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

FINANCIAL STATEMENTS – 31 DECEMBER 2021

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

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CONTENTS

1 Board of Directors

2 Corporate Governance Disclosures

6 Board Responsibility and Oversight
Board of Directors
Board Committees

12 Management Reports

13 Internal Control Framework

16 Remuneration Policy

17 Rating by External Rating Agencies

18 Directors' Report

26 Directors' Statement

27 Statutory Declaration

28 Shariah Committee's Report

30 Independent Auditors' Report

35 Statement of Financial Position

36 Statement of Profit or Loss

37 Statement of Comprehensive Income

38 Statement of Changes in Equity

40 Statement of Cash Flows

43 Notes to the Financial Statements

BOARD OF DIRECTORS

Datin Che Teh Ija binti Mohd Jalil
Independent Non-Executive Chairperson
(Appointed on 1 January 2022)

Stuart Paterson Milne
Non-Independent Executive Director

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

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

Datuk Kamaruddin bin Taib
Independent Non-Executive Chairman
(Resigned with effect from 1 January 2022)

CORPORATE GOVERNANCE DISCLOSURES

The corporate governance practices set out on pages 2 to 16 and the information referred to therein constitute 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:

Datin Che Teh Ija binti Mohd Jalil, 69
Independent Non- Executive Chairperson
Member of the Risk Committee
Appointed to the Board: January 2022

Datin Teh was appointed as Independent Non-Executive Chairperson and member of the Risk Committee of HSBC Amanah Malaysia Berhad on 1 January 2022.

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

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

She is currently a Director of Securities Industry Development Corporation and Finance Accreditation Agency Berhad.

Datin Teh does not have any shareholding in the Bank.

Stuart Paterson Milne, 62
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 Chief Executive Officer (CEO) of HSBC Japan and HSBC India respectively.

Mr Milne is a Non-Independent Executive Director and 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 19.

Directors (Cont'd)

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

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

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

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

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

Mr Mukhtar does not have any shareholding in the Bank. His interest in the Bank's related corporation is as disclosed in the Directors' Report on page 19.

Adil Ahmad, 65
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, Independent Chairman/Director of FWD Takaful Berhad. and Non-Executive Director of Vingroup Joint Stock Company (Vietnam).

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 19.

Directors (Cont'd)

Lee Choo Hock, 69
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 was 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 in a number of subsidiaries of Maybank.

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

Mr Lee does not have any shareholding in the Bank.

Albert Quah Chei Jin, 69
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 is a Non-Executive Trustee of Methodist Education Foundation.

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

Directors (Cont'd)

Ho Chai Huey, 62
Independent Non-Executive Director
Chairperson of Nominations and Remuneration Committee and Member of Risk Committee and Audit Committee
Appointed to the Board: January 2018

Ms Ho was appointed as Independent Non-Executive Director on 2 January 2018. She is the Chairperson of Nominations and Remuneration Committee, member of the Risk Committee and Audit Committee of the Bank effective 1 January 2022.

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 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 management structure of the Bank is headed by the Board of Directors and is led by the Independent Non-Executive Chairman. The objectives of the Board are to deliver sustainable value to shareholders and promote a culture of openness and debate. The Board is responsible for overseeing the management of the Bank and reviewing the Bank's strategic plans and key policies. Although the Board delegates the day-to-day management of the Bank's business and implementation of strategy to the Executive Committee, certain matters, including Financial Resources Planning (FRP), 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. Directors have full and timely access to all relevant information and are encouraged to have free and open contact with management at all levels. Directors may take independent professional advice, if necessary, at the Bank's expense.

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

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

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

The terms and conditions of appointment of Non-Executive Directors are set out in a letter of appointment, which include the expectations required of them and the time estimated for them to meet their commitment to the Bank. The current anticipated minimum time of commitment, which is subject to periodic review and adjustment by the Board, is 30 days per year and with appointment in not more than 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. Instead, they provide views from an external perspective, challenge constructively as well as help the management in the development of the Bank's strategy. They also scrutinise the performance of management in meetings, and monitor the risk profile and reporting of performance of the Bank. The Board has determined that each Non-Executive Director is independent in character and judgement, and there are no relationships or circumstances likely to affect the judgement of the Independent Non-Executive Directors.

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

Board and Committee Meetings

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

2021 Board and Committee meeting attendance	Board	Audit Committee	Risk Committee	Nominations and Remuneration Committee
Total number of meetings held	**8**	**5**	**6**	**7**
Independent Non-Executive Chairman				
Datuk Kamaruddin bin Taib [1]	8	4	-	7
Non-Independent Executive Directors				
Stuart Paterson Milne	7	-	-	-
Independent Non-Executive Directors				
Adil Ahmad	8	5	6	7
Albert Quah Chei Jin	8	5	6	7
Ho Chai Huey	8	-	6	7
Non-Independent Non-Executive Director				
Lee Choo Hock	8	5	6	7
Mukhtar Malik Hussain	8	-	-	-

[1] Resigned as Independent Non-Executive Chairman and ceased as member for Audit Committee and Nominations and Remuneration Committee with effect from 1 January 2022.

Directors' Emoluments

Details of the emoluments of the Directors of the Bank for 2021, disclosed in accordance with the Companies Act 2016, are shown in Note 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 programmes consist of series of meetings with senior executives to enable new Directors to familiarise themselves with the Bank's business. Directors also receive comprehensive guidance from the Company Secretary on Directors' duties and responsibilities.

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

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

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

Board Committees

The Board has established a number of committees, which members comprise Independent Non-Executive Directors who have the skills, knowledge and experience relevant to the responsibilities of the committees. The Board and each Board committee have terms of reference that document their responsibilities and governance procedures. The details of the Board Charter comprising the Board committees' Terms of Reference are available at 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 a non-executive responsibility for oversight of and advice to the Board on financial reporting related matters including Pillar 3 Disclosures and internal financial controls. The Audit Committee reviews the financial statements of the Bank before submission to the Board. It also monitors and reviews the effectiveness of the internal audit function and the Bank's financial and accounting policies and practices. The Audit Committee advises the Board on the appointment of the external auditors and is responsible for the oversight of the external auditors.

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

1. Audit Committee (Cont'd)

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

The current members of the Audit Committee, majority being Independent Non-Executive Directors, are:
- Albert Quah Chei Jin (Chairman)
- Adil Ahmad
- Lee Choo Hock
- Ho Chai Huey (appointed with effect from 1 January 2022)
- Datuk Kamaruddin bin Taib (resigned with effect from 1 January 2022)

During 2021, the Audit Committee held 5 meetings. The attendance is set out in the table on page 7.

2. Risk Committee

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

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

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

The current members of the Risk Committee, majority being Independent Non-Executive Directors, are:
- Adil Ahmad *(Chairman)*
- Lee Choo Hock
- Albert Quah Chei Jin
- Ho Chai Huey
- Datin Che Teh Ija binti Mohd Jalil (appointed with effect from 1 January 2022)

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

3. Nominations and Remuneration Committee

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

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

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

The current members of the Nominations and Remuneration Committee, majority being Independent Non-Executive Directors, are:
- Ho Chai Huey *(Chairperson)*
- Adil Ahmad
- Albert Quah Chei Jin
- Lee Choo Hock
- Mukhtar Malik Hussain (appointed with effect from 1 January 2022)
- Datuk Kamaruddin bin Taib (resigned with effect from 1 January 2022)

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

Delegations by the Board

Shariah Committee

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

The current members of the Shariah Committee are:
- Asst. Prof Dr Ziyaad Mahomed (Chairman)
- Dr Aida binti Othman
- Dr Mohamed Ashraf bin Mohamed Iqbal
- Dr Muhamad Syahmi bin Mohd Karim
- Aminuddin Abu Bakar (appointed on 1 January 2022)
- Prof. Dr. Younes Soualhi (resigned on 31 December 2021)
- Dr. Khairul Anuar bin Ahmad (term ended on 31 March 2021)
- Dr. Nermin Klopic (appointed on 1 April 2021 and resigned on 31 July 2021).

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (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 exercises all the power, authorities and discretions of the Board in so far as they concern the management and day-to-day running of the Bank and these are performed in accordance with the policies and directions set by the Board. The Bank's CEO, Raja Amir Shah bin Raja Azwa, chairs the Executive Committee.

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

(i) Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible for the efficient management of the Bank's balance sheet and the prudent management of risks pertaining to capital, liquidity and funding as well as 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) which are chaired by the Chief Risk Officer are held to establish, maintain and periodically review the policy and guidelines for the management of risk within the Bank. It serves as the governance body for enterprise-wide risk management with particular focus on risk culture, risk appetite, risk profile and integration of risk management into the Bank's strategic objectives including the management of all financial crime risks.

(iii) IT Steering Committee

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

Conflicts of Interest and Indemnification of Directors

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

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

During the year, none of the Directors had any material interest, directly or indirectly, in any contract of significance with the 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 and Board Committee meetings are structured around a pre-set agenda and reports for discussion, notation and approvals are circulated in advance of the meeting dates. To enable Directors to keep abreast with the performance of the Bank, key reports submitted to the Board and Board Committees during the financial year include:

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

INTERNAL CONTROL FRAMEWORK

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems, and for approving the aggregate levels and types of risks the 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 misstatement, 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 9 February 2022, the date of approval of the audited financial statements of the Bank for the financial year ended 31 December 2021.

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

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

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

  The management of risk faced by the Bank, predominantly on Shariah risk / Shariah non-compliance risk, is governed by the Bank's RMF which serves as an addendum to the Group's RMF. The Bank has an internal Shariah Governance structure to ensure all its processes and business operations are in accordance with Shariah, and it provides comprehensive guidance to the Board, Shariah Committee and Management of the Bank in discharging its duties on matters relating to Shariah. The roles and responsibilities of the Shariah Committee are governed by the Bank's Shariah Governance Policy ("SGP") and Shariah Committee's Terms of Reference ("TOR").

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

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

- **Risk identification and monitoring**
  Systems and procedures are in place to identify, assess, control and monitor the material risk types facing the 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.

INTERNAL CONTROL FRAMEWORK (Cont'd)

- **Risk identification and monitoring (Cont'd)**
  Shariah risk is presently not defined in the Group's risk taxonomy but it is a key risk regulated in the Bank. Shariah risk is an identified and separate type of operational risk, uniquely applicable to the Bank. Its identification and independent management is imperative from local regulatory perspective. The risk steward for Shariah risk is the Head of Shariah Department, who as the subject matter expert ("SME") responsible for the oversight of Shariah non-compliance risk faced by the Bank. This includes setting Shariah compliance related policies and guidelines, providing advice to risk and control owners on implementation of policies, providing independent review, challenging the risk reporting by control owners, setting key control expectations, as well as reviewing and advising on Risk and Control Assessment ("RCA").

- **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.

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

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

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

  The Shariah Committee has delegated selected responsibilities to the Shariah Department, but the Committee remains as the ultimate approver, and is fully accountable for the decisions and any ensuing implications arising from the delegated authority.

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

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

INTERNAL CONTROL FRAMEWORK (Cont'd)

- **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 2021. In 2014, HSBC Group Audit Committee (GAC) endorsed the adoption of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) 2013 framework for the monitoring of risk management and internal control systems to satisfy the requirements of section 404 of the Sarbanes-Oxley Act.

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

  - **Entity level controls**
    The primary mechanism through which comfort over risk management and internal control systems is achieved is through assessments of the effectiveness of entity level controls, and the reporting of risk and control issues on a regular basis through the various risk management and risk governance forums. Entity level controls are internal controls that have a pervasive influence over the entity as a whole. They include controls related to the control environment, such as the 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.

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

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

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

INTERNAL CONTROL FRAMEWORK (Cont'd)

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

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

REMUNERATION POLICY

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

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

The Bank adopts 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 to ensure a robust corporate governance framework is duly applied for the Bank.

Quantitative disclosures on remuneration of the Bank's key management and other material risk takers are in Note 34 to the financial statements.

RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

Rating Agency	Date	Rating Classification	Ratings Received
RAM Ratings Services Berhad	July 2021	• Long term	AAA
		• Short term	P1
		• 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 2021.

DIRECTORS

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

- Stuart Paterson Milne
- Mukhtar Malik Hussain
- Adil Ahmad
- Lee Choo Hock
- Albert Quah Chei Jin
- Ho Chai Huey
- Datin Che Teh Ija binti Mohd Jalil (appointed on 1 January 2022)
- Datuk Kamaruddin bin Taib (resigned with effect from 1 January 2022)

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

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

Profit for the financial year attributable to the owner of the Bank	**RM'000**
Profit before tax	**53,993**
Tax expense	**(5,614)**
Profit for the financial year	**48,379**

RESERVES AND PROVISIONS

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

ISSUE OF SHARES AND DEBENTURES

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

DIRECTORS' BENEFITS

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

Neither during nor at the end of the financial year was the Bank 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 1.1.2021	Acquired	Disposed	As at 31.12.2021
HSBC Holdings plc				
Ordinary shares of USD0.50				
Mukhtar Malik Hussain	1,713,853	-	-	1,713,853
Stuart Paterson Milne [1]	279,378	117,215	-	396,593
Adil Ahmad	3,200	-	-	3,200

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

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

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

DIVIDENDS

Since the end of the previous financial year, the Bank paid a final dividend of RM0.50 per share, amounting to net dividend payment of RM50 million in respect of the financial year ended 31 December 2020. The dividend was paid on 27 April 2021.

The Directors do not recommend any dividend payment in respect of the current 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 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.

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.

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 2021.

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, BUSINESS HIGHLIGHTS AND OUTLOOK

Performance Review

The Bank recorded profit before tax of RM54.0 million for the financial year ended 31 December 2021, a decrease of RM67.3 million or 55.5% compared to previous financial year. This was attributed to higher impairment provision by RM52.6 million and lower operating income by RM13.0 million.

The higher impairment provision was mainly driven by stage 3 downgrade of financing exposures, while the decrease in operating income was primarily attributed to lower net financing income due to the spill-over impact of the 2020 rate cuts into 2021, partially offset by higher net non-financing income.

Total assets size as at 31 December 2021 stood at RM19.4 billion, an increase of RM1.0 billion or 5.4% compared to 31 December 2020 of RM18.4 billion. The Bank's capital and liquidity ratios remained strong and were well above the regulatory requirements.

Business Highlights during the Year 2021

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

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

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

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

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

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

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

PERFORMANCE REVIEW, BUSINESS HIGHLIGHTS AND OUTLOOK (Cont'd)

Business Highlights during the Year 2021 (Cont'd)

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

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

Markets and Securities Services (MSS), together with WPB, launched Sophis - a new system which re-introduces the equity-linked quanto structured products to our retail customers. During the year, MSS has also enhanced our offshore FX capability via expansion of product offerings, improved our FX e-banking penetration rate and maintained our market volume leadership for FX Forwards/Dynamic Hedging activities.

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

Regarding sustainability, the Bank has completed several Environmental, Social and Governance (ESG) initiatives, including the following:

- HSBC Amanah Credit Card was launched with a charity feature whereby for every donation made by cardholders, the Bank will match 1% of the spend to donate to selected charities/ non-profit organisations.
- new credit cards issued are produced using 85% recycled PVC materials. This makes the Bank the first Islamic international bank in Malaysia to link a charity feature with its recycled plastic credit cards.
- the Bank issued Green Bank Guarantee to a biogas-to-energy player in Malaysia alongside Green Trade Financing facilities for two companies to source sustainable cocoa in Malaysia and acquire stake in a solar project in Vietnam.
- the Bank was the first bank in Malaysia to publish the Task Force on Climate-Related Financial Disclosures (TCFD) report in April 2021, demonstrating its commitment to transparency in reporting climate-related financial risks.
- in August 2021, the Bank was awarded the highly coveted "Islamic ESG Bank of the Year" for the 2nd consecutive year, from The Asset Triple A Islamic Finance Awards 2021, in addition to multiple sustainability awards which can be seen on page 24 under Directors' Report section.

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

PERFORMANCE REVIEW, BUSINESS HIGHLIGHTS AND OUTLOOK (Cont'd)

Outlook for 2022

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

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

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

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

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

Awards won during the financial year:

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

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

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

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

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

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

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

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

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

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

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 9 February 2022.

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

……………………………………………….

STUART PATERSON MILNE
Director

……………………………………………….

ALBERT QUAH CHEI JIN
Director

Kuala Lumpur, Malaysia
9 February 2022

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 152 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2021 and financial performance of the Bank for the financial year ended 31 December 2021 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 9 February 2022.

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

Kuala Lumpur, Malaysia
9 February 2022

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

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

I, Sun Wenyun, being the officer primarily responsible for the financial management of HSBC 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 152 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 9 February 2022.

....
SUN WENYUN

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 Document issued by Bank Negara Malaysia, the Bank's Shariah Governance Policy as well as the Shariah Committee's Terms of Reference, we hereby submit the following report for the financial year ended 31 December 2021:

1. We have conducted eight (8) meetings for the whole year of 2021. 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
Dr. Aida binti Othman	Member	8/8
Dr. Mohamed Ashraf bin Mohamed Iqbal	Member	8/8
Dr. Muhammad Syahmi Mohd Karim	Member	8/8
Prof. Dr. Younes Soualhi (resigned on 31 December 2021)	Member	8/8
Dr. Khairul Anuar bin Ahmad (term ended on 31 March 2021)	Member	2/2
Dr. Nermin Klopic (resigned on 31 July 2021)	Member	3/3

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 2021 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 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.

6. 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 by both the Shariah Advisory Council of Bank Negara Malaysia and by us.

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.

SHARIAH COMMITTEE'S REPORT (Cont'd)

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 2021 that have been reviewed by us, are in compliance with Shariah rules and principles;

c) the recognition of profit and 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 2021 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 2021 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 ……………………………………………….
Dr Aida binti Othman

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
9 February 2022

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HSBC AMANAH MALAYSIA BERHAD
(Incorporated in Malaysia)
Registration 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 2021, 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 2021, and the statement of profit or loss, statement of other 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 152.

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.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), Chartered Accountants, Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my

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

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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

(a) Identify and assess the risks of material misstatement of the financial statements of the 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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

(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)
Registration No. 200801006421 (807705-X)

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	03085/07/2023 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur
18 February 2022

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Note	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Assets			
Cash and short-term funds	*7*	**4,075,349**	3,251,883
Deposits and placements with banks and other financial institutions	*8*	**-**	48,204
Financial investments at fair value through other comprehensive income (FVOCI)	*9*	**2,252,951**	1,299,815
Financing and advances	*10*	**12,856,066**	13,492,576
Derivative financial assets	*13*	**92,858**	231,334
Other assets	*14*	**74,424**	51,302
Statutory deposits with Bank Negara Malaysia	*15*	**19,861**	25,502
Equipment	*16*	**6,905**	9,084
Tax recoverable		**13,260**	2,318
Deferred tax assets	*18*	**49,346**	27,760
Total assets		**19,441,020**	18,439,778
Liabilities			
Deposits from customers	*19*	**12,791,702**	12,146,949
Deposits and placements from banks and other financial institutions	*20*	**1,784,862**	1,577,953
Structured liabilities designated at fair value through profit or loss (FVTPL)	*21*	**1,188,099**	1,113,253
Bills payable		**12,867**	48,007
Derivative financial liabilities	*13*	**67,615**	175,982
Other liabilities	*22*	**469,724**	247,436
Multi-Currency Sukuk Programme	*23*	**515,333**	523,841
Subordinated Commodity Murabahah Financing	*24*	**600,777**	578,700
Total liabilities		**17,430,979**	16,412,121
Equity			
Share capital	*25*	**660,000**	660,000
Reserves	*26*	**1,350,041**	1,367,657
Total equity attributable to owner of the Bank		**2,010,041**	2,027,657
Total liabilities and equity		**19,441,020**	18,439,778
Restricted investment accounts [1]		3,799,016	3,551,362
Total Islamic Banking asset [1]		23,240,036	21,991,140
Commitments and contingencies	*37*	**27,296,398**	24,459,591

[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 2021

	Note	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Income derived from investment of depositors' funds and others	*27*	**550,179**	653,063
Income derived from investment of shareholder's funds	*28*	**149,490**	159,932
Impairment provision	*29*	**(216,886)**	(164,252)
Total distributable income		**482,783**	648,743
Income attributable to depositors	*30*	**(173,017)**	(273,397)
Total net income		**309,766**	375,346
Operating expenses	*31*	**(255,773)**	(254,057)
Profit before tax		**53,993**	121,289
Tax expense	*32*	**(5,614)**	(27,322)
Profit for the financial year		**48,379**	93,967
Basic earnings per RM0.50 ordinary share		**48.4 sen**	94.0 sen
Dividends per RM0.50 ordinary share (net) - final dividend paid in respect of prior year		**50.0 sen**	50.0 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 OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Profit for the financial year	**48,379**	**93,967**
Other comprehensive income/(expense)		
Items that will not be reclassified to profit or loss		
Own credit reserves:		
Change in fair value	**(1,408)**	9,387
Income tax effect	**338**	(2,253)
Items that will subsequently be reclassified to profit or loss when specific conditions are met:		
Fair value through other comprehensive income reserve:		
Change in fair value	**(16,947)**	23,436
Net amount transferred from profit or loss	**(2,554)**	(16,118)
Impairment written-back	**102**	12
Income tax effect	**4,680**	(1,756)
Other comprehensive (expense)/income for the financial year, net of income tax	**(15,789)**	12,708
Total comprehensive income for the financial year	**32,590**	106,675
Profit attributable to the owner of the Bank	**48,379**	93,967
Total comprehensive income attributable to the owner of the Bank	**32,590**	106,675

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 2021

	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**
2021							
Balance at 1 January	**660,000**	**11,868**	**(1,123)**	**777**	**6,100**	**1,350,035**	**2,027,657**
Profit for the financial year	**-**	**-**	**-**	**-**	**-**	**48,379**	**48,379**
Other comprehensive income, net of tax							
FVOCI reserve/Own Credit reserve							
Net change in fair value	**-**	**(12,880)**	**(1,070)**	**-**	**-**	**-**	**(13,950)**
Net amount transferred to profit or loss	**-**	**(1,941)**	**-**	**-**	**-**	**-**	**(1,941)**
Impairment charges	**-**	**102**	**-**	**-**	**-**	**-**	**102**
Total other comprehensive expense	***-***	***(14,719)***	***(1,070)***	***-***	***-***	***-***	***(15,789)***
Total comprehensive (expense)/income for the financial year	**-**	**(14,719)**	**(1,070)**	**-**	**-**	**48,379**	**32,590**
Net change in regulatory reserves	**-**	**-**	**-**	**-**	**40,700**	**(40,700)**	**-**
Transactions with the owner, recorded directly in equity							
Share based payment transactions	**-**	**-**	**-**	**(266)**	**-**	**60**	**(206)**
Dividends paid to owner - 2020 final	**-**	**-**	**-**	**-**	**-**	**(50,000)**	**(50,000)**
Balance at 31 December	**660,000**	**(2,851)**	**(2,193)**	**511**	**46,800**	**1,307,774**	**2,010,041**

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 2021 (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**
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 CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Cash Flows from Operating Activities		
Profit before tax	**53,993**	121,289
Adjustments for:		
Equipment written off	**121**	265
Unrealised (gain)/loss from dealing in foreign currency	**(6,963)**	851
Unrealised loss from revaluation of financial assets at FVTPL	**16,646**	711
Unrealised loss/(gain) from trading in derivatives	**4,805**	(5,247)
Allowance for impairment losses	**272,080**	210,412
Share based payment transactions	**68**	253
Depreciation of equipment	**2,443**	2,136
Depreciation of Right-of-use (ROU) assets	**6,553**	7,264
Impairment of ROU assets	**129**	-
Unrealised gains of foreign exchange translation on subordinated commodity murabahah financing	**22,077**	(10,912)
Net expenses on financial instruments fair value through profit or loss	**4,165**	49,367
Modification (gain)/loss on financing and advances, net of unwinding	**(14,442)**	5,961
Operating profit before changes in operating assets and liabilities	**361,675**	382,350
Decrease/(Increase) in operating assets		
Deposits and placements with banks and other financial institutions	**48,210**	90,948
Financing and advances	**385,622**	(666,209)
Derivative financial assets	**123,988**	(101,975)
Other assets	**(5,713)**	23,565
Statutory deposits with Bank Negara Malaysia	**5,641**	304,160
Total decrease/(increase) in operating assets	**557,748**	(349,511)
(Decrease)/Increase in operating liabilities		
Deposits from customers	**644,753**	(1,173,384)
Deposits and placements from banks and other financial institutions	**206,909**	(762,001)
Structured liabilities designated at FVTPL	**60,765**	(214,173)
Bills payable	**(35,140)**	25,971
Derivative financial liabilities	**(108,367)**	96,261
Other liabilities	**241,038**	(46,660)
Total increase/(decrease) in operating liabilities	**1,009,958**	(2,073,986)
Cash generated from operating activities	**1,929,381**	(2,041,147)
Income tax paid	**(33,125)**	(49,508)
Net cash generated from/(used in) operating activities	**1,896,256**	(2,090,655)

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 2021 (Cont'd)

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Cash Flows from Investing Activities		
Purchase of financial investments at fair value through other comprehensive income	**(1,476,664)**	(1,117,580)
Proceeds from disposal of financial investments at fair value through other comprehensive income	**479,936**	2,531,567
Purchase of equipment	**(385)**	(4,384)
Net cash (used in)/generated from investing activities	**(997,113)**	1,409,603
Cash Flows from Financing Activities		
Profits paid on Multi-Currency Sukuk Programme	**(12,107)**	(30,458)
Profit paid on Subordinated Commodity Murabahah Financing	**(13,570)**	(18,571)
Redemption of Multi-Currency Sukuk Programme	**-**	(750,000)
Dividend paid	**(50,000)**	(50,000)
Net cash used in financing activities	**(75,677)**	(849,029)
Net increase/(decrease) in Cash and Cash Equivalents	**823,466**	(1,530,081)
Cash and Cash Equivalents at beginning of the financial year	**3,251,883**	4,781,964
Cash and Cash Equivalents at end of the financial year	**4,075,349**	3,251,883
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**4,075,349**	3,251,883

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 2021 (Cont'd)

Changes in liabilities arising from financing activities

	At 1 January RM'000	Cash outflow RM'000	Foreign exchange adjustment RM'000	Fair value movement RM'000	Profit accrual RM'000	At 31 December RM'000
2021						
Multi-Currency Sukuk Programme	**523,841**	**-**	**-**	**(8,508)**	**-**	**515,333**
Subordinated Commodity Murabahah Financing	**578,700**	**-**	**22,077**	**-**	**-**	**600,777**
Other Liabilities of which:						
Profits paid on Multi-Currency Sukuk Programme	**5,360**	**(12,107)**	**-**	**-**	**11,989**	**5,242**
Profits paid on Subordinated Commodity Murabahah Financing	**118**	**(13,570)**	**-**	**-**	**13,595**	**143**
	1,108,019	**(25,677)**	**22,077**	**(8,508)**	**25,584**	**1,121,495**
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

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

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

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

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

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

The immediate holding company and 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 9 February 2022.

2 Basis of Preparation

(a) Statement of compliance

The financial statements of the Bank have 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 standards that are effective and applicable to the Bank for the financial year beginning on 1 January 2021 are as follows:

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

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

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

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

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

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

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

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

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

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

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

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

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

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

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

- Amendments to MFRS 116 "Proceeds before Intended Use"

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

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

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

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)

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

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

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

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

Effective for annual periods commencing on or after 1 January 2023

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

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

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

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

  The amendments shall be applied retrospectively.

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

  - Amendments on disclosure of accounting policies

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

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

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

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

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

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

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

  - Amendments on definition of accounting estimates

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

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

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

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

2 Basis of Preparation (Cont'd)

(b) Basis of measurement

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

- Structured liabilities
- Financial investments
- 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.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

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

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

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)).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

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

(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.

(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 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.

(f) Financial instruments (Cont'd)

(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.

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 through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis. Where the derivatives are managed with debt securities issued by the Bank that are designated at fair value, the contractual profit is shown in 'financing expense' together with the profit payable on the issued debt.

Hedge accounting

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

- *Fair value hedge*

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

3 Significant Accounting Policies (Cont'd)

(f) Financial instruments (Cont'd)

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

Hedge accounting (Cont'd)

- *Cash flow hedge*

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

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

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

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

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

  The Bank does not have any hedging instruments as at 31 December 2021 and 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.

3 Significant Accounting Policies (Cont'd)

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

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.

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 are 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 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.

3 Significant Accounting Policies (Cont'd)

(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'.

(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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(k) Impairment of amortised cost and FVOCI financial assets

(iii) Renegotiation (Cont'd)

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).

(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 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.

Changes made to these financial instruments, including financing and advances 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 of the profit rate benchmark.

(k) Impairment of amortised cost and FVOCI financial assets

(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.

(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 what would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

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

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

3 Significant Accounting Policies (Cont'd)

(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 (PD), a loss given default (LGD) and the exposure at default (EAD).

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

The EAD represents the expected balance at default, taking into account the repayment of principal and 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.

3 Significant Accounting Policies (Cont'd)

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

(ix) Period over which ECL is measured

ECL is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the 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

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

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

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

3 Significant Accounting Policies (Cont'd)

(m) Leases

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

Lease liability is represented in the "Other Liabilities" in the statement of financial position. Lease payments are allocated between the liability and finance cost. The finance cost is charged to the statement of profit or loss as 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. The useful lives of internally generated software are between 3 and 5 years in general except for core banking applications with useful life of 10 years. Intangible assets are subject to impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

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3 Significant Accounting Policies (Cont'd)

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

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

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

<u>Financial position</u>

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

<u>Operating model</u>

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

<u>Business practice</u>

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

<u>Enterprise-wide application</u>

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

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

HSBC Group's risk appetite is expressed in both quantitative and qualitative terms and applied at the global business level and to material operating entities such as the 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 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 applied to the development of business line strategies, strategic and business planning, and remuneration.

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

(ii) Risk management

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

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

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

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Risk management framework

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

Key components of our risk management framework

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

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

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

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

Responsibilities for risk management

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

Three lines of defence

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

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

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

Risk function

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

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.

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Responsibilities for risk management (Cont'd)

Risk function (Cont'd)

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

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

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

Stress testing

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

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

The stress testing programme assesses capital and liquidity strength through a rigorous examination of resilience to external shocks from a range of stress scenarios. They include potential adverse macroeconomic, geopolitical and operational risk events, and other potential events that are specific to the 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 and, where required, 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 2021

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

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

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

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

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Responsibilities for risk management (Cont'd)

Key developments in 2021 (Cont'd)

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

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

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

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

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

Top and emerging risks management

The 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.

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

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

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

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Top and emerging risks management (Cont'd)

Area of Special Interest – Risks related to COVID-19

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

The Bank has implemented BNM-led measures to support our retail and small & medium enterprises (SMEs) through these challenging times. The industry sectors/sub-sectors that were identified as most affected by COVID-19 were wholesale & retail trade, accommodation, food and beverage services/restaurants, travel agencies/tourism and airline aviation. As at 31 December 2021, the gross outstanding financing and advances extended by the Bank to these sectors/sub-sectors was approximately RM 0.8 billion (31 December 2020: RM 0.8 billion). Separately, the gross outstanding financing and advances extended by the Bank to individuals under the targeted relief assistance programme were approximately RM 1.5 billion of our total gross financing and advances (2020: RM 0.5 billion).

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 which required more ongoing monitoring and frequent testing. It also has resulted in the use of compensating controls as underlays/overlays, on top of model outputs, to provide a more appropriate assessment. By their nature, such compensating controls require a significant degree of management judgement and assumptions to be applied, and there is a risk that future actual results/performance may differ from such judgements and assumptions.

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 and models may need to be recalibrated.

Separately, the 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.

Area of Special Interest – Climate-related risks

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

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

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

- How climate change is impacting our customers

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

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

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Top and emerging risks management (Cont'd)

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

- How climate change is impacting our customers (Cont'd)

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

Key categories of transition and physical risk

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

- Integrating climate risk into risk management

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

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

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

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Top and emerging risks management (Cont'd)

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

- Integrating climate risk into risk management (Cont'd)

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

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

- Wholesale credit risk

\- Identification and assessment

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

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

We are developing our approach to climate stress testing.

\- Management

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

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

\- Aggregation and reporting

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

\- How we measure wholesale credit risk

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

Information submitted through the CO_2 transition risk questionnaire is collated to build a deeper picture of corporate customer readiness to change, and it helps us to identify potential business opportunities to support the transition. It is also being used to support and supplement the management of transition risk in our credit risk management processes.

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(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 material risks from financial instruments:

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

Note 4(b) to 4(h) 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

(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 2021

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

Governance and structure

The Bank has established credit risk management and related MFRS 9 processes. The Bank continues to 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 Risk Officer (CRO) together with the authority to sub-delegate them. The Credit Risk sub-function in Global Risk at HSBC Group is responsible for the key policies and processes for managing credit risk, which include formulating credit policies and risk rating frameworks, guiding the Bank's appetite for credit risk exposures, undertaking independent reviews and objective assessment of credit risk, and monitoring performance and management of portfolios.

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

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 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.

4 Risk (Cont'd)

(b) Credit risk (Cont'd)

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

Key risk management processes (Cont'd)

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

- Governance

  Management review forums are established both in regions and sites 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, head of Wholesale Credit and Market Risk, head of Wealth and Personal Banking Risk, as well as the Chief Financial Officer and the Financial Controller.

Concentration of exposure

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

We monitor concentration of credit risk by sector and geographical location. The analysis of concentration of credit risk from 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 PD.

(b) Credit risk (Cont'd)

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

Key risk management processes (Cont'd)

Credit quality of financial instruments (Cont'd)

- *Credit quality classification*

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

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

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

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

Quality classification definitions:

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

(b) Credit risk (Cont'd)

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

Key risk management processes (Cont'd)

Renegotiated 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, a 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 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.

  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.

Impairment assessment

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

4 Risk (Cont'd)

(b) Credit risk (Cont'd)

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

Key risk management processes (Cont'd)

Write-off of financing and advances

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

(b) Credit risk (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.

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

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

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

Critical accounting estimates and judgements

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

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

4 Risk (Cont'd)

(b) Credit risk management (Cont'd)

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

Critical accounting estimates and judgements (Cont'd)

- estimating the economic effects of those scenarios on ECL, where there is no observable historical trend that can be reflected in the models that will accurately represent the effects of the economic changes of the severity and speed brought about by the COVID-19 outbreak. Modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions, and there is significant uncertainty in the estimation of parameters such as collateral values and loss severity; and
- the identification of customers experiencing significant increases in credit risk and credit impairment, particularly where those customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues, or have extended those deferrals, given limitations in the available credit information on these customers. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

How economic scenarios are reflected in the 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 forward economic guidance proportionate to the probability-weighted outcome and the Central scenario outcome for non-stage 3 populations.

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

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

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

4 Risk (Cont'd)

(b) Credit risk (Cont'd)

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

Management judgemental adjustments

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

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

Management judgemental adjustments made in estimating the reported ECL for the Bank as at 31 December 2021 is RM47,248,000 (2020: RM80,287,000).

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 lower and upper limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating ECL for 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 loss given default (LGD) of a particular portfolio was sensitive to these changes.

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

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

For retail credit risk exposures, the sensitivity analysis includes ECL for 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.

(b) Credit risk management (Cont'd)

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

Wholesale and retail sensitivity

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

Wholesale analysis

MFRS 9 ECL sensitivity to future economic conditions [1]

ECL coverage of financial instruments subject to significant measurement uncertainty [2]	**31 Dec 2021**	31 Dec 2020
Reported ECL (RM'000)	**23,714**	13,261
Gross carrying value/nominal amount [3] (RM'000)	**19,535,080**	17,310,018
Reported ECL Coverage (%)	**0.12 %**	0.08 %
Coverage Ratios by Scenario (%)		
Consensus central scenario	**0.11 %**	0.06 %
Consensus upside scenario	**0.08 %**	0.05 %
Consensus downside scenario	**0.13 %**	0.10 %
Alternative downside scenario	**0.25 %**	0.26 %

[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 2021**	31 Dec 2020
Reported ECL (RM'000)	**190,052**	244,594
Drawn Amount (RM'000)	**4,392,397**	5,729,921
Reported ECL Coverage (%)	**4.33 %**	4.27 %
Coverage Ratios by Scenario (%)		
Consensus central scenario	**4.10 %**	4.20 %
Consensus upside scenario	**3.87 %**	3.87 %
Consensus downside scenario	**4.52 %**	4.59 %
Alternative downside scenario	**5.38 %**	5.21 %

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(b) Credit risk management (Cont'd)

(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							
	Strong	Good	Satisfactory	Sub-standard	Credit Impaired	Total	ECL allowances	Carrying amount (net of impairment provision)
At 31 December 2021								
Cash and short-term funds	**4,075,280**	**71**	**-**	**-**	**-**	**4,075,351**	**(2)**	**4,075,349**
Financial assets at FVOCI	**2,252,951**	**-**	**-**	**-**	**-**	**2,252,951**	**-**	**2,252,951**
Financing and advances to customers held at amortised cost	**3,740,647**	**2,986,416**	**4,908,283**	**569,091**	**1,175,011**	**13,379,448**	**(523,382)**	**12,856,066**
of which:								
- retail	***1,612,717***	***1,287,543***	***2,116,124***	***245,354***	***933,809***	***6,195,547***	**(325,659)**	***5,869,888***
- corporate and commercial	***2,127,930***	***1,698,873***	***2,792,159***	***323,737***	***241,202***	***7,183,901***	**(197,723)**	***6,986,178***
Derivatives financial assets	**87,646**	**12**	**5,009**	**191**	**-**	**92,858**	**-**	**92,858**
Other financial assets	**35,840**	**-**	**-**	**-**	**-**	**35,840**	**-**	**35,840**
Irrevocable financing commitments and financial guarantees	**4,622,000**	**854,000**	**1,766,000**	**67,000**	**-**	**7,309,000**	**(8,647)**	**7,300,353**

(RM'000)	Gross Carrying Amount							
	Strong	Good	Satisfactory	Sub-standard	Credit Impaired	Total	ECL allowances	Carrying amount (net of impairment provision)
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	(1,977)	6,928,023

(b) Credit risk (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. 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.

(b) Credit risk (Cont'd)

(vi) Credit quality (Cont'd)

Collateral and other credit enhancements (Cont'd)

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for impaired advances and financing for the Bank as at 31 December 2021 are 51.3% (2020: 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).

(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**
2021						
Bank						
Derivative financial assets	**92,858**	-	**92,858**	-	-	**92,858**
Derivative financial liabilities	**67,615**	-	**67,615**	-	-	**67,615**
2020						
Bank						
Derivative financial assets	231,334	-	231,334	-	-	231,334
Derivative financial liabilities	175,982	-	175,982	-	-	175,982

4 Risk (Cont'd)

(c) Liquidity and funding risk

(i) Overview

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

Funding risk is the risk that the 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 provider 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 (Cont'd)

(iii) Management of liquidity and funding risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

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

(iv) Liquidity risk

The following tables summarise the 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 2021	Non-trading book: Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Trading book RM'000	Total RM'000
ASSETS								
Cash and short-term funds	4,075,349	-	-	-	-	-	-	4,075,349
Financial investments at FVOCI	-	210,456	625,682	1,416,813	-	-	-	2,252,951
Financing and advances	2,405,035	2,333,625	1,221,754	1,570,419	5,325,233	-	-	12,856,066
Derivative financial assets	-	-	-	-	-	-	92,858	92,858
Others	540	2,104	8,557	18,832	12,664	118,322	2,777	163,796
Total Assets	6,480,924	2,546,185	1,855,993	3,006,064	5,337,897	118,322	95,635	19,441,020
LIABILITIES AND EQUITY								
Deposits from customers	8,565,395	1,988,450	1,807,091	430,766	-	-	-	12,791,702
Deposits and placements from banks and other financial institutions	363,657	600,516	820,689	-	-	-	-	1,784,862
Structured liabilities designated as FVTPL	1,883	2,324	248,266	917,305	18,321	-	-	1,188,099
Bills payable	12,867	-	-	-	-	-	-	12,867
Multi-Currency Sukuk Programme	-	-	-	515,333	-	-	-	515,333
Subordinated Commodity Murabahah Financing	-	-	-	600,777	-	-	-	600,777
Derivative financial liabilities	-	-	-	-	-	-	67,615	67,615
Others	163,010	9,327	14,499	19,294	-	263,594	-	469,724
Total Liabilities	9,106,812	2,600,617	2,890,545	2,483,475	18,321	263,594	67,615	17,430,979
Equity	-	-	-	-	-	2,010,041	-	2,010,041
Total Liabilities and Equity	9,106,812	2,600,617	2,890,545	2,483,475	18,321	2,273,635	67,615	19,441,020
Net maturity mismatches	(2,625,888)	(54,432)	(1,034,552)	522,589	5,319,576	(2,155,313)	28,020	-
Off balance sheet liabilities	11,207,830	4,592,394	8,515,759	2,839,303	141,112	-	-	27,296,398

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

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

(iv) Liquidity risk (Cont'd)

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)

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 2021						
Non-derivative liabilities						
Deposits by customers	**6,235,786**	**4,339,801**	**1,827,097**	**460,875**	**-**	**12,863,559**
Deposits and placements from banks and other financial institutions	**-**	**966,198**	**825,859**	**-**	**-**	**1,792,057**
Structured liabilities designated at fair value through profit or loss (FVTPL)	**2,977**	**2,246**	**236,860**	**1,062,977**	**-**	**1,305,060**
Bills payable	**12,867**	**-**	**-**	**-**	**-**	**12,867**
Multi-Currency Sukuk Programme	**-**	**-**	**21,500**	**521,500**	**-**	**543,000**
Subordinated Commodity Murabahah financing	**-**	**3,326**	**10,340**	**626,951**	**-**	**640,617**
Other liabilities	**152,117**	**29,531**	**30,211**	**40,198**	**120,485**	**372,542**
Financing and other credit-related commitments	**8,898,535**	**218,924**	**916,116**	**320,180**	**1,516**	**10,355,271**
Financial guarantees and similar contracts	**126,874**	**112,256**	**861,131**	**533,097**	**139,596**	**1,772,954**
	15,429,156	**5,672,282**	**4,729,114**	**3,565,778**	**261,597**	**29,657,927**
Derivative liabilities						
Gross settled derivatives						
- Inflow	**-**	**(3,273,213)**	**(3,054,653)**	**(6,781)**	**-**	**(6,334,647)**
- Outflow	**-**	**3,302,529**	**3,078,291**	**23,788**	**-**	**6,404,608**
Net settled derivatives	**-**	**85**	**453**	**914**	**-**	**1,452**

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

(d) Market risk

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 2021.

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) Key risk management process

Monitoring and limiting market risk exposures

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

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios including 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.

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.

4 Risk (Cont'd)

(d) Market risk management (Cont'd)

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

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 that are calculated with reference to data from the past two years; and
- VaR measures are calculated to a 99 per cent confidence level and use a one-day holding period.

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

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

RM'000	**At 31 December 2021**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**35**	**32**	**271**	**7**
Profit rate risk	**218**	**218**	**319**	**126**
Equity risk	**-**	**-**	**63**	**-**
Credit spread risk	**-**	**-**	**14**	**-**
Overall	**234**	**226**	**395**	**130**

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

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

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

(d) Market risk management (Cont'd)

(ii) 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 Treasury (MKTY) based on their repricing and maturity characteristics. For assets and liabilities with no defined maturity or repricing characteristics, behaviouralisation is used to assess the profit rate risk profile. MKTY 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.

Sensitivity of net financing income

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 MKTY or in the business that originate the risk to mitigate the effect of profit rate movements.

Sensitivity of economic value of equity

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

Non-traded VaR

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

The 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 (Cont'd)

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

Sensitivity of projected Net Finance Income

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

	RM'000			
	31 Dec 21		31 Dec 20	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(12,186)**	**8,640**	(14,418)	6,671
USD	**2,824**	**(2,466)**	2,380	(256)
Others	**236**	**(42)**	6,554	1,566
	(9,126)	**6,132**	(5,484)	7,981

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 21		31 Dec 20	
Basis point parallel shift in yield curve	***+200bps***	***-200bps***	*+200bps*	*-200bps*
RM	**(101,380)**	**114,487**	(107,964)	124,123
USD	**(4,988)**	**2,450**	(13,375)	6,919
Others	**(1,404)**	**320**	(2,042)	1,113
	(107,772)	**117,257**	(123,381)	132,155

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 21		31 Dec 20	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(29,565)**	**29,565**	(23,675)	23,675

4 Risk (Cont'd)

(d) Market risk (Cont'd)

(ii) 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 21		31 Dec 20	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after tax	**(36)**	**36**	69	(69)

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

The 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(d) Market risk management (Cont'd)

(iii) 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.

31 December 2021	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	3,771,559	-	-	-	-	303,792	-	4,075,351	1.46
- impairment allowances	-	-	-	-	-	(2)	-	(2)	-
Financial investments at FVOCI	-	210,456	625,682	1,416,813	-	-	-	2,252,951	2.35
Financing and advances									
- performing	3,721,513	7,072,503	608,073	595,771	206,577	-	-	12,204,437	4.18
- impaired	-	-	-	-	-	1,175,011	-	1,175,011	-
- impairment allowances	-	-	-	-	-	(523,382)	-	(523,382)	-
Derivative financial assets	-	-	-	-	-	-	92,858	92,858	-
Other assets	-	-	-	-	-	33,063	2,777	35,840	-
Total Financial Assets	7,493,072	7,282,959	1,233,755	2,012,584	206,577	988,482	95,635	19,313,064	
LIABILITIES									
Deposits from customers	7,415,891	1,988,450	1,807,091	430,766	-	1,149,504	-	12,791,702	1.17
Deposits and placements from banks and other financial institutions	363,657	600,516	820,689	-	-	-	-	1,784,862	0.84
Structured liabilities designated as FVTPL	1,883	2,324	248,266	917,305	18,321	-	-	1,188,099	2.97
Bills payable	-	-	-	-	-	12,867	-	12,867	-
Multi-Currency Sukuk Programme	-	-	-	515,333	-	-	-	515,333	2.31
Subordinated Commodity Murabahah Financing	-	-	-	600,777	-	-	-	600,777	2.28
Derivative financial liabilities	-	-	-	-	-	-	67,615	67,615	-
Other liabilities									
- provision for credit commitments	-	-	-	-	-	8,937	-	8,937	-
- others	-	-	-	-	-	310,816	-	310,816	-
Total Financial Liabilities	7,781,431	2,591,290	2,876,046	2,464,181	18,321	1,482,124	67,615	17,281,008	
Total profit sensitivity gap	(288,359)	4,691,669	(1,642,291)	(451,597)	188,256	(493,642)	28,020	2,032,056	

4 Risk (Cont'd)

(d) Market risk management (Cont'd)

(iii) Profit Rate Risk (Cont'd)

	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 (Cont'd)

(iv) Stress testing

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

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

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

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

(v) Back-testing

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

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

(e) Resilience risk

(i) Overview

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

(ii) Resilience risk management

Key developments in 2021

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

- Developed a more robust understanding of the Banks' risk and control environment, by updating material risk taxonomy and control libraries and refreshed material risk and control assessments.

- Further strengthened non-financial risk governance and senior leadership focus.

- Created a consolidated view of all risk issues across the Bank enabling better senior management focus, read across on material control issues and intervention as required.

- Enabled better analysis and reporting of non-financial risks, where more of our risk practitioners now have access to a wider range of management information on their risks and controls.

- Increased the capability of risk stewards to allow for effective stewardship to be in place across the Bank.

- Strengthened read across of issues and near misses by implementing a group-wide harmonised approach across business, functions and regions.

- Enhanced risk management oversight across the most material change initiatives to support growth in strategic transformation in 2021.

Governance and structure

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

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

4 Risk (Cont'd)

(e) Resilience risk (Cont'd)

(ii) Resilience risk management (Cont'd)

Governance and structure (Cont'd)

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

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

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 economic stability. Resilience is measured by assessing whether we are able to continue to provide our most important services, within an agreed tolerance, during a severe but a plausible level. We accept that we will not be able to prevent all disruption, but we prioritise investment to continually improve our response and recovery strategies for our most important business services.

Business operations continuity

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

(f) Regulatory compliance risk

(i) Overview

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

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

(ii) Regulatory compliance risk management

Key developments in 2021

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

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

Governance and structure

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

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

Conduct of business

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

4 Risk (Cont'd)

(f) Regulatory compliance risk (Cont'd)

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

Conduct of business (Cont'd)

During 2021:

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

(g) Financial crime risk

(i) Overview

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

(ii) Financial crime risk management

Key developments in 2021

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

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

- We deployed a key component of our intelligence-led, dynamic risk assessment capabilities for customer account monitoring in one of our home markets, and undertook important enhancements to our traditional transaction monitoring systems.
- We strengthened our anti-fraud capabilities, notably with respect to the early identification of first party lending fraud and the identification of new strategic detection tools.
- We continued to develop leading-edge surveillance technology and capabilities to identify potential market abuse, including testing machine learning capabilities to detect unauthorised trading.
- We invested in the use of artificial intelligence (AI) and advanced analytics techniques to manage financial crime risk, notably new automated capabilities in name and transaction screening.
- We implemented a market leading gifts and entertainment recording and approval system, which, in combination with an expenses reconciliation tool, allows us to manage our gifts and entertainment risk consistently and effectively.

Governance and structure

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

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

4 Risk (Cont'd)

(g) Financial crime risk (Cont'd)

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

Key risk management processes

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

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

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

(h) Model risk

(i) Overview

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

(ii) Key developments in 2021

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

- Models impacted by changes to alternative rate setting mechanisms due to IBOR transition were redeveloped and validated.

- Model owners in Business and Functions continued to embed the requirements included in the Model Risk Policy and Standards introduced in 2020. On-going training in model requirements continued to be a critical component in raising knowledge levels among model role-holders.

- Stronger controls related to SOX models were introduced including second line approvals of SOX models prior to use. In addition, more granular review of model risk impact of loss model outputs by Model Risk Management was also introduced. The impact on model performance due to COVID-19 impact on models continued to be a key area of focus.

- There has been greater level of involvement by Businesses and Functions in the development and management of models. This included hiring of staff with strong model risk skills and enhanced focus on key model risk drivers such as data quality and model methodology.

- The transformation of the Model Risk Management team continued with changes to the model validation processes including new system and process and organisation changes. Key hires were made in HSBC Group during the year to strengthen oversight and expertise within the Function. Also, changes to the Model Inventory system provided Businesses and Functions improved functionality and more detailed information related to model risk.

- HBAP regional engagement strategy has been established in response to the growing maturity of model risk management and to support the demand across sites in the Region.

- Models related to Climate Risk and models using Advanced Analytics and Machine Learning became a critical area of focus and would grow in importance in 2022 and beyond. In response, new controls around these models were implemented and qualified specialist skills were added to the model risk teams to manage the increased model risk.

(iii) Governance

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

(h) Model risk (Cont'd)

(iv) Key risk management processes

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

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

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

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

(i) IBOR Transition

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

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

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

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

Financial Instruments Impacted by IBOR reform

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

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. Instead, they 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. We have adopted the amendments from 1 January 2021.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(i) IBOR Transition (Cont'd)

Financial Instruments Impacted by IBOR reform (Cont'd)

	Carrying value	Of which: Have yet to transition to an alternative benchmark profit rate
2021		**USD LIBOR**
	RM'000	**RM'000**
Assets		
Financing and Advances (Note 10)	**12,856,066**	1,478,944
Liabilities		
Subordinated Commodity Murabahah Financing (Note 24)	**600,777**	600,777
Derivative notional contract amount (Note 13)	**15,168,176**	9,850

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

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

5 Capital management

The 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 2021.

  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 Guideline on Capital Adequacy Framework for Islamic Banks (Capital Component) issued on 9 December 2020 which allows banks to apply for a transitional arrangement where Stage 1 and 2 provisions for expected credit loss (ECL) are added back to CET1 Capital subject to capping and with an add-back factor that will gradually reduce over the transitional duration. The 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 Conservation Buffer (CCB) of 2.5%, and the Countercyclical Capital Buffer (CCyB) ranging between 0% to 2.5%. CCB is intended to build up capital buffers by individual banking institutions during normal times that can be drawn down during stress periods while CCyB is intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive.

5 Capital management (Cont'd)

(b) Basel III (Cont'd)

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 are sensitive to the accounting policies, assumptions and estimates that underline 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 provides an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions

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.

2021	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial investments at FVOCI (Note 9)	**2,252,951**	**-**	**-**	**2,252,951**
Derivative financial assets (Note 13)	**177**	**71,840**	**20,841**	**92,858**
	2,253,128	**71,840**	**20,841**	**2,345,809**
Structured liabilities designated at FVTPL (Note 21)	**-**	**392,408**	**795,691**	**1,188,099**
Derivative financial liabilities (Note 13)	**904**	**62,743**	**3,968**	**67,615**
Multi-Currency Sukuk Programme (Note 23)	**-**	**515,333**	**-**	**515,333**
	904	**970,484**	**799,659**	**1,771,047**
2020				
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

(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 a 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.

Bid-offer

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

Uncertainty

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

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

The CVA is an adjustment to the valuation of over-the-counter (OTC) derivative contracts to reflect the possibility that the counterparty may default and the 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.

(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:

	2021			2020		
RM'000	**Derivative financial assets**	**Derivative financial liabilities**	**Structured liabilities**	Derivative financial assets	Derivative financial liabilities	Structured liabilities
Balance at 1 January	**13,516**	**48**	**502,354**	5,363	108	212,793
Total gains or losses						
- In profit or loss	**6,746[1]**	**3,920[2]**	**(3,968)[2]**	8.153[1]	(60) [2]	7,319 [2]
- in OCI	**-**	**-**	**2,826[1]**	-	-	(2,785) [1]
Issues	**-**	**-**	**289,433**	-	-	309,197
Settlements	**-**	**-**	**(34,134)**	-	-	(24,170)
Transfer into Level 3	**578**	**-**	**39,179**	-	-	-
Balance at 31 December	**20,840**	**3,968**	**795,690**	13,516	48	502,354

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

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".

(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:

2021 **RM'000**	**Derivative financial assets**	**Derivative financial liabilities**	**Structured liabilities**
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	**(1,590)[1]**	**-**	**(1,226)[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	**8,336[2]**	**3,920[1]**	**(2,742)[2]**
2020 RM'000			
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]

[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	**2021: 6.30%-31.40%** 2020: 6.25%-30.60%
Equity derivatives	Option model	Long term equity volatility	**2021: 6.30%-31.40%** 2020: 6.25%-30.60%

(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 judgments (Cont'd)

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

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

	31 Dec 2021 Carrying amount RM'000	**31 Dec 2021 Fair value RM'000**	31 Dec 2020 Carrying amount RM'000	31 Dec 2020 Fair value RM'000
Financial Assets				
Financing and advances	**12,856,066**	**12,874,441**	13,492,576	13,555,991
Financial Liabilities				
Deposits from customers	**12,791,702**	**12,784,474**	12,146,949	12,153,654
Deposits and placements from banks and other financial institutions	**1,784,862**	**1,784,862**	1,577,953	1,577,924
Subordinated Commodity Murabahah Financing	**600,777**	**631,025**	578,700	617,374

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 judgments (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 2021	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	**-**	**-**	**12,874,441**	**12,874,441**	**12,856,066**
Financial Liabilities					
Deposits from customers	**-**	**12,784,474**	**-**	**12,784,474**	**12,791,702**
Deposits and placements from banks and other financial institutions	**-**	**1,784,862**	**-**	**1,784,862**	**1,784,862**
Subordinated Commodity Murabahah Financing	**-**	**631,025**	**-**	**631,025**	**600,777**
31 Dec 2020					
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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

7 Cash and Short-Term Funds

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Cash and balances with banks and other financial institutions	**377,259**	188,091
Money at call and interbank placements maturing within one month	**3,698,090**	3,063,792
	4,075,349	3,251,883

Money at call and interbank placements maturing within one month is within Stage 1 allocation (12-months ECL) with RM1,000 impairment allowance as at 31 December 2021 (31 December 2020: RM10,550).

8 Deposits and Placements with Banks and Other Financial Institutions

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Bank Negara Malaysia	**-**	48,204

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

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Money market instruments:		
Malaysian Government Islamic Sukuk	**2,252,951**	1,299,815

Financial investments at FVOCI are within Stage 1 allocation (12 -months ECL) with RM280,000 impairment allowance as at 31 December 2021 (31 December 2020: RM178,000). 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:

Maturing within one year	**836,139**	25,198
More than one year to three years	**1,416,812**	1,274,617
	2,252,951	1,299,815

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	Ijarah Thumma Al-Bai	Diminishing Musharakah	Ujrah	Total
31 Dec 2021	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash line-i	70,093	-	-	-	70,093
Term financing:					
House financing	-	-	3,857,513	-	3,857,513
Hire purchase receivables	-	210,548	-	-	210,548
Syndicated term financing	1,022,242	-	-	-	1,022,242
Other term financing	2,342,879	-	869,012	-	3,211,891
Trust receipts	457,790	-	-	-	457,790
Claims on customers under acceptance credits	198,498	-	-	-	198,498
Bills receivables	1,147,722	-	-	-	1,147,722
Staff financing-i	1,104	-	383	-	1,487
Credit cards-i	-	-	-	1,073,822	1,073,822
Revolving financing	2,124,126	-	-	-	2,124,126
Other financing	-	-	3,716	-	3,716
Gross financing and advances	7,364,454	210,548	4,730,624	1,073,822	13,379,448
Less: Impairment allowance					(523,382)
Total net financing and advances					12,856,066

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	Ijarah 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)

(ii) By type of customer

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Domestic non-bank financial institutions	**417,793**	454,666
Domestic business enterprises:		
Small medium enterprises	**1,116,987**	1,095,207
Others	**4,357,333**	4,325,674
Individuals	**5,722,624**	6,021,819
Other domestic entities	**2**	1,092
Foreign entities/individuals	**1,764,709**	1,942,433
	13,379,448	13,840,891

(iii) By profit rate sensitivity

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Fixed rate:		
Hire purchase receivables	**210,548**	206,548
Other financing	**3,648,621**	3,356,748
Variable rate:		
Base Rate/Base Financing Rate plus	**4,783,525**	5,058,381
Cost-plus	**4,736,754**	5,219,214
	13,379,448	13,840,891

(iv) By residual contractual maturity

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Maturing within one year	**6,234,729**	5,163,910
More than one year to three years	**590,214**	1,995,288
More than three years to five years	**1,054,031**	906,313
Over five years	**5,500,474**	5,775,380
	13,379,448	13,840,891

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financing and Advances (Cont'd)

(v) By sector

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Agriculture, hunting, forestry & fishing	**10,608**	15,392
Mining and quarrying	**77,899**	132,270
Manufacturing	**1,486,450**	1,393,054
Electricity, gas and water	**344,869**	82,042
Construction	**963,817**	1,056,386
Real estate	**956,755**	868,979
Wholesale & retail trade, restaurants & hotels	**839,134**	786,829
Transport, storage and communication	**146,321**	185,984
Finance, takaful and business services	**900,248**	1,096,363
Household - Retail	**6,195,547**	6,518,984
Others	**1,457,800**	1,704,608
	13,379,448	13,840,891

(vi) By purpose

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Purchase of landed property:		
Residential	**3,857,897**	4,044,988
Non-residential	**729,179**	786,294
Purchase of transport vehicles	**878**	811
Purchase of fixed assets excluding land & building	**210,292**	203,613
Consumption credit	**2,140,872**	2,252,123
Construction	**700,915**	1,033,815
Working capital	**4,447,629**	4,073,979
Other purpose	**1,291,786**	1,445,268
	13,379,448	13,840,891

(vii) By geographical distribution

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Northern Region	**1,309,927**	1,229,704
Southern Region	**1,527,607**	1,682,219
Central Region	**10,225,163**	10,580,814
Eastern Region	**316,751**	348,154
	13,379,448	13,840,891

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 Putrajaya.
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 2021 RM'000	31 Dec 2020 RM'000
Total gross financing and advances	**3,802,192**	3,486,635
Less: Impairment allowance	**(183,710)**	(872)
Total net financing and advances	**3,618,482**	3,485,763
Maturity not exceeding one year	**-**	50,516
Maturity exceeding one year	**180,534**	15,083
Total commitments and contingencies	**180,534**	65,599
Total restricted investment accounts	**3,799,016**	3,551,362
Risk weighted assets (RWA) of restricted investment accounts	**2,941,036**	2,743,531

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).

11 Impaired Financing

(i) Gross carrying amount movement of financing and advances classified as credit impaired:

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Gross carrying amount as at 1 January	**606,695**	385,303
Transfer within stages	**692,116**	239,123
Net remeasurement due to changes in credit risk	**(32,714)**	101,377
Written-off	**(91,086)**	(119,108)
Gross carrying amount as at 31 December	**1,175,011**	606,695

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Impaired Financing (Cont'd)

(ii) By contract

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Ijarah Thumma Al-Bai (AITAB) *(hire purchase)*	**172**	435
Commodity Murabahah *(cost-plus)*	**542,650**	294,380
Diminishing Musharakah (*profit and loss sharing)*	**608,253**	284,368
Bai Al-Inah *(sell and buy back)*	**-**	32
Ujrah *(fee-based)*	**23,936**	27,480
	1,175,011	606,695

(iii) By sector

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Agriculture, hunting, forestry & fishing	**214**	319
Manufacturing	**25,502**	17,123
Construction	**136,921**	3,710
Wholesale & retail trade, restaurants & hotels	**8,211**	11,379
Transport, storage and communication	**-**	213
Finance, takaful and business services	**53,276**	5,988
Household - Retail	**933,809**	546,347
Others	**17,078**	21,616
	1,175,011	606,695

(iv) By purpose

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Purchase of landed property:		
Residential	**571,650**	264,301
Non-residential	**9,571**	13,502
Purchase of transport vehicles	**-**	62
Purchase of fixed assets excluding land & building	**169**	354
Consumption credit	**362,159**	281,388
Construction	**137,322**	3,650
Working capital	**77,892**	24,168
Others	**16,248**	19,270
	1,175,011	606,695

(v) By geographical distribution

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Northern Region	**94,031**	51,444
Southern Region	**110,511**	63,554
Central Region	**949,437**	477,282
Eastern Region	**21,032**	14,415
	1,175,011	606,695

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 2021	**88,787**	**75,764**	**183,764**	**348,315**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	**20,826**	**(10,099)**	**(10,727)**	**-**
- Transferred to Stage 2	**(23,881)**	**29,788**	**(5,907)**	**-**
- Transferred to Stage 3	**(3,832)**	**(28,688)**	**32,520**	**-**
New financial assets originated or purchased	**8,524**	**-**	**-**	**8,524**
Net remeasurement due to changes in credit risk	**(59,179)**	**19,774**	**296,184**	**256,779**
Asset written-off	**-**	**-**	**(91,086)**	**(91,086)**
Others	**850**	**-**	**-**	**850**
Balance at 31 December 2021	**32,095**	**86,539**	**404,748**	**523,382**
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	-
Changes due to modification not derecognised	-	-	-	-
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	88,787	75,764	183,764	348,315

[1] Included in the balance at 31 Dec 2021 are management judgemental adjustments made. Please refer to note 4(b)(v).

The Bank measures the expected credit losses (ECL) using the three-stage approach. The following section explains how significant changes in the gross carrying amount of 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 RM175.1 million compared to the balance at the beginning of the year. This net increase was mainly contributed by remeasurement driven by changes in credit risk (RM256.8 million) and new financial assets originated or purchased (RM8.5million), and partly offset by asset written-off (RM91.1 million).

- 12-months ECL not credit impaired (Stage 1) - decreased by RM56.7 million, primarily due to decrease in remeasurement driven by changes in credit risk, migration of financing and advances from/to Stage 1, Stage 2 and Stage 3 and partially offset by new financial assets originated or purchased.
- Lifetime ECL not credit-impaired (Stage 2) - increased by RM10.8 million, primarily due to increase in remeasurement driven by changes in credit risk and partially offset by migration of financing and advances from/to Stage 1, Stage 2 and Stage 3.
- Lifetime ECL credit-impaired (Stage 3) - increased by RM221 million, primarily due to increase in remeasurement driven by changes in credit risk and migration of financing and advances from/to Stage 1, Stage 2 and Stage 3, and partially offset by asset written-off. The increase in remeasurement due to changes in credit risk and net migration of financing and advances to stage 3 was mainly attributed to downgrade of financing and advances exposures in the household, finance, insurance and business services as well as construction sectors.

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 2021	**1,509**	**759**	**-**	**2,268**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	**26**	**(26)**	**-**	**-**
- Transferred to Stage 2	**(419)**	**419**	**-**	**-**
- Transferred to Stage 3	**-**	**-**	**-**	**-**
New financial assets originated or purchased	**180**	**-**	**-**	**180**
Net remeasurement due to changes in credit risk	**1,231**	**5,243**	**-**	**6,474**
Others	**15**	**-**	**-**	**15**
Balance at 31 December 2021	**2,542**	**6,395**	**-**	**8,937**
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

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 2021	**Up to 1 Year RM'000**	**>1 - 5 Years RM'000**	**Total RM'000**	**Up to 1 Year RM'000**	**>1 - 5 Years RM'000**	**Total RM'000**	**Up to 1 Year RM'000**	**>1 - 5 Years RM'000**	**Total RM'000**
Trading derivatives:									
Foreign exchange contracts									
- Forwards	12,416,009	-	12,416,009	53,471	-	53,471	47,620	-	47,620
- Swaps	242,815	21,146	263,961	-	83	83	1,255	141	1,396
- Options	44,947	-	44,947	6	-	6	6	-	6
Profit rate related contracts									
- Swaps	235,000	1,010,293	1,245,293	781	17,292	18,073	-	1,658	1,658
- Options	-	361,968	361,968	-	-	-	-	12,775	12,775
Equity related contracts									
- Options purchased	243,376	592,619	835,995	5,522	15,703	21,225	-	4,160	4,160
Total	**13,182,147**	**1,986,026**	**15,168,173**	**59,780**	**33,078**	**92,858**	**48,881**	**18,734**	**67,615**

The Bank does not have any hedging instrument as at 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Derivative Financial Instruments (Cont'd)

	Contract / Notional Amount			Positive Fair Value			Negative Fair Value		
	Up to 1 Year	>1 - 5 Years	Total	Up to 1 Year	>1 - 5 Years	Total	Up to 1 Year	>1 - 5 Years	Total
31 Dec 2020	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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)

14 Other Assets

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Settlements	**2,777**	-
Income receivable	**11,718**	2,864
Profit receivable	**20,824**	14,338
Prepayments	**150**	300
Amount due from holding company	**371**	1,856
ROU assets [1]	**21,503**	19,903
Other receivables	**17,081**	12,041
	74,424	51,302

[1] ROU assets comprise solely properties. There were RM1,607,000 leases disposed by the Bank during the year (2020: RM nil). Existing leases that were subjected to modification during the year for the Bank were RM9,888,000 (2020: RM2,663,000).

Lease related expenses and cash outflows during the financial year:

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Finance expense	**2,196**	1,338
Cash outflow for leases payments	**7,904**	7,684

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 statutory reserve requirement compliance until 31 December 2022.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Equipment

2021	Office equipment, fixtures and fittings	Computer equipment	Motor vehicles	Total
	RM'000	RM'000	RM'000	RM'000
Cost				
Balance at 1 January	**34,099**	**12,491**	**301**	**46,891**
Additions	**385**	**-**	**-**	**385**
Written off	**(4,087)**	**(85)**	**-**	**(4,172)**
Reclassification	**(173)**	**159**	**-**	**(14)**
Other movements	**68**	**-**	**-**	**68**
Balance at 31 December	**30,292**	**12,565**	**301**	**43,158**
Accumulated depreciation				
Balance at 1 January	**30,386**	**7,306**	**115**	**37,807**
Charge for the financial year	**1,365**	**1,017**	**61**	**2,443**
Written off	**(3,966)**	**(85)**	**-**	**(4,051)**
Reclassification	**(173)**	**159**	**-**	**(14)**
Other movements	**68**	**-**	**-**	**68**
Balance at 31 December	**27,680**	**8,397**	**176**	**36,253**
Net book value at 31 December	**2,612**	**4,168**	**125**	**6,905**
2020				
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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Intangible assets

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Computer software		
Cost		
Balance at 1 January	**4,379**	5,052
Written off	**(1,903)**	(673)
Other movement	**14**	-
Balance at 31 December	**2,490**	4,379
Accumulated amortisation		
Balance at 1 January	**4,379**	5,052
Written off	**(1,903)**	(673)
Other movement	**14**	-
Balance at 31 December	**2,490**	4,379
Net book value at 31 December	**-**	**-**

18 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Deferred tax assets	**50,197**	31,627
Deferred tax liabilities	**(851)**	(3,867)
	49,346	27,760

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 2021 RM'000	31 Dec 2020 RM'000
Deferred tax assets		
- settled more than 12 months	**13,090**	12,572
- settled within 12 months	**37,107**	19,055
Deferred tax liabilities		
- settled more than 12 months	**(514)**	(3,736)
- settled within 12 months	**(337)**	(131)
	49,346	27,760

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

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Equipment capital allowances	**(851)**	(177)
ROU assets	**629**	266
FVOCI reserve	**990**	(3,690)
Own credit reserve	**692**	354
Provision for accrued expenses	**31,347**	15,842
Deferred income	**4,856**	2,645
Financing and advances	**11,683**	12,520
	49,346	27,760

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:

2021	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	**12,520**	**(837)**	**-**	**11,683**
Own Credit reserve	**354**	**-**	**338**	**692**
Provision for accrued expenses	**15,842**	**15,505**	**-**	**31,347**
Deferred income	**2,645**	**2,211**	**-**	**4,856**
ROU assets	**266**	**363**	**-**	**629**
Financial investment at FVOCI	**-**	**-**	**990**	**990**
Deferred Tax Assets	**31,627**	**17,242**	**1,328**	**50,197**
Equipment capital allowances	**(177)**	**(674)**	**-**	**(851)**
Financial investment at FVOCI	**(3,690)**	**-**	**3,690**	**-**
Deferred Tax Liabilities	**(3,867)**	**(674)**	**3,690**	**(851)**
Net Deferred Tax Assets	**27,760**	**16,568**	**5,018**	**49,346**
2020				
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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Deposits From Customers

(i) By type of deposit

At amortised cost	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Non-Mudharabah Fund		
Demand deposits		
- Qard	**3,318,864**	2,437,811
Savings deposits		
- Qard	**2,859,605**	2,411,513
Term deposits		
- Commodity Murabahah	**6,555,915**	7,205,178
- Qard	**57,318**	92,447
	12,791,702	12,146,949

The maturity structure of term deposits is as follows:

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Due within six months	**5,212,577**	5,906,115
More than six months to one year	**973,920**	1,026,167
More than one year to three years	**346,719**	249,314
More than three years to five years	**80,017**	116,029
	6,613,233	7,297,625

(ii) By type of customer

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Government and statutory bodies	**13,524**	18,278
Business enterprises	**3,610,567**	3,362,562
Individuals	**5,738,029**	5,732,293
Foreign entities/individuals	**2,810,701**	2,701,901
Others	**618,881**	331,915
	12,791,702	12,146,949

20 Deposits and Placements from Banks and Other Financial Institutions

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Non-Mudharabah Fund		
Licensed bank - parent company	**1,036,500**	854,839
Bank Negara Malaysia	**1,866**	4,060
Other financial institutions	**746,496**	719,054
	1,784,862	1,577,953

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Structured Liabilities Designated as Fair Value through profit or loss (FVTPL)

At fair value	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Structured liabilities		
- Wakalah with Commodity Wa'ad	**-**	22,093
- Tawarruq	**1,188,099**	1,091,160
	1,188,099	1,113,253

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 2021 RM'000	31 Dec 2020 RM'000
At amortised cost			
Settlements		**56**	-
Amounts due to holding company		**129,861**	30,520
Profit payable		**51,425**	54,577
Deferred income		**15,932**	11,582
Marginal deposit		**19,452**	7,553
Accrued expenses		**100,412**	66,016
Lease liabilities		**23,656**	21,167
Other creditors	(a)	**119,993**	53,753
Provision on financing and credit related commitments	(b)	**8,937**	2,268
		469,724	247,436

(a) Other creditors

Included in other creditors is 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 year. No Shariah non-compliant event has been identified during the financial year.

Source and use of charity funds	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Balance at 1 January	**1**	3
Shariah non-compliant income for the financial year [1]	**4**	7
Contribution to non-profit organisations	**(4)**	(9)
Balance at 31 December	**1**	1

[1] Income received from transactions in Financing and Advances and Nostro Accounts.

(b) Refer to Note 12(ii) for movement in provision.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Multi-Currency Sukuk Programme

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Multi-Currency Sukuk Programme (MCSP)	**515,333**	523,841

The Bank issued the following series of 5-year unsecured Sukuk under its RM3.0 billion MCSP.

				Carrying Value	
Issuance under MCSP	**RM'000**	**Issue Date**	**Maturity Date**	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
At fair value					
4th series [1]	500,000	2 Oct 2018	2 Oct 2023	**515,333**	523,841

Movement in MCSP

	4th series 31 Dec 2021 RM'000
2021	
Balance at 1 January	**523,841**
Change in fair value other than from own credit risk	**(7,963)**
Change in fair value from own credit risk	**1,761**
Balance at 31 December	**517,639**

	3rd series [2] 31 Dec 2020 RM'000	**4th series** 31 Dec 2020 RM'000
2020		
Balance at 1 January	751,732	514,197
Change in fair value other than from own credit risk	489	15,791
Change in fair value from own credit risk	(2,221)	(6,147)
Redemption of Multi-Currency Sukuk [2]	(750,000)	-
Balance at 31 December	-	523,841

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
The cumulative loss/(gain) from change in fair value due to changes in own credit risk	**1,761**	(8,368)

[1] Proceeds from this series are utilised, where appropriate, to finance eligible businesses and projects in accordance with HSBC's internal Sustainable Development Goals (SDG) Bond Framework.

[2] Redeemed on 27 March 2020.

24 Subordinated Commodity Murabahah Financing

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	**323,978**	312,073
- Second tranche issued on 30 June 2015	**276,799**	266,627
	600,777	578,700

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 for Islamic Banks (Capital Components), the par value of Tranche 1 of the subordinated financing are amortised on a straight line basis, with 20% of the par value phased out each year, with effect from 2020 for regulatory capital base purposes.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Share Capital

	31 Dec 2021		31 Dec 2020	
	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 2021 RM'000	31 Dec 2020 RM'000
Non-distributable		
Financial investment at FVOCI	**(2,851)**	11,868
Own credit reserve [1]	**(2,193)**	(1,123)
Capital contribution reserve [2]	**511**	777
Regulatory reserves [3]	**46,800**	6,100
	42,267	17,622
Distributable		
Retained profits	**1,307,774**	1,350,035
	1,350,041	1,367,657

[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.

27 Income Derived from Investment of Depositors' Funds and Others

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Income derived from investment of:		
(i) Term deposit	**372,011**	450,768
(ii) Other deposits	**178,168**	202,295
	550,179	653,063

(i) Income derived from investment of term deposits

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**295,632**	373,571
- Recoveries from impaired financing	**16,913**	14,040
Financial investments at FVOCI	**25,649**	40,685
Money at call and deposit with financial institutions	**27,540**	41,731
	365,734	470,027
Other operating income		
Realised gains from dealing in foreign currency	**21,505**	22,088
Unrealised gain/(loss) from dealing in foreign currency	**4,205**	(543)
Gain from sale of financial assets designated as FVTPL and other financial instruments	**4,132**	3,396
Unrealised loss from revaluation of financial assets at FVTPL	**(10,053)**	(454)
Realised gain from trading in derivatives	**1,872**	2,562
Unrealised (loss)/gain from trading in derivatives	**(2,902)**	3,351
Net expenses from financial liabilities designated at FVTPL	**(4,165)**	(49,367)
Gain on disposal of financial investments at FVOCI	**1,172**	7,824
Other expense [1]	**(9,489)**	(8,116)
	6,277	(19,259)
	372,011	450,768

[1] Included in Other expense is day 1 modification loss relating to COVID-19 relief measures of RM9,489,000 (2020: RM8,115,000).

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
(ii) Income derived from investment of other deposits		
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**140,019**	151,102
- Recoveries from impaired financing	**8,011**	5,679
Financial investments at FVOCI	**12,148**	16,457
Money at call and deposit with financial institutions	**13,043**	16,879
	173,221	190,117

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

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
(ii) Income derived from investment of other deposits (Cont'd)		
Other operating income		
Realised gain from dealing in foreign currency	**10,185**	8,934
Unrealised gain/(loss) from dealing in foreign currency	**1,992**	(220)
Gain from sale of financial assets designated as FVTPL and other financial instruments	**1,957**	1,374
Unrealised loss from revaluation of financial assets at FVTPL	**(4,761)**	(184)
Realised gain from trading in derivatives	**887**	1,036
Unrealised (loss)/gain from trading in derivatives	**(1,374)**	1,356
Gain on disposal of financial investments at FVOCI	**555**	3,165
Other expense [1]	**(4,494)**	(3,283)
	4,947	12,178
	178,168	202,295

[1] Included in Other expense is day 1 modification loss relating to COVID-19 relief measures of RM4,494,000 (2020: RM3,283,000).

28 Income Derived from Investment of Shareholder's Funds

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**53,882**	60,223
- Recoveries from impaired financing	**3,083**	2,263
Financial investments at FVOCI	**4,675**	6,559
Money at call and deposit with financial institutions	**5,019**	6,728
	66,659	75,773
Other operating income		
Fee commission [1]	**79,747**	77,361
Realised gains from dealing in foreign currency	**3,919**	3,561
Unrealised gain/(loss) from dealing in foreign currency	**766**	(88)
Gain from sale of financial assets designated as FVTPL and other financial instruments	**753**	548
Unrealised loss from revaluation of financial assets at FVTPL	**(1,832)**	(73)
Realised gain from trading in derivatives	**341**	413
Unrealised (loss)/gain from trading in derivatives	**(529)**	540
Shared-service fees from holding company	**1,018**	1,916
Gain on disposal of financial investments at FVOCI	**214**	1,261
Other expense [2]	**(1,566)**	(1,280)
	82,831	84,159
	149,490	159,932

[1] The above fees and commissions were derived from the following major contributors:		
Service charges and fees	**13,582**	23,316
Credit cards	**23,525**	17,211
Credit facilities	**10,842**	8,629
Agency fee	**21,470**	15,283

[2] Included in Other expense is day 1 modification loss relating to COVID-19 relief measures of RM1,729,000 (2020: RM1,308,000).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 Impairment provision

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
New and increased allowance/provision (net of releases) [1]	**272,053**	210,096
Recoveries	**(55,194)**	(46,160)
Written off	**27**	316
Total charge to statement of profit or loss	**216,886**	164,252

[1] Included in the New and increased allowance are management judgemental adjustments made. Please refer to Note 4(b)(v).

Breakdown of the impairment allowance/provision is disclosed by financial instruments type are as follow:

(i) Financing and advances

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
New and increased allowance (net of releases)	**265,303**	210,309
Recoveries	**(55,194)**	(46,160)
Written off	**27**	316
Total charge to statement of profit or loss	**210,136**	164,465

(ii) Money at call and interbank placements maturing within one month

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
(Net release)/net increase in allowance/provision	**(6)**	1

(iii) Financing commitments

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Net increase/(net release) in allowance/provision	**6,654**	(227)

(iv) Financial investment at FVOCI

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Net increase in allowance/provision	**102**	13

30 Income Attributable to Depositors

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Non-Mudharabah Fund		
- Deposits from customers	**131,751**	212,967
- Deposits and placements of banks and other financial institutions	**13,160**	18,268
- Lease liabilities	**2,196**	1,338
- Others	**25,910**	40,824
	173,017	273,397

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Operating Expenses

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Personnel expenses	**46,381**	47,467
Promotion and marketing related expenses	**6,669**	7,582
Establishment related expenses	**17,454**	17,364
General administrative expenses	**27,929**	33,645
Related company expenses	**157,340**	147,999
	255,773	254,057
Personnel expenses		
Salaries, allowances and bonuses	**33,766**	37,709
Employees Provident Fund contributions	**5,901**	6,663
Share based payment	**68**	253
Other staff related costs	**6,646**	2,842
	46,381	47,467
Establishment related expenses		
Depreciation of equipment	**2,443**	2,136
Depreciation of ROU assets	**6,553**	7,264
Impairment of ROU Assets	**129**	-
Information technology costs	**4,126**	2,263
Equipment written off	**121**	265
Utilities	**1,209**	1,949
Others	**2,873**	3,487
	17,454	17,364
General administrative expenses		
Auditors' remuneration		
Statutory audit fees	**156**	156
Regulatory related fees		
- Current year	**10**	129
- Overprovision for prior year	**(106)**	-
Professional fees [1]	**2,011**	1,560
Communication	**1,245**	1,969
Others	**24,613**	29,831
	27,929	33,645

[1] Included in professional fees are fees paid to the Shariah Committee members of the Bank:

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Fees	**531**	**565**
Asst Prof Dr Ziyaad Mahomed	**111**	110
Dr Aida binti Othman	**92**	90
Dr Khairul Anuar bin Ahmad	**22**	97
Prof Dr Younes Soualhi	**92**	90
Dr Mohamed Ashraf bin Mohamed Iqbal	**92**	88
Dr Muhammad Syahmi Mohd Karim	**92**	90
Dr. Nermin Klopic	**30**	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Operating Expenses (Cont'd)

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Related company charges	**157,340**	147,999
Of which by:		
(i) Type of service		
- Information technology related cost	**30,232**	24,163
- Non information technology related cost	**127,108**	123,836
(ii) Country/ territory		
- Malaysia	**155,810**	147,097
- United Kingdom	**1,522**	888
- Hong Kong	**8**	14

32 Tax Expense

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Malaysian income tax		
- Current year	**23,826**	35,082
- Prior year	**(1,644)**	101
Total current tax recognised in profit or loss	**22,182**	35,183
Deferred tax:		
Origination and reversal of temporary differences		
- Current year	**(16,568)**	(13,382)
- Overprovision in prior years	**-**	5,521
Total deferred tax recognised in profit or loss	**(16,568)**	(7,861)
Total tax expense	**5,614**	27,322

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	**53,993**	121,289
Income tax using Malaysian tax rate	**12,958**	29,109
Non-deductible expenses	**2,034**	8,016
Tax exempt income	**-**	(9,904)
Impact on change of tax rate [1]	**(7,734)**	-
(Over)/under provision in respect of prior years	**(1,644)**	101
Tax expense	**5,614**	27,322

[1] In order to support the Government's initiative to assist parties affected by the pandemic, the Finance Act 2021 has introduced a special one-off tax for year of assessment ("YA") 2022 which is called 'Cukai Makmur' and will be imposed on non-micro, small and medium enterprise companies which generate high profits during the period of the pandemic. Chargeable income in excess of RM100.0 million will be charged an income tax rate of 33% for YA 2022.

33 Earnings per share

The earnings per ordinary share have been calculated based on profit for the year and ordinary shares in issue of 100,000,000 (2020: 100,000,000) 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:

i the Bank has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial or operational decisions, or vice versa, or

ii where the 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, either directly or indirectly. Key management personnel consist of all members of the Board of Directors and certain senior management of the Bank, including their close family members

iv Transactions, arrangements and agreements that are entered into by the Bank with companies that may be controlled/jointly controlled by the key management personnel of the Bank and their close family members.

(a) The significant transactions and outstanding balances of the Bank with its related parties are as follows:

	31 Dec 2021			31 Dec 2020		
	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	**-**	**-**	**4**	-	-	208
Fees and commission	**724**	**1,190**	**-**	1,115	1,209	-
Net trading income/(expense)	**(140,822)**	**3,128**	**-**	138,385	(13,602)	-
Other income	**1,018**	**3**	**-**	1,916	6	-
	(139,080)	**4,321**	**4**	141,416	(12,387)	208
Expenditure						
Profit attributable to deposits and placements from banks and other financial institutions	**19,470**	**7,277**	**6**	25,606	10,993	100
Fees and commission	**-**	**765**	**-**	-	7,663	-
Operating expenses	**146,741**	**10,599**	**-**	137,702	10,297	-
	166,211	**18,641**	**6**	163,308	28,953	100
Amount due from						
Deposits and placements with banks and other financial institutions (including cash and short term funds)	**-**	**71,777**	**-**	-	61,585	-
Financing and advances	**-**	**-**	**118**	-	-	5,351
Derivative financial assets	**75,594**	**-**	**-**	212,533	-	-
Other assets	**929**	**154**	**-**	1,951	-	-
	76,523	**71,931**	**118**	214,484	61,585	5,351
Amount due to						
Deposits and placements from banks and other financial institutions	**1,036,500**	**746,486**	**-**	854,839	719,054	-
Deposits from customers	**-**	**-**	**687**	-	-	3,180
Derivative financial liabilities	**31,139**	**-**	**-**	22,601	-	-
Other liabilities	**203,879**	**3,994**	**-**	66,312	3,360	-
Subordinated commodity murabahah financing	**600,777**	**-**	**-**	578,700	-	-
	1,872,295	**750,480**	**687**	1,522,452	722,414	3,180

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 and other material risk takers' remuneration

i) The remuneration of CEO and Directors

The remuneration of the members of the Board of Directors/CEO of HSBC Amanah Malaysia Berhad, charged to the statements of profit or loss and other comprehensive income during the financial year are as follows:

2021 **RM'000**	**Salaries and bonuses**	**Other short-term employee benefits**	**Shared-based payment**	**Fees**	**Total**
Non-Independent Executive Directors					
Stuart Paterson Milne	**-**	**-**	**-**	**-**	**-**
Independent Non-Executive Directors					
Adil Ahmad	**-**	**-**	**-**	**143**	**143**
Albert Quah Chei Jin	**-**	**-**	**-**	**142**	**142**
Ho Chai Huey	**-**	**-**	**-**	**128**	**128**
Datuk Kamaruddin bin Taib [1]	**-**	**-**	**-**	**173**	**173**
Non-Independent Non-Executive Director					
Lee Choo Hock	**-**	**-**	**-**	**136**	**136**
Mukhtar Malik Hussain [2]	**-**	**-**	**-**	**42**	**42**
	-	**-**	**-**	**764**	**764**
CEO					
Raja Amir Shah bin Raja Azwa [3]	**373**	**194**	**-**	**-**	**567**
Arsalaan Ahmed [4]	**127**	**55**	**-**	**-**	**182**
	500	**249**	**-**	**-**	**749**

[1] Resigned on 1 January 2022
[2] Re-designated on 1 August 2021
[3] Appointed on 24 May 2021
[4] Resigned on 14 February 2021

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 bin Taib	-	-	-	173	173
Non-Independent Non-Executive Director					
Lee Choo Hock	-	-	-	136	136
	-	-	-	722	722
CEO					
Arsalaan Ahmed	1,284	492	332	-	2,108

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

(b) Key management personnel and other material risk takers' remuneration (Cont'd)

ii) The remuneration of senior management and other material risk takers

Senior management consist of certain Executive Committee (EXCO) members for the Bank.

Other material risk taker refers to an employee who is not a member of the EXCO which falls under the Bank's material risk taker definition, and shall include:

(i) officer who can materially commit or control significant amounts of the Bank's resources or whose actions are likely to have a significant impact on its risk profile; or

(ii) officer who is among the most highly remunerated officers in the Bank.

The Bank does not have any other material risk takers as at 31 December 2021 and 31 December 2020.

Total Remuneration

Senior Management	**31 Dec 2021**		31 Dec 2020	
	Unrestricted RM'000	**Deferred RM'000**	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
Cash	**2,471**	**-**	**3,310**	**-**
Variable remuneration				
Cash	**937**	**-**	**600**	**63**
Shares and share-linked instruments	**-**	**56**	**95**	**63**
	937	**56**	**695**	**126**
Total Senior Management's Remuneration	**3,408**	**56**	**4,005**	**126**

Number of officers having received a variable remuneration during the financial year: 8 (2020: 6)

Other than the above, no senior management nor other material risk takers received any guaranteed bonuses, sign-on awards and severance payments.

Deferred Remuneration

Senior Management	**31 Dec 2021 RM'000**	31 Dec 2020 RM'000
Outstanding deferred remuneration		
Cash	**114**	255
Shares and share-linked instruments	**166**	420
	280	675
Deferred remuneration paid out	**151**	208

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 2021 RM'000	31 Dec 2020 RM'000
Aggregate value of outstanding credit exposures to connected parties	**669,930**	799,355
As a percentage of total credit exposures	**2.9%**	3.7%
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 2021 RM'000	31 Dec 2020 RM'000
Tier 1 capital		
Paid-up ordinary share capital	**660,000**	660,000
Retained profits	**1,307,774**	1,350,035
Other reserves	**40,307**	20,960
Regulatory adjustments	**(83,894)**	4,172
Total Common Equity Tier 1 (CET1) and Tier 1 capital	**1,924,187**	2,035,167
Tier 2 capital		
Subordinated Commodity Murabahah financing	**415,826**	516,285
Impairment allowance (unimpaired portion) & regulatory reserves	**145,252**	120,612
Total Tier 2 capital	**561,078**	636,897
Capital base	**2,485,265**	2,672,064
Before deducting proposed dividend		
CET1 and Tier 1 Capital ratio	**15.172%**	16.210%
Total Capital ratio	**19.596%**	21.282%
After deducting proposed dividend		
CET1 and Tier 1 Capital ratio	**15.172%**	15.811%
Total Capital ratio	**19.596%**	20.884%

The total capital and capital adequacy ratios have been computed based on the Standardised Approach in accordance with the Bank Negara Malaysia (BNM)'s Guidelines on 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 for Islamic Banks (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 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.

	With Transitional Arrangement		Without Transitional Arrangement	
Before deducting proposed dividend	**31 Dec 2021 %**	31 Dec 2020 %	**31 Dec 2021 %**	31 Dec 2020 %
CET1 and Tier 1 Capital	**15.172%**	16.210%	**15.085%**	15.811%
Total Capital	**19.596%**	21.282%	**19.509%**	21.068%

Breakdown of RWA in the various categories of risk weights:

	31 Dec 2021 RM'000	31 Dec 2020 RM'000
Total RWA for credit risk	**11,620,173**	11,498,037
Total RWA for market risk	**60,804**	52,557
Total RWA for operational risk	**1,001,279**	1,004,660
	12,682,256	12,555,254

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 2021 RM'000**	31 Dec 2020 RM'000
Direct credit substitutes	**17,418**	20,562
Transaction-related contingent items	**1,701,750**	1,297,514
Short-term self-liquidating trade-related contingencies	**53,786**	75,666
Formal standby facilities and credit lines		
- Maturity not exceeding one year	**1,361,894**	1,389,116
- Maturity exceeding one year	**3,190,748**	2,311,222
Other unconditionally cancellable	**2,343,942**	2,294,173
Unutilised credit card lines	**3,458,687**	3,689,300
Equity related contracts		
- Less than one year	**243,376**	328,281
- One year to less than five years	**592,619**	497,651
Profit rate related contracts		
- Less than one year	**235,000**	454,592
- One year to less than five years	**1,372,261**	1,107,611
Foreign exchange related contracts		
- Less than one year	**12,703,771**	10,774,662
- One year to less than five years	**21,146**	219,241
	27,296,398	24,459,591

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 2021 Number ('000)	31 Dec 2020 Number ('000)
Balance at 1 January	**21**	11
Granted in the financial year	**14**	28
Exercised in the financial year	**-**	(15)
Released in the financial year	**(8)**	(2)
Cancelled in the financial year	**(11)**	(1)
Balance at 31 December	**16**	21
Compensation cost recognised during the financial year	**68**	253

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan and the Share Match Schemes is £4.08 (2020: £5.60). The weighted average fair value of the HSBC share at 31 December 2021 was £4.75 (2020: £5.80). The weighted average remaining vesting period as at 31 December 2021 for shares granted during the year was 1.12 years (2020: 1.25 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 an academic and the former 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. He serves as Chairman and member of several Shariah Advisory Boards of Islamic banks and takaful companies internationally.

2) 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.

3) 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 was an Independent Non-executive Director of Bank Pembangunan and Chairman of Pembangunan Leasing and Credit until he resigned in February 2021. 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.

4) 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 of CIMA, CPA Australia and Association Shari'ah Advisors in Islamic Finance Malaysia (ASAS).

5) Aminuddin Abu Bakar
Aminuddin Abu Bakar is currently the Principal Consultant, Sacred Tradition, a boutique consultancy firm in Islamic Finance and Halal industry in Singapore. He was part of the senior management team for Kuwait Finance House Malaysia (KFHMB), having served as Vice President and Head of its Shariah Division. He is a certified Shariah Advisor and Auditor (CSAA) by Auditing and Accounting Organization for Islamic Financial Institutions (AAOIFI), an Ordinary Member of the Association of Shariah Advisors in Islamic Finance (ASAS) having completed their Certified Shariah Advisor (CSA) Level 2 qualification, and is a registered Shariah Adviser at Securities Commission Malaysia. He was awarded Master of Business Administration with distinction from University of Strathclyde, UK, and an Honours Bachelor's Degree in Comprehensive Study of Shariah Islamiyyah (Islamic Jurisprudence) from Al-Azhar University (Cairo). He has more than 15 years of working experience in the areas of Shariah, Islamic Finance and socio-religious development.