 months arising from a shift in profit rates of :	**31 Dec 2013 RM'000**	31 Dec 2012 RM'000
+ 100 basis points parallel shift in yield curves	**(26,753)**	(37,191)
- 100 basis points parallel shift in yield curves	**26,753**	37,191

Foreign Exchange Risk

Foreign exchange risk arises as a result of movements in the relative value of currencies. In addition to VAR and stress testing, the Bank controls the foreign exchange risk within the trading portfolio by limiting the open exposure to individual currencies, and on an aggregate basis.

Specific Issuer Risk

Specific issuer (credit spread) risk arises from a change in the value of debt instruments due to a perceived change in the credit quality of the issuer or underlying assets. As well as VAR and stress testing, the Bank manages the exposure to credit spread movements within the trading portfolios through the use of limits referenced to the sensitivity of the present value of a basis point movement in credit spreads.

Equity Risk

Equity risk arises from the holding of open positions, either long or short, in equities or equity based instruments, which create exposure to a change in the market price of the equities or underlying equity instruments. All equity derivative trades in the Bank are traded on a back-to-back basis with HSBC group offices and therefore have no open exposure.

e) Operational risk management

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency, systems failure or external events, including legal risk. It is inherent to every business organisation and covers a wide spectrum of issues. The Bank manages this risk through a control-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by the Internal Audit function, and by monitoring external operational risk events, which ensure that the Bank stays in line with best practice and takes account of lessons learned from publicised operational failures within the financial services industry.

4 Financial risk management (Cont'd)

e) Operational risk management (Cont'd)

The Bank adheres to the HSBC Group standard on operational risk. This standard explains how HSBC manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events and implementing any additional procedures required for compliance with local statutory requirements. The standard covers the following:

- operational risk management responsibility is assigned at senior management level within the business operation;
- information systems are used to record the identification and assessment of operational risks and generate appropriate, regular management reporting;
- operational risks are identified by assessments covering operational risks facing each business and risk inherent in processes, activities and products. Risk assessment incorporates a regular review of identified risks to monitor significant changes;
- operational risk loss data is collected and reported to senior management. Aggregate operational risk losses are recorded and details of incidents above a materiality threshold are reported to the Operational Risk and Internal Control Committee. The items are also reported to the internal Risk Committee, the Board level Risk Management Committee, the Audit Committee and as well as Regional Head of Operational Risk Management Asia Pacific; and
- risk mitigation, including insurance, is considered where this is cost-effective.

The Bank maintains and tests contingency facilities to support operations in the event of disasters. Additional reviews and tests are conducted in the event that the Bank is affected by a business disruption event to incorporate lessons learned in the operational recovery from those circumstances.

f) Capital management

The Bank's lead regulator, Bank Negara Malaysia ('BNM') sets and monitors capital requirements for the Bank. With effect from 1 January 2013, the total capital and capital adequacy ratios have been computed based on the Standardised Approach in accordance with the revised Capital Adequacy Framework for Islamic Banks (Capital Components). Please refer to Note 34 of the financial statements for the Bank's regulatory capital position under Basel III at the reporting date.

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, statutory reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes collective impairment allowances (excluding collective impairment allowances attributable to financing classified as impaired).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements

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

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

i) **Impairment of financing and advances**

The Bank's accounting policy for losses arising from the impairment of customer financing and advances is described in Note 3l to the financial statements. Financing impairment allowances represent management's best estimate of losses incurred in the financing portfolios at the reporting date.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

ii) Fair value of financial instruments carried at fair value

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

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

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2013				
Financial assets held-for-trading (Note 8)	**89,659**	**-**	**-**	**89,659**
Financial investments available-for-sale* (Note 9)	**1,341,006**	**-**	**-**	**1,341,006**
Derivative financial assets (Note 36)	**9**	**85,455**	**-**	**85,464**
	1,430,674	**85,455**	**-**	**1,516,129**
Trading liabilities**	**-**	**1,597,843**	**200,320**	**1,798,163**
Derivative financial liabilities (Note 36)	**4**	**106,521**	**10,506**	**117,031**
	4	**1,704,364**	**210,826**	**1,915,194**
2012				
Financial assets held-for-trading (Note 8)	-	182,509	-	182,509
Financial investments available-for-sale* (Note 9)	1,241,652	23,631	-	1,265,283
Derivative financial assets (Note 36)	-	19,200	32	19,232
	1,241,652	225,340	32	1,467,024
Trading liabilities**	-	940,741	245,177	1,185,918
Derivative financial liabilities (Note 36)	1	40,793	2,490	43,284
	1	981,534	247,667	1,229,202

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

** *Trading liabilities consist of structured investments, negotiable instruments of deposits classified as trading, net short position in securities and settlement accounts classified as held for trading. Structured deposits and negotiable instruments of deposits form part of the balance reported under Note 17 (Deposits from customers) while short position in securities and settlement accounts classified as held for trading form part of the balance reported under Note 19 (Other Liabilities).*

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

5 Use of estimates and judgements (Cont'd)

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

Control framework

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

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

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

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

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

Determination of fair value of financial instruments carried at fair value

Fair values are determined according to the following hierachy:

(a) Level 1 - Quoted market price
Financial instruments with quoted prices for identical instruments in active markets that the Bank can access at the measurement date.

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

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

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

The best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities used. Where a financial instrument has a quoted price in an active market and it is part of a portfolio, the fair value of the portfolio is calculated as the product of the number of units and quoted price and no block discounts are applied. In the event that the market for a financial instrument is not active, a valuation technique is used.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

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

Valuation Techniques

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

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

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

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

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

Fair value adjustments

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

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

5 Use of estimates and judgements (Cont'd)

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

Risk-related adjustments

(i) *Bid-offer*

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

(ii) *Uncertainty*

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

(iii) *Credit valuation adjustment*

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

(iv) *Debit valuation adjustment*

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

Model-related adjustments

(i) *Model limitation*

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

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

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

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

Fair value adjustments

Credit valuation adjustment/ debit valuation adjustment methodology

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

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

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

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

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

Valuation of uncollateralised derivatives

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

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

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

	2013			2012		
RM'000	**Derivative financial assets**	**Derivative financial liabilities**	**Trading liabilities**	Derivative financial assets	Derivative financial liabilities	Trading liabilities
Balance at 1 January	**32**	**2,490**	**245,177**	273	-	42,914
Total gains or losses in profit or loss	**(32)** ^	**9,199** ^	**(2,194)** #	(241) ^	2,490 ^	(1,127) #
Issues	**-**	**-**	**122,265**	-	-	45,548
Settlements	**-**	**-**	**(136,086)**	-	-	157,842
Transfer out of Level 3	**-**	**(1,183)**	**(28,842)**	-	-	-
Balance at 31 December	**-**	**10,506**	**200,320**	32	2,490	245,177

^ Denotes losses in profit or loss

# Denotes gains in profit or loss

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

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

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

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

	2013			2012		
RM'000	**Derivative financial assets**	**Derivative financial liabilities**	**Trading liabilities**	Derivative financial assets	Derivative financial liabilities	Trading liabilities
Total gains or losses included in profit or loss for the year ended:						
- Net trading income	**(32)** ^	**290** ^	**879** #	-	-	-
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the year:						
- Net trading income	**-**	**8,909** ^	**(3,073)** #	(241) ^	2,490 ^	(1,127) #

^ Denotes losses in profit or loss

\# Denotes gains in profit or loss

Quantitative information about significant unabservable 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 for the current year, as well as the key unobservable inputs used in the valuation models.

Type of Financial Instruments	Valuation Technique	Key unobservable inputs	Range of estimates for unobservable input
Trading liabilities	Option model	Long term equity volatility Foreign currency volatility	7.38% - 66.86% 1.87% - 16.48%

Key unobservable inputs to Level 3 financial instruments

Volatility

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Cash and Short-Term Funds

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Cash and balances with banks and other financial institutions	**143,206**	150,386
Money at call and interbank placements maturing within one month	**2,950,000**	1,500,000
	3,093,206	1,650,386

7 Deposits and Placements with Banks and Other Financial Institutions

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Other financial institutions	**163,950**	-

8 Financial Assets Held-for-Trading

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	**89,659**	-
Malaysian Government treasury bills	**-**	182,509
	89,659	182,509

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

Money market instruments:		
Malaysian Government treasury bills		
AA+ to AA-	**-**	182,509
Malaysian Government Islamic bonds		
AA+ to AA-	**89,659**	-
	89,659	182,509

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

9 Financial Investments Available-for-Sale

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	**1,316,015**	1,216,651
Negotiable instruments of deposit	**24,991**	25,001
Bankers' acceptances and Islamic accepted bills	**-**	23,631
	1,341,006	1,265,283

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

Maturing within one year	**573,850**	303,905
More than one year to three years	**304,708**	331,801
More than three years to five years	**442,664**	145,412
Over five years	**19,784**	484,165
	1,341,006	1,265,283

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financing and Advances

(i) By type and Shariah contracts

	Sale-based contracts				Lease-based contracts		Equity-based contracts		
	Commodity Murabahah	Bai Bithaman Ajil	Bai Al-Inah	Bai Al-Dayn	Ijarah	Ijarah Thumma Al-Bai	Diminishing Musharakah	Ujrah	Total
31 Dec 2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	-	-	90,276	-	-	-	-	-	90,276
Term financing:									
House financing	-	5,486	63	-	-	-	2,654,446	-	2,659,995
Hire purchase receivables	-	-	-	-	-	252,560	-	-	252,560
Lease receivables	-	-	-	-	2,442	-	-	-	2,442
Other term financing	2,845,521	206,467	405,450	1,413	-	-	1,400,056	-	4,858,907
Trust receipts	55,039	-	-	-	-	-	-	-	55,039
Claims on customers under acceptance credits	466,918	-	-	184,052	-	-	-	9,713	660,683
Staff financing-i	278	-	2,305	-	-	-	43,932	-	46,515
Credit cards-i	-	-	-	-	-	-	-	470,834	470,834
Revolving credit	238,349	-	-	-	-	-	-	-	238,349
Gross financing and advances	3,606,105	211,953	498,094	185,465	2,442	252,560	4,098,434	480,547	9,335,600
Less: Allowance for impaired financing									
Collective allowances for impairment									(119,290)
Individual allowances for impairment									(41,137)
Total net financing and advances									9,175,173

	Sale-based contracts				Lease-based contracts		Equity-based contracts		Total
	Commodity Murabahah	Bai Bithaman Ajil	Bai Al-Inah	Bai Al-Dayn	Ijarah	Ijarah Thumma Al-Bai	Diminishing Musharakah	Ujrah	
31 Dec 2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	-	-	62,737	-	-	-	-	-	62,737
Term financing:									
House financing	-	7,570	79	-	-	-	2,087,248	-	2,094,897
Hire purchase receivables	-	-	-	-	-	269,517	-	-	269,517
Lease receivables	-	-	-	-	2,777	-	-	-	2,777
Other term financing	2,297,767	378,935	813,331	1,938	-	-	1,130,623	-	4,622,594
Trust receipts	49,217	-	-	-	-	-	-	-	49,217
Claims on customers under acceptance credits	484,991	-	-	258,057	-	-	-	118,859	861,907
Staff financing-i	676	-	2,330	-	-	-	38,067	-	41,073
Credit cards-i	-	-	-	-	-	-	-	442,771	442,771
Revolving credit	211,621	-	-	-	-	-	-	-	211,621
Gross financing and advances	3,044,272	386,505	878,477	259,995	2,777	269,517	3,255,938	561,630	8,659,111
Less: Allowance for impaired financing									
Collective allowances for impairment									(144,853)
Individual allowances for impairment									(30,379)
Total net financing and advances									8,483,879

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financing And Advances (Cont'd)

(ii) By type of customer

	31 Dec 2013 RM'000	31 Dec 2012 RM'000 Restated
Domestic non-bank financial institutions	**329,023**	306,943
Domestic business enterprises:		
Small medium enterprises	**1,713,220**	1,712,652
Others	**2,267,570**	2,111,589
Government and statutory bodies	**19,190**	20,193
Individuals	**4,500,134**	4,037,832
Other domestic entities	**1,722**	1,648
Foreign entities	**504,741**	468,254
	9,335,600	8,659,111

(iii) By profit rate sensitivity

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Fixed rate:		
House financing	**8,988**	10,327
Hire purchase receivables	**252,560**	269,517
Other financing	**1,807,208**	2,360,678
Variable rate:		
House financing	**3,266,668**	2,668,365
Other financing	**4,000,176**	3,350,224
	9,335,600	8,659,111

(iv) By residual contractual maturity

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Maturing within one year	**3,821,794**	3,769,152
More than one year to three years	**571,348**	626,054
More than three years to five years	**666,145**	765,104
Over five years	**4,276,313**	3,498,801
	9,335,600	8,659,111

(v) By sector

	31 Dec 2013 RM'000	31 Dec 2012 RM'000 Restated
Agriculture, hunting, forestry & fishing	**367,359**	562,445
Mining and quarrying	**103,688**	151,227
Manufacturing	**1,118,514**	1,162,846
Electricity, gas and water	**90,568**	100,845
Construction	**664,984**	266,430
Real estate	**254,476**	558,642
Wholesale & retail trade, restaurants & hotels	**657,827**	605,763
Transport, storage and communication	**274,259**	305,380
Finance, takaful and business services	**576,063**	234,389
Household - Retail	**4,999,671**	4,356,938
Others	**228,191**	354,206
	9,335,600	8,659,111

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financing And Advances (Cont'd)

(vi) By purpose

	31 Dec 2013 RM'000	31 Dec 2012 RM'000 Restated
Purchase of landed property:		
- Residential	**2,509,261**	1,966,090
- Non-residential	**290,467**	74,027
Purchase of transport vehicles	**1,534**	1,487
Purchase of fixed assets excluding land & building	**20,199**	49,562
Consumption credit	**2,271,120**	2,387,506
Construction	**664,984**	266,430
Working capital	**3,551,919**	3,743,020
Other purpose	**26,116**	170,989
	9,335,600	8,659,111

(vii) By geographical distribution

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Northern Region	**1,403,353**	1,642,810
Southern Region	**1,413,876**	1,321,642
Central Region	**5,996,088**	5,082,757
Eastern Region	**522,283**	611,902
	9,335,600	8,659,111

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 states of Selangor and the Federal Territory of Kuala Lumpur.
The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.
Concentration by location for financing and advances is based on the location of the customer.

(viii) Assets under Management

The details of assets under management in respect of the Restricted Profit Sharing Investment account financing are as below. The exposures and the corresponding risk weighted amount are reported in HSBC Bank Malaysia Berhad's financial statements.

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Term financing	**629,757**	632,121
Less: Individual allowance for impaired financing	**-**	-
Total net financing and advances	**629,757**	632,121

	Credit Principal amount RM'000	**Credit equivalent amount RM'000**	**Risk weighted amount RM'000**
Commitments and Contingencies			
- **at 31 Dec 2013**	**-**	**-**	**-**
- at 31 Dec 2012	-	-	-

	Principal RM'000	**Risk weighted RM'000**
Total RWA for Credit Risk		
- **at 31 Dec 2013**	**629,757**	**629,757**
- at 31 Dec 2012	632,121	632,121

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Impaired Financing

(i) Movements in impaired financing and advances

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
At beginning of year	**129,418**	125,688
Classified as impaired during the year	**261,752**	230,701
Reclassified as performing	**(85,345)**	(23,715)
Amount recovered	**(47,315)**	(65,354)
Amount written off	**(119,997)**	(116,486)
Other movements	**28,393**	(21,416)
At end of year	**166,906**	129,418
Less: Individual allowance for impairment	**(41,137)**	(30,379)
Collective allowance for impairment (impaired portion)	**(43,641)**	(57,126)
Net impaired financing and advances	**82,128**	41,913

(ii) Movements in allowance for impaired financing

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Collective allowance for impairment		
At beginning of year	**144,853**	105,185
Made during the year	**157,960**	159,920
Amount released	**(66,909)**	(6,644)
Amount written off	**(115,853)**	(110,956)
Discount unwind	**(761)**	18
Other movement	**-**	(2,670)
At end of year	**119,290**	144,853

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Individual allowance for impairment		
At beginning of year	**30,379**	32,981
Made during the year	**42,424**	32,088
Amount recovered	**(36,823)**	(18,053)
Amount written off	**(4,705)**	(1,370)
Other movement	**10,291**	(14,684)
Discount unwind	**(429)**	(583)
At end of year	**41,137**	30,379

(iii) By contract

	31 Dec 2013 RM'000	31 Dec 2012 RM'000 Restated
Bai Bithaman Ajil *(deferred payment sale)*	**106**	597
Bai Al-Dayn *(sale of debt)*	**1,330**	2,401
Ijarah Thumma Al-Bai (AITAB) *(hire purchase)*	**7,670**	9,251
Murabahah *(cost-plus)*	**39,663**	7,672
Musharakah (*profit and loss sharing)*	**66,335**	39,454
Bai Al-Inah *(sell and buy back)*	**37,611**	54,397
Ujrah *(fee-based)*	**14,191**	15,646
	166,906	129,418

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Impaired Financing (Cont'd)

(iv) By sector

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Agriculture, hunting, forestry & fishing	**-**	84
Manufacturing	**6,435**	7,594
Construction	**2,455**	-
Wholesale & retail trade, restaurants & hotels	**2,901**	6,913
Transport, storage and communication	**960**	829
Finance, takaful and business services	**420**	420
Household - Retail	**153,544**	113,578
Others	**191**	-
	166,906	129,418

(v) By purpose

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Purchase of landed property:		
- Residential	**65,700**	45,439
- Non-residential	**102**	108
Purchase of transport vehicles	**69**	60
Consumption credit	**87,775**	68,079
Construction	**2,455**	-
Working capital	**10,092**	15,046
Other purpose	**713**	686
	166,906	129,418

(vi) By geographical distribution

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Northern Region	**38,608**	36,631
Southern Region	**26,209**	30,106
Central Region	**96,782**	57,037
Eastern Region	**5,307**	5,644
	166,906	129,418

12 Other Assets

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Income receivable	**18,548**	16,387
Amount due from holding company/ related companies	**151,497**	96,723
Other receivables, deposits and prepayments	**10,966**	18,878
	181,011	131,988

13 Statutory deposits with Bank Negara Malaysia

The non-profit bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)c and 26(3) of the Central Bank of Malaysia Act 2009, the amounts of which are determined at set percentages of total eligible liabilities.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Equipment

2013	**Office equipment, fixtures and fittings**	**Computer equipment**	**Motor vehicles**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cost				
Balance at 1 January	**28,624**	**17,232**	**221**	**46,077**
Additions	**5,141**	**98**	**-**	**5,239**
Reclassification	**68**	**(68)**	**-**	**-**
Disposals	**-**	**(13)**	**-**	**(13)**
Written off	**(61)**	**(4)**	**-**	**(65)**
Net transfers (to)/from parent company	**4**	**(85)**	**-**	**(81)**
Balance at 31 December	**33,776**	**17,160**	**221**	**51,157**
Accumulated depreciation				
Balance at 1 January	**12,017**	**6,140**	**81**	**18,238**
Charge for the year	**6,859**	**3,289**	**44**	**10,192**
Disposals	**-**	**(13)**	**-**	**(13)**
Written off	**(48)**	**(4)**	**-**	**(52)**
Reclassification	**2**	**(2)**	**-**	**-**
Net transfers to/ (from) parent company	**2**	**(3)**	**-**	**(1)**
Balance at 31 December	**18,832**	**9,407**	**125**	**28,364**
Net book value at 31 December	**14,944**	**7,753**	**96**	**22,793**

2012	Office equipment, fixtures and fittings	Computer equipment	Motor vehicles	Total
	RM'000	RM'000	RM'000	RM'000
Cost				
Balance at 1 January	17,603	11,433	221	29,257
Additions	11,024	5,656	-	16,680
Disposals	-	-	-	-
Written off	(3)	-	-	(3)
Net transfers from parent company	-	143	-	143
Balance at 31 December	28,624	17,232	221	46,077
Accumulated depreciation				
Balance at 1 January	6,871	3,423	37	10,331
Charge for the year	5,148	2,718	44	7,910
Disposals	-	-	-	-
Written off	(2)	-	-	(2)
Net transfers to/(from) parent company	-	(1)	-	(1)
Balance at 31 December	12,017	6,140	81	18,238
Net book value at 31 December	16,607	11,092	140	27,839

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Intangible assets

2013	**Computer software RM'000**
Cost	
Balance at 1 January	**5,092**
Additions	**1**
Balance at 31 December	**5,093**
Accumulated depreciation	
Balance at 1 January	**5,063**
Charge for the year	**21**
Balance at 31 December	**5,084**
Net book value at 31 December	**9**

2012	Computer software RM'000
Cost	
Balance at 1 January	5,074
Additions	18
Balance at 31 December	5,092
Accumulated depreciation	
Balance at 1 January	4,613
Charge for the year	450
Balance at 31 December	5,063
Net book value at 31 December	29

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Deferred tax assets	**9,042**	44,483
Deferred tax liabilities	**(1,949)**	(3,010)
	7,093	41,473

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

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

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Equipment		
- Capital allowances	**(1,887)**	(2,793)
Available-for-sale reserve	**1,987**	(178)
Allowances		
- Collective impairment allowance	**16**	35,094
- Others	**7,039**	9,389
Lease receivables	**(62)**	(39)
	7,093	41,473

The movements in temporary differences during the year are as follows:

2013	**As at 1 Jan 2013 RM'000**	**Transfer to parent via statement of financial position RM'000**	**Transfer of PER to retained earnings RM'000**	**Recognised in income statement RM'000**	**Recognised in other comprehensive income RM'000**	**As at 31 Dec 2013 RM'000**
Equipment						
- Capital allowances	**(2,793)**	**-**	**-**	**906**	**-**	**(1,887)**
Available-for-sale reserve	**(178)**	**-**	**-**	**-**	**2,165**	**1,987**
Allowances						
- Collective impairment allowance	**35,094**	**-**	**-**	**(35,078)**	**-**	**16**
- Others	**9,389**	**-**	**-**	**(2,350)**	**-**	**7,039**
Lease receivables	**(39)**	**-**	**-**	**(23)**	**-**	**(62)**
	41,473	**-**	**-**	**(36,545)**	**2,165**	**7,093**
2012						
Equipment						
- Capital allowances	(2,000)	-	-	(793)	-	(2,793)
Available-for-sale reserve	(49)	-	-	-	(129)	(178)
Allowances						
- Collective impairment allowance	25,133	(668)	-	10,629	-	35,094
- Others	6,605	-	(1,340)	4,124	-	9,389
Lease receivables	(15)	-	-	(24)	-	(39)
	29,674	(668)	(1,340)	13,936	(129)	41,473

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Deposits From Customers

(i) By type of deposit

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Non-Mudharabah Fund		
Demand deposits		
- Wadiah	**1,152,713**	769,786
- Wakalah	**98,682**	28,108
Savings deposits		
- Wadiah	**611,078**	516,172
- Wakalah	**617,472**	426,700
Fixed return investment deposits		
- Murabahah	**6,552,310**	5,446,258
Islamic repurchase agreements		
- Bai Al-Inah	**152,660**	223,467
Negotiable instruments of deposits		
- Wakalah	**10,703**	80,434
- Wakalah with Commodity Wa'ad	**526,705**	-
Others		
- Hybrid	**93,769**	105,169
- Wakalah	**60,467**	59,841
- Murabahah	**1,154,005**	983,874
	11,030,564	8,639,809

The maturity structure of term deposits and negotiable instruments of deposits is as follows:

	RM'000	**RM'000**
Due within six months	**5,726,792**	4,697,623
More than six months to one year	**909,369**	709,464
More than one year to three years	**92,019**	58,711
More than three years to five years	**361,538**	60,894
	7,089,718	5,526,692

(ii) By type of customer

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Government and statutory bodies	**87,211**	86,997
Business enterprises	**1,930,020**	2,053,853
Individuals	**7,038,482**	5,252,261
Others	**1,974,851**	1,246,698
	11,030,564	8,639,809

18 Deposits and Placements from Banks and Other Financial Institutions

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Mudharabah Fund		
Licensed banks	**1,553,520**	1,753,541
Bank Negara Malaysia	**26,815**	9,775
Other financial institutions	**134**	-
	1,580,469	1,763,316

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Other Liabilities

	Note	**31 Dec 2013**	31 Dec 2012
		RM'000	RM'000
Profit payable		**52,383**	41,915
Amounts due to holding company/ related companies		**9,137**	33,776
Profit equalisation reserve	(a)	**1,290**	1,340
Other creditors and accruals	(b)	**85,170**	64,226
		147,980	141,257

(a) Movement in profit equalisation reserve is as follows:

	31 Dec 2013	31 Dec 2012
	RM'000	RM'000
At beginning of financial year	**1,340**	6,700
Transfer to retained profits	**-**	(5,360)
Contribution to non-profit organisations	**(50)**	-
At end of year	**1,290**	1,340

(b) Other creditors and accruals

Included in other creditors and accruals is excess compensation balance and profit earned from inadvertent financing of Shariah non-compliant activities. The contribution was distributed to the Non-Governmental Organisations approved by the Shariah Committee during the financial year.

Source and use of charity funds	**31 Dec 2013**	31 Dec 2012
	RM'000	RM'000
Source of charity funds		
At beginning of year	**32**	-
Excess compensation account	**-**	70
Income from inadvertent Shariah non-compliant activities	**72**	32
Use of charity funds		
Contribution to non-profit organisations	**(101)**	(70)
At end of year	**3**	32

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Provision for taxation

	31 Dec 2013	31 Dec 2012
	RM'000	RM'000
Tax (recoverable)/payable	**(14,472)**	3,307

21 Multi-Currency Sukuk Programme ("MCSP")

	31 Dec 2013	31 Dec 2012
	RM'000	RM'000
Multi-Currency Sukuk Programme	**500,000**	500,000

This is a 5-year medium term note (Sukuk) under the Bank's RM3 billion Multi-Currency Sukuk Programme. The Sukuk's maturity date is 28 September 2017 and bears a distribution rate of 3.75% per annum payable semi-annually in arrears. The Sukuk issued under the MCSP is carried at amortised cost, with profit payable recognised on an accrual basis.

22 Share Capital

	31 Dec 2013	31 Dec 2012
	RM'000	RM'000
Authorised:		
600 million ordinary shares of RM0.50 each	**300,000**	300,000
Issued and fully paid:		
100 million ordinary shares of RM0.50 each		
At beginning and end of financial year	**50,000**	50,000

23 Reserves

	31 Dec 2013	31 Dec 2012
	RM'000	RM'000
Non-distributable		
Share premium	**610,000**	610,000
Statutory reserve	**50,000**	50,000
Available-for-sale reserve	**(5,960)**	534
Capital Contribution reserve	**1,292**	1,161
	655,332	661,695
Distributable		
Retained profits	**472,050**	328,085
	1,127,382	989,780

The statutory reserve is maintained in compliance with Section 12 of the Islamic Financial Services Act 2013 and is not distributable as cash dividends.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24 Income Derived from Investment of Depositors' Funds and Others

	31 Dec 2013	31 Dec 2012
	RM'000	RM'000
Income derived from investment of:		
(i) general investment deposits	**459,975**	439,599
(ii) specific investment deposits	**31,046**	96,201
(iii) other deposits	**104,338**	87,850
	595,359	623,650

(i) Income derived from investment of general investment deposits

	31 Dec 2013	31 Dec 2012
	RM'000	RM'000
		Restated
<u>Finance income and hibah:</u>		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**374,951**	376,776
- Recoveries from impaired financing	**8,061**	9,958
Financial investments available-for-sale	**20,052**	11,516
Money at call and deposit with financial institutions	**58,263**	41,349
	461,327	439,599
<u>Other operating income</u>		
Net gains from dealing in foreign currency	**4,266**	-
Net gains from sale of financial assets held-for-trading and other financial instruments	**3,822**	-
Net unrealised gains from revaluation of financial assets held-for-trading	**658**	-
Net profit paid for financial assets held-for-trading and other financial instruments	**(9,994)**	-
Net loss from trading in derivatives	**(9)**	
Other loss	**(95)**	-
	(1,352)	-
	459,975	439,599

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24 Income Derived from Investment of Depositors' Funds and Others (Cont'd)

	31 Dec 2013 RM'000	31 Dec 2012 RM'000 Restated
(ii) Income derived from investment of specific investment deposits		
Finance income and hibah:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**16,483**	30,353
Financial investments available-for-sale	**12,650**	10,427
	29,133	40,780
Other operating income		
Fees and commission	**3,471**	3,080
Net gains from dealing in foreign currency	**15,737**	16,234
Net gain from sale of financial assets held-for-trading and other financial instruments	**14,255**	49,600
Net gains from trading in derivatives	**355**	3,275
Net profit paid from financial assets held-for-trading and other financial instruments	**(30,297)**	(14,726)
Net unrealised loss from revaluation of financial assets held-for-trading	**(1,624)**	(2,042)
Other income	**16**	-
	1,913	55,421
	31,046	96,201
The above fees and commissions were derived from the following major contributors:		
Guarantee fees	**868**	1,217
Service charges and fees	**2,352**	1,109
Credit facilities	**12**	393

	31 Dec 2013 RM'000	31 Dec 2012 RM'000 Restated
(iii) Income derived from investment of other deposits		
Finance income and hibah:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**85,052**	75,296
- Recoveries from impaired financing	**1,828**	1,990
Financial investments available-for-sale	**4,549**	2,301
Money at call and deposit with financial institutions	**13,216**	8,263
	104,645	87,850
Other operating income		
Net gains from dealing in foreign currency	**968**	-
Net gains from sale of financial assets held-for-trading and other financial instruments	**867**	-
Net loss from trading in derivatives	**(2)**	-
Net unrealised gains from revaluation of financial assets held-for-trading	**149**	-
Net profit paid from financial assets held-for-trading and other financial instruments	**(2,267)**	-
Other loss	**(22)**	-
	(307)	-
	104,338	87,850

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Income Derived from Investment of Shareholder's Funds

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Finance income and hibah:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**42,346**	45,435
- Recoveries from impaired financing	**910**	1,201
Financial investments available-for-sale	**2,265**	1,389
Money at call and deposit with financial institutions	**6,580**	4,986
	52,101	53,011
Other operating income		
Fees and commission	**74,596**	76,882
Net gains from dealing in foreign currency	**482**	-
Net gains from sale of financial assets held-for-trading and other financial instruments	**432**	-
Net loss from trading in derivatives	**(1)**	-
Net unrealised gains from revaluation of financial assets held-for-trading	**74**	-
Net profit paid from financial assets held-for-trading and other financial instruments	**(1,129)**	-
Shared-service fees from holding company	**3,562**	6,093
Other income	**54**	255
	78,070	83,230
	130,171	136,241
The above fees and commissions were derived from the following major contributors:		
Service charges and fees	**20,667**	21,027
Cards	**28,501**	24,728
Agency fees	**16,402**	16,675

26 Impairment Losses on Financing

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Impairment charges on financing:		
(a) Individual impairment		
- Provided	**42,424**	32,088
- Written back	**(36,823)**	(18,053)
(b) Collective impairment		
- Provided	**157,960**	159,920
- Written back	**(66,909)**	(6,644)
Impaired financing		
- Recovered	**(31,083)**	(26,312)
- Written off	**2,744**	1,011
	68,313	142,010

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Income Attributable to Depositors

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Deposits from customers		
- Non-Mudharabah Fund	**196,341**	177,714
Deposits and placements of banks and other financial institutions		
- Mudharabah Fund	**39,570**	61,597
Others	**20,514**	5,654
	256,425	244,965

28 Personnel Expenses

	31 Dec 2013 RM'000	31 Dec 2012 RM'000 Restated
Salaries, allowances and bonuses	**29,817**	28,148
Employees Provident Fund contributions	**4,312**	4,419
Other staff related costs	**2,247**	2,878
	36,376	35,445

29 Other Overheads and Expenditures

	31 Dec 2013 RM'000	31 Dec 2012 RM'000 Restated
Promotion and marketing related expenses		
Advertising and promotion	**14,934**	9,695
Marketing	**2,603**	6,167
	17,537	15,862
Establishment related expenses		
Depreciation of equipment	**10,192**	7,910
Amortisation of intangible assets	**21**	450
Information technology costs	**1,909**	1,183
Hire of Equipment	**29**	54
Rental of premises	**7,927**	7,329
Equipment written off	**13**	1
Others	**2,850**	3,049
	22,941	19,976
General administrative expenses		
Intercompany expenses	**122,559**	118,804
Auditors' remuneration		
Statutory audit fees		
KPMG Malaysia	**120**	110
Other services		
KPMG Malaysia	**150**	130
Professional fees	**1,780**	1,807
Others	**11,672**	15,611
	136,281	136,462
	176,759	172,300

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Income Tax Expense

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Malaysian income tax		
- Current year	**43,180**	49,474
- Prior year	**(36,042)**	(3,607)
Total current tax recognised in profit or loss	**7,138**	45,867
Deferred tax:		
Origination and reversal of temporary differences		
- Current year	**1,370**	(13,936)
- Overprovision in prior years	**35,175**	-
Total deferred tax recognised in profit or loss	**36,545**	(13,936)
Total income tax expense	**43,683**	31,931

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

	RM'000	RM'000
Profit before income tax	**187,657**	165,171
Income tax using Malaysian tax rates (25%)	**46,914**	41,293
Non-deductible expenses	**2,330**	1,811
Tax exempt income	**(4,694)**	(7,566)
(Over)/Under provision in respect of prior years	**(867)**	(3,607)
Income tax expense	**43,683**	31,931

The corporate tax rate is 25%. Consequently, deferred tax assets and liabilities are measured using these tax rates.

31 Earnings per share

The earnings per ordinary share have been calculated based on profit for the year and 100,000,000 number of ordinary shares of RM0.50 each in issue during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Significant Related Party Transactions and Balances

For the purpose of these financial statements, parties are considered to be related if:

a. the Bank has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial or operational decisions, or vice versa, or
b. 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 Bank comprise:

i the Bank's immediate, penultimate and ultimate holding companies (hereinafter collectively referred to as "parent companies"),
ii subsidiary and associated companies of the Bank's parent companies,
iii key management personnel who are defined as those person having authority and responsibility for planning, directing and controlling the activities of the Bank, being the members of the Board of Directors of HSBC Amanah Malaysia Berhad, and
iv the close family members of key management personnel.

(a) The significant transactions and outstanding balances of the Bank with parent companies and other related companies are as follows:

	31 Dec 2013		31 Dec 2012	
	Parent companies **RM'000**	***Other related companies*** **RM'000**	*Parent companies* RM'000	*Other related companies* RM'000
Income				
Fees and commission	**4,598**	**14,477**	7,421	15,346
Other income	**3,562**	**-**	6,093	-
	8,160	**14,477**	13,514	15,346
Expenditure				
Profit attributable to intercompany deposits	**36,558**	**1,538**	59,340	2,628
Fees and commission	**32**	**147**	32	87
Operating expenses	**126,345**	**(3,787)**	105,917	12,887
	162,935	**(2,102)**	165,289	15,602
Amount due from				
Current account balances	**858**	**58,143**	1,990	68,904
Other assets	**149,252**	**2,244**	94,567	2,156
	150,110	**60,387**	96,557	71,060
Amount due to				
Intercompany deposits	**1,553,520**	**153,901**	1,653,541	125,185
Current account balances	**6,516**	**-**	16,081	-
Other liabilities	**2,594**	**160**	2,918	14,777
	1,562,630	**154,061**	1,672,540	139,962

All transactions between the Bank and its related parties are made in the ordinary course of business and on substantially the same terms, including profit rates, as for comparable to transactions with a third party.

Total financing due by key management personnel of the Bank as at 31 December 2013 is RM68,321 (2012: RM17,606).

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

(b) Key Management Personnel Compensation

The remuneration of the key management personnel, being the members of the Board of Directors and Shariah Committee of the Bank charged to the income statements during the financial year are as follows:

2013

RM'000	**Salaries and bonuses**	**Other remuneration and employee benefits**	**Benefits-in-kind**	**Fees**	**Total**
Directors					
Executive Director					
Mohamed Rafe Bin Mohamed Haneef (CEO)	**2,069**	**259**	**18**	**-**	**2,346**
Non Executive Directors					
Louisa Cheang	-	-	-	-	-
Mukhtar Malik Hussain	-	-	-	-	-
Mohamed Ross bin Mohd Din	-	-	-	**103**	**103**
Azlan bin Abdullah	-	-	-	**90**	**90**
Mohamed Ashraf Bin Mohamed Iqbal	-	-	-	**93**	**93**
Lee Choo Hock	-	-	-	**103**	**103**
	2,069	**259**	**18**	**389**	**2,735**
Shariah Committee	-	-	-	**401**	**401**
	2,069	**259**	**18**	**790**	**3,136**

2012

RM'000	Salaries and bonuses	Other remuneration and employee benefits	Benefits-in-kind	Fees	Total
Directors					
Executive Director					
Mohamed Rafe Bin Mohamed Haneef (CEO)	1,875	307	18	-	2,200
Non Executive Directors					
Louisa Cheang	-	-	-	-	-
Mukhtar Malik Hussain	-	-	-	-	-
Mohamed Ross bin Mohd Din	-	-	-	90	90
Azlan bin Abdullah	-	-	-	81	81
Mohamed Ashraf Bin Mohamed Iqbal	-	-	-	82	82
Lee Choo Hock	-	-	-	91	91
	1,875	307	18	344	2,544
Shariah Committee	-	-	-	248	248
	1,875	307	18	592	2,792

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Credit exposure to connected parties

The credit exposures of the Bank to connected parties, as defined by Bank Negara Malaysia's Guidelines on Credit Transactions and Exposures with Connected Parties' are as follows:

	31 Dec 2013	31 Dec 2012
Aggregate value of outstanding credit exposures to connected parties (RM'000)	**231,557**	130,602
As a percentage of total credit exposures	**2.00%**	1.25%
Aggregate value of outstanding credit exposures to connected parties which is non-performing or in default (RM'000)	**-**	-
As a percentage of total credit exposures	**-**	-

34 Capital Adequacy

	31 Dec 2013 RM'000	31 Dec 2012 RM'000 Restated
Tier 1 capital		
Paid-up ordinary share capital	**50,000**	50,000
Share premium	**610,000**	610,000
Retained profits	**472,050**	328,085
Other reserves	**43,345**	51,874
Regulatory adjustments	**(5,116)**	(42,072)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	**1,170,279**	997,887
Tier 2 capital		
Collective impairment allowance (unimpaired portion)	**75,649**	87,727
Total Tier 2 capital	**75,649**	87,727
Capital base	**1,245,928**	1,085,614
CET1 and Tier 1 Capital ratio	**12.300%**	10.827%
Total Capital ratio	**13.095%**	11.779%

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

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

	31 Dec 2013		31 Dec 2012	
	Principal RM'000	**Risk-weighted RM'000**	Principal RM'000	Risk-weighted RM'000
Total RWA for credit risk	**16,569,610**	**8,580,305**	14,058,135	8,397,856
Total RWA for market risk	**-**	**78,252**	-	72,469
Total RWA for operational risk	**-**	**856,104**	-	746,473
	16,569,610	**9,514,661**	14,058,135	9,216,798

The comparative capital adequacy ratios and components of capital base have been restated in accordance with the guidelines of the revised CAFIB. Refer to Note 44(ii) for comparative ratios and capital base prior to restatement.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Commitments and Contingencies

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

31 Dec 2013	**Principal amount RM'000**	**Positive fair value of derivative contracts ^ RM'000**	**Credit equivalent amount * RM'000**	**Risk weighted amount * RM'000**
Direct credit substitutes	**493,365**	**-**	**493,365**	**448,235**
Transaction-related contingent items	**832,700**	**-**	**416,350**	**293,927**
Short-term self-liquidating trade-related contingencies	**19,611**	**-**	**3,922**	**3,288**
Irrevocable commitments to extend credit				
- Maturity not exceeding one year	**1,873,926**	**-**	**374,785**	**333,163**
- Maturity exceeding one year	**861,017**	**-**	**430,508**	**416,910**
Unutilised credit card lines	**1,030,840**	**-**	**206,168**	**154,626**
Equity related contracts				
- Less than one year	**644,322**	**11**	**39,062**	**18,346**
- One year to less than five years	**752,273**	**5,095**	**67,296**	**31,154**
Profit rate related contracts				
- Less than one year	**98,500**	**359**	**537**	**269**
- One year to less than five years	**3,101,025**	**58,935**	**154,051**	**85,717**
Foreign exchange related contracts				
- Less than one year	**2,201,457**	**16,424**	**62,439**	**37,043**
- Over five years	**98,370**	**4,640**	**14,587**	**12,127**
	12,007,406	**85,464**	**2,263,070**	**1,834,805**
		Note 36		
31 Dec 2012				
Direct credit substitutes	683,648	-	683,648	635,259
Transaction-related contingent items	674,205	-	337,103	261,801
Short-term self-liquidating trade-related contingencies	17,107	-	3,421	2,634
Irrevocable commitments to extend credit				
- Maturity not exceeding one year	1,645,059	-	329,012	302,734
- Maturity exceeding one year	123,684	-	61,842	59,511
Unutilised credit card lines	1,032,666	-	206,533	154,900
Equity related contracts				
- Less than one year	743,859	604	45,235	22,349
- One year to less than five years	520,972	5,214	46,974	18,989
Profit rate related contracts				
- Less than one year	10,000	39	64	32
- One year to less than five years	1,479,461	9,241	51,784	29,087
- Over five years	550,000	2,206	29,706	22,169
Foreign exchange related contracts				
- Less than one year	96,181	497	1,942	1,287
- Over five years	91,770	1,431	11,526	9,002
	7,668,612	19,232	1,808,790	1,519,754
		Note 36		

^ The foreign exchange, equity related and profit rate related contracts are off-balance sheet derivative financial instruments whose values change in response to change in prices or rates (such as foreign exchange rates, profit rates and commodities price) of the underlying instruments. The table above shows the Bank's derivative financial instruments at the statement of financial position date. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values at the statement of financial position date are shown above.

* The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. The credit conversion factors and risk weighting rules were based on Basel II Capital Adequacy Framework for Islamic Banks, "CAFIB".

36 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			
	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
31 Dec 2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trading derivatives:												
Foreign exchange contracts												
- Forwards	2,178,902	-	-	2,178,902	13,607	-	-	13,607	13,186	-	-	13,186
- Swaps	-	-	94,905	94,905	-	-	4,750	4,750	-	-	3,970	3,970
- Options	26,020	-	-	26,020	-	2,707	-	2,707	23	-	-	23
Profit rate related contracts												
- Swaps	98,500	1,802,194	550,000	2,450,694	359	8,230	3,487	12,076	-	5,674	1,879	7,553
- Options	-	668,832	-	668,832	-	46,720	-	46,720	-	58,873	-	58,873
Equity related contracts												
- Options purchased	644,322	707,865	-	1,352,187	11	5,095	-	5,106	26,100	7,326	-	33,426
Precious metal contracts												
- Options purchased	-	-	-	-	-	-	-	-	-	-	-	-
Sub- total	2,947,744	3,178,891	644,905	6,771,540	13,977	62,752	8,237	84,966	39,309	71,873	5,849	117,031
Hedging Derivatives:												
Fair Value Hedge												
Profit rate related contracts												
- Swaps	-	80,000	-	80,000	-	498	-	498	-	-	-	-
Sub- total	-	80,000	-	80,000	-	498	-	498	-	-	-	-
Total	2,947,744	3,258,891	644,905	6,851,540	13,977	63,250	8,237	85,464	39,309	71,873	5,849	117,031

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Derivative Financial Instruments (Cont'd)

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
31 Dec 2012	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
Trading derivatives:												
Foreign exchange contracts												
- Forwards	84,263	-	-	84,263	497	-	-	497	456	-	-	456
- Swaps	-	-	91,605	91,605	-	-	1,431	1,431	-	-	538	538
- Options	12,083	-	-	12,083	-	-	-	-	10	-	-	10
Profit rate related contracts												
- Options	10,000	1,479,461	550,000	2,039,461	39	9,670	1,777	11,486	-	3,833	-	3,833
- Swaps	-	-	-	-	-	-	-	-	-	-	-	-
Equity related contracts												
- Options purchased	743,859	520,972	-	1,264,831	522	5,296	-	5,818	15,850	22,597	-	38,447
Precious metal contracts												
- Options purchased	-	-	-	-	-	-	-	-	-	-	-	-
Sub- total	850,205	2,000,433	641,605	3,492,243	1,058	14,966	3,208	19,232	16,316	26,430	538	43,284
Hedging Derivatives:												
Fair Value Hedge												
Profit rate related contracts												
- Swaps	-	-	-	-	-	-	-	-	-	-	-	-
Sub- total	-	-	-	-	-	-	-	-	-	-	-	-
Total	850,205	2,000,433	641,605	3,492,243	1,058	14,966	3,208	19,232	16,316	26,430	538	43,284

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Profit Rate Risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The following table summarises the Bank's exposure to the profit rates 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								Effective
31 Dec 2013	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**profit rate %**
ASSETS									
Cash and short-term funds	2,950,000	-	-	-	-	143,206	-	3,093,206	3.05
Deposits and placements with banks and other financial institutions	163,950	-	-	-	-	-	-	163,950	1.50
Financial assets held-for-trading	-	-	-	-	-	-	89,659	89,659	3.28
Financial investments available-for-sale	-	45,020	528,831	747,371	19,784	-	-	1,341,006	3.00
Financing and advances									
- performing	7,345,711	156,178	235,123	1,085,911	43,891	226,231	-	9,093,045	5.92
- impaired *	-	-	-	-	-	82,128	-	82,128	-
Derivative financial assets	-	-	-	-	-	-	85,464	85,464	
Others	-	-	-	-	-	614,951	989	615,940	-
Total Assets	10,459,661	201,198	763,954	1,833,282	63,675	1,066,516	176,112	14,564,398	
LIABILITIES AND EQUITY									
Deposits from customers	5,374,553	1,579,517	1,352,400	41,109	-	837,336	1,845,649	11,030,564	2.51
Deposits and placements from banks and other financial institutions	197,619	150,000	1,042,085	163,950	-	26,815	-	1,580,469	2.59
Bills and acceptances payable	-	-	-	-	-	10,972	-	10,972	-
Multi-Currency Sukuk Programme	-	-	-	500,000	-	-	-	500,000	3.75
Derivative financial liabilities	-	-	-	-	-	-	117,031	117,031	-
Others	-	-	-	-	-	147,942	38	147,980	-
Total Liabilities	5,572,172	1,729,517	2,394,485	705,059	-	1,023,065	1,962,718	13,387,016	
Equity	-	-	-	-	-	1,177,382	-	1,177,382	-
Total Liabilities and Equity	5,572,172	1,729,517	2,394,485	705,059	-	2,200,447	1,962,718	14,564,398	
On-balance sheet profit sensitivity gap	4,887,489	(1,528,319)	(1,630,531)	1,128,223	63,675	(1,133,931)	(1,786,606)	-	
Off-balance sheet profit sensitivity gap									
- Profit rate swaps	-	-	-	53,000	(32,820)	-	-	20,180	
- Profit rate options	(71,921)	(262,545)	-	-	334,466	-	-	-	
Total profit sensitivity gap	4,815,568	(1,790,864)	(1,630,531)	1,181,223	365,321	(1,133,931)	(1,786,606)	20,180	

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

37 Profit rate risk (Cont'd)

31 Dec 2012 (Restated)	Non-trading book: Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	1,500,000	-	-	-	-	150,386	-	1,650,386	3.02
Financial assets held-for-trading	-	-	-	-	-	-	182,509	182,509	2.96
Financial investments available-for-sale	23,631	75,062	205,212	477,212	484,166	-	-	1,265,283	3.01
Financing and advances									
- performing	6,315,087	341,391	266,409	1,244,264	106,685	168,130	-	8,441,966	6.38
- impaired *	-	-	-	-	-	41,913	-	41,913	-
Derivative financial assets	-	-	-	-	-	-	19,232	19,232	-
Others	-	-	-	-	-	539,555	5,335	544,890	-
Total Assets	7,838,718	416,453	471,621	1,721,476	590,851	899,984	207,076	12,146,179	
LIABILITIES AND EQUITY									
Deposits from customers	4,550,442	1,174,978	1,086,522	39,171	-	559,378	1,229,318	8,639,809	2.67
Deposits and placements from banks and other financial institutions	101,066	-	1,632,591	19,884	-	9,775	-	1,763,316	2.12
Bills and acceptances payable	-	-	-	-	-	15,426	-	15,426	-
Multi-Currency Sukuk Programme	-	-	-	500,000	-	-	-	500,000	3.75
Derivative financial liabilities	-	-	-	-	-	-	43,284	43,284	-
Others	-	-	-	-	-	138,285	6,279	144,564	-
Total Liabilities	4,651,508	1,174,978	2,719,113	559,055	-	722,864	1,278,881	11,106,399	
Equity	-	-	-	-	-	1,039,780	-	1,039,780	
Total Liabilities and Equity	4,651,508	1,174,978	2,719,113	559,055	-	1,762,644	1,278,881	12,146,179	
On-balance sheet profit sensitivity gap	3,187,210	(758,525)	(2,247,492)	1,162,421	590,851	(862,660)	(1,071,805)	-	
Off-balance sheet profit sensitivity gap									
- Profit rate swaps	33,285	(139,222)	67,762	38,175	-	-	-	-	
Total profit sensitivity gap	3,220,495	(897,747)	(2,179,730)	1,200,596	590,851	(862,660)	(1,071,805)	-	

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

38 Liquidity Risk

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

31 Dec 2013	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Trading book RM'000	Total RM'000
ASSETS								
Cash and short-term funds	**3,093,206**	**-**	**-**	**-**	**-**	**-**	**-**	**3,093,206**
Deposits and placements with banks and other financial institutions	**163,950**	**-**	**-**	**-**	**-**	**-**	**-**	**163,950**
Financial assets held-for-trading	**-**	**-**	**-**	**-**	**-**	**-**	**89,659**	**89,659**
Financial investments available-for-sale	**-**	**45,020**	**528,831**	**747,371**	**19,784**	**-**	**-**	**1,341,006**
Financing and advances	**1,958,740**	**1,440,036**	**302,301**	**1,228,604**	**4,245,492**	**-**	**-**	**9,175,173**
Derivative financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**85,464**	**85,464**
Others	**4,454**	**162,456**	**-**	**-**	**-**	**448,041**	**989**	**615,940**
Total Assets	**5,220,350**	**1,647,512**	**831,132**	**1,975,975**	**4,265,276**	**448,041**	**176,112**	**14,564,398**
LIABILITIES AND EQUITY								
Deposits from customers	**6,211,889**	**1,579,517**	**1,352,400**	**41,109**	**-**	**-**	**1,845,649**	**11,030,564**
Deposits and placements from banks and other financial institutions	**224,434**	**150,000**	**1,042,085**	**163,950**	**-**	**-**	**-**	**1,580,469**
Bills and acceptances payable	**10,972**	**-**	**-**	**-**	**-**	**-**	**-**	**10,972**
Multi-Currency Sukuk Programme	**-**	**-**	**-**	**500,000**	**-**	**-**	**-**	**500,000**
Derivative financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**117,031**	**117,031**
Others	**19,015**	**47,615**	**-**	**2,495**	**-**	**78,817**	**38**	**147,980**
Total Liabilities	**6,466,310**	**1,777,132**	**2,394,485**	**707,554**	**-**	**78,817**	**1,962,718**	**13,387,016**
Equity	**-**	**-**	**-**	**-**	**-**	**1,177,382**	**-**	**1,177,382**
Total Liabilities and Equity	**6,466,310**	**1,777,132**	**2,394,485**	**707,554**	**-**	**1,256,199**	**1,962,718**	**14,564,398**
Net maturity mismatches	**(1,245,960)**	**(129,620)**	**(1,563,353)**	**1,268,421**	**4,265,276**	**(808,158)**	**(1,786,606)**	**-**
Off balance sheet liabilities	**3,185,246**	**1,015,882**	**2,546,700**	**5,161,208**	**98,370**	**-**	**-**	**12,007,406**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Liquidity Risk (Cont'd)

31 Dec 2012	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Trading book RM'000	Total RM'000
ASSETS								
Cash and short-term funds	1,650,386	-	-	-	-	-	-	1,650,386
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-
Financial assets held-for-trading	-	-	-	-	-	-	182,509	182,509
Financial investments available-for-sale	23,631	75,062	205,212	477,212	484,166	-	-	1,265,283
Financing and advances	1,635,932	1,670,872	332,897	1,378,299	3,465,879	-	-	8,483,879
Derivative financial assets	-	-	-	-	-	-	19,232	19,232
Others	4,490	103,502	-	-	-	431,563	5,335	544,890
Total Assets	3,314,439	1,849,436	538,109	1,855,511	3,950,045	431,563	207,076	12,146,179
LIABILITIES AND EQUITY								
Deposits from customers	5,109,820	1,174,978	1,086,522	39,171	-	-	1,229,318	8,639,809
Deposits and placements from banks and other financial institutions	110,841	-	1,632,591	19,884	-	-	-	1,763,316
Bills and acceptances payable	15,426	-	-	-	-	-	-	15,426
Multi-Currency Sukuk Programme	-	-	-	500,000	-	-	-	500,000
Derivative financial liabilities	-	-	-	-	-	-	43,284	43,284
Others	13,489	45,070	-	2,455	-	77,271	6,279	144,564
Total Liabilities	5,249,576	1,220,048	2,719,113	561,510	-	77,271	1,278,881	11,106,399
Equity	-	-	-	-	-	1,039,780	-	1,039,780
Total Liabilities and Equity	5,249,576	1,220,048	2,719,113	561,510	-	1,117,051	1,278,881	12,146,179
Net maturity mismatches	(1,935,137)	629,388	(2,181,004)	1,294,001	3,950,045	(685,488)	(1,071,805)	-
Off balance sheet liabilities	1,939,848	443,728	1,635,661	3,004,641	644,734	-	-	7,668,612

39 Collateral

In the normal course of business, the Bank sells assets to raise liabilities and accepts 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.

	31 Dec 2013	31 Dec 2012
Carrying amount of assets pledged as collateral	**RM'000**	RM'000
- Collateral pledged for repurchase agreements	**152,660**	223,467

40 Fair values of financial assets and liabilities not measured at fair value

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

		31 Dec 2013 Carrying amount RM'000	**31 Dec 2013 Fair Value RM'000**	31 Dec 2012 Carrying amount RM'000	31 Dec 2012 Fair Value RM'000
Financial Assets					
Cash and short-term funds		**3,093,206**	**3,093,206**	1,650,386	1,650,386
Deposits and placements with banks and other financial institutions		**163,950**	**163,950**	-	-
Financing and advances		**9,175,173**	**9,173,005**	8,483,879	8,477,300
Financial Liabilities					
Deposits from customers		**11,030,564**	**11,001,878**	8,639,809	8,609,264
Deposits and placements from banks and other financial institutions		**1,580,469**	**1,559,360**	1,763,316	1,733,598
Bills and acceptances payable		**10,972**	**10,972**	15,426	15,426
Multi-Currency Sukuk Programme	Note 21	**500,000**	**499,719**	500,000	502,169

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

Cash and short-term funds
Deposits and placements with banks and other financial institutions
Bills and acceptances payable

The carrying amounts approximate fair values due to their relatively short-term nature.

Financing and advances

For personal and commercial financing which mature or reprice after six months, fair value is principally estimated by discounting anticipated cash flows (including profit at contractual rates). Performing financing are grouped to the extent possible, into homogenous pools segregated by maturity within each pool. In general, cash flows are discounted using current market rates for instruments with similar maturity, repricing and credit risk characteristics. For impaired financing, the fair value is the carrying value of the financing, net of individual impairment allowances. Collective impairment allowances are deducted from the fair value of financing.

Deposits from customers
Deposits and placements from banks and other financial institutions

Deposits, placements and obligations which mature or reprice after six months are grouped by residual maturity. Fair value is estimated using discounted cash flows, applying either market rates, where applicable, or current rates offered for deposits of similar remaining maturities.

Multi-Currency Sukuk Programme

The fair value of subordinated bonds are estimated based on discounted cash flows using rates currently offered for debt instruments of similar remaining maturities and credit grading.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

31Dec2013*	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Total carrying amount RM'000
Financial Assets					
Cash and short-term funds	-	-	**3,093,206**	**3,093,206**	**3,093,206**
Deposits and placements with banks and other financial institutions	-	-	**163,950**	**163,950**	**163,950**
Financing and advances	-	-	**9,175,173**	**9,175,173**	**9,173,005**
Financial Liabilities					
Deposits from customers	-	-	**11,001,878**	**11,001,878**	**11,030,564**
Deposits and placements from banks and other financial institutions	-	-	**1,559,360**	**1,559,360**	**1,580,469**
Bills and acceptances payable	-	-	**10,972**	**10,972**	**10,972**
Multi-Currency Sukuk Programme	-	-	**499,719**	**499,719**	**500,000**

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

41 Lease commitments

The Bank has lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the non-cancellable long term commitments net of sub-leases (if any) are as follows:

Year	**31 Dec 2013 RM'000**	31 Dec 2012 RM'000
Less than one year	**6,978**	6,793
Between one and five years	**3,390**	5,183
More than five years		
	10,368	11,976

42 Capital commitments

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Capital expenditure commitments:		
- Authorised and contracted, but not provided for	**93**	3,489
- Authorised but not contracted for	-	359
	93	3,848

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

43 Equity-based compensation

The Bank participated in the Savings-Related Share Option Schemes 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 are all-employee share plans under which eligible HSBC employees are granted options to acquire HSBC Holdings ordinary shares. Employees may make monthly contributions up to £250 over a period of one, three or five years which may be used to exercise the options; alternatively the employee may elect to have the savings repaid in cash. The options are exercisable within three months following the first anniversary of the commencement of a one-year savings contract or within six months following either the third or the fifth anniversary of the commencement of three-year or five-year savings contracts. The exercise price is set at a discount of up to 20 per cent of the market value of the ordinary shares at the date of grant. The cost of the awards is amortised over the vesting period.

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

Year	**31 Dec 2013 Number ('000)**	**Weighted average exercise price £**	31 Dec 2012 Number ('000)	Weighted average exercise price £
Outstanding at 1 January	**36**	**5.32**	34	5.35
Granted in the year	**-**	**-**	17	4.46
Exercised in the year	**(6)**	**4.90**	(12)	4.31
Lapsed in the year	**(7)**	**3.84**	(3)	4.82
Outstanding at 31 December	**23**	**5.88**	36	5.32
Options vested at 31 December	**6**		12	

	31 Dec 2013 RM'000	31 Dec 2012 RM'000
Compensation cost recognised during the year	**(6)**	37

b) Restricted Share Plan

The HSBC Holdings Restricted Share Plan is intended to align the interests of executives with those of shareholders by linking executive awards to the creation of superior shareholder value. This is achieved by focusing on predetermined targets. The cost of the conditional awards is recognised through an annual charge based on the likely level of vesting of shares, apportioned over the period of service to which the award relates.

	31 Dec 2013 Number ('000)	31 Dec 2012 Number ('000)
Outstanding at 1 January	**13**	11
Additions during the year	**12**	7
Released in the year	**(8)**	(5)
Outstanding at 31 December	**17**	13

	31 Dec 2013 RM'000	31 Dec 2011 RM'000
Compensation cost recognised during the year	**384**	372

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan is £6.70 (2012: £6.14). The closing price of the HSBC share at 31 December 2013 was £6.62 (2012: £6.47). The weighted average remaining vesting period as at 31 December 2013 was 2.63 years (2012: 2.38 years).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

44 Shariah Advisors

In line with Bank Negara Malaysia's "Shariah Governance Framework for Islamic Financial Institution" the following Shariah Scholars were appointed

1) Dr. Younes Soualhi is currently Associate Professor in International Islamic University Malaysia (IIUM). He holds a Bachelor, Master and Phd in Usul al-Fiqh from the Emir Abdul Qadir University for Islamic Science in Algeria, IIUM and University Malaya respectively. He also holds a diploma in Human Science from IIUM.

2) Khairul Anuar bin Ahmed is currently Lecturer in Selangor International Islamic University College. He holds a Bachelor and Master of Shariah from University of Malaya.

3) Dr. Muhammad Yusuf Saleem Ghulam Nabi is currently Assistant Professor in International Centre for Education of Islamic Finance (INCEIF). He holds a Bachelor of Law (LLB), Master of Comparative Law and Phd in Law from IIUM.

4) Prof. Dr. Obiyathulla Ismath Bacha is currently Dean of Graduate Studies in International Centre for Education of Islamic Finance (INCEIF). He holds a Bachelor of Social Science from University Sains Malaysia (USM), Master of Business Administration, Master of Arts (Economics) and Doctor of Business Administration specialising in Finance from Boston University.

5) Prof. Dr Abdul Rahim is currently Professor of Accounting in Kuala Lumpur Metropolitan University College (KLMUC). He holds a Bachelor in Finance and Accounting from University of East London, and Master of Accounting and Management Sciences and Phd in Accounting for Islamic Institution from University of Southampton, United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

45 Comparative Figures

Restatement of Comparative Figures

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

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

Statement of financial position at 31 December 2012

	RM'000 As restated	RM'000 As previously stated
a) Derivative financial assets	19,232	-
b) Other assets	131,988	151,220
(of which the affected components are disclosed below) :		
Derivative financial assets	-	19,232
c) Derivative financial liabilities	43,284	-
d) Other liabilities	141,257	184,541
(of which the affected components are disclosed below) :		
Derivative financial liabilities	-	43,284
e) Financing and Advances		
(of which the affected components are disclosed below) :		
By type of customer		
Domestic non-bank financial institutions	306,943	-
Domestic business enterprises		
Small medium enterprises	1,712,652	1,712,652
Others	2,111,589	2,418,532
Government and statutory bodies	20,193	20,193
Individuals	4,037,832	4,037,832
Other domestic entities	1,648	1,648
Foreign entities	468,254	468,254
	8,659,111	8,659,111
By sector		
Agriculture, hunting, forestry & fishing	562,445	542,637
Mining and quarrying	151,227	151,227
Manufacturing	1,162,846	1,253,426
Electricity, gas and water	100,845	100,845
Construction	266,430	255,241
Real estate	558,642	529,295
Wholesale & retail trade, restaurants & hotels	605,763	614,146
Transport, storage and communication	305,380	284,958
Finance, takaful and business services	234,389	229,244
Household - Retail	4,356,938	4,356,938
Others	354,206	341,154
	8,659,111	8,659,111
By purpose		
Purchase of landed property:		
- Residential	1,966,090	1,966,090
- Non-residential	74,027	74,027
Purchase of transport vehicles	1,487	1,487
Purchase of fixed assets excluding land & building	49,562	49,562
Consumption credit	2,387,506	2,387,506
Construction	266,430	255,241
Working capital	3,743,020	3,754,209
Other purpose	170,989	170,989
	8,659,111	8,659,111

45 Comparative Figures (Cont'd))

Restatement of Comparative Figures (Cont'd)

(i) Reclassification to conform to current period's presentation (Cont'd)

Statement of financial position at 31 December 2012 (Cont'd)

	RM'000 As restated	RM'000 As previously stated
b) Impaired Financing		
By contract		
Bai Bithaman Ajil *(deferred payment sale)*	597	597
Bai Al-Dayn *(sale of debt)*	2,401	-
Ijarah Thumma Al-Bai (AITAB) *(hire purchase)*	9,251	9,251
Commodity Murabahah *(cost-plus)*	7,672	10,073
Diminishing Musharakah *(diminishing partnership)*	39,454	39,454
Bai Al-Inah *(sell and buy back)*	54,397	54,397
Ujrah *(fee-based)*	15,646	15,646
	129,418	129,418

Statement of profit or loss and other comprehensive income for the year ended 31 December 2012

	RM'000 As restated	RM'000 As previously stated
a) Income Derived from Investment of Depositors' Funds and Others	623,650	623,650
(of which the affected components are disclosed below) :		
(i) Income derived from investment of general investment deposits		
Finance income and hibah:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	376,776	386,292
- Recoveries from impaired financing	9,958	442
Financial investments available-for-sale	11,516	11,516
Money at call and deposit with financial institutions	41,349	41,349
	439,599	439,599
(ii) Income derived from investment of other deposits		
Finance income and hibah:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	75,296	77,198
- Recoveries from impaired financing	1,990	88
Financial investments available-for-sale	2,301	2,301
Money at call and deposit with financial institutions	8,263	8,263
	87,850	87,850
b) Income Derived from Investment of Shareholder's Funds	136,241	136,241
(of which the affected components are disclosed below) :		
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	45,435	46,583
- Recoveries from impaired financing	1,201	53
Financial investments available-for-sale	1,389	1,389
Money at call and deposit with financial institutions	4,986	4,986
	53,011	53,011

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

45 Comparative Figures (Cont'd))

Restatement of Comparative Figures (Cont'd)

(i) Reclassification to conform to current period's presentation (Cont'd)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2012 (Cont'd)

	RM'000 As restated	RM'000 As previously stated
c) Personnel Expenses	35,445	35,864
(of which the affected components are disclosed below) :		
Other staff related costs	2,878	3,297
d) Other Overheads and Expenditures	172,300	171,881
(of which the affected components are disclosed below) :		
Promotion and marketing related expenses	15,862	16,082
Advertising and promotion	9,695	9,915
General administrative expenses	136,462	135,823
Intercompany expenses	118,804	105,917
Others	15,611	27,859

(ii) Restatement to conform with the revised Capital Adequacy Framework

	RM'000 As restated	RM'000 As previously stated
Capital Adequacy at 31 December 2012		
Tier 1 capital		
Paid-up ordinary share capital	50,000	50,000
Share premium	610,000	610,000
Retained profits	328,085	328,085
Statutory reserve	-	50,000
Other reserves	51,874	-
	1,039,959	1,038,085
Deferred tax adjustments	-	(41,651)
Regulatory adjustments	(42,072)	-
Total Common Equity Tier 1 (CET1) and Tier 1 capital	997,887	996,434
Tier 2 capital		
Collective impairment allowance (unimpaired portion)	87,727	87,727
Total Tier 2 capital	87,727	87,727
Capital base	1,085,614	1,084,161
Core Capital ratio	-	10.8%
Common Equity Tier 1 and Core Capital ratio	10.827%	-
Risk-Weighted Capital ratio	11.779%	11.8%