HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)

FINANCIAL STATEMENTS – 31 DECEMBER 2020

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

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
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BOARD OF DIRECTORS

Datuk Kamaruddin bin Taib
Independent Non-Executive Chairman

Stuart Paterson Milne
Non-Independent Executive Director

Mukhtar Malik Hussain
Non-Independent Executive Director

Adil Ahmad
Independent Non-Executive Director

Lee Choo Hock
Non-Independent Non-Executive Director

Albert Quah Chei Jin
Independent Non-Executive Director

Ho Chai Huey
Independent Non-Executive Director

CORPORATE GOVERNANCE DISCLOSURES

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

Directors

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

Datuk Kamaruddin bin Taib, 64
Independent Non-Executive Chairman
Member of Audit Committee and Nominations and Remuneration Committee
Appointed to the Board and as Chairman**:** January 2018

Datuk Kamaruddin bin Taib was appointed as Independent Non-Executive Chairman of the Bank on 2 January 2018. He is a member of the Audit Committee and Nominations and Remuneration Committee of the Bank.

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

Datuk Kamaruddin is the Chairman of DNV GL Malaysia Sdn Bhd, part of the Global DNV GL Group. He has been with the DNV GL Group since 1995, and was a substantial shareholder until December 2016. He retired as the Executive Chairman in June 2017.

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

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

Datuk Kamaruddin is a Non-Executive Director of Boost Holdings Sdn Bhd (subsidiary of Axiata Group Berhad).

Datuk Kamaruddin does not have any shareholding in the Bank.

Stuart Paterson Milne, 61
Non-Independent Executive Director
Appointed to the Board: May 2018

Mr Milne was appointed as the Non-Independent Executive Director on 24 May 2018.

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

Prior to his appointment in Malaysia, he was the CEO of HSBC Japan and HSBC India respectively.
Mr Milne is a Non-Independent Executive Director and Chief Executive Officer (CEO) of HSBC Bank Malaysia Berhad.

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

Directors (Cont'd)

Mukhtar Malik Hussain, 61
Non-Independent Executive Director
Appointed to the Board**:** December 2009

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

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

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

Mr Mukhtar is a Non-Independent Executive Director of HSBC Bank Malaysia Berhad, Director and Chairman of HSBC Bank (Singapore) Limited.

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

Adil Ahmad, 64
Independent Non-Executive Director
Chairman of the Risk Committee and member of Audit Committee and Nominations and Remuneration Committee
Appointed to the Board: May 2014

Mr Adil was appointed as Independent Non-Executive Director on 5 May 2014. He is the Chairman of Risk Committee and member of the Audit Committee and Nominations and Remuneration Committee of the Bank.

Mr Adil holds a Masters in Business Administration (Finance & Accounting) and BA in Economics from Cornell University, Ithaca, New York. He has 35 years of international banking experience and began his career in the 1980s at ANZ Grindlays Bank Pakistan. He was the Director and Head of Global Islamic Finance of ANZ Investment Bank in London from 1993 to 1997 and thereafter Executive, Group Strategy of ANZ Banking Group Ltd in Melbourne from 1997 to 2000. He assumed the position as the Chief Executive Officer of ANZ Banking Group Ltd Vietnam from 2000 to 2005. In 2006, he left the ANZ Banking Group to become CEO of Kuwait International Bank, from where he retired in 2009.

Since retiring to Malaysia, Mr Adil has advised international clients on strategic and financial matters for projects in Vietnam, Malaysia and Pakistan and has provided Islamic and conventional banking training programs for banks and other financial institutions.

Mr Adil is currently a council member of GLG (Gerson Lehrman Group), an Independent Director of FIDE Forum and Independent Chairman/Director of FWD Takaful Berhad.

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

Directors (Cont'd)

Lee Choo Hock, 68
Non-Independent Non-Executive Director
Member of the Audit Committee, Risk Committee and Nominations and Remuneration Committee
Appointed to the Board: May 2016

Mr Lee was appointed as Independent Non-Executive Director on 30 May 2016 and subsequently re-designated as Non-Independent Non-Executive Director on 30 May 2019. He is a member of the Audit Committee, Risk Committee and Nominations and Remuneration Committee of the Bank.

He is a member of the Institute of Chartered Accountants in England and Wales as well as the Malaysian Institute of Accountants. He began his career with Miller, Brener & Co., London, a professional accounting firm in 1975 and joined Malayan Banking Berhad (Maybank) in 1982. Having worked with Maybank for 27 years, Mr Lee has built a successful career as a professional accountant. He served various management positions during his tenure with Maybank until he retired in 2008 and his last position was as the Executive Vice President, Head of Accounting Services and Treasury Back Office Operations. He has also served as a Director of a number of subsidiaries of Maybank.

He is a Director of Kossan Rubber Industries Berhad, Yayasan Kossan and Independent Non-Executive Director of HSBC Bank Malaysia Berhad.

Mr Lee does not have any shareholding in the Bank.

Albert Quah Chei Jin, 68
Independent Non-Executive Director
Chairman of Audit Committee and member of Risk Committee and Nominations and Remuneration Committee
Appointed to the Board: September 2016

Mr Albert Quah was appointed as Independent Non-Executive Director on 5 September 2016. He is the Chairman of Audit Committee and member of the Risk Committee and Nominations and Remuneration Committee of the Bank.

Mr Albert Quah holds a Masters Degree in Accounting and Finance from the London School of Economics and Political Science. He is a Fellow Member of the Institute of Chartered Accountants in England and Wales and a member of The Malaysian Institute of Accountants. He was with Touche Ross & Co, Chartered Accountants in London before returning to Malaysia.

Mr Albert Quah has more than 30 years banking experience. Mr Albert Quah began his banking career with Southern Bank Berhad in 1982 where he served in various management positions including as a Card Centre Manager as well as a Corporate Banker. He joined Standard Chartered Bank Malaysia Berhad as Senior Corporate Banker in 1989 and was the Chief Financial Officer (CFO) of Standard Chartered Bank Malaysia Berhad from 1993 to 2001. He later served as Group CFO in the AmBank Group from 2004 to 2006. He retired as CFO of United Overseas Bank Malaysia Berhad in 2013.

In addition to his current role, Mr Albert Quah also sits on the Board of Indah Water Konsortium Sdn Bhd and also the Non-Executive Trustee of Methodist Education Foundation.

Mr Albert Quah does not have any shareholding in the Bank.

Directors (Cont'd)

Ho Chai Huey, 61
Independent Non-Executive Director
Chairman of Nominations and Remuneration Committee and Member of Risk Committee
Appointed to the Board: January 2018

Ms Ho was appointed as Independent Non-Executive Director on 2 January 2018. She is the Chairman of Nominations and Remuneration Committee and member of the Risk Committee of the Bank.

Ms Ho graduated from the University of Malaya with a Bachelor of Economics, Honours Class 1 Statistics in 1983. Her career started with Bank Negara Malaysia (BNM) as an Information Technology (IT) Analyst on 1 August 1983 until she retired as an IT Director on 5 July 2016.

She has been a passionate IT management professional with 33 years of hands-on experiences in formulating and implementing IT business plans and transformation, leading and advising the implementation of many IT projects and managing the day-to-day 24 by 7 IT Services and IT Operations in BNM.

During her career with BNM, she drove the planning and implementation of IT Plan and managed a resilient IT infrastructure in BNM in conformity with international industry standards and best practices. She provided strategic and operational direction for the planning, designing, implementation and maintenance of IT systems in BNM, including managing strategic IT projects and technology risk and IT crisis situations as well as ensuring strong IT governance processes and practices.

Ms Ho is currently an IT and project management consultant to an outsourcing company which provides advisory and business support functions to affiliated professional institutes in the financial sector.

In addition to her current role, Ms Ho also sits on the Board of Cagamas Berhad.

Ms Ho does not have any shareholding in the Bank.

BOARD RESPONSIBILITY AND OVERSIGHT

Board of Directors

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

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

At the date of this report, the Board consists of seven (7) members comprising two (2) Non-Independent Executive Directors, one (1) Non-Independent Non-Executive Director and four (4) Independent Directors. The names of the Directors serving at the date of this report and brief biographical particulars for each of them are set out on pages 2 to 5.

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

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

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

Independent Non-Executive Directors are not HSBC employees and do not participate in the daily business management of the Bank. They bring an external perspective, constructively challenge and help develop proposals on strategy, scrutinise the performance of management in meeting agreed goals and objectives, and monitor the risk profile and reporting of performance of the Bank. The Board has determined that each Non-Executive Director is independent in character and judgement, and there are no relationships or circumstances likely to affect the judgement of the Independent Non-Executive Directors.

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

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

Board and Committee Meetings

Seven (7) Board meetings were held in 2020. The table below show each Director's attendance (including attendance via video conferencing) at meetings of all Board and Committees' meetings during 2020. All Directors have complied with the Bank Negara Malaysia requirements that Directors must attend at least 75% of Board meetings held in the financial year.

2020 Board and Committee meeting attendance	Board	Audit Committee	Risk Committee	Nominations and Remuneration Committee
Total number of meetings held	**7**	**5**	**6**	**6**
Independent Non-Executive Chairman				
Datuk Kamaruddin bin Taib	7	5	-	6
Non-Independent Executive Directors				
Stuart Paterson Milne	6	-	-	-
Mukhtar Malik Hussain	7	-	-	-
Independent Non-Executive Directors				
Adil Ahmad	7	4	6	6
Albert Quah Chei Jin	6	5	5	5
Ho Chai Huey	7	-	6	6
Non-Independent Non-Executive Director				
Lee Choo Hock	7	5	6	6

Directors' Emoluments

Details of the emoluments of the Directors of the Bank for 2020, disclosed in accordance with the Companies Act 2016, are shown in Note 34(b) to the financial statements.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

Training and Development

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

Directors are also provided continuous training and their development requirements are regularly reviewed by the Nominations and Remuneration Committee supported by the Company Secretary. Executive Directors develop and refresh their skills and knowledge through day-to-day interactions and briefings with senior management of the Bank's businesses and functions. Non-Executive Directors have access to external training and development resources under the Directors' training and development framework approved by the Board. Awareness and discussion sessions were conducted by senior executives and subject matter experts on emerging technologies, financial crime compliance, regulatory initiatives and other business developments.

During the year, Directors have also attended talks, dialogue sessions and focus group sessions organised by Financial Institutions Directors' Education (FIDE) Forum, and have received refresher training and courses related to Individual Liquidity Adequacy Assessment, Internal Liquidity Metric, Model Risk, Cybersecurity updates and Clouds application.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees

The Board has established a number of committees, the membership of which comprise Independent Non-Executive Directors who have the skills, knowledge and experience relevant to the responsibilities of the committee. The Board and each Board committee have terms of reference to document their responsibilities and governance procedures. The details of the Board Charter comprising the Board committees' Terms of Reference are available at https://www.hsbcamanah.com.my/amanah-and-you/board-of-directors/

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

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

1. Audit Committee

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

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

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

The current members of the Audit Committee, majority being Independent Non-Executive Directors, are:
- Albert Quah Chei Jin (Chairman)
- Adil Ahmad
- Lee Choo Hock
- Datuk Kamaruddin bin Taib

During 2020, the Audit Committee held 5 meetings. Attendance is set out in the table on page 7.

2. Risk Committee

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

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

2. Risk Committee (Cont'd)

The current members of the Risk Committee, majority being Independent Non-Executive Directors, are:
- Adil Ahmad *(Chairman)*
- Lee Choo Hock
- Albert Quah Chei Jin
- Ho Chai Huey

During 2020, the Risk Committee held 6 meetings. Attendance is set out in the table on page 7.

3. Nominations and Remuneration Committee

The combined Nominations and Remuneration Committee is accountable to the Board and has non-executive responsibility for (i) leading the process for Board appointments and for identifying and nominating, for the approval of the Board, candidates for appointment to the Board; (ii) reviewing the candidates for appointment to the senior management team; (iii) appointment and reappointment of Shariah Committee members; and (iv) supporting the Board in overseeing the operation of the Bank's remuneration system and reviewing the remuneration of Directors on the Board.

The Nominations and Remuneration Committee considers plans for orderly succession to the Board and the appropriate balance of skills, knowledge and experience on the Board. The Nominations and Remuneration Committee assists the Board in the evaluation of the Board's own effectiveness and that of its committees annually. The findings of the performance evaluation and the implementation of actions arising from the performance evaluation are reported to the Board during 2020.

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

The members of the Nominations and Remuneration Committee, majority being Independent Non-Executive Directors, are:
- Ho Chai Huey *(Chairman)*
- Adil Ahmad
- Albert Quah Chei Jin
- Lee Choo Hock
- Datuk Kamaruddin bin Taib

During 2020, the Nominations and Remuneration Committee held 6 meetings. Attendance is set out in the table on page 7.

Delegations by the Board

Shariah Committee

The Shariah Committee was established with delegated authorities of the Board to provide objective and sound advice to the Bank to ensure that its aims and operations, business, affairs and activities are in compliance with Shariah.

The current members of the Shariah Committee are:
- Asst. Prof Dr Ziyaad Mahomed *(Chairman)*
- Dr Aida binti Othman
- Dr Khairul Anuar bin Ahmad
- Prof Dr. Younes Soualhi
- Dr Mohamed Ashraf bin Mohamed Iqbal
- Dr Muhamad Syahmi bin Mohd Karim (*appointed on 1 January 2020*)

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

Delegations by the Board (Cont'd)

Connected Party Transactions Committee

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

The current members of the Connected Party Transactions Committee, are:
- Adil Ahmad
- Albert Quah Chei Jin
- Ho Chai Huey
- Chief Risk Officer
- Head of Wholesale Credit and Market Risk

Executive Committee

The Executive Committee which consists of key senior management members, meets regularly and operates as a general management committee under the direct authority of the Board. The committee exercising all of the powers, authorities and discretions of the Board in so far as they concern the management and day-to-day running of the Bank, in accordance with such policies and directions as the Board may from time to time determine. The Bank's CEO, Arsalaan Ahmed, chairs the Executive Committee.

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

(i) Asset and Liability Management Committee

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

(ii) Risk Management Meeting

The Risk Management Meeting is responsible for the oversight of the risk framework. Regular Risk Management Meetings (RMM), chaired by the Chief Risk Officer, are held to establish, maintain and periodically review the policy and guidelines for the management of risk within the Bank.

(iii) Financial Crime Risk Management Committee

The Financial Crime Risk Management Committee is a formal governance committee established to ensure effective entreprise-wider management of financial crime risk and to support the CEO (the Chair) in discharging the financial crime risk responsibilities.

(iv) IT Steering Committee

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

(v) People Committee

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

Conflicts of Interest and Indemnification of Directors

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

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

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

MANAGEMENT REPORTS

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

- Minutes of the Board Committees
- Annual Operating Plan
- CEO updates
- Capital Plan
- Credit Transactions and Exposures to Connected Parties
- Financial Crime Compliance, Anti-Money Laundering and Counter Terrorist Financing Reports
- Quarterly and Annual Financial Statements
- Quarterly Internal Audit Progress Reports
- Internal Capital Adequacy Assessment Process
- Risk Appetite Statement
- Risk and Compliance Reports
- Stress Testing Results

INTERNAL CONTROL FRAMEWORK

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

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

These procedures provide reasonable assurance against material mis-statement, errors, losses or fraud. They are designed to provide effective internal control within the Bank. The procedures have been in place throughout the year and up to 2 February 2021, the date of approval of the audited financial statements of the Bank for the financial year ended 31 December 2020.

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

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

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

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

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

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

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

INTERNAL CONTROL FRAMEWORK (Cont'd)

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

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

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

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

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

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

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

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

INTERNAL CONTROL FRAMEWORK (Cont'd)

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

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

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

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

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

REMUNERATION POLICY

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

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

In recognition to the local regulations, the materiality of definition needs to be taken into consideration in ensuring a robust corporate governance framework has been duly applied for the Bank.

RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

Rating Agency	Date	Rating Classification	Ratings Received
RAM Ratings Services Berhad	July 2020	• Long term	AAA
		• Short term	P1
		• Multi-Currency Sukuk Programme	AAA
		• Outlook	Stable

DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of HSBC Amanah Malaysia Berhad (the Bank) for the financial year ended 31 December 2020.

DIRECTORS

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

- Datuk Kamaruddin bin Taib
- Stuart Paterson Milne
- Mukhtar Malik Hussain
- Adil Ahmad
- Lee Choo Hock
- Albert Quah Chei Jin
- Ho Chai Huey

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

PRINCIPAL ACTIVITIES

The principal activities of the Bank are Islamic banking business and related financial services. There have been no significant changes in these activities during the financial year.

FINANCIAL RESULTS

	RM'000
Profit for the financial year attributable to the owner of the Bank	
Profit before tax	**121,289**
Tax expense	**(27,322)**
Profit for the financial year	**93,967**

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

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

DIRECTORS' BENEFITS

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

Neither during nor at the end of the financial year was the Bank a party to any arrangements whose object was to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, except for:

(i) Directors who were granted the option to subscribe for shares in the ultimate holding company, HSBC Holdings plc, under Executive/Savings-Related Share Option Schemes at prices and terms as determined by the schemes, and

(ii) Directors who were conditionally awarded shares of the ultimate holding company, HSBC Holdings plc, under its Restricted Share Plan/HSBC Share Plan.

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

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

	Number of Ordinary Shares			
	As at 1.1.2020	Acquired	Disposed	As at 31.12.2020
HSBC Holdings plc				
Ordinary shares of USD0.50				
Mukhtar Malik Hussain	1,616,915	96,938	-	1,713,853
Stuart Paterson Milne [1]	251,170	28,208	-	279,378
Adil Ahmad	3,200	-	-	3,200

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

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

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

DIVIDENDS

Since the end of the previous financial year, the Bank paid a final dividend of RM0.50 per share, amounting to net dividend payment of RM50 million in respect of the financial year ended 31 December 2019. The dividend was paid on 1 June 2020.

The Board of Directors via a resolution on 2 February 2021, has approved the payment of a final dividend of RM0.50 per share, amounting to net dividend payment of RM50 million in respect of the financial year ended 31 December 2020. The dividend will be accounted for in the shareholder's equity as an appropriation of retained earnings in the subsequent financial year.

HOLDING COMPANIES

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

OTHER STATUTORY INFORMATION

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

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

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

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

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

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

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

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

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

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

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 their obligations as and when they fall due.

DIRECTORS' REPORT (Cont'd)

OTHER STATUTORY INFORMATION (Cont'd)

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

In the opinion of the Directors:

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

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

SIGNIFICANT AND SUBSEQUENT EVENTS

There were no significant events and events subsequent to the date of the statement of financial position that require disclosure or adjustment to the audited financial statements, except as set out in Note 40 to the financial statements.

SUBSIDIARIES

The Bank does not have any subsidiary company.

ZAKAT OBLIGATION

The Bank is not obliged to pay zakat for the financial year ended 31 December 2020.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 34(b) to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 31 to the financial statements.

Performance Review, Strategy and Outlook

Performance Review

The Bank recorded profit before tax of RM121.3 million for the financial year ended 31 December 2020, a decrease of RM108.1 million or 47.1% compared to previous financial year.

The lower profit was contributed by lower income derived from investment of depositors' fund and shareholder's fund by RM175.6 million and higher impairment provisions by RM88.8 million, partly offset by lower income attributable to depositors by RM165.2 million.

Impairment allowance/ provisions increased as the impact of COVID-19 outbreak has been considered in deriving the Expected Credit Loss (ECL) for financing and advances and other financial assets. Lower income derived from investment of depositors' and shareholders' fund were impacted by lower financing income as a result of reductions in Bank Negara Malaysia (BNM)'s Overnight Policy Rate (OPR) by 125 basis points to 1.75% between January 2020 to December 2020.

Total assets size as at 31 December 2020 stood at RM18.4 billion, a decrease of RM2.8 billion or 13.2% compared to 31 December 2019 (RM21.2 billion). However, the Bank's capital and liquidity ratios continue to remain strong and well above the regulatory requirements.

Business Strategy during the Year 2020

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

For 2020, Malaysia's GDP contracted by 5.6% compared to an expansion of 4.3% in year 2019. This was primarily due to weaker private sector expenditure and subdued consumer and business sentiments as a result of COVID-19 impact. Five economic sectors that were identified as most affected by COVID-19, were (i) retail and wholesale trading; (ii) accommodation; (iii) travel agencies/ tourism; (iv) airline/ aviation; and (v) food and beverage services/ restaurants. As at 31 December 2020, the gross outstanding financing and advances extended by the Bank to these sectors were approximately RM0.8 billion or 5.57% of our total gross financing and advances.

During the year, the Government has implemented various relief actions and economic stimulus packages to support household income, safeguard jobs and to spur the economy.

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

Post expiry of the 6-month moratorium programme on 30 September 2020, banking institutions have continued to offer targeted extension moratorium and repayment flexibilities to selected customers who are significantly impacted from reduction in income and loss of employment due to the COVID-19 pandemic. The eligible customers can request to either defer monthly instalments for three months or reduce monthly instalments for further six months. As at 31 December 2020, the gross outstanding financing and advances extended by the Bank to these individuals under the targeted relief assistance programme were approximately RM0.5 billion or 3.89% of our total gross financing and advances.

Performance review, Strategy and Outlook (Cont'd)

Business Strategy during the Year 2020 (Cont'd)

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

Despite the extraordinarily challenging environment, HSBC Amanah has made remarkable achievements including the launch of more than thirty new digital innovations, embarking on sustainability initiatives, received a few notable industry awards and assisted our customers diligently to help them cross the hurdles in this difficult time.

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

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

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

Our Global Banking & Markets (GBM) has focused on supporting customers across structured product solutions, including debt capital market, advisory and structured trade, coupled with sustainability-linked financing and innovative cash management solutions. GBM launched Sustainable Supply Chain Financing First Strategy and acted as the sole structuring and bank financing for Malaysia's first Sustainability-Linked Financing (SLF) for a leading energy solution provider, which reinforces the bank's commitment to supporting a low carbon economy.

We have also continued to deliver our expertise in debt capital to secure key deals which yielded other ancillary income and opportunities. Our offshore FX capability were also enhanced though our affiliates' network and expanded product offerings.

In line with our aspiration to "build a bank fit for the future", GBM worked alongside CMB to integrate their business operation functions, and performed joint initiatives on digital penetration including electronic signature solution, credit & lending robotics and electronic audit confirmations to improve customer experience.

The Bank's strong liquidity and capital position against a backdrop of the continuing impacts of COVID-19 was well recognised by external parties including RAM Ratings Services Berhad, which in 2020 reaffirmed the Bank's long term and short term ratings of AAA and P1 ratings respectively.

Performance review, Strategy and Outlook (Cont'd)

Business Strategy during the Year 2020 (Cont'd)

On the sustainability front, the Bank has launched Project Cocoon in April 2020, in conjunction with the 50th anniversary of the World Earth Day, with a pledge to deliver sustainable banking at local level, as well as supporting HSBC Group's sustainability strategy at global level. This is also in line with Bank Negara's Value Based Intermediation (VBI). VBI aims to encourage banks to generate positive and sustainable impact to the economy, community and environment through practices, conduct and offerings consistent with shareholder's sustainable returns and long term interests.

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

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

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

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

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

Outlook for 2021

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

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

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

Performance review, Strategy and Outlook (Cont'd)

Outlook for 2021 (Cont'd)

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

We will also continue to capture cross-border opportunities in the ASEAN and Belt and Road Initiative (BRI) corridors through HSBC Group's international network and capabilities. Sustainability-linked propositions will also be one of our key focuses in 2021.

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

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

Awards won during the financial year:

1. **Islamic ESG Bank of the Year –** The Asset Triple A Islamic Finance Awards 2020
2. **Best Islamic Trade Finance Bank –** The Asset Triple A Islamic Finance Awards 2020 (3rd consecutive year)
3. **Best Quasi-Sovereign Sukuk –** The Asset Triple A Islamic Finance Awards 2020
4. **Best New Sukuk –** The Asset Triple A Islamic Finance Awards 2020
5. **Best Structured Financing –** The Asset Triple A Islamic Finance Awards 2020
6. **Best Trade Finance Product –** The Asset Triple A Islamic Finance Awards 2020
7. **Islamic Finance House of the Year –** FinanceAsia Achievement Awards 2020
8. **Best Islamic Syndicated Financing Deal of the Year 2020 –** Alpha Southeast Asia

AUDITORS

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

This report was approved by the Board of Directors on 2 February 2021.

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

…………………………………………	…………………………………………
STUART PATERSON MILNE	**ALBERT QUAH CHEI JIN**
Director	Director

Kuala Lumpur, Malaysia
2 February 2021

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

In the opinion of the Directors:

We, Stuart Paterson Milne and Albert Quah Chei Jin, being two of the Directors of HSBC Amanah Malaysia Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 35 to 144 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2020 and financial performance of the Bank for the financial year ended 31 December 2020 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 2 February 2021.

………………………………………………	………………………………………………
STUART PATERSON MILNE	**ALBERT QUAH CHEI JIN**
Director	Director

Kuala Lumpur, Malaysia
2 February 2021

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

I, Neoh Elly, 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 35 to 144 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the abovenamed

at Kuala Lumpur, Malaysia on 2 February 2021.

....
NEOH ELLY
Chartered Accountant
Malaysian Institute of Accountants No: CA 15258

BEFORE ME:

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

SHARIAH COMMITTEE'S REPORT

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

Praise be to God, the Lord of the Worlds and peace and blessings be upon 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 Policy for Islamic Financial Institutions issued by Bank Negara Malaysia, the Bank's Shariah Governance Policy as well as the Bank's Committee's Terms of Reference, we hereby submit the following report for the financial year ended 31 December 2020:

1. We have conducted eight (8) meetings for the whole year of 2020. The attendance of the members at the Shariah Committee meetings held are as follows:

Name of Member	**Designation**	**Attendance/No. of Meetings**
Asst. Prof. Dr. Ziyaad Mahomed	Chairman	8/8
Prof. Dr. Younes Soualhi	Member	8/8
Dr. Khairul Anuar Ahmad	Member	8/8
Dr. Aida Othman	Member	8/8
Dr. Mohamed Ashraf Mohamed Iqbal	Member	7/8
Dr. Muhammad Syahmi Mohd Karim	Member	8/8

2. The Committee has reviewed the products, services and transactions offered by the Bank based on the approved Shariah principles and the contracts relating to the transactions and applications introduced by the Bank during the financial year ended 31 December 2020 to ensure conformity with Shariah requirements.

3. The management of the Bank is responsible for ensuring that the financial institution conducts its business in accordance with Shariah principles.

4. It is our responsibility to form an independent opinion, based on our oversight of the operations of the Bank, and to report to you.

5. We have performed our oversight role through the Shariah review and Shariah audit functions in ensuring that the Bank has complied with all the Shariah principles and rulings issued both by us and the Shariah Advisory Council of Bank Negara Malaysia.

6. We have overseen the work carried out by Shariah Department and assessed its effectiveness to implement the Shariah Governance Policy which includes 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 the Bank.

SHARIAH COMMITTEE'S REPORT (Cont'd)

7. 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 the Bank has complied with all of the Shariah requirements and has not breached any of 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) nothing has come to the Shariah Committee's attention that causes the Shariah Committee to believe that the operations, business, affairs and activities of the Bank involve any material Shariah non-compliances;

(b) the contracts, transactions, dealings entered into by the Bank during the financial year ended 31 December 2020 that have been reviewed by us, are in compliance with Shariah rules and principles;

(c) 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;

(d) 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

(e) the Bank is not required to pay zakat for the financial year ended 31 December 2020 because its shareholder has no obligation to pay zakat.

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 the Bank for the financial year ended 31 December 2020 have been conducted in conformity with the Shariah principles.

We pray to Allah the Almighty to grant us success and the path of continued guidance.

Wassalamu 'Alaikum Warahmatullahi Wabarakatuh

Chairman of the Shariah Committee ………………………………………….
Asst Prof Dr Ziyaad Mahomed

Member of the Shariah Committee ………………………………………….
Prof Dr Younes Soualhi

Member of the Shariah Committee ………………………………………….
Dr Khairul Anuar bin Ahmad

Member of the Shariah Committee ………………………………………….
Dr Aida binti Othman

SHARIAH COMMITTEE'S REPORT (Cont'd)

Member of the Shariah Committee ……………………………………………
Dr Mohamed Ashraf bin Mohamed Iqbal

Member of the Shariah Committee ……………………………………………
Dr Muhamad Syahmi bin Mohd Karim

Kuala Lumpur, Malaysia
2 February 2021

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HSBC AMANAH MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 200801006421 (807705-X))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of HSBC Amanah Malaysia Berhad ("the Bank") give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 35 to 144.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors’ responsibilities for the audit of the financial statements (continued)

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

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

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

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

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

(e) Evaluate the overall presentation, structure and content of the financial statements of the Bank, including the disclosures, and whether the financial statements of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HSBC AMANAH MALAYSIA BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 200801006421 (807705-X))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

OTHER MATTERS

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

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

Kuala Lumpur
18 February 2021

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	**31 Dec 2020 RM'000**	31 Dec 2019 RM'000
Assets			
Cash and short-term funds	*7*	**3,251,883**	4,781,964
Deposits and placements with banks and other financial institutions	*8*	**48,204**	139,153
Financial investments at fair value through other comprehensive income (FVOCI)	*9*	**1,299,815**	2,719,975
Financing and advances	*10*	**13,492,576**	13,042,953
Derivative financial assets	*13*	**231,334**	125,674
Other assets	*14*	**51,302**	68,641
Statutory deposits with Bank Negara Malaysia	*15*	**25,502**	329,662
Equipment	*16*	**9,084**	7,101
Tax recoverable		**2,318**	-
Deferred tax assets	*18*	**27,760**	23,908
Total assets		**18,439,778**	21,239,031
Liabilities			
Deposits from customers	*19*	**12,146,949**	13,320,333
Deposits and placements from banks and other financial institutions	*20*	**1,577,953**	2,339,954
Structured liabilities designated at fair value through profit or loss (FVTPL)	*21*	**1,113,253**	1,295,358
Bills payable		**48,007**	22,036
Derivative financial liabilities	*13*	**175,982**	79,721
Other liabilities	*22*	**247,436**	343,396
Provision for taxation		**-**	12,007
Multi-Currency Sukuk Programme	*23*	**523,841**	1,265,929
Subordinated Commodity Murabahah Financing	*24*	**578,700**	589,612
Total liabilities		**16,412,121**	19,268,346
Equity			
Share capital	*25*	**660,000**	660,000
Reserves	*26*	**1,367,657**	1,310,685
Total equity attributable to owner of the Bank		**2,027,657**	1,970,685
Total liabilities and equity		**18,439,778**	21,239,031
Restricted investment accounts [1]		3,551,362	4,144,225
Total Islamic Banking asset [1]		21,991,140	25,383,256
Commitments and contingencies	*37*	**24,459,591**	20,854,027

[1] The disclosure is in accordance with the requirements of Bank Negara Malaysia's Guideline on Financial Reporting for Islamic Banking Institutions dated 27 September 2019.

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

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	**31 Dec 2020 RM'000**	31 Dec 2019 RM'000
Income derived from investment of depositors' funds and others	*27*	**653,063**	826,138
Income derived from investment of shareholder's funds	*28*	**159,932**	162,451
Impairment provision	*29*	**(164,252)**	(75,483)
Total distributable income		**648,743**	913,106
Income attributable to depositors	*30*	**(273,397)**	(438,635)
Total net income		**375,346**	474,471
Operating expenses	*31*	**(254,057)**	(245,081)
Profit before tax		**121,289**	229,390
Tax expense	*32*	**(27,322)**	(41,569)
Profit for the financial year		**93,967**	187,821
Basic earnings per RM0.50 ordinary share		**94.0 sen**	187.8 sen
Dividends per RM0.50 ordinary share (net) - final dividend paid in respect of prior year		**50.0 sen**	40.0 sen

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

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Other comprehensive income/(expense)		
Items that will not be reclassified to profit or loss		
Own credit reserves:		
Change in fair value	**9,387**	(6,934)
Income tax effect	**(2,253)**	1,664
Items that will subsequently be reclassified to profit or loss when specific conditions are met:		
Fair value through other comprehensive income/ (expense) reserve:		
Change in fair value	**23,436**	16,285
Net amount transferred from profit or loss	**(16,118)**	(8,653)
Impairment charges	**12**	14
Income tax effect	**(1,756)**	(1,831)
Other comprehensive income for the financial year, net of income tax	**12,708**	545
Total comprehensive income for the financial year	**106,675**	188,366
Profit attributable to the owner of the Bank	**93,967**	187,821
Total comprehensive income attributable to the owner of the Bank	**106,675**	188,366

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

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Non-distributable					*Distributable*	
	Share capital	*FVOCI reserve*	*Own credit reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total*
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2020							
Balance at 1 January	**660,000**	**6,294**	**(8,257)**	**537**	**53,100**	**1,259,011**	**1,970,685**
Profit for the financial year	-	-	-	-	-	93,967	93,967
Other comprehensive income, net of tax							
FVOCI reserve/Own Credit reserve							
Net change in fair value	-	17,812	7,134	-	-	-	24,946
Net amount transferred to profit or loss	-	(12,250)	-	-	-	-	(12,250)
Impairment charges	-	12	-	-	-	-	12
Total other comprehensive income	-	*5,574*	*7,134*	-	-	-	*12,708*
Total comprehensive income for the financial year	-	5,574	7,134	-	-	93,967	106,675
Net change in regulatory reserves	-	-	-	-	(47,000)	47,000	-
Transactions with the owner, recorded directly in equity							
Share based payment transactions	-	-	-	240	-	57	297
Dividends paid to owner - 2019 final	-	-	-	-	-	(50,000)	(50,000)
Balance at 31 December	**660,000**	**11,868**	**(1,123)**	**777**	**6,100**	**1,350,035**	**2,027,657**

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

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)

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

	Non-distributable					*Distributable*	
	Share capital	*FVOCI reserve*	*Own credit reserve*	*Capital contribution reserve*	*Regulatory reserve*	*Retained profits*	*Total*
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2019							
Balance at 1 January	660,000	479	(2,987)	499	91,100	1,073,174	1,822,265
Profit for the financial year	-	-	-	-	-	187,821	187,821
Other comprehensive income, net of tax							
FVOCI reserve/Own Credit reserve							
Net change in fair value	-	12,377	(5,270)	-	-	-	7,107
Net amount transferred to profit or loss	-	(6,576)	-	-	-	-	(6,576)
Impairment charges	-	14	-	-	-	-	14
Total other comprehensive income	-	*5,815*	*(5,270)*	-	-	-	*545*
Total comprehensive income for the financial year	-	5,815	(5,270)	-	-	187,821	188,366
Net change in regulatory reserves	-	-	-	-	(38,000)	38,000	-
Transactions with the owner, recorded directly in equity							
Share based payment transactions	-	-	-	38	-	16	54
Dividends paid to owner - 2018 final	-	-	-	-	-	(40,000)	(40,000)
Balance at 31 December	660,000	6,294	(8,257)	537	53,100	1,259,011	1,970,685

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

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Cash Flows from Operating Activities		
Profit before tax	**121,289**	229,390
Adjustments for:		
Equipment written off	**265**	3
Unrealised losses from dealing in foreign currency	**851**	529
Unrealised losses/(gains) from revaluation of financial assets at FVTPL	**711**	(2,080)
Unrealised gains from trading in derivatives	**(5,247)**	(427)
Allowance for impairment losses	**210,412**	123,815
Share based payment transactions	**253**	728
Depreciation of equipment	**2,136**	1,962
Depreciation of Right-of-use (ROU) assets	**7,264**	6,674
Unrealised gains of foreign exchange translation on subordinated commodity murabahah financing	**(10,912)**	(6,375)
Net expenses on financial instruments fair value through profit or loss	**49,367**	39,395
Net modification loss on financing and advances	**5,961**	-
Operating profit before changes in operating assets and liabilities	**382,350**	393,614
Decrease/(Increase) in operating assets		
Deposits and placements with banks and other financial institutions	**90,948**	(139,157)
Financing and advances	**(666,209)**	970,288
Derivative financial assets	**(101,975)**	118,588
Other assets	**23,565**	(20,273)
Statutory deposits with Bank Negara Malaysia	**304,160**	35,000
Total (increase)/decrease in operating assets	**(349,511)**	964,446
(Decrease)/Increase in operating liabilities		
Deposits from customers	**(1,173,384)**	1,875,756
Deposits and placements from banks and other financial institutions	**(762,001)**	(960,010)
Structured liabilities designated at FVTPL	**(214,173)**	374,800
Bills payable	**25,971**	3,442
Derivative financial liabilities	**96,261**	(147,609)
Other liabilities	**(46,660)**	169,453
Total (decrease)/increase in operating liabilities	**(2,073,986)**	1,315,832
Cash (used in)/generated from operating activities	**(2,041,147)**	2,673,892
Income tax paid	**(49,508)**	(65,817)
Net cash (used in)/generated from operating activities	**(2,090,655)**	2,608,075

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

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)

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

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Cash Flows from Investing Activities		
Purchase of financial investments at fair value through other comprehensive income	**(1,117,580)**	(2,055,476)
Proceeds from disposal of equipment	**-**	30
Proceeds from disposal of financial investments at fair value through other comprehensive income	**2,531,567**	2,064,439
Purchase of equipment	**(4,384)**	(2,228)
Net cash generated from investing activities	**1,409,603**	6,765
Cash Flows from Financing Activities		
Profits paid on Multi-Currency Sukuk Programme	**(30,458)**	(70,024)
Profit paid on Subordinated Commodity Murabahah Financing	**(18,571)**	(27,346)
Redemption of Multi-Currency Sukuk Programme	**(750,000)**	(500,000)
Dividend paid	**(50,000)**	(40,000)
Net cash used in financing activities	**(849,029)**	(637,370)
Net (decrease)/increase in Cash and Cash Equivalents	**(1,530,081)**	1,977,470
Cash and Cash Equivalents at beginning of the financial year	**4,781,964**	2,804,494
Cash and Cash Equivalents at end of the financial year	**3,251,883**	4,781,964
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**3,251,883**	4,781,964

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

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)

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

Changes in liabilities arising from financing activities

	At 1 January RM'000	Cash (outflow)/ inflow RM'000	Foreign exchange adjustment RM'000	Fair value movement RM'000	Profit accrual RM'000	At 31 December RM'000
2020						
Multi-Currency Sukuk Programme	**1,265,929**	**(750,000)**	**-**	**7,912**	**-**	**523,841**
Subordinated Commodity Murabahah Financing	**589,612**	**-**	**(10,912)**	**-**	**-**	**578,700**
Other Liabilities of which:						
Profits paid on Multi-Currency Sukuk Programme	**13,724**	**(30,458)**	**-**	**-**	**22,094**	**5,360**
Profits paid on Subordinated Commodity Murabahah Financing	**281**	**(18,571)**	**-**	**-**	**18,408**	**118**
	1,869,546	**(799,029)**	**(10,912)**	**7,912**	**40,502**	**1,108,019**
2019						
Multi-Currency Sukuk Programme	1,755,281	(500,000)	-	10,648	-	1,265,929
Subordinated Commodity Murabahah Financing	595,987	-	(6,375)	-	-	589,612
Other Liabilities of which:						
Profits paid on Multi-Currency Sukuk Programme	18,175	(70,024)	-	-	65,573	13,724
Profits paid on Subordinated Commodity Murabahah Financing	307	(27,346)	-	-	27,320	281
	2,369,750	(597,370)	(6,375)	10,648	92,893	1,869,546

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

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

HSBC Amanah Malaysia Berhad (the Bank) is a licensed Islamic Bank under the Islamic Financial Services Act, 2013. The principal activities of the Bank is Islamic banking and related financial services.

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

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

The immediate holding company and ultimate holding company during the financial year are HSBC Bank Malaysia Berhad (HBMY) and HSBC Holdings Plc, respectively.

The financial statements were approved and authorised for issue by the Board of Directors on 2 February 2021.

2 Basis of Preparation

(a) Statement of compliance

The financial statements of the Bank has been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards, the requirements of the Companies Act 2016 in Malaysia and BNM requirements on Shariah related disclosures.

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

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

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

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

- Amendments to MFRS 16 “COVID-19-Related Rent Concessions”

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

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

A number of new standards and amendments to standards and interpretations have been issued that are applicable to the Bank but are not yet effective, as follow:

Effective for annual periods commencing on or after 1 January 2021

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

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

Effective for annual periods commencing on or after 1 January 2022

- Amendments to MFRS 116 "Proceeds before Intended Use"

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

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

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

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

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

Effective for annual periods commencing on or after 1 January 2023

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

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

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

(iii) Going concern

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

(b) Basis of measurement

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

- Structured liabilities
- Financial investments
- Derivatives and hedge accounting
- Financial liabilities designated at fair value through profit or loss (FVTPL)

(c) Functional and presentation currency

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

2 Basis of Preparation (Cont'd)

(d) Use of estimates and judgements

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. 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 (refer Note 6). There are no other significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed above.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the 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 functional currency at exchange rates at the dates of the transactions.

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

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

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

(b) Financing Income and Expenses

Financing income and expenses for all financial instruments of the Bank, except those classified as financial instruments designated at fair value through profit or loss (FVTPL) are recognised in 'finance income' and 'income attributable to depositors' in the statement of profit or loss on an accrual basis using the effective profit rate method in accordance with the principles of Shariah. The effective profit rate method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the Islamic financing income or expense over the relevant period.

The effective profit rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instruments, 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 of the effective profit rate includes all amounts paid or received by the Bank that are an integral part of the effective profit rate, including transaction costs and all other premiums or discounts.

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

i) <u>Commodity Murabahah</u>
Income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

ii) <u>Ijarah Thumma Al-Bai</u>
Income is recognised on effective profit rate over the term of the contract.

iii) <u>Musharakah (Co-ownership)</u>
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.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(b) Financing Income and Expenses (Cont'd)

v) Ujrah (rendering services for credit card-i holders)
Income is recognised based on the identified services, benefits and privileges in exchange of a fee.

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

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

Financing income and expenses of the Bank presented in the statement of profit and loss include:

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

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

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

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

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

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

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

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

(d) Income tax

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

Current tax is the tax expected to be payable or receivable on the taxable income or loss for the financial year, calculated using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous financial years. The 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 on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

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

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

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

(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.

(f) Financial instruments (Cont'd)

(ii) Financial instruments categories and subsequent measurement

The Bank categorises financial instruments as follows:

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

The Bank classifies its financial liabilities, as measured at amortised cost or designated at fair value through profit or loss (See accounting policies in Notes 3(g) and 3(j)).

(iii) Derecognition of financial assets and liabilities

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

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

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

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is currently a legally enforceable right to offset the recognised amounts and the Bank intends to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

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

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

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

(v) Valuation of financial instruments

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

(f) Financial instruments (Cont'd)

(v) Valuation of financial instruments (Cont'd)

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

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

(vi) Derivative financial instruments and hedge accounting

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

<u>Hedge accounting</u>

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

- *Fair value hedge*

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

- *Cash flow hedge*

  The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income; the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Other operating income'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. In hedges of forecast transactions that result in recognition of a non-financial asset or liability, previous gains and losses recognised in other comprehensive income are included in the initial measurement of the asset or liability. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

(f) Financial instruments (Cont'd)

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

Hedge accounting (Cont'd)

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

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

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

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

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

  The Bank does not have any hedging instruments as at 31 December 2020.

(g) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and profit, such as most advances and financing to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the financing through the recognition of financing income.

Financing and advances consist of Commodity Murabahah, Ijarah Thumma Al-Bai, Diminishing Musharakah, Bai Al-Inah and Ujrah contracts. They include financing and advances to customers and placements with banks that originated from the Bank, which are not classified as either held for trading or designated at fair value. They are recognised when cash is advanced to customers and derecognised when either the customer pays 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 reduction from impairment or uncollectibility.

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

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

For financing under the Syndicated Investment Account for Financing/Investment Agency Account (SIAF/IAA) arrangements, the Bank applies the derecognition principles as stated in accounting policy Note 3(f)(iii) on derecognition of financial assets.

(i) Contracts under Islamic sell and buyback agreements

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

(ii) Financial liabilities measured at amortised cost

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

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

Subordinated liabilities of the Bank is measured at amortised cost using the effective profit rate method, except for the portions which are fair value hedged, which are adjusted for the fair value gains or losses attributable to the hedged risks. Profits payable on subordinated liabilities of the Bank is recognised on an accrual basis.

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

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

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

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

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

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch; and
- when a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- where the financial liability contains one or more non-closely related embedded derivatives

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

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

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

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

- Structured liabilities designated at fair value through profit or loss

  Structured liabilities of the Bank designated at fair value are recognised in the balance sheet in 'Structured Liabilities Designated at Fair Value'. Please refer to Note 21.

(k) Impairment of amortised cost and FVOCI financial assets

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

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

(i) Credit-impaired (Stage 3)

The Bank determines that a financial instrument is credit-impaired and in Stage 3 by considering relevant objective evidence, primarily whether:

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

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

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

(ii) Write-off

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

(iii) Renegotiation

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

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

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

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

(iv) Financing and advances modifications other than renegotiated financing and advances

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

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

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

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

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

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

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

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

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

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

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

(vii) Movement between stages

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

(viii) Measurement of ECL

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

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

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

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

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

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

(ix) Period over which ECL is measured

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

(x) Forward-looking economic inputs

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

(l) Equipment

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

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

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

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

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

3 Significant Accounting Policies (Cont'd)

(m) Leases

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

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

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

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

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

(n) Bills payable

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

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

(p) Provisions, contingent liabilities and financial guarantees contracts

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

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

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

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

(q) Employee benefits

(i) Short term employee benefits

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

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

(iii) Termination benefits

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

3 Significant Accounting Policies (Cont'd)

(r) Share based payments

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

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

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

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

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

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

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

(s) Share capital and other equity instruments

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

(t) 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 year.

4 Risk

(a) Introduction and overview

(i) Risk appetite

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

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

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

<u>Financial position</u>

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

<u>Operating model</u>

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

<u>Business practice</u>

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

<u>Enterprise-wide application</u>

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

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

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

(a) Introduction and overview (Cont'd)

(i) Risk appetite (Cont'd)

Enterprise-wide application (Cont'd)

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

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

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

The RAS consists of qualitative statements and quantitative metrics, covering financial and non-financial risks. It is fundamental to the development of business line strategies, strategic and business planning, and senior management balanced scorecards.

The performance against the RAS is reported to the Risk Management Meeting (RMM) on a monthly basis so that any actual performance that falls outside the approved risk appetite is discussed and appropriate mitigating actions are determined. This reporting allows risks to be promptly identified and mitigated, and informs risk-adjusted remuneration to drive a strong risk culture. All RASs and business activities are guided and underpinned by qualitative principles and or quantitative metrics.

(ii) Risk management

The Bank recognises that the primary role of risk management is to protect the business, customers, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth. We are focused upon implementation of our business strategy, as part of which we are carrying out a major change programme, and it is critical that we ensure we use active risk management to manage the execution risks. Periodic risk assessments will also be performed, including strategies to ensure retention of key personnel for our continued safe operation.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Risk management framework

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

Key components of our risk management framework

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

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Risk governance

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

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

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

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

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

Responsibilities for risk management

All our people are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model.

Three lines of defence

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

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

The three lines of defence are summarised below:

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

Risk function

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

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

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Responsibilities for risk management (Cont'd)

Risk function (Cont'd)

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

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

Stress testing

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

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

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

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

Key developments in 2020

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

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

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

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

(a) Introduction and overview (Cont'd)

(i) Risk management (Cont'd)

Responsibilities for risk management (Cont'd)

Key developments in 2020 (Cont'd)

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

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

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

Top and emerging risks management

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

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

The Bank defines a 'top risk' as a thematic issue that may form and crystallise between six months and one year, and has the potential to materially affect the Bank's financial results, reputation or business model. It may arise across any combination of risk types, countries or global businesses. The impact may be well understood by senior management and some mitigating actions may already be in place. Stress tests of varying granularity may already have been carried out to assess the impact.

An 'emerging risk' is defined as a thematic issue with large unknown components that may form and crystallise beyond a one-year time horizon. If it were to materialise, it could have a significant material effect on a combination of our long term strategy, profitability and reputation. Existing management action plans are likely to be minimal, reflecting the uncertain nature of these risks at this stage. Some high-level analysis and/or stress testing may have been carried out to assess the potential impact.

The Bank's current key top and emerging risks are as follows:
- COVID-19 Outbreak
- Geopolitical risk
- System resilience, Cyber threat and unauthorised access to systems
- Climate-related risk
- Third Party Risk Management
- People risk

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Top and emerging risks management (Cont'd)

Area of Special Interest – Risks related to COVID-19

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Top and emerging risks management (Cont'd)

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

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

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

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

(iii) Material banking risks

All of the 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 and funding risk
- market risks (includes foreign exchange, profit rate and basis risk)
- resilience risk
- regulatory compliance risk
- financial crime and fraud risk
- model risk

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

(b) Credit risk management

(i) Overview

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

(ii) Credit risk management framework

Key developments in 2020

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

Governance and structure

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

(iii) Credit risk sub-function

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

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

Key risk management processes

MFRS 9 'Financial Instruments' process

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

- Modelling and data

  To address the MFRS 9 requirements, the Bank has established modelling and data processes in various geographies which are subject to internal model risk governance including independent review of significant model developments.

- Implementation

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

(b) Credit risk management (Cont'd)

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

Key risk management processes (Cont'd)

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

- Governance

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

Concentration of exposure

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

The Bank monitors concentration of credit risk by sector and geographical location. The analysis of concentration of credit risk from financing and advances is shown in Notes 10(v) and 10(vii). The analysis of concentration of credit risk from the Bank's financial assets is shown in Note 4(b)(vi).

Credit quality of financial instruments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(b) Credit risk management (Cont'd)

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

Key risk management processes (Cont'd)

Credit quality of financial instruments (Cont'd)

- *Credit quality classification*

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

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

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

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

Quality classification definitions:

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

(b) Credit risk management (Cont'd)

(iii) Credit risk management framework (Cont'd)

Key risk management processes (Cont'd)

Renegotiated financings and forbearance

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

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

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

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

- Credit quality of renegotiated financings

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

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

- Renegotiated financings and recognition of expected credit losses

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

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

Impairment assessment

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

(b) Credit risk management (Cont'd)

(iii) Credit risk management framework (Cont'd)

Key risk management processes (Cont'd)

Write-off of financing and advances

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

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

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

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

(iv) Credit risk profile

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

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

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

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

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

(v) Credit deterioration of financial instruments

Measurement uncertainty and sensitivity analysis of ECL estimates

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

(b) Credit risk management (Cont'd)

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

Methodology for developing forward looking economic scenarios

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

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

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

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

4 Risk (Cont'd)

(b) Credit risk management (Cont'd)

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

Critical accounting estimates and judgements

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

- the selection and weighting of economic scenarios, given rapidly changing economic conditions in an unprecedented manner, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a wider distribution of economic forecasts than before the pandemic. The key judgements are the length of time over which the economic effects of the pandemic will occur, the speed and shapes of recovery. The main factors include the effectiveness of pandemic containment measures, the pace of roll-out and effectiveness of vaccines, and the emergence of new variants of the virus, plus a range of geopolitical uncertainties, which together represent a very high degree of estimation uncertainty, particularly in assessing downside scenario;
- estimating the economic effects of those scenarios on ECL, where there is no observable historical trend that can be reflected in the models that will accurately represent the effects of the economic changes of the severity and speed brought about by the COVID-19 outbreak. Modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions, and there is significant uncertainty in the estimation of parameters such as collateral values and loss severity; and
- the identification of customers experiencing significant increases in credit risk and credit impairment, particularly where those customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues, or have extended those deferrals, given limitations in the available credit information on these customers. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

How economic scenarios are reflected in the Wholesale calculation of ECL

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

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

How economic scenarios are reflected in the retail calculation of ECL

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

(b) Credit risk management (Cont'd)

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

Management judgement adjustments

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

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

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

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

Management judgemental adjustments made in respect of COVID-19 in estimating the reported ECL for the Bank as at 31 December 2020 are RM 93,952,000.

Economic scenarios sensitivity analysis of ECL estimates

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

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

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

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

(b) Credit risk management (Cont'd)

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

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

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

Wholesale and retail sensitivity

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

Wholesale analysis

MFRS 9 ECL sensitivity to future economic conditions [1]

ECL coverage of financial instruments subject to significant measurement uncertainty [2]	**31 Dec 2020**	31 Dec 2019
Reported ECL (RM'000)	**13,261**	10,864
Gross carrying value/nominal amount [3] (RM'000)	**17,310,018**	17,934,219
Reported ECL Coverage (%)	**0.08 %**	0.06 %
Coverage Ratios by Scenario (%)		
Consensus central scenario	**0.06 %**	0.06 %
Consensus upside scenario	**0.05 %**	0.06 %
Consensus downside scenario	**0.10 %**	0.07 %
Alternative downside scenario	**0.26 %**	N/A

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

Retail analysis

MFRS 9 ECL sensitivity to future economic conditions [1]

ECL coverage of financing and advances[2]	**31 Dec 2020**	31 Dec 2019
Reported ECL (RM'000)	**244,594**	200,597
Drawn Amount (RM'000)	**5,729,921**	6,339,638
Reported ECL Coverage (%)	**4.27 %**	3.16 %
Coverage Ratios by Scenario (%)		
Consensus central scenario	**4.20 %**	3.16 %
Consensus upside scenario	**3.87 %**	2.84 %
Consensus downside scenario	**4.59 %**	3.57 %
Alternative downside scenario	**5.21 %**	N/A

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

The changes in sensitivity from 31 December 2019 is reflective of changes in lending volumes, credit quality and movements in foreign exchange.

(b) Credit risk management (Cont'd)

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

Post-model adjustments

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

(vi) Credit quality

Credit quality of financial instruments

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

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

4 Risk (Cont'd)

(b) Credit Risk Management (Cont'd)

(vi) Credit quality (Cont'd)

Distribution of financial assets by credit quality

(RM'000)	Gross Carrying Amount						ECL allowances	Carrying amount (net of impairment provision)
	Strong	Good	Satisfactory	Sub-standard	Credit Impaired	Total		
At 31 December 2020								
Cash and short-term funds	**3,251,894**	**-**	**-**	**-**	**-**	**3,251,894**	**(11)**	**3,251,883**
Deposits and placements with banks and other financial institutions	**48,204**	**-**	**-**	**-**	**-**	**48,204**	**-**	**48,204**
Financial assets at FVOCI	**1,299,815**	**-**	**-**	**-**	**-**	**1,299,815**	**-**	**1,299,815**
Financing and advances to customers held at amortised cost	**3,608,842**	**4,672,399**	**4,390,774**	**562,181**	**606,695**	**13,840,891**	**(348,315)**	**13,492,576**
of which:								
- retail	***1,628,683***	***2,108,669***	***1,981,571***	***253,714***	***546,347***	***6,518,984***	**(320,026)**	***6,198,958***
- corporate and commercial	***1,980,159***	***2,563,730***	***2,409,203***	***308,467***	***60,348***	***7,321,907***	**(28,289)**	***7,293,618***
Derivatives financial assets	**213,653**	**102**	**17,422**	**157**	**-**	**231,334**	**-**	**231,334**
Other financial assets	**19,358**	**-**	**-**	**-**	**-**	**19,358**	**-**	**19,358**
Irrevocable financing commitments and financial guarantees	**4,307,000**	**1,361,000**	**1,152,000**	**109,000**	**1,000**	**6,930,000**	**(2,000)**	**6,928,000**

(RM'000)	Gross Carrying Amount						ECL allowances	Carrying amount (net of impairment provision)
	Strong	Good	Satisfactory	Sub-standard	Credit Impaired	Total		
At 31 December 2019								
Cash and short-term funds	4,781,970	-	-	-	-	4,781,970	(6)	4,781,964
Deposits and placements with banks and other financial institutions	139,153	-	-	-	-	139,153	-	139,153
Financial assets at FVOCI	2,719,975	-	-	-	-	2,719,975	-	2,719,975
Financing and advances to customers held at amortised cost	3,267,622	4,814,554	4,361,508	471,231	385,303	13,300,218	(257,265)	13,042,953
of which:								
- retail	*1,626,803*	*2,396,952*	*2,171,400*	*234,605*	*290,282*	*6,720,042*	(205,771)	*6,514,271*
- corporate and commercial	*1,640,819*	*2,417,602*	*2,190,108*	*236,626*	*95,021*	*6,580,176*	(51,494)	*6,528,682*
Derivatives financial assets	78,979	41,786	4,909	-	-	125,674	-	125,674
Other financial assets	33,317	-	-	-	-	33,317	-	33,317
Irrevocable financing commitments and financial guarantees	4,219,000	1,061,000	1,844,000	92,000	2,000	7,218,000	(2,552)	7,215,448

(b) Credit risk management (Cont'd)

(vi) Credit quality (Cont'd)

Credit impaired financings (Stage 3)

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

- contractual payments of either principal or profit are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the financing and advance is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore, the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all financing and advances that are considered defaulted or otherwise credit impaired.

Collateral and other credit enhancements

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

In line with HSBC Global policy, lending/financing is made on the basis of the customer's capacity to repay, as opposed to placing primary reliance on credit risk mitigation. Depending on the customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is nevertheless a key aspect of effective risk management and in the 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 machinery financing) where physical assets form the principal source of facility repayment, physical collateral is typically taken;
- in the commercial and industrial sectors, charges over business assets such as premises, stock and debtors;
- facilities provided to small and medium enterprises are commonly granted against guarantees by their owners/directors;
- guarantees from third parties can arise where facilities are extended without the benefit of any alternative form of security, e.g. where the Bank issues a bid or performance bond in favour of a non-customer at the request of another bank;
- under the institutional sector, certain trading facilities are supported by charges over financial instruments such as cash, debt securities and equities; and
- financial collateral in the form of marketable securities is used in much of the over-the-counter (OTC) derivatives activities and in the Bank's securities financing business (securities lending and borrowing or repos and reverse repos).

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

4 Risk (Cont'd)

(b) Credit risk management (Cont'd)

(vi) Credit quality (Cont'd)

Collateral and other credit enhancements (Cont'd)

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for impaired advances and financing for the Bank as at 31 December 2020 are 50.9% (2019: 50.9%).

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

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

Derivatives

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(b) Credit Risk Management (Cont'd)

(vi) Credit quality (Cont'd)

Offsetting financial assets and liabilities

The disclosures set out in the table below include financial assets and financial liabilities that are subject to an enforceable master netting agreement, irrespective of whether they are offset in the statement of financial position. Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and liability simultaneously (the offset criteria). During the financial year, no financial assets or financial liabilities were offset in the statement of financial position because the master agreement or master Wa’ad referred to in para (ix) above do not meet the criteria for offsetting in the statement of financial position. The master agreement or master Wa’ad referred to in para (ix) above create for the parties to the agreement, a right of set off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Bank, or its counterparties. Financial instruments subject to offsetting, enforceable master netting agreements and similar agreements are shown as follows:

	(i)	(ii)	(iii) = (i) + (ii)	(iv)a	(iv)b	(v) = (iii) - (iv)
				Gross amounts not offset in the statement of financial position		
Description	**Gross amounts of recognised assets RM'000**	**Gross amounts offset in the statement of financial position RM'000**	**Net amount of assets presented in the statement of financial position RM'000**	**Financial instruments RM'000**	**Cash collateral RM'000**	**Net amount RM'000**
2020						
Bank						
Derivative financial assets	**231,334**	**-**	**231,334**	**-**	**-**	**231,334**
Derivative financial liabilities	**175,982**	**-**	**175,982**	**-**	**-**	**175,982**
2019						
Bank						
Derivative financial assets	125,674	-	125,674	-	-	125,674
Derivative financial liabilities	79,721	-	79,721	-	-	79,721

(c) Liquidity and funding risk management

(i) Overview

Liquidity risk is the risk that the Bank does not has sufficient financial resources to meet their obligations when they fall due. Liquidity risk arises from mismatches in the timing of cash flows.

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

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 Group'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 is net liquidity providers to the interbank market, placing significantly more funds with other banks than it borrows.

(ii) Governance and structure

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

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

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

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

(iii) Management of liquidity and funding risk

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

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

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

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

4 Risk (Cont'd)

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

(iv) 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 behavioural profile.

31 December 2020	**Non-trading book**							
	Up to 1 month RM'000	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-specific maturity RM'000**	**Trading book RM'000**	**Total RM'000**
ASSETS								
Cash and short-term funds	**3,251,883**	**-**	**-**	**-**	**-**	**-**	**-**	**3,251,883**
Deposits and placements with banks and other financial institutions	**-**	**48,204**	**-**	**-**	**-**	**-**	**-**	**48,204**
Financial investments at FVOCI	**-**	**-**	**25,197**	**1,274,618**	**-**	**-**	**-**	**1,299,815**
Financing and advances	**2,806,332**	**1,684,309**	**611,846**	**2,836,030**	**5,554,059**	**-**	**-**	**13,492,576**
Derivative financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**231,334**	**231,334**
Others	**2,724**	**126**	**413**	**25,593**	**7,242**	**79,868**	**-**	**115,966**
Total Assets	**6,060,939**	**1,732,639**	**637,456**	**4,136,241**	**5,561,301**	**79,868**	**231,334**	**18,439,778**
LIABILITIES AND EQUITY								
Deposits from customers	**7,843,461**	**2,008,148**	**1,929,226**	**366,114**	**-**	**-**	**-**	**12,146,949**
Deposits and placements from banks and other financial institutions	**34,199**	**546,655**	**278,056**	**719,043**	**-**	**-**	**-**	**1,577,953**
Structured liabilities designated as FVTPL	**14,085**	**49,674**	**510,581**	**515,882**	**23,031**	**-**	**-**	**1,113,253**
Bills payable	**48,007**	**-**	**-**	**-**	**-**	**-**	**-**	**48,007**
Multi-Currency Sukuk Programme	**-**	**-**	**-**	**523,841**	**-**	**-**	**-**	**523,841**
Subordinated Commodity Murabahah Financing	**-**	**-**	**-**	**578,700**	**-**	**-**	**-**	**578,700**
Derivative financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**175,982**	**175,982**
Others	**52,973**	**10,772**	**16,303**	**17,890**	**-**	**149,498**	**-**	**247,436**
Total Liabilities	**7,992,725**	**2,615,249**	**2,734,166**	**2,721,470**	**23,031**	**149,498**	**175,982**	**16,412,121**
Equity	**-**	**-**	**-**	**-**	**-**	**2,027,657**	**-**	**2,027,657**
Total Liabilities and Equity	**7,992,725**	**2,615,249**	**2,734,166**	**2,721,470**	**23,031**	**2,177,155**	**175,982**	**18,439,778**
Net maturity mismatches	**(1,931,786)**	**(882,610)**	**(2,096,710)**	**1,414,771**	**5,538,270**	**(2,097,287)**	**55,352**	**-**
Off balance sheet liabilities	**9,617,022**	**5,800,270**	**6,531,543**	**2,407,600**	**103,156**	**-**	**-**	**24,459,591**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

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

(iv) Liquidity risk (Cont'd)

	Non-trading book							
31 December 2019	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Trading book RM'000	Total RM'000
ASSETS								
Cash and short-term funds	4,781,964	-	-	-	-	-	-	4,781,964
Deposits and placements with banks and other financial institutions	-	139,153	-	-	-	-	-	139,153
Financial investments at FVOCI	-	-	1,700,589	1,019,386	-	-	-	2,719,975
Financing and advances	2,707,709	1,274,278	468,944	2,740,686	5,851,336	-	-	13,042,953
Derivative financial assets	-	-	-	-	-	-	125,674	125,674
Others	3,778	241	13,080	26,298	8,191	377,724	-	429,312
Total Assets	7,493,451	1,413,672	2,182,613	3,786,370	5,859,527	377,724	125,674	21,239,031
LIABILITIES AND EQUITY								
Deposits from customers	8,490,873	2,242,725	2,271,553	314,809	373	-	-	13,320,333
Deposits and placements from banks and other financial institutions	1,451,008	300,623	387,778	200,545	-	-	-	2,339,954
Structured liabilities designated as FVTPL	18,429	123,786	441,044	682,341	29,758	-	-	1,295,358
Bills payable	22,036	-	-	-	-	-	-	22,036
Multi-Currency Sukuk Programme	-	751,732	-	514,197	-	-	-	1,265,929
Subordinated Commodity Murabahah Financing	-	-	-	317,957	271,655	-	-	589,612
Derivative financial liabilities	-	-	-	-	-	-	79,721	79,721
Others	81,937	30,448	24,147	13,999	58	204,718	96	355,403
Total Liabilities	10,064,283	3,449,314	3,124,522	2,043,848	301,844	204,718	79,817	19,268,346
Equity	-	-	-	-	-	1,970,685	-	1,970,685
Total Liabilities and Equity	10,064,283	3,449,314	3,124,522	2,043,848	301,844	2,175,403	79,817	21,239,031
Net maturity mismatches	(2,570,832)	(2,035,642)	(941,909)	1,742,522	5,557,683	(1,797,679)	45,857	-
Off balance sheet liabilities	11,099,980	2,719,656	4,802,513	2,215,888	15,990	-	-	20,854,027

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

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

The balances in the tables below will not agree directly with the balances in the 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.

(v) 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	Total
At 31 December 2020						
Non-derivative liabilities						
Deposits by customers	**4,941,771**	**4,935,676**	**1,946,100**	**394,570**	**-**	**12,218,117**
Deposits and placements from banks and other financial institutions	**-**	**784,348**	**79,104**	**770,526**	**-**	**1,633,978**
Structured liabilities designated at fair value through profit or loss (FVTPL)	**34,930**	**52,677**	**511,499**	**514,395**	**-**	**1,113,501**
Bills payable	**48,007**	**-**	**-**	**-**	**-**	**48,007**
Multi-Currency Sukuk Programme	**-**	**-**	**21,500**	**543,000**	**-**	**564,500**
Subordinated Commodity Murabahah financing	**-**	**3,234**	**10,119**	**617,683**	**-**	**631,036**
Other liabilities	**48,539**	**33,877**	**22,183**	**32,197**	**99,230**	**236,026**
Financing and other credit-related commitments	**8,099,591**	**238,914**	**1,212,032**	**133,274**	**-**	**9,683,811**
Financial guarantees and similar contracts	**114,288**	**121,578**	**604,897**	**449,823**	**103,156**	**1,393,742**
	13,287,126	**6,170,304**	**4,407,434**	**3,455,468**	**202,386**	**27,522,718**
Derivative liabilities						
Gross settled derivatives						
- Inflow	**-**	**(3,372,190)**	**(2,002,196)**	**(114,992)**	**-**	**(5,489,378)**
- Outflow	**-**	**3,488,986**	**2,069,887**	**121,202**	**-**	**5,680,075**
Net settled derivatives	**-**	**336**	**877**	**1,220**	**-**	**2,433**

RM'000	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years	Total
At 31 December 2019						
Non-derivative liabilities						
Deposits by customers	5,377,847	5,415,068	2,307,458	346,466	-	13,446,839
Deposits and placements from banks and other financial institutions	-	1,781,942	368,056	216,106	3,929	2,370,033
Structured liabilities designated at fair value through profit or loss (FVTPL)	16,811	113,367	508,846	695,156	-	1,334,180
Bills payable	22,036	-	-	-	-	22,036
Multi-Currency Sukuk Programme	-	760,571	21,559	564,500	-	1,346,630
Subordinated Commodity Murabahah financing	-	7,121	21,785	421,639	281,109	731,654
Other liabilities	83,866	47,049	26,305	26,990	156,760	340,970
Financing and other credit-related commitments	7,115,715	118,261	925,846	224,871	-	8,384,693
Financial guarantees and similar contracts	198,355	235,188	872,149	485,408	15,990	1,807,090
	12,814,630	8,478,567	5,052,004	2,981,136	457,788	29,784,125
Derivative liabilities						
Gross settled derivatives						
- Inflow	-	(3,898,629)	(1,181,213)	-	-	(5,079,842)
- Outflow	-	3,919,090	1,241,944	124	-	5,161,158
Net settled derivatives	-	144	361	827	-	1,332

(d) Market risk management

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

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

There were no material changes to the Bank's policies and practices for the management of market risk in 2020.

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

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

(i) Sensitivity Analysis

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

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

(ii) Value at risk (VAR)

VAR is a technique for estimating the potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VAR is integrated into market risk management and is calculated for all trading positions regardless of how the Bank capitalises those exposures.

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

(d) Market risk management (Cont'd)

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

The VAR models used by the Bank is predominantly based on historical simulation which incorporate the following features:

- historical market rates and prices are calculated with reference to foreign exchange rates and commodity prices, profit rates, equity prices and the associated volatilities;
- potential market movements utilised for VAR are calculated with reference to data from the past two years; and
- VAR measures are calculated to a 99 per cent confidence level and use a one-day holding period.

The models also incorporate the effect of option features on the underlying exposures. The nature of the VAR models means that an increase in observed market volatility will lead to an increase in VAR without any changes in the underlying positions.

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

RM'000	**At 31 December 2020**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**73**	**43**	**169**	**11**
Profit rate risk	**247**	**201**	**822**	**66**
Credit spread risk	**-**	**-**	**18**	**-**
Overall	**270**	**208**	**829**	**78**

RM'000	At 31 December 2019	Average	Maximum	Minimum
Foreign currency risk	41	39	188	5
Profit rate risk	117	112	294	46
Credit spread risk	-	2	325	-
Overall	115	122	404	48

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

- the use of historical data as a proxy for estimating future market moves may not encompass all potential market events, particularly those that are extreme in nature;
- the use of a one-day holding period for risk management purposes of trading and non-trading books assumes that this short period is sufficient to hedge or liquidate all positions.
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence;
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not reflect intra-day exposures.

(d) Market risk management (Cont'd)

(iii) Profit Rate Risk in the Banking Book

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

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

<u>Sensitivity of net financing income</u>

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

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

<u>Sensitivity of economic value of equity</u>

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

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

<u>Non-traded VaR</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(d) Market risk management (Cont'd)

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

Sensitivity of projected Net Finance Income

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

	RM'000			
	31 Dec 20		31 Dec 19	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(14,418)**	**6,671**	17,680	(35,001)
USD	**2,380**	**(256)**	(12,692)	10,457
Others	**6,554**	**1,566**	6,228	(5,880)
	(5,484)	**7,981**	11,216	(30,424)

Sensitivity of projected Economic value of equity

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

	RM'000			
	31 Dec 20		31 Dec 19	
Basis point parallel shift in yield curve	***+200bps***	***-200bps***	*+200bps*	*-200bps*
RM	**(107,964)**	**124,123**	(88,221)	104,135
USD	**(13,375)**	**6,919**	1,017	(1,588)
Others	**(2,042)**	**1,113**	(2,078)	1,770
	(123,381)	**132,155**	(89,282)	104,317

Sensitivity of reported reserves in "other comprehensive income" to profit rate movements

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

	RM'000			
	31 Dec 20		31 Dec 19	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(23,675)**	**23,675**	(25,449)	25,449

4 Risk (Cont'd)

(d) Market risk management (Cont'd)

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

Foreign exchange risk

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

	RM'000			
	31 Dec 20		31 Dec 19	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after tax	**69**	**(69)**	(53)	53

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

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

4 Risk (Cont'd)

(d) Market risk management (Cont'd)

(iv) 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								
31 December 2020	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
ASSETS									
Cash and short-term funds	3,127,631	-	-	-	-	124,263	-	3,251,894	1.92
- impairment allowances	-	-	-	-	-	(11)	-	(11)	-
Deposits and placements with banks and other financial institutions	-	48,204	-	-	-	-	-	48,204	1.96
Financial investments at FVOCI	-	-	25,197	1,274,618	-	-	-	1,299,815	3.06
Financing and advances									
- performing	4,705,668	7,253,526	331,165	597,514	346,323	-	-	13,234,196	4.49
- impaired	-	-	-	-	-	606,695	-	606,695	-
- impairment allowances	-	-	-	-	-	(348,315)	-	(348,315)	-
Derivative financial assets	-	-	-	-	-	-	231,334	231,334	-
Other assets	-	-	-	-	-	19,358	-	19,358	-
Total Financial Assets	7,833,299	7,301,730	356,362	1,872,132	346,323	401,990	231,334	18,343,170	
LIABILITIES									
Deposits from customers	6,988,580	2,008,148	1,929,226	366,114	-	854,881	-	12,146,949	1.79
Deposits and placements from banks and other financial institutions	230,139	546,655	78,056	719,043	-	4,060	-	1,577,953	1.00
Structured liabilities designated as									-
FVTPL	14,085	49,674	510,581	515,882	23,031	-	-	1,113,253	3.18
Bills payable	-	-	-	-	-	48,007	-	48,007	
Multi-Currency Sukuk Programme	-	-	-	523,841	-	-	-	523,841	3.16
Subordinated Commodity Murabahah Financing	-	-	-	578,700	-	-	-	578,700	3.03
Derivative financial liabilities	-	-	-	-	-	-	175,982	175,982	-
Other liabilities									
- provision for credit commitments	-	-	-	-	-	2,268	-	2,268	-
- others	-	-	-	-	-	168,423	-	168,423	-
Total Financial Liabilities	7,232,804	2,604,477	2,517,863	2,703,580	23,031	1,077,639	175,982	16,335,376	
Total profit sensitivity gap	600,495	4,697,253	(2,161,501)	(831,448)	323,292	(675,649)	55,352	2,007,794	

4 Risk (Cont'd)

(d) Market risk management (Cont'd)

(iv) Profit Rate Risk (Cont'd)

31 December 2019	Non-trading book								
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	4,637,701	-	-	-	-	144,269	-	4,781,970	3.01
- impairment allowances	-	-	-	-	-	(6)	-	(6)	-
Deposits and placements with banks and other financial institutions	-	139,153	-	-	-	-	-	139,153	3.08
Financial investments at FVOCI	-	-	1,700,589	1,019,386	-	-	-	2,719,975	3.49
Financing and advances									
- performing	3,879,643	7,809,694	256,266	585,246	384,066	-	-	12,914,915	5.31
- impaired	-	-	-	-	-	385,303	-	385,303	-
- impairment allowances	-	-	-	-	-	(257,265)	-	(257,265)	-
Derivative financial assets	-	-	-	-	-	-	125,674	125,674	-
Other assets	-	-	-	-	-	33,317	-	33,317	-
Total Financial Assets	8,517,344	7,948,847	1,956,855	1,604,632	384,066	305,618	125,674	20,843,036	
LIABILITIES									
Deposits from customers	7,208,562	2,242,725	2,271,553	314,809	373	1,282,311	-	13,320,333	2.55
Deposits and placements from banks and other financial institutions	1,458,888	300,623	362,778	200,545	-	17,120	-	2,339,954	1.95
Structured liabilities designated as FVTPL	18,429	123,786	441,044	682,341	29,758	-	-	1,295,358	3.59
Bills payable	-	-	-	-	-	22,036	-	22,036	-
Multi-Currency Sukuk Programme	-	751,732	-	514,197	-	-	-	1,265,929	3.96
Subordinated Commodity Murabahah Financing	-	-	-	317,957	271,655	-	-	589,612	4.58
Derivative financial liabilities	-	-	-	-	-	-	79,721	79,721	-
Other liabilities									
- provision for credit commitments	-	-	-	-	-	2,552	-	2,552	-
- others	-	-	-	-	-	183,902	96	183,998	-
Total Financial Liabilities	8,685,879	3,418,866	3,075,375	2,029,849	301,786	1,507,921	79,817	19,099,493	
Total profit sensitivity gap	(168,535)	4,529,981	(1,118,520)	(425,217)	82,280	(1,202,303)	45,857	1,743,543	

4 Risk (Cont'd)

(d) Market risk management (Cont'd)

(v) Stress testing

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

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

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

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

(vi) Back-testing

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

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

(e) Resilience risk

(i) Overview

Resilience risk is the risk that we are unable to provide critical services to customers, affiliates and counterparties, during sustained and significant operational disruption. Sustained and significant operational disruptions are events that could affect:

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

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

(ii) Resilience risk management

Key developments in 2020

In 2020 HSBC at the group level have:

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

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

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

Governance and structure

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

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

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

(e) Resilience risk (Cont'd)

(ii) Resilience risk management (Cont'd)

Governance and structure (Cont'd)

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

Key risk management processes

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

Continuity of business operations during COVID-19 pandemic

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

(f) Regulatory Compliance Risk

(i) Overview

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

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

(ii) Regulatory compliance risk management

Key developments in 2020

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

(f) Regulatory Compliance Risk (Cont'd)

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

Governance and structure

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

Key risk management processes

The HSBC Group Regulatory Conduct capability is responsible for setting global policies, standards and risk appetite to guide the Bank's regulatory compliance risk management, devising clear frameworks and supporting processes to protect against regulatory compliance risks. The capability also provides oversight, review and challenge to the Regional and country Chief Compliance Officers and their teams to help them identify, assess and mitigate regulatory compliance risks, where required. Policies and procedures are regularly reviewed. Global policies and procedures require the prompt identification and escalation of any actual or potential regulatory breach to Regulatory Compliance. Reportable events are escalated to the RMM and the Risk Committee, as appropriate.

Conduct of business

In 2020, good conduct through people's behaviour and decision making continued to be promoted and encouraged in order to deliver fair outcomes for customers, and to maintain financial market integrity. During 2020:

- We continued to champion a strong conduct and customer-focused culture. We have implemented a number of measures throughout the COVID-19 pandemic to support our customers in financial difficulties, and have maintained service and supported colleagues in unprecedented conditions.
- We have also continued our focus on culture and behaviours, adapting our controls and risk management processes to reflect significant levels of remote working throughout the year.
- We have continued to invest significant resources to improve our compliance systems and controls relating to our activities in global markets and to ensure market integrity. These include enhancements to pricing and disclosure, order management and trade execution; trade, voice and audio surveillance; front office supervision; and improvements to our enforcement and discipline framework for employee misconduct.
- We have also continued to emphasis and work to create an environment in which employees are encouraged and feel safe to speak up and have placed a particular focus on the importance of well-being during the current pandemic, through regular top down communications, virtual town halls, videos and podcasts.
- We continue to further embed conduct within our business line processes and work closely to consider and mitigate the conduct impacts of the Group's strategic transformation programme and in key business change programmes such as the IBOR transition.
- We delivered our sixth annual global mandatory training course on conduct, and reinforced the importance of conduct by highlighting examples of good conduct.
- We are refreshing our approach to conduct arrangements across the Bank with a view to ensure that the arrangements remain appropriate for the nature of our business.
- The Board continues to maintain oversight of conduct matters through the Risk Committee.

(g) Financial crime and fraud risk

(i) Overview

Financial crime and fraud risk is the risk that we knowingly or unknowingly help parties to commit or to further potentially illegal activity including money laundering, fraud, bribery and corruption, tax evasion, sanctions breaches, and terrorist and proliferation financing. Financial crime and fraud risk arises from day-to-day banking operations.

(ii) Financial crime and fraud risk management

Key developments in 2020

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

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

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

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

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

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

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

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

(g) Financial crime and fraud risk

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

Governance and structure

Since establishing a global framework of Financial Crime Risk Management Committees in 2018, we have continued to strengthen and review the effectiveness of our governance framework to manage financial crime risk. Formal governance committees is held and chaired by the chief executive officer. They help to enable compliance with the letter and the spirit of all applicable financial crime compliance laws and regulations, as well as our own standards, values and policies relating to financial crime risks. At a HSBC Group level, the Financial Crime Risk Management Meeting, chaired by the HSBC Group Chief Compliance Officer, has served as the pinnacle of this governance structure, ultimately responsible for the management of financial crime risk. As a reflection of the growing maturity and effectiveness of our financial crime risk management, this meeting will be integrated with the HSBC Group Risk Management Meeting in January 2021. During the course of 2021, we will review the management of financial crime risk across Bank to identify other areas that could be simplified.

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

Key risk management processes

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

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

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

We are committed to working in partnership with the wider industry and the public sector in managing financial crime risk, protecting the integrity of the financial system, and helping to protect the communities we serve. We are a strong advocate of public-private partnerships and participate in a number of information-sharing initiatives around the world. We are a constructive partner to national governments and international standard setters, and support reforms being undertaken in key markets such as Singapore where we work closely with peer banks and with the Monetary Authority of Singapore. In Malaysia, Public-private partnership (PPP) initiative was formalised in Nov19 and HSBC Malaysia has been actively supporting the national agenda. Financial Services Professional Board (FSPB), through a Working Group led by HSBC Malaysia CCO with representatives from participating FIs, has produced a Guidance Document and issued in Oct20, setting out best practices to support the effective implementation of "adequate and proportionate procedures" to Bribery and Corruption ("B&C") risks for financial institutions in response to requirement under Section 17A(5) of the Malaysian Anti-Corruption Commission Act(MACC) that came into force on 1 June 2020.

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

(h) Model risk

(i) Overview

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

(ii) Key developments in 2020

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

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

(iii) Governance and structure

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

(iv) Key risk management processes

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

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

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

5 Capital management

The Banks's approach to capital management is driven by its strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which the Bank operates.

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

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

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

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

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

- Tier 1 capital is divided into Common Equity Tier 1 (CET1) Capital and Additional Tier 1 Capital. CET1 Capital includes ordinary share capital, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. The Bank does not have any Additional Tier 1 Capital as at 31 December 2020.

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

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

- Tier 2 capital, which includes qualifying subordinated liabilities and subordinated term financing, impairment allowances equal to 12-months and lifetime expected credit losses for non-credit impaired financing (commonly known as Stage 1 and 2 provisions) and regulatory reserve.

(a) Externally imposed capital requirements

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

(b) Basel III

With effect from 1 January 2016, banking institutions in Malaysia are also required to maintain capital buffers above the minimum capital adequacy ratios. The capital buffer requirements comprise Capital Conversation Buffer (CCB) of 2.5%, and the Countercyclical Capital Buffer (CCyB) ranging between 0% to 2.5%. CCB is intended to build up capital buffers by individual banking institutions during normal times that can be drawn down during stress periods while CCyB is intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive.

5 Capital management (Cont'd)

(b) Basel III (Cont'd)

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

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

(c) Leverage ratio

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

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

6 Use of estimates and judgements

The results of the Bank is 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.

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.

(a) 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 3(k). The calculation of the Bank's ECL under MFRS 9 requires a number of judgements, assumptions and estimates to be made. The most significant are set out below:

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgements (Cont'd)

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

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 offsetting criteria as described in Note 3(f)(iv).

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

2020	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial investments at FVOCI (Note 9)	**1,299,815**	**-**	**-**	**1,299,815**
Derivative financial assets (Note 13)	**137**	**217,681**	**13,516**	**231,334**
	1,299,952	**217,681**	**13,516**	**1,531,149**
Structured liabilities designated at FVTPL(Note 21)	**-**	**610,899**	**502,354**	**1,113,253**
Derivative financial liabilities (Note 13)	**170**	**175,765**	**47**	**175,982**
Multi-Currency Sukuk Programme (Note 23)	**-**	**523,841**	**-**	**523,841**
	170	**1,310,505**	**502,401**	**1,813,076**
2019				
Financial investments at FVOCI (Note 9)	2,719,975	-	-	2,719,975
Derivative financial assets (Note 13)	867	119,444	5,363	125,674
	2,720,842	119,444	5,363	2,845,649
Structured liabilities designated at FVTPL(Note 21)	-	1,082,565	212,793	1,295,358
Derivative financial liabilities (Note 13)	1,374	78,239	108	79,721
Multi-Currency Sukuk Programme (Note 23)	-	1,265,929	-	1,265,929
	1,374	2,426,733	212,901	2,641,008

(i) Control framework

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

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

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

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

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

(ii) Determination of fair value

Fair values are determined according to the following hierarchy:

- Level 1 – Valuation technique using quoted market price

  Financial instruments with quoted prices for identical instruments in active markets that the Bank can access at the measurement date.

- Level 2 – Valuation technique using observable inputs

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

- Level 3 – Valuation technique with significant unobservable inputs

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

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

(iii) Valuation techniques

Valuation techniques incorporate assumptions about factors that other market participants would use in their valuations. A range of valuation techniques is employed, dependent upon the instrument type and available market data. Most sophisticated valuation techniques are based upon discounted cash flow analysis, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to consideration of credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an 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 utilises market forward curves, if available. In option models, the probability of different potential future outcomes must be considered. In addition, the values of some products are dependent 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 judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit (day 1 gain or loss) or greater than 5% of the instrument's carrying value is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used). All fair value adjustments are included within the levelling determination. Structured notes issued and certain other hybrid instrument liabilities are included within structured liabilities and are measured at fair value. The credit spread applied to these instruments is derived from the spreads at which the 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.

6 Use of estimates and judgements (Cont'd)

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

(iv) Fair value adjustments

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

<u>Bid-offer</u>

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

<u>Uncertainty</u>

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

<u>Credit valuation adjustment (CVA) and Debit valuation adjustment (DVA)</u>

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgements (Cont'd)

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

(iv) Fair value adjustments (Cont'd)

Funding fair value adjustment (FFVA)

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

Model limitation

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

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.

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

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

	2020			2019		
	Derivative financial assets	**Derivative financial liabilities**	**Structured liabilities**	Derivative financial assets	Derivative financial liabilities	Structured liabilities
RM'000						
Balance at 1 January	**5,363**	**108**	**212,793**	147	-	18,814
Total gains or losses						
-in profit or loss	**8,153**	**(61)**	**7,319**	5,216	108	(236)
-in OCI	-	-	**(2,785)**	-	-	(82)
Issues	-	-	**309,197**	-	-	194,597
Settlements	-	-	**(24,170)**	-	-	(300)
Balance at 31 December	**13,516**	**47**	**502,354**	5,363	108	212,793

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

For derivative financial assets/liabilities, transfers out of Level 3 were due to the maturity of the derivatives or as a result of early termination.

For structured liabilities, transfers into Level 3 were due to new deals with unobservable volatilities. Transfers out of Level 3 resulted from maturity or early termination of the instruments.

For structured liabilities, realised and unrealised gains and losses are presented in profit or loss under "Other operating income".

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgements (Cont'd)

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

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

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

2020 **RM'000**	**Derivative financial assets**	**Derivative financial liabilities**	**Structured liabilities**
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	**(512)[1]**	**-**	**(284)[2]**
Total gains or losses included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	**8,665[2]**	**(60)[2]**	**7,603[1]**
2019 RM'000			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	-	-	-
Total gains or losses included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	5,216[2]	108[1]	(236)[2]

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

(vi) Quantitative information about significant unobservable inputs in Level 3 valuations

Level 3 fair values are estimated using unobservable inputs for the financial assets and liabilities. The following table shows the valuation techniques used in the determination of fair values within Level 3 at Bank basis for the current year, as well as the key unobservable inputs used in the valuation models.

Type of financial instrument	Valuation technique	Key unobservable inputs	Range of estimates for unobservable input
Structured liabilities	Option model	Long term equity volatility	**2020: 6.25%-30.60%** 2019: 6.03%-10.82%

(vii) Key unobservable inputs to Level 3 financial instruments

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

6 Use of estimates and judgements (Cont'd)

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

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

	31 Dec 2020 Carrying amount RM'000	**31 Dec 2020 Fair value RM'000**	31 Dec 2019 Carrying amount RM'000	31 Dec 2019 Fair value RM'000
Financial Assets				
Financing and advances	**13,492,576**	**13,555,991**	13,042,953	13,059,556
Financial Liabilities				
Deposits from customers	**12,146,949**	**12,153,654**	13,320,333	13,318,332
Deposits and placements from banks and other financial institutions	**1,577,953**	**1,577,924**	2,339,954	2,339,739
Subordinated Commodity Murabahah Financing	**578,700**	**617,374**	589,612	620,133

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

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

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

Financing and advances
To determine the fair value of financing and advances to banks and customers, financing and advances are segregated, as far as possible, into portfolios of similar characteristics. Fair values are based on observable market transactions, when available. When they are unavailable, fair values are estimated using valuation models incorporating a range of input assumptions. These assumptions may include: value estimates from third-party brokers reflecting over-the-counter trading activity; forward-looking discounted cash flow models, taking account of expected customer prepayment rates, using assumptions that the Bank believes are consistent with those that would be used by market participants in valuing such financing; new business rates estimates for similar financing; and trading inputs from other market participants including observed primary and secondary trades. From time to time, the Bank may engage a third-party valuation specialist to measure the fair value of a pool of financing.

The fair value of financing and advances reflect expected credit losses at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the financing and advances, and the fair value effect of repricing between origination and the balance sheet date. For credit impaired financing and advances, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

Deposits from customers
Deposits and placements from banks and other financial institutions
Deposits, placements and obligations which mature or reprice after six months are grouped by residual maturity. Fair value is estimated using discounted cash flows, applying either market rates, where applicable, or current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

Multi-Currency Sukuk Programme
Subordinated Commodity Murabahah Financing
The fair value of subordinated bonds issued at cost were estimated based on discounted cash flows using rates currently offered for debt instruments of similar remaining maturities and credit grading.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgements (Cont'd)

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

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

31 Dec 2020	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total fair value RM'000**	**Total carrying amount RM'000**
Financial Assets					
Financing and advances	**-**	**-**	**13,555,991**	**13,555,991**	**13,492,576**
Financial Liabilities					
Deposits from customers	**-**	**12,153,654**	**-**	**12,153,654**	**12,146,949**
Deposits and placements from banks and other financial institutions	**-**	**1,577,924**	**-**	**1,577,924**	**1,577,953**
Subordinated Commodity Murabahah Financing	**-**	**617,374**	**-**	**617,374**	**578,700**
31 Dec 2019					
Financial Assets					
Financing and advances	-	-	13,059,556	13,059,556	13,042,953
Financial Liabilities					
Deposits from customers	-	13,318,332	-	13,318,332	13,320,333
Deposits and placements from banks and other financial institutions	-	2,339,739	-	2,339,739	2,339,954
Subordinated Commodity Murabahah Financing	-	620,133	-	620,133	589,612

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

7 Cash and Short-Term Funds

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Cash and balances with banks and other financial institutions	**188,091**	215,943
Money at call and interbank placements maturing within one month	**3,063,792**	4,566,021
	3,251,883	4,781,964

Money at call and interbank placements maturing within one month is within Stage 1 allocation (12-months ECL) with RM10,550 impairment allowance as at 31 December 2020 (31 December 2019: RM6,000).

8 Deposits and Placements with Banks and Other Financial Institutions

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Bank Negara Malaysia	**48,204**	139,153

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

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Money market instruments:		
Malaysian Government Islamic Sukuk	**1,299,815**	2,719,975
	1,299,815	2,719,975

Financial investments at FVOCI are within Stage 1 allocation (12 -months ECL) with RM178,000 impairment allowance as at 31 December 2020 (31 December 2019: RM166,000). The carrying amount of financial investments at FVOCI is equivalent to their fair value. The impairment allowance is recognised in other comprehensive income and does not reduce the carrying amount in the statement of financial position.

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

	31 Dec 2020	31 Dec 2019
Maturing within one year	**25,198**	1,700,589
More than one year to three years	**1,274,617**	1,019,386
	1,299,815	2,719,975

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financing and Advances

(i) By type and Shariah contracts

At amortised cost	Sale-based contracts		Lease-based contracts	Equity-based contracts		
	Commodity Murabahah	Bai Al-Inah	Thumma Al-Bai	Diminishing Musharakah	Ujrah	Total
31 Dec 2020	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	70,597	-	-	-	-	70,597
Term financing:						
House financing	-	-	-	4,044,001	-	4,044,001
Hire purchase receivables	-	-	206,548	-	-	206,548
Syndicated term financing	1,164,754	-	-	-	-	1,164,754
Other term financing	2,720,594	32	-	948,860	-	3,669,486
Trust receipts	447,183	-	-	-	-	447,183
Claims on customers under acceptance credits	282,094	-	-	-	-	282,094
Bills receivables	652,868	-	-	-	-	652,868
Staff financing-i	1,297	2	-	987	-	2,286
Credit cards-i	-	-	-	-	1,090,323	1,090,323
Revolving financing	2,207,130	-	-	-	-	2,207,130
Other financing	-	-	-	3,621	-	3,621
Gross financing and advances	7,546,517	34	206,548	4,997,469	1,090,323	13,840,891
Less: Impairment allowance						(348,315)
Total net financing and advances						13,492,576

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financing and Advances (Cont'd)

(i) By type and Shariah contracts (Cont'd)

	Sale-based contracts		Lease-based contracts	Equity-based contracts		
	Commodity Murabahah	Bai Al-Inah	Thumma Al-Bai	Diminishing Musharakah	Ujrah	Total
31 Dec 2019	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	73,131	-	-	-	-	73,131
Term financing:						
House financing	-	-	-	4,164,372	-	4,164,372
Hire purchase receivables	-	-	194,049	-	-	194,049
Syndicated term financing	728,298	-	-	-	-	728,298
Other term financing	2,867,908	39	-	971,127	-	3,839,074
Trust receipts	525,826	-	-	-	-	525,826
Claims on customers under acceptance credits	323,272	-	-	-	-	323,272
Bills receivables	470,920	-	-	-	-	470,920
Staff financing-i	1,041	30	-	1,173	-	2,244
Credit cards-i	-	-	-	-	1,258,564	1,258,564
Revolving financing	1,716,165	-	-	-	-	1,716,165
Other financing	-	-	-	4,303	-	4,303
Gross financing and advances	6,706,561	69	194,049	5,140,975	1,258,564	13,300,218
Less: Impairment allowance						(257,265)
Total net financing and advances						13,042,953

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financing and Advances (Cont'd)

(ii) By type of customer

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Domestic non-bank financial institutions	**454,666**	494,886
Domestic business enterprises:		
Small medium enterprises	**1,095,207**	937,397
Others	**4,325,674**	4,221,026
Individuals	**6,021,819**	6,263,102
Other domestic entities	**1,092**	3,054
Foreign entities/individuals	**1,942,433**	1,380,753
	13,840,891	13,300,218

(iii) By profit rate sensitivity

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Fixed rate:		
Hire purchase receivables	**206,548**	194,049
Other financing	**3,356,748**	3,443,551
Variable rate:		
Base Rate/Base Financing Rate plus	**5,058,381**	5,197,432
Cost-plus	**5,219,214**	4,465,186
	13,840,891	13,300,218

(iv) By residual contractual maturity

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Maturing within one year	**5,163,910**	4,541,871
More than one year to three years	**1,995,288**	1,755,409
More than three years to five years	**906,313**	1,012,833
Over five years	**5,775,380**	5,990,105
	13,840,891	13,300,218

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financing and Advances (Cont'd)

(v) By sector

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Agriculture, hunting, forestry & fishing	**15,392**	16,715
Mining and quarrying	**132,270**	184,190
Manufacturing	**1,505,515**	1,203,233
Electricity, gas and water	**82,042**	199,311
Construction	**1,056,386**	1,051,079
Real estate	**868,979**	759,769
Wholesale & retail trade, restaurants & hotels	**786,829**	824,314
Transport, storage and communication	**185,984**	177,572
Finance, takaful and business services	**983,902**	868,309
Household - Retail	**6,518,984**	6,785,186
Others	**1,704,608**	1,230,540
	13,840,891	13,300,218

(vi) By purpose

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Purchase of landed property:		
Residential	**4,044,988**	4,165,546
Non-residential	**786,294**	799,749
Purchase of transport vehicles	**811**	771
Consumption credit	**2,252,123**	2,382,777
Construction	**1,033,815**	817,249
Working capital	**4,277,592**	4,273,540
Other purpose	**1,445,268**	860,586
	13,840,891	13,300,218

(vii) By geographical distribution

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Northern Region	**1,229,704**	1,557,283
Southern Region	**1,682,219**	1,570,904
Central Region	**10,580,814**	9,793,026
Eastern Region	**348,154**	379,005
	13,840,891	13,300,218

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financing and Advances (Cont'd)

(viii) Assets under Management

The details of assets under management in respect of the Syndicated Investment Account Financing (SIAF)/Investment Agency Account (IAA) financing are as below. The exposures and the corresponding risk weighted amount are reported in investors' financial statements.

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Financial assets at fair value through profit or loss [1]	**-**	600,054
Total gross financing and advances	**3,486,635**	3,071,768
Less: Impairment allowance	**(872)**	(347)
Total net financing and advances	**3,485,763**	3,071,421
Maturity not exceeding one year	**50,516**	35,000
Maturity exceeding one year	**15,083**	437,750
Total commitments and contingencies	**65,599**	472,750
Total restricted investment accounts	**3,551,362**	4,144,225
Risk weighted assets (RWA) of restricted investment accounts	**2,743,531**	3,298,355

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

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

[1] These are held for the purpose for sale in the near term.

11 Impaired Financing

(i) Gross carrying amount movement of financing and advances classified as credit impaired:

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Gross carrying amount as at 1 January	**385,303**	356,312
Transfer within stages	**239,123**	59,449
Net remeasurement due to changes in credit risk	**101,377**	70,641
Written-off	**(119,108)**	(101,099)
Gross carrying amount as at 31 December	**606,695**	385,303

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Impaired Financing (Cont'd)

(ii) By contract

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Ijarah Thumma Al-Bai (AITAB) *(hire purchase)*	**435**	1,117
Commodity Murabahah *(cost-plus)*	**294,380**	248,763
Diminishing Musharakah (*profit and loss sharing)*	**284,368**	128,582
Bai Al-Inah *(sell and buy back)*	**32**	32
Ujrah *(fee-based)*	**27,480**	6,809
	606,695	385,303

(iii) By sector

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Agriculture, hunting, forestry & fishing	**319**	-
Manufacturing	**17,123**	16,247
Construction	**3,710**	4,199
Real estate	**-**	35
Wholesale & retail trade, restaurants & hotels	**11,379**	18,004
Transport, storage and communication	**213**	369
Finance, takaful and business services	**5,988**	28,721
Household - Retail	**546,347**	292,565
Others	**21,616**	25,163
	606,695	385,303

(iv) By purpose

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Purchase of landed property:		
Residential	**264,301**	105,991
Non-residential	**13,502**	18,307
Purchase of transport vehicles	**62**	32
Consumption credit	**281,388**	185,059
Construction	**3,650**	2,724
Working capital	**24,522**	50,381
Others	**19,270**	22,809
	606,695	385,303

(v) By geographical distribution

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Northern Region	**51,444**	33,178
Southern Region	**63,554**	39,561
Central Region	**477,282**	305,637
Eastern Region	**14,415**	6,927
	606,695	385,303

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Expected credit losses allowance charges (ECL)

(i) Movements in ECL allowances for financing and advances

The following table shows reconciliation from the opening to the closing balance of the ECL allowance for financing and advances:

	Stage 1	Stage 2	Stage 3	
	12-month ECL not credit impaired RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
Balance at 1 January 2020	**46,503**	**68,003**	**142,759**	**257,265**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	**22,948**	**(20,483)**	**(2,465)**	**-**
- Transferred to Stage 2	**(2,931)**	**5,669**	**(2,738)**	**-**
- Transferred to Stage 3	**(1,401)**	**(6,117)**	**7,518**	**-**
New financial assets originated or purchased	**27,984**	**-**	**-**	**27,984**
Net remeasurement due to changes in credit risk	**(4,165)**	**28,692**	**157,798**	**182,325**
Asset written-off	**-**	**-**	**(119,108)**	**(119,108)**
Others	**(151)**	**-**	**-**	**(151)**
Balance at 31 December 2020[1]	**88,787**	**75,764**	**183,764**	**348,315**
Balance at 1 January 2019	43,988	64,464	126,081	234,533
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	21,747	(18,175)	(3,572)	-
- Transferred to Stage 2	(4,295)	8,351	(4,056)	-
- Transferred to Stage 3	(443)	(3,831)	4,274	-
New financial assets originated or purchased	17,655	-	-	17,655
Net remeasurement due to changes in credit risk	(31,931)	17,194	121,131	106,394
Asset written-off	-	-	(101,099)	(101,099)
Others	(218)	-	-	(218)
Balance at 31 December 2019	46,503	68,003	142,759	257,265

[1] Included in the Balance at 31 Dec 2020 are management judgemental adjustments made in respect of COVID-19. Please refer to note 4(b)(v).

The Bank measures the expected credit losses (ECL) using the three-stage approach. The following section explains how significant changes in the gross carrying amount of financing and advances during the year have contributed to the changes in the ECL allowances for the Bank under the expected credit loss model.

The total ECL allowances increased by RM 91.1 million compared to the balance at the beginning of the year. This net increase was mainly contributed by net remeasurement due to changes in credit risk (RM 182.3 million) and new financial assets originated or purchased (RM 28.0 million), partly offset by asset written-off (RM 119.1 million).

- 12-months ECL not credit impaired (Stage 1) - increased by RM 42.3 million, primarily due to increase in new financial assets originated or purchased, migration of financings to Stage 1, and partially offset by decrease in remeasurement driven by changes in credit risk and migration of financings to Stage 2 and Stage 3.
- Lifetime ECL not credit-impaired (Stage 2) - increased by RM 7.8 million, primarily due to increase in net remeasurement driven by changes in credit risk, and partially offset by migration of financings to Stage 1 and Stage 3.
- Lifetime ECL credit-impaired (Stage 3) - increased by RM 41.0 million, primarily due to increase in net remeasurement driven by changes in credit risk, partially offset by asset written-off.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Expected credit losses allowance charges (ECL) (Cont'd)

(ii) Movements in ECL allowances for financing commitments

The following table shows reconciliation from the opening to the closing balance of the ECL allowance for financing commitments:

	Stage 1	Stage 2	Stage 3	
	12-month ECL not credit impaired RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
Balance at 1 January 2020	**1,276**	**874**	**402**	**2,552**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	**170**	**(170)**	**-**	**-**
- Transferred to Stage 2	**(20)**	**20**	**-**	**-**
- Transferred to Stage 3	**-**	**-**	**-**	**-**
New financial assets originated or purchased	**546**	**-**	**-**	**546**
Net remeasurement due to changes in credit risk	**(406)**	**35**	**(402)**	**(773)**
Others	**(57)**	**-**	**-**	**(57)**
Balance at 31 December 2020	**1,509**	**759**	**-**	**2,268**
Balance at 1 January 2019	1,109	925	825	2,859
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	81	(81)	-	-
- Transferred to Stage 2	(88)	88	-	-
- Transferred to Stage 3	-	-	-	-
New financial assets originated or purchased	653	-	-	653
Net remeasurement due to changes in credit risk	(471)	(58)	(423)	(952)
Others	(8)	-	-	(8)
Balance at 31 December 2019	1,276	874	402	2,552

For retail portfolio, the split of ECL allowance for drawn amount and provision for undrawn commitments is not available. In accordance to MFRS 7 Financial Instruments disclosure, the provisions for the financing and other credit related commitments for retail portfolio are presented together with the allowance for the drawn financing and advances.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 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			
31 Dec 2020	**Up to 1 Year RM'000**	**>1 - 5 Years RM'000**	**> 5 Years RM'000**	**Total RM'000**	**Up to 1 Year RM'000**	**>1 - 5 Years RM'000**	**> 5 Years RM'000**	**Total RM'000**	**Up to 1 Year RM'000**	**>1 - 5 Years RM'000**	**> 5 Years RM'000**	**Total RM'000**
Trading derivatives:												
Foreign exchange contracts												
- Forwards	**10,538,055**	**-**	**-**	**10,538,055**	**157,213**	**-**	**-**	**157,213**	**158,328**	**-**	**-**	**158,328**
- Swaps	**236,607**	**219,241**	**-**	**455,848**	**7,740**	**2,859**	**-**	**10,599**	**7,726**	**7,190**	**-**	**14,916**
Profit rate related contracts												
- Swaps	**211,000**	**1,107,611**	**-**	**1,318,611**	**1,046**	**35,527**	**-**	**36,573**	**-**	**2,690**	**-**	**2,690**
- Options	**243,592**	**-**	**-**	**243,592**	**3,871**	**-**	**-**	**3,871**	**-**	**-**	**-**	**-**
Equity related contracts												
- Options purchased	**328,281**	**497,651**	**-**	**825,932**	**9,779**	**13,299**	**-**	**23,078**	**-**	**48**	**-**	**48**
Total	**11,557,535**	**1,824,503**	**-**	**13,382,038**	**179,649**	**51,685**	**-**	**231,334**	**166,054**	**9,928**	**-**	**175,982**

The Bank does not have any hedging instrument as at 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Derivative Financial Instruments (Cont'd)

31 Dec 2019	Contract / Notional Amount Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Positive Fair Value Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Negative Fair Value Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
Trading derivatives:												
Foreign exchange contracts												
- Forwards	6,829,354	-	-	6,829,354	35,968	-	-	35,968	36,232	-	-	36,232
- Swaps	642,318	-	-	642,318	41,737	-	-	41,737	41,568	-	-	41,568
Profit rate related contracts												
- Swaps	1,048,000	863,428	-	1,911,428	1,097	11,565	-	12,662	-	1,601	-	1,601
- Options	170,519	245,982	-	416,501	2,620	1,960	-	4,580	-	-	-	-
Equity related contracts												
- Options purchased	466,444	396,199	-	862,643	16,084	14,643	-	30,727	196	124	-	320
Total	9,156,635	1,505,609	-	10,662,244	97,506	28,168	-	125,674	77,996	1,725	-	79,721

The Bank does not have any hedging instrument as at 31 December 2019.

Included in the net non-profit income is the net gain/(loss) arising from fair value hedges during the financial year as follows:

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Gain on hedging instruments	**-**	13
Loss on the hedged items attributable to the hedged risk	**-**	(29)
Net loss from fair value hedges	**-**	(16)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Other Assets

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Income receivable	**2,864**	6,234
Profit receivable	**14,338**	24,990
Prepayments	**300**	-
Amount due from holding company	**1,856**	2,093
ROU assets [1]	**19,903**	24,504
Other receivables	**12,041**	10,820
	51,302	68,641

[1] ROU assets comprise solely of properties. There is no new lease during the year (2019: nil). Existing leases that were subjected to modification during the year were RM2,663,000 (2019: nil).

Lease related expenses and cash outflows during the financial year:

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Finance expense	**1,338**	1,417
Expense related to short-term leases (Included in establishment related expenses)	**-**	222
Cash outflow for leases payments	**7,684**	7,357

15 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.

In 2020, BNM has reduced the Statutory Reserve Requirement (SRR) Ratio requirement from 3% to 2% effective 20 March 2020. BNM also allowed banks to recognise Malaysia Government Securities (MGS) and Malaysian Government Investment Issues (MGII) securities as part of SRR compliance until 31 December 2022.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Equipment

2020	Office equipment, fixtures and fittings	Computer equipment	Motor vehicles	Work in Progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Cost					
Balance at 1 January	**37,897**	**20,218**	**301**	**-**	**58,416**
Additions	**488**	**3,896**	**-**	**-**	**4,384**
Written off	**(4,286)**	**(11,623)**	**-**	**-**	**(15,909)**
Balance at 31 December	**34,099**	**12,491**	**301**	**-**	**46,891**
Accumulated depreciation					
Balance at 1 January	**33,115**	**18,145**	**55**	**-**	**51,315**
Charge for the financial year	**1,404**	**672**	**60**	**-**	**2,136**
Written off	**(4,133)**	**(11,511)**	**-**	**-**	**(15,644)**
Balance at 31 December	**30,386**	**7,306**	**115**	**-**	**37,807**
Net book value at 31 December	**3,713**	**5,185**	**186**	**-**	**9,084**
2019					
Cost					
Balance at 1 January	36,132	19,706	299	1,506	57,643
Additions	1,330	597	301	-	2,228
Disposals	-	-	(299)	-	(299)
Written off	(1,071)	(85)	-	-	(1,156)
Reclassification	1,506	-	-	(1,506)	-
Balance at 31 December	37,897	20,218	301	-	58,416
Accumulated depreciation					
Balance at 1 January	33,023	17,512	240	-	50,775
Charge for the financial year	1,160	718	84	-	1,962
Written off	(1,068)	(85)	-	-	(1,153)
Disposals	-	-	(269)	-	(269)
Balance at 31 December	33,115	18,145	55	-	51,315
Net book value at 31 December	4,782	2,073	246	-	7,101

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Intangible assets

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Computer software		
Cost		
Balance at 1 January	**5,052**	5,053
Written off	**(673)**	(1)
Balance at 31 December	**4,379**	5,052
Accumulated amortisation		
Balance at 1 January	**5,052**	5,053
Written off	**(673)**	(1)
Balance at 31 December	**4,379**	5,052
Net book value at 31 December	**-**	-

18 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Deferred tax assets	**31,627**	26,164
Deferred tax liabilities	**(3,867)**	(2,256)
	27,760	23,908

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

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Deferred tax assets		
- settled more than 12 months	**12,572**	8,588
- settled within 12 months	**19,055**	17,576
Deferred tax liabilities		
- settled more than 12 months	**(3,736)**	(929)
- settled within 12 months	**(131)**	(1,327)
	27,760	23,908

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

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Equipment capital allowances	**(177)**	(322)
ROU assets	**266**	28
FVOCI reserve	**(3,690)**	(1,934)
Own credit reserve	**354**	2,607
Provision for accrued expenses	**15,842**	7,147
Deferred income	**2,645**	9,302
Lease receivables	**-**	215
Financing and advances	**12,520**	6,865
	27,760	23,908

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deferred Tax Assets (Cont'd)

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

2020	**Balance at 1 January RM'000**	**Recognised in profit or loss RM'000**	**Recognised in other comprehensive income RM'000**	**Balance at 31 December RM'000**
Financing and advances	**6,865**	**5,655**	**-**	**12,520**
Own Credit reserve	**2,607**	**-**	**(2,253)**	**354**
Provision for accrued expenses	**7,147**	**8,695**	**-**	**15,842**
Deferred income	**9,302**	**(6,657)**	**-**	**2,645**
ROU assets	**28**	**238**	**-**	**266**
Lease receivables	**215**	**(215)**	**-**	**-**
Deferred Tax Assets	**26,164**	**7,716**	**(2,253)**	**31,627**
Equipment capital allowances	**(322)**	**145**	**-**	**(177)**
Financial investment at FVOCI	**(1,934)**	**-**	**(1,756)**	**(3,690)**
Deferred Tax Liabilities	**(2,256)**	**145**	**(1,756)**	**(3,867)**
Net Deferred Tax Assets	**23,908**	**7,861**	**(4,009)**	**27,760**
2019				
Financing and advances	5,739	1,126	-	6,865
Own Credit reserve	943	-	1,664	2,607
Provision for accrued expenses	7,938	(791)	-	7,147
Deferred income	2,838	6,464	-	9,302
ROU assets	-	28	-	28
Lease receivables	218	(3)	-	215
Deferred Tax Assets	17,676	6,824	1,664	26,164
Equipment capital allowances	(210)	(112)	-	(322)
Financial investment at FVOCI	(103)	-	(1,831)	(1,934)
Deferred Tax Liabilities	(313)	(112)	(1,831)	(2,256)
Net Deferred Tax Assets	17,363	6,712	(167)	23,908

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Deposits From Customers

(i) By type of deposit

At amortised cost	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Non-Mudharabah Fund		
Demand deposits		
- Qard	**2,437,811**	3,451,211
Savings deposits		
- Qard	**2,411,513**	1,872,649
Term deposits		
- Commodity Murabahah	**7,205,178**	7,942,487
- Qard	**92,447**	53,986
	12,146,949	13,320,333

The maturity structure of term deposits is as follows:

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Due within six months	**5,906,115**	6,590,085
More than six months to one year	**1,026,167**	1,099,780
More than one year to three years	**249,314**	174,180
More than three years to five years	**116,029**	132,428
	7,297,625	7,996,473

(ii) By type of customer

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Government and statutory bodies	**18,278**	12,986
Business enterprises	**3,362,562**	2,753,651
Individuals	**5,732,293**	6,222,474
Foreign entities/individuals	**2,701,901**	3,945,963
Others	**331,915**	385,259
	12,146,949	13,320,333

20 Deposits and Placements from Banks and Other Financial Institutions

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Non-Mudharabah Fund		
Licensed banks	**854,839**	427,197
Bank Negara Malaysia	**4,060**	20,412
Other financial institutions	**719,054**	1,892,345
	1,577,953	2,339,954

Included in deposits and placements from banks and other financial institutions are placements from the Bank's parent company, HSBC Bank Malaysia Berhad (HBMY), of RM855 million (31 Dec 2019: RM427 million).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Structured Liabilities Designated as Fair Value through profit or loss (FVTPL)

At fair value	**31 Dec 2020 RM'000**	31 Dec 2019 RM'000
Structured liabilities		
- Wakalah with Commodity Wa'ad	**22,093**	205,951
- Tawarruq	**1,091,160**	1,089,407
	1,113,253	1,295,358

Structured liabilities are measured at fair value over the life of the instruments. Structured liabilities are deposits with embedded derivatives, of which both profit paid and fair valuation on the structured liabilities are recorded as net income/expense from financial instruments designated at fair value.

22 Other Liabilities

	Note	**31 Dec 2020 RM'000**	31 Dec 2019 RM'000
At amortised cost			
Settlements		**-**	96
Amounts due to holding company		**30,520**	57,735
Profit payable		**54,577**	85,652
Deferred income		**11,582**	38,760
Marginal deposit		**7,553**	3,765
Accrued expenses		**66,016**	26,971
Lease liabilities		**21,167**	25,054
Other creditors	(a)	**53,753**	102,811
Provision on financing and credit related commitments	(b)	**2,268**	2,552
		247,436	343,396

(a) Other creditors

Included in other creditors is excess compensation balance and profit earned from inadvertent Shariah non-compliant activities. The contribution was distributed to the non-governmental organisations approved by the Shariah Committee during the financial period/year. No Shariah non-compliant event has been identified during the financial year (2019: 1).

Source and use of charity funds	**31 Dec 2020 RM'000**	31 Dec 2019 RM'000
Balance at 1 January	**3**	14
Shariah non-compliant income for the financial year [1]	**7**	27
Contribution to non-profit organisations	**(9)**	(15)
Tax expense on Shariah non-compliant income	**-**	(23)
Balance at 31 December	**1**	3

[1] Income received from transactions in Financing and Advances and Nostro Accounts.

(b) Refer Note 12(ii) for movement in provision.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Multi-Currency Sukuk Programme

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Multi-Currency Sukuk Programme (MCSP)	**523,841**	1,265,929

The Bank issued the following series of 5-year unsecured Sukuk under its RM3.0 billion MCSP.

Issuance under MCSP	**RM'000**	**Issue Date**	**Maturity Date**	**Carrying Value 31 Dec 2020 RM'000**	Carrying Value 31 Dec 2019 RM'000
At fair value					
3rd series [1]	750,000	27 Mar 2015	27 Mar 2020	**-**	751,732
4th series	500,000	2 Oct 2018	2 Oct 2023	**523,841**	514,197
	1,250,000			**523,841**	1,265,929

Movement in MCSP

2020	**3rd series 31 Dec 2020 RM'000**	**4th series 31 Dec 2020 RM'000**
Balance at 1 January	**751,732**	**514,197**
Change in fair value other than from own credit risk	**489**	**15,791**
Change in fair value from own credit risk	**(2,221)**	**(6,147)**
Redemption of Multi-Currency Sukuk	**(750,000)**	**-**
Balance at 31 December	**-**	**523,841**

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

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
The cumulative (gain)/loss from change in fair value due to changes in own credit risk	**(8,368)**	4,574

[1] Redeemed on 27 March 2020.

24 Subordinated Commodity Murabahah Financing

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	**312,073**	317,957
- Second tranche issued on 30 June 2015	**266,627**	271,655
	578,700	589,612

The unsecured Subordinated Commodity Murabahah financing comprise of two tranches of Basel III compliant Tier 2 subordinated financing of USD equivalent of RM250 million each from the Bank's immediate holding company, HSBC Bank Malaysia Berhad (HBMY). The tenor for both the Subordinated Commodity Murabahah financing is 10 years from the utilisation date with profit payable quarterly in arrears. Under the Capital Adequacy Framework (Capital Components), the par value of Tranche 1 of the subordinated financing is amortised on a straight line basis, with 20% of the par value phased out each year, with effect from 2020 for regulatory capital base purposes.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Share Capital

	31 Dec 2020		31 Dec 2019	
	Number of Ordinary Shares ('000)	**RM'000**	Number of Ordinary Shares ('000)	RM'000
At 1 January/31December - ordinary shares of RM0.50 each				
Ordinary Shares Issued and Fully Paid	**100,000**	**660,000**	100,000	660,000

26 Reserves

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Non-distributable		
Financial investment at FVOCI	**11,868**	6,294
Own credit reserve [1]	**(1,123)**	(8,257)
Capital contribution reserve [2]	**777**	537
Regulatory reserves [3]	**6,100**	53,100
	17,622	51,674
Distributable		
Retained profits	**1,350,035**	1,259,011
	1,367,657	1,310,685

[1] Changes in fair value relating to the Bank's own credit risk are recognised in other comprehensive income. This is arising from structured product and multi-currency sukuk program.

[2] The capital contribution reserve is maintained to record the amount relating to share options granted to employees of the Bank directly by HSBC Holdings plc.

[3] The regulatory reserve is maintained in compliance with paragraph 10.9 of BNM's policy document on Financial Reporting and Financial Reporting for Islamic Banking Institutions issued on 27 September 2019, to maintain, in aggregate, loss allowance for non-credit-impaired exposures and regulatory reserve of no less than 1.0% of total credit exposures, net of loss allowance for credit-impaired exposures.

The regulatory reserve is debited against retained profits.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Income Derived from Investment of Depositors' Funds and Others

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Income derived from investment of:		
(i) Term deposit	**450,768**	608,238
(ii) Other deposits	**202,295**	217,900
	653,063	826,138

(i) Income derived from investment of term deposits

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**373,571**	473,262
- Recoveries from impaired financing	**14,040**	17,831
Financial investments at FVOCI	**40,685**	74,733
Money at call and deposit with financial institutions	**41,731**	62,179
	470,027	628,005
Other operating income		
Realised gains from dealing in foreign currency	**22,088**	15,931
Unrealised loss from dealing in foreign currency	**(543)**	(360)
Gain from sale of financial assets designated as FVTPL and other financial instruments	**3,396**	864
Unrealised (loss)/gain from revaluation of financial assets at FVTPL	**(454)**	1,416
Realised gain from trading in derivatives	**2,562**	1,498
Unrealised gain from trading in derivatives	**3,351**	290
Net expenses from financial liabilities designated at FVTPL	**(49,367)**	(39,395)
Gain on disposal of financial investments at FVOCI	**7,824**	-
Other expense [1]	**(8,116)**	(11)
	(19,259)	(19,767)
	450,768	608,238

[1] Included in Other expense is day 1 modification loss relating to COVID-19 relief measures of RM8,115,000.

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
(ii) Income derived from investment of other deposits		
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**151,102**	159,231
- Recoveries from impaired financing	**5,679**	5,999
Financial investments at FVOCI	**16,457**	25,144
Money at call and deposit with financial institutions	**16,879**	20,921
	190,117	211,295

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

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
(ii) Income derived from investment of other deposits (Cont'd)		
Other operating income		
Realised gain from dealing in foreign currency	**8,934**	5,360
Unrealised loss from dealing in foreign currency	**(220)**	(121)
Gain from sale of financial assets designated as FVTPL and other financial instruments	**1,374**	291
Unrealised (loss)/gain from revaluation of financial assets at FVTPL	**(184)**	476
Realised gain from trading in derivatives	**1,036**	504
Unrealised gain from trading in derivatives	**1,356**	98
Gain on disposal of financial investments at FVOCI	**3,165**	-
Other expense [1]	**(3,283)**	(3)
	12,178	6,605
	202,295	217,900

[1] Included in Other expense is day 1 modification loss relating to COVID-19 relief measures of RM3,283,000.

28 Income Derived from Investment of Shareholder's Funds

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**60,223**	62,856
- Recoveries from impaired financing	**2,263**	2,368
Financial investments at FVOCI	**6,559**	9,926
Money at call and deposit with financial institutions	**6,728**	8,258
	75,773	83,408
Other operating income		
Fee commission [1]	**77,361**	67,324
Realised gains from dealing in foreign currency	**3,561**	2,116
Unrealised loss from dealing in foreign currency	**(88)**	(48)
Gain from sale of financial assets designated as FVTPL and other financial instruments	**548**	115
Unrealised (loss)/gain from revaluation of financial assets at FVTPL	**(73)**	188
Realised gains from trading in derivatives	**413**	199
Unrealised gain from trading in derivatives	**540**	39
Shared-service fees from holding company	**1,916**	2,328
Gain on disposal of financial investments at FVOCI	**1,261**	6,605
Other (expense)/income [2]	**(1,280)**	177
	84,159	79,043
	159,932	162,451

[1] The above fees and commissions were derived from the following major contributors:		
Service charges and fees	**23,316**	23,312
Credit cards	**17,211**	28,902
Credit facilities	**8,629**	7,482
Agency fee	**15,283**	10,848

[2] Included in Other expense is day 1 modification loss relating to COVID-19 relief measures of RM1,308,000.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 Impairment Provisions

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
New and increased allowance/provisions (net of releases) [1]	**210,096**	123,768
Recoveries	**(46,160)**	(48,332)
Written off	**316**	47
Total charge to statement of profit or loss	**164,252**	75,483

[1] Included in the New and increased allowance are management judgemental adjustments made in respect of COVID-19. Please refer to note 4(b)(v).

Breakdown of the impairment allowance/provisions is disclosed by financial instruments type are as follow:

(i) Financing and advances

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
New and increased allowance (net of releases)	**210,309**	124,049
Recoveries	**(46,160)**	(48,332)
Written off	**316**	47
Total charge to statement of profit or loss	**164,465**	75,764

(ii) Money at call and interbank placements maturing within one month

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
New and increased allowance (net of releases)	**1**	4
Total charge to statement of profit or loss	**1**	4

(iii) Financing commitments

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Net release of allowance	**(227)**	(299)
Total charge to statement of profit or loss	**(227)**	(299)

(iv) Financial investment at FVOCI

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
New and increased allowance (net of releases)	**13**	14
Total charge to statement of profit or loss	**13**	14

30 Income Attributable to Depositors

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Non-Mudharabah Fund		
- Deposits from customers	**212,967**	295,756
- Deposits and placements of banks and other financial institutions	**18,268**	48,219
- Lease liabilities	**1,338**	1,418
- Others	**40,824**	93,242
	273,397	438,635

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Operating Expenses

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Personnel expenses	**47,467**	48,790
Promotion and marketing related expenses	**7,582**	9,666
Establishment related expenses	**17,364**	16,019
General administrative expenses	**33,645**	35,707
Related company expenses	**147,999**	134,899
	254,057	245,081
Personnel expenses		
Salaries, allowances and bonuses	**37,709**	37,438
Employees Provident Fund contributions	**6,663**	6,634
Share based payment	**253**	728
Other staff related costs	**2,842**	3,990
	47,467	48,790
Promotion and marketing related expenses	**7,582**	9,666
Establishment related expenses		
Depreciation of equipment	**2,136**	1,962
Depreciation of ROU assets	**7,264**	6,674
Information technology costs	**2,263**	2,567
Equipment written off	**265**	3
Utilities	**1,949**	2,064
Others	**3,487**	2,749
	17,364	16,019
General administrative expenses		
Auditors' remuneration		
- Statutory audit fees	**156**	156
- Regulatory related fees	**129**	160
Professional fees [1]	**1,560**	1,779
Communication	**1,969**	1,416
Others	**29,831**	32,196
	33,645	35,707

[1] Included in professional fees are fees paid to the Shariah Committee members of the Bank:

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Fees	**565**	410
Asst Prof Dr Ziyaad Mahomed	**110**	89
Dr Aida binti Othman	**90**	82
Dr Khairul Anuar bin Ahmad	**97**	81
Prof Dr Younes Soualhi	**90**	76
Dr Mohamed Ashraf bin Mohamed Iqbal	**88**	82
Dr Muhammad Syahmi Mohd Karim	**90**	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Operating Expenses (Cont'd)

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Related company charges	**147,999**	134,899
Of which by:		
Type of service		
- Information technology related cost	**24,163**	7,840
- Non information technology related cost	**123,836**	127,059
Countries/territories		
- Malaysia	**147,097**	133,846
- United Kingdom	**888**	1,053
- Hong Kong	**14**	-

32 Tax Expense

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Malaysian income tax		
- Current year	**35,082**	54,806
- Prior year	**101**	(6,525)
Total current tax recognised in profit or loss	**35,183**	48,281
Deferred tax:		
Origination and reversal of temporary differences		
- Current year	**(13,382)**	(6,712)
- Underprovision in prior years	**5,521**	-
Total deferred tax recognised in profit or loss	**(7,861)**	(6,712)
Total tax expense	**27,322**	41,569

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 tax	**121,289**	229,390
Income tax using Malaysian tax rate	**29,109**	55,054
Non-deductible expenses	**8,016**	1,980
Tax exempt income	**(9,904)**	(8,940)
Under/(over) provision in respect of prior years	**101**	(6,525)
Tax expense	**27,322**	41,569

33 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 in issue during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Significant Related Party Transactions and Balances

For the purpose of these financial statements, parties are considered to be related to the Bank 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. where 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 holding bank (hereinafter referred to as parent), and ultimate holding company;

ii subsidiary and associated companies of the Bank's ultimate holding companies; and

iii key management personnel who are defined as those person having authority for planning, directing and controlling the activities of the Bank. Key personnel include all members of the Board of Directors of HSBC Amanah Malaysia Berhad and certain members of Senior Management of the Bank. Transactions, arrangements and agreements are entered into by the Bank with companies that may be controlled/jointly controlled by Key Management Personnel of the Bank and their close family members.

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

	31 Dec 2020			31 Dec 2019		
	Parent **RM'000**	***Other related companies*** **RM'000**	***Key management personnel*** **RM'000**	*Parent* RM'000	*Other related companies* RM'000	*Key management personnel* RM'000
Income						
Finance income from financing and advances	**-**	**-**	**183**	-	-	223
Fees and commission	**1,115**	**1,209**	**-**	2,449	6,698	-
Net trading income/expense	**138,385**	**(13,602)**	**-**	64,106	(21,011)	-
Other income	**1,916**	**6**	**-**	2,328	5	-
	141,416	**(12,387)**	**183**	68,883	(14,308)	223
Expenditure						
Profit attributable to deposits and placements from banks and other financial institutions	**25,606**	**10,993**	**98**	37,465	38,390	139
Fees and commission	**-**	**7,663**	**-**	-	443	-
Operating expenses	**137,702**	**10,297**	**-**	125,210	9,689	-
	163,308	**28,953**	**98**	162,675	48,522	139
Amount due from						
Deposits and placements with banks and other financial institutions (including cash and short term funds)	**-**	**61,585**	**-**	-	63,962	-
Financing and advances	**-**	**-**	**5,341**	-	-	5,000
Derivative financial assets	**212,533**	**-**	**-**	77,080	-	-
Other assets	**1,951**	**-**	**-**	2,093	767	-
	214,484	**61,585**	**5,341**	79,173	64,729	5,000
Amount due to						
Deposits and placements from banks and other financial institutions	**854,839**	**719,054**	**-**	427,197	514,597	-
Deposits from customers	**-**	**-**	**2,979**	-	-	4,402
Derivative financial liabilities	**22,601**	**-**	**-**	48,454	-	-
Other liabilities	**66,312**	**3,360**	**-**	58,954	2,729	-
Subordinated commodity murabahah financing	**578,700**	**-**	**-**	589,612	-	-
	1,522,452	**722,414**	**2,979**	1,124,217	517,326	4,402

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

(b) Key Management Personnel Compensation

The key management personnel compensation are as follows:

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Directors of the Bank:		
- Fees	**722**	692
Total Directors' Remuneration	**722**	692

During the financial years ended 31 December 2020 and 31 December 2019, there were no such compensation incurred for the following:

- Professional fees paid to Directors or any firms of which the Directors are members for services rendered.
- Amount paid to or receivable by any third party for services provided by Directors.
- Indemnity give or insurance effected for any Directors.

Other key management personnel:		
- Short-term employee benefits	**1,776**	2,212
- Share-based payments	**332**	23
	2,108	2,235
Total key management personnel compensation	**2,830**	2,927

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

(b) Key Management Personnel Compensation (Cont'd)

i) Directors/CEO' Remuneration

2020 **RM'000**	**Salaries and bonuses**	**Other short-term employee benefits**	**Shared-based payment**	**Fees**	**Total**
Non-Independent Executive Directors					
Mukhtar Malik Hussain	**-**	**-**	**-**	**-**	**-**
Stuart Paterson Milne	**-**	**-**	**-**	**-**	**-**
Independent Non-Executive Directors					
Adil Ahmad	**-**	**-**	**-**	**143**	**143**
Albert Quah Chei Jin	**-**	**-**	**-**	**142**	**142**
Ho Chai Huey	**-**	**-**	**-**	**128**	**128**
Datuk Kamaruddin Taib	**-**	**-**	**-**	**173**	**173**
Non-Independent Non-Executive Director					
Lee Choo Hock	**-**	**-**	**-**	**136**	**136**
	-	**-**	**-**	**722**	**722**
CEO					
Arsalaan Ahmed	**1,284**	**492**	**332**	**-**	**2,108**

2019 **RM'000**	Salaries and bonuses	Other short-term employee benefits	Shared-based payment	Fees	Total
Non-Independent Executive Directors					
Mukhtar Malik Hussain	**-**	**-**	**-**	**-**	**-**
Stuart Paterson Milne	**-**	**-**	**-**	**-**	**-**
Independent Non-Executive Directors					
Adil Ahmad	-	-	-	136	136
Albert Quah Chei Jin	-	-	-	136	136
Ho Chai Huey	-	-	-	121	121
Datuk Kamaruddin Taib	-	-	-	166	166
Non-Independent Non-Executive Director					
Lee Choo Hock [1]	-	-	-	133	133
	-	**-**	**-**	692	692
CEO					
Arsalaan Ahmed	1,658	554	23	-	2,235

[1] Re-designated as Non-Independent Non-Executive Director on 30 May 2019. He was previously an Independent Non-Executive Director.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

ii) Total value of remuneration awards for the financial year

	31 Dec 2020		31 Dec 2019	
	Unrestricted RM'000	**Deferred RM'000**	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
Cash	**1,174**	**-**	1,171	-
Variable remuneration				
Cash	**-**	**-**	270	180
Shares and share-linked instruments	**-**	**-**	270	180
	-	**-**	540	360
	1,174	**-**	1,711	360

Number of officers having received a variable remuneration during the financial year: 0 (2019: 1)

	31 Dec 2020		31 Dec 2019	
	Number	**Amount RM'000**	Number	Amount RM'000
Outstanding deferred remuneration				
Cash	**1**	**180**	-	-
Shares and share-linked instruments	**1**	**337**	1	223
		517		223
Deferred remuneration paid out	**1**	**88**	1	26

35 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 2020 RM'000	31 Dec 2019 RM'000
Aggregate value of outstanding credit exposures to connected parties	**947,403**	941,338
As a percentage of total credit exposures	**4.5%**	5.6%
Aggregate value of outstanding credit exposures to connected parties which is non-performing or in default	-	-
As a percentage of total credit exposures	-	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Capital Adequacy

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Tier 1 capital		
Paid-up ordinary share capital	**660,000**	660,000
Retained profits	**1,350,035**	1,259,011
Other reserves	**20,960**	51,001
Regulatory adjustments	**4,173**	(71,428)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	**2,035,168**	1,898,584
Tier 2 capital		
Subordinated Commodity Murabahah financing	**516,285**	589,612
Impairment allowance (unimpaired portion) & regulatory reserves	**120,612**	145,014
Total Tier 2 capital	**636,897**	734,626
Capital base	**2,672,065**	2,633,210
Inclusive of proposed dividend		
CET1 and Tier 1 Capital ratio	**16.210%**	14.974%
Total Capital ratio	**21.282%**	20.768%
Net of proposed dividend		
CET1 and Tier 1 Capital ratio	**15.811%**	14.580%
Total Capital ratio	**20.884%**	20.374%

The total capital and capital adequacy ratios have been computed based on the Standardised Approach in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB). The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

Pursuant to BNM's Guidelines on Capital Adequacy Framework (Capital Component) issued on 9 December 2020 (the Guidelines), the Bank elected to apply the transitional arrangements as specified in paragraph 39.

Under transitional arrangements, the expected credit loss (ECL) allowance measured at an amount equal to 12-month and lifetime ECL to the extent they are related to non-credit-impaired exposures (hereinafter referred to as Stage 1 and Stage 2 provisions), are allowed to be added back to CET-1, subject to a capping. The transitional arrangement commenced beginning from financial year beginning 1 January 2020, with an add-back factor that will gradually reduce over the four-year transitional duration.

As required by the Guideline, below is the disclosure on the capital ratios with comparison of:
(i) the Capital Ratios, computed in accordance with the transitional arrangement
(ii) the Capital Ratios, had the transitional arrangement not been applied.

31 Dec 2020	**With Transitional Arrangement**		Without Transitional Arrangement	
Inclusive of proposed dividend	**RM'000**	**%**	RM'000	%
CET1 and Tier 1 Capital	**2,035,168**	**16.210%**	1,985,117	15.811%
Tier 2 Capital	**636,897**	**-**	660,011	-
Total Capital	**2,672,065**	**21.282%**	2,645,128	21.068%

Breakdown of RWA in the various risk categories:

	31 Dec 2020 RM'000	31 Dec 2019 RM'000
Total RWA for credit risk	**11,498,037**	11,601,150
Total RWA for market risk	**52,557**	81,799
Total RWA for operational risk	**1,004,660**	996,092
	12,555,254	12,679,041

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 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.

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

Principal amount	**31 Dec 2020 RM'000**	31 Dec 2019 RM'000
Direct credit substitutes	**20,562**	488,882
Transaction-related contingent items	**1,297,514**	1,281,201
Short-term self-liquidating trade-related contingencies	**75,666**	37,007
Formal standby facilities and credit lines		
- Maturity not exceeding one year	**1,389,116**	670,474
- Maturity exceeding one year	**2,311,222**	2,330,664
Other unconditionally cancellable	**2,294,173**	1,640,484
Unutilised credit card lines	**3,689,300**	3,743,071
Equity related contracts		
- Less than one year	**328,281**	466,444
- One year to less than five years	**497,651**	396,199
Profit rate related contracts		
- Less than one year	**454,592**	1,218,519
- One year to less than five years	**1,107,611**	1,109,410
Foreign exchange related contracts		
- Less than one year	**10,774,662**	7,471,672
- One year to less than five years	**219,241**	-
	24,459,591	20,854,027

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Equity-based compensation

The Bank participated in the following cash settled share compensation plans operated by the HSBC Group for the acquisition of HSBC Holdings plc shares.

Restricted Share Plan and Share Match Schemes

The HSBC Holdings Restricted Share Plan is intended to align the interests of executives with those of shareholders by linking executive awards to the creation of superior shareholder value. This is achieved by focusing on predetermined targets. An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. Deferred share awards generally vest over a period of three years. Vested shares may be subject to a retention requirement (restriction) post-vesting. The cost of the conditional awards is recognised through an annual charge based on the likely level of vesting of shares, apportioned over the period of service to which the award relates.

The Share Match Schemes was first introduced in Malaysia in 2014. Eligible HSBC employees will acquire HSBC Holdings ordinary shares. Shares are purchased in the market each quarter up to a maximum value of £750 or the equivalent in local currency over a period of one year. Matching awards are added at a ratio of one free share for every three purchased. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

	31 Dec 2020 Number ('000)	31 Dec 2019 Number ('000)
Balance at 1 January	**11**	5
Granted in the financial year	**28**	9
Exercised in the financial year	**(15)**	(1)
Released in the financial year	**(2)**	(1)
Cancelled in the financial year	**(1)**	(1)
Balance at 31 December	**21**	11
Compensation cost recognised during the financial year	**253**	728

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan and the Share Match Schemes is £5.60 (2019: £6.05). The weighted average fair value of the HSBC share at 31 December 2020 was £5.80 (2019: £6.34). The weighted average remaining vesting period as at 31 December 2020 for shares granted during the year was 1.25 years (2019: 1.30 years).

39 Shariah Advisors

In line with Bank Negara Malaysia's Guideline on Shariah Governance Framework for Islamic Financial Institution, the current Scholars appointed are:

1) Asst Prof Dr Ziyaad Mahomed
Asst Prof Dr Ziyaad is currently an Associate Dean of E-Learning and Director of Executive Education at International Centre for Education of Islamic Finance (INCEIF). He holds a PhD in Islamic Finance from INCEIF, BA (Hons) Business (Finance) from Anglia Ruskin University, United Kingdom, and a Chartered Islamic Finance Professional (CIFP) holder from INCEIF. He also holds an MBA and Certificate in Islamic Law from The Management College of Southern Africa (MANCOSA) and University of Kwazulu Natal, South Africa, respectively.

2) Prof Dr Younes Soualhi
Prof Younes is currently a Senior Researcher at International Shariah Research Academy. He holds a Bachelor, Master and PhD in Usul al-Fiqh from the Emir Abdul Qadir University for Islamic Sciences, Algeria, International Islamic University Malaysia (IIUM) and University Malaya respectively. He also holds a diploma in Human Sciences from IIUM. He is a certified financial planner registered under Malaysian Financial Planning Council (MFPC).

3) Dr Khairul Anuar bin Ahmad
Dr Khairul is currently a Senior Lecturer and Deputy Dean of Faculty of Syariah and Law, International Islamic University College Selangor (KUIS). He holds a Bachelor and Master of Shariah from University of Malaya and PhD in Islamic Banking and Finance from IIUM.

4) Dr Aida binti Othman
Dr Aida is currently a Partner at Zaid Ibrahim & Co. She is also a Director with ZICO Shariah Advisory Services Sdn. Bhd. She holds a PhD in Comparative Law & Middle Eastern Studies from Harvard University, a Masters of Law from University of Cambridge and a Bachelor of Laws and Bachelor of Islamic Law (Syariah) (both with First Class Honours), from IIUM.

5) Dr Mohamed Ashraf bin Mohamed Iqbal
Dr Ashraf is currently a Director of MindSpring Sdn Bhd, a consulting firm that he started in 2005. He was appointed as a non-executive director for HSBC Amanah Malaysia Berhad for ten years before resigning in October 2018. Dr Ashraf is currently an Independent Non-Executive Director of Bank Pembangunan and Chairman of Pembangunan Leasing and Credit. He holds a Bachelor of Science in Mechanical Engineering, Masters in Business Administration from California State University, United States of America, and a Postgraduate Diploma in Islamic Studies from IIUM. He subsequently obtained his doctorate in Islamic Finance from INCEIF in 2016.

6) Dr Muhammad Syahmi Mohd Karim
Dr. Syahmi is currently a Deputy CEO/Senior Consultant of ISRA International Consulting Sdn Bhd. He holds a PhD in Islamic Banking and Finance from Durham University, United Kingdom, Master of Science in Finance, Bachelor of Accounting (Hons) and Certificate of Islamic Law from IIUM. He also currently sits on various Professional Memberships as Chartered Accountant at Malaysia Institute of Accountant (MIA), Associate Members at CPA Australia and Association Shari'ah Advisors in Islamic Finance Malaysia (ASAS).

40 Event Subsequent to the Balance Sheet Date

On 13 January 2021, the Government of Malaysia reintroduced the movement control order to curb the soaring number of COVID-19 cases. This may have an impact on the Bank's financial results. The Bank is not able to predict the potential future direct or indirect effects resulted from the movement control order. However, the Bank is taking actions to mitigate the impact, and will continue to closely monitor the related risks as they evolve.