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

FINANCIAL STATEMENTS - 31 DECEMBER 2023

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

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

CONTENTS

BOARD OF DIRECTORS

Datin Che Teh Ija binti Mohd Jalil
Independent Non-Executive Chairperson

Dato' Omar Siddiq bin Amin Noer Rashid
Non-Independent Executive Director

Lim Tiang Siew
Senior Independent Non-Executive Director (appointed on 8 March 2023)

Datuk Md Arif Bin Mahmood
Independent Non-Executive Director (appointed on 1 September 2023)

Ng Ing Peng
Independent Non-Executive Director (appointed on 1 October 2023)

Albert Quah Chei Jin
Senior Independent Non-Executive Director (retired effective 31 December 2023)

Mukhtar Malik Hussain
Non-Independent Non-Executive Director (retired effective 14 December 2023)

Adil Ahmad
Independent Non-Executive Director (retired effective 4 May 2023)

Ho Chai Huey
Independent Non-Executive Director (retired effective 1 January 2024)

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, 71
Independent Non-Executive Chairperson
Member of the Risk Committee, Audit Committee and Nominations and Remuneration Committee
Appointed to the Board: January 2022

Datin Teh was appointed as Independent Non-Executive Chairperson of the Bank on 1 January 2022. She is a member of the Risk Committee, Audit Committee and Nominations and Remuneration Committee of the Bank.

Datin Teh holds a Bachelor of Arts (Honours) from University of Malaya and Master of Business Administration from Southern New Hampshire University.

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

Her other experiences include trade and financial services negotiations as Lead Negotiator in the World Trade Organization, Association of Southeast Asian Nations and Asia–Pacific Economic Cooperation. She also represented 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.

Datin Teh does not have any shareholding in the Bank.

Directors (Cont'd)

Dato' Omar Siddiq bin Amin Noer Rashid, 51
Non-Independent Executive Director
Appointed to the Board: March 2022

Dato' Omar was appointed as the Non-Independent Executive Director on 31 March 2022.

Dato' Omar graduated from the London School of Economics and Political Science with a Bachelor of Science degree in Economics. 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 is also a CFA charterholder.

Prior to his appointment to HSBC Malaysia, Dato' Omar was the Deputy Chief Executive Officer (CEO), Malaysia and CEO, Group Wholesale Banking at CIMB Group Holdings Berhad. Before that, he has held other senior leadership roles including Group Chief Operating Officer at CIMB Group Holdings Berhad, Head of Group Wholesale Banking at RHB Bank Berhad, Executive Director/Group Chief Financial Officer at Malaysia Airlines Berhad and Executive Director in the Investments Division at Khazanah Nasional Berhad.

Dato' Omar is a Non-Independent Executive Director and CEO of HSBC Bank Malaysia Berhad and a Director of British Malaysian Chamber of Commerce Berhad. He is also the Chairman of Special Committee for the Iron and Steel Industry in Malaysia - Ministry of Investment Trade and Industry of Malaysia.

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

Lim Tiang Siew, 68
Senior Independent Non-Executive Director
Chairman of Risk Committee and member of the Audit Committee and Nominations and Remuneration Committee
Appointed to the Board: March 2023

Mr Lim was appointed as Independent Non-Executive Director of the Bank on 8 March 2023. He is the Chairman of the Risk Committee and a member of the Audit Committee and Nominations and Remuneration Committee of the Bank.

Mr Lim has been a Chartered Accountant of the Malaysian Institute of Accountants since 1987, and a member of the Malaysian Institute of Certified Public Accountants (MICPA) since 1981. He was a subject examiner for MICPA professional examinations for 15 years before being appointed as a reviewer for the same subject. He continues to hold this position.

Mr Lim retired as the Group Chief Internal Auditor of CIMB Group in March 2018 after serving 27 years. His experience and expertise of over 40 years covers internal and external auditing, accounting, corporate finance and advisory, corporate governance, and compliance. For more than half of his tenure in CIMB, Mr. Lim was a member of the top management team and a member of all its major risk committees.

Mr Lim is currently an Independent Non-Executive Director of Sapura Energy Berhad and MSIG Insurance (Malaysia) Bhd.

Mr Lim does not have any shareholding in the Bank.

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

Directors (Cont'd)

Datuk Md Arif Bin Mahmood, 62
Independent Non-Executive Director
Chairman of the Nominations and Remuneration Committee and member of the Risk Committee
Appointed to the Board: September 2023

Datuk Md Arif was appointed as Independent Non-Executive Director of the Bank on 1 September 2023. He is the Chairman of the Nominations and Remuneration Committee and a member of the Risk Committee of the Bank.

Datuk Md Arif graduated with First Class Honours in Electrical Engineering (summa cum laude) from Boston University, USA in 1984 and earned his Master of Business Administration from Massachusetts Institute of Technology, USA in 1999. He was awarded the New Silk Road CEO award of the year 2019 for the refining category by Gulf Intelligence.

Datuk Md Arif retired as Executive Vice President & Chief Executive Officer Downstream, PETRONAS on 1 January 2022 with more than 37 years of experience in integrated oil & gas industry. He was a member of PETRONAS Leadership Team with primary responsibility of leading, strategizing, driving performance and growth of PETRONAS Global Downstream Business. He had held various senior management positions within PETRONAS Group including, the Senior Vice President, Corporate Strategy & Risk, Vice President of Oil Business and CEO of ASEAN Bintulu Fertilizer (ABF). He was the Chairman of PETRONAS Dagangan Berhad and PETRONAS Chemicals Group Berhad (both listed on Bursa Malaysia). He was also Chairman/Director of several PETRONAS subsidiaries and JV companies.

Datuk Md Arif is currently the Non-Independent Non-Executive Chairman of KPJ Healthcare Berhad. He also sits on the Board of Boustead Technology Sdn Bhd (a wholly owned subsidiary of Boustead Holding Berhad).

Datuk Md Arif does not have any shareholding in the Bank.

Ng Ing Peng, 68
Independent Non-Executive Director
Chairperson of the Audit Committee and member of the Risk Committee
Appointed to the Board: October 2023

Ng Ing Peng was appointed as Independent Non-Executive Director of the Bank on 1 October 2023. She is the Chairperson of the Audit Committee and a member of the Risk Committee of the Bank.

Ms Ng is an experienced Chartered Accountant. She holds a Bachelor of Accounting from University of Malaya, and is a member of both the Institute of Chartered Accountants in England and Wales and the Malaysian Institute of Accountants.

Prior to her retirement as Executive Director and Group Chief Financial Officer of Petra Energy Berhad in December 2016, Ms. Ng held the position of Director - Group Finance Department at CIMB Group Holdings Berhad. Throughout her 36 years' career journey, Ms Ng gained diverse skills and expertise such as banking, audit, accounting, financial management, corporate finance and treasury as well as vast experience in various industries including financial institutions, stock broking, food and beverages, property development and retailer for household improvements / sports / fashion products.

Ms Ng is currently an Independent Non-Executive Director of Petra Energy Berhad, MR. D.I.Y. Group (M) Berhad and Red Sena Berhad (in liquidation).

Ms Ng 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 Chairperson. 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 five (5) members; comprising one (1) Executive Director and four (4) Independent Non-Executive Directors. The names of the Directors serving at the date of this report and brief biographical particulars for each of them are set out on pages 2 to 4.

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 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

Nine (9) Board meetings were held in 2023. The table below shows each Director's attendance (including attendance via video conferencing) at meetings of all Board and Committees' meetings during 2023. 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.

2023 Board and Committee meeting attendance	Board	Audit Committee	Risk Committee	Nominations and Remuneration Committee
Total number of meetings held	**9**	**6**	**7**	**6**
Independent Non-Executive Chairperson				
Datin Che Teh Ija binti Mohd Jalil[1]	9	1	7	2
Non-Independent Executive Directors				
Dato' Omar Siddiq bin Amin Noer Rashid	9	-	-	-
Independent Non-Executive Directors				
Adil Ahmad[2]	2	2	2	2
Albert Quah Chei Jin[3]	9	6	7	6
Ho Chai Huey[4]	9	6	7	6
Lim Tiang Siew[5]	8	4	5	2
Datuk Arif bin Mahmood[6]	3	-	3	2
Ng Ing Peng[7]	2	1	2	-
Non-Independent Non-Executive Director				
Mukhtar Malik Hussain[8]	9	-	-	6

[1]Appointed as member of Audit Committee and Nominations and Remuneration Committee effective 1 October 2023.
[2]Retired as Independent Non-Executive Director, Chairman of Risk Committee, member of Audit Committee and Nominations and Remuneration Committee effective 4 May 2023.
[3]Retired as Senior Independent Non-Executive Director and Chairman of Audit Committee, member of Risk Committee and Nominations and Remuneration Committee effective 31 December 2023.
[4]Retired as Independent Non-Executive Director and Chairperson of Nominations and Remuneration Committee, member of Risk Committee and Audit Committee effective 1 January 2024.
[5]Appointed as Independent Non-Executive Director effective 8 March 2023. He was appointed in the Risk Committee (Chairman), Audit Committee (member) effective 4 May 2023, Nominations & Remuneration Committee (member) effective 1 October 2023 and re-designated as Senior Independent Non-Executive Director effective 1 January 2024.
[6]Appointed as Independent Non-Executive Director, member of Risk Committee and Nominations & Remuneration Committee effective 1 September 2023. He was subsequently appointed as Nominations & Remuneration Committee Chairman effective 1 January 2024.
[7]Appointed as Independent Non-Executive Director and member of Audit Committee and Risk Committee effective 1 October 2023. She was subsequently appointed as Audit Committee Chairperson effective 31 December 2023.
[8]Retired as Non-Independent Non-Executive Director and member of Nominations and Remuneration Committee effective 14 December 2023.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

Directors' Emoluments
Details of the emoluments of the Directors of the Bank for 2023, disclosed in accordance with the Companies Act 2016, are shown in Note 33(b) to the financial statements.

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 various organisations, among others including Financial Institutions Directors' Education (FIDE) Forum, Bank Negara Malaysia, Securities Industry Development Corporation (SIDC), Malaysia Deposit Insurance Corporation and the International Shari'ah Research Academy for Islamic Finance. In addition, they attended the HSBC Group's Non-Executive Directors Summit held in May 2023 respectively.

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 discusses 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, all being Independent Non-Executive Directors, are:
- Ng Ing Peng (Chairperson, appointed effective 31 December 2023)
- Lim Tiang Siew (appointed on 8 March 2023)
- Datin Che Teh Ija Mohd Jalil
- Adil Ahmad (retired effective 4 May 2023)
- Albert Quah Chei Jin (retired effective 31 December 2023)
- Ho Chai Huey (retired effective 1 January 2024)

During 2023, the Audit Committee held 6 meetings. The attendance is set out in the table on page 6.

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, all being Independent Non-Executive Directors, are:
- Lim Tiang Siew (Chairman, appointed effective 4 May 2023)
- Datin Che Teh Ija binti Mohd Jalil
- Datuk Arif bin Mahmood (appointed effective 1 September 2023)
- Ng Ing Peng (appointed effective 1 October 2023)
- Adil Ahmad (retired on 4 May 2023)
- Albert Quah Chei Jin (retired effective 31 December 2023)
- Ho Chai Huey (retired effective 1 January 2024)

During 2023 the Risk Committee held 7 meetings. The attendance is set out in the table on page 6.

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 considers 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 2023.

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, all being Independent Non-Executive Directors, are:
- Datuk Arif bin Mahmood (Chairman, appointed effective 1 January 2024)
- Lim Tiang Siew (appointed effective 1 October 2023)
- Datin Che Teh Ija binti Mohd Jalil (appointed effective 1 October 2023)
- Adil Ahmad (retired effective 4 May 2023)
- Mukhtar Malik Hussain (retired effective 14 December 2023)
- Albert Quah Chei Jin (retired effective 31 December 2023)
- Ho Chai Huey (retired effective 1 January 2024)

During 2023, the Nominations and Remuneration Committee held 6 meetings. The attendance is set out in the table on page 6.

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:
- Assoc. Prof. Dr. Ziyaad Mahomed (Chairman)
- Dr. Aida binti Othman
- Dr. Mohamed Ashraf bin Mohamed Iqbal
- Dr. Muhammad Syahmi bin Mohd Karim
- Encik Aminuddin Abu Bakar
- Dato' Prof. Dr. Ahmad Hidayat Buang (appointed effective 14 August 2023)

Two engagement sessions were held between Shariah Committee and Non Executive Directors during the financial year 2023.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

<u>Board of Directors (Cont'd)</u>

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:
- Lim Tiang Siew
- Datuk Md Arif bin Mahmood (appointed effective 1 January 2024)
- Ng Ing Peng (appointed effective 31 December 2023)
- 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 2023 was RM344,612 (2022: RM303,979).

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)
- CEO Updates
- 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, including Capital Plan
- Internal Liquidity Adequacy Assessment Process
- Risk Appetite Statement
- Risk and Compliance Reports
- Half-Yearly Stress Testing Results
- Human Resource Update
- Quarterly Climate Risk 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. The Board also has oversight accountability over Shariah governance and compliance in ensuring the integration of Shariah governance considerations within the business and risk strategies of the Bank.

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. For the implementation of Shariah governance, policies on governance structure and Shariah non-compliance risk management are in-place.

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 the date of approval of the audited financial statements of the Bank for the financial year ended 31 December 2023.

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

- **Group's Global Principles**
  The Global Principles set an overarching standard for all 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 us to do the right thing and 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 non-compliance risk, is governed by the HBMS Risk Management Framework (HRMF) which serves as an addendum to the Group's RMF. The HRMF applies to all the types of risk, both financial and non-financial (including Shariah risk) that the Banks face in its business and operational activities. It is used throughout HSBC Amanah, including all Businesses, Functions and Digital Business Services and it is applicable to all HSBC Amanah's employees and HSBC Group employees servicing HSBC Amanah. 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 Shariah Committee is a formal governance committee established to oversee Shariah operations and management of day-to-day activities of the Bank in accordance with Shariah compliance and principles. The Shariah Committee is a sub-committee of the Board and its members are appointed by the Board. The Shariah Committee meets at least once in every two (2) months or more frequently if needed to discharge their duties and responsibilities. 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 including Shariah Committee, have been delegated authority limits and powers within which to manage the day-to-day affairs of the Bank, including those contained within the Delegation of Authority Framework that the Bank has adopted. 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.

INTERNAL CONTROL FRAMEWORK (Cont'd)

- **Delegation of authority within limits set by the Board (Cont'd)**
  Those individuals are required 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.

  The Shariah Committee is responsible to provide objective and sound decision/advice to the Bank to ensure that its aims and operations, business, affairs and activities are in compliance with Shariah principles.

- **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 Risk Management 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.

  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 are imperative from local regulatory perspective. The risk steward for Shariah risk is the Head of Shariah Department, who acts 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 and challenging the risk reporting by control owners, setting key control expectations, as well as reviewing and advising on Risk and Control Assessment (RCA). It also includes oversight of Shariah Review function to ensure independent review and challenge on the Shariah compliance activities undertaken by risk and control owners.

- **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 both a top risk and emerging risks process to provide forward-looking views of issues with the potential to threaten the execution of our strategy over the medium to long term.

  Global tool and workflow to support enterprise wide horizon scanning for identifying, assessing and communicating new regulatory developments and changes to existing regulatory developments are in place to ensure effective management of the response to regulatory change.

  We remain committed to investing in the reliability and resilience of our IT systems and critical services, including those provided by third parties, that support all parts of our business. We do so to help protect our customers, affiliates and counterparties, and to help ensure that we minimise any disruption to services that could result in reputational and regulatory consequences. In our approach to defend against these threats, we invest in business and technical controls to help us detect, manage and recover from issues, including data loss, in a timely manner.

  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.

INTERNAL CONTROL FRAMEWORK (Cont'd)

- **Responsibility for risk management**
  All employees are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model. This 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 and it reviewed the independence, autonomy and effectiveness of the Group'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. The Shariah Committee has an oversight over the approvals and decisions provided by the Shariah Department in discharging its Shariah Risk Stewardship function. 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. The Bank also prepares and adopts a Financial Resource Plan, which is informed by detailed analysis of risk appetite describing the types and quantum of risk that the Bank is prepared to take in executing our strategy and sets out the key business initiatives and the likely financial effects of those initiatives.

- **Internal control over financial reporting**
  As subsidiaries of HSBC Holding Plc, 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 2023. 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 primary mechanism through which comfort over risk management and internal control systems is achieved is through annual assessments of the effectiveness of controls to manage risk, and the reporting of issues on a regular basis through the various risk management and risk governance forums.

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

  - **Entity level controls**
    Entity level controls are a defined suite of internal controls that have a pervasive influence over the entity as a whole and meet the principles of the COSO framework.

    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 on an ongoing basis. If issues are significant to the Bank, they are escalated to the Risk Committee and also Audit Committee, if concerning financial reporting matters.

  - **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 has continued to receive regular updates on the Bank's ongoing activities for improving the effective oversight of 'end-to-end' business processes, and management continued to identify opportunities for enhancing key controls, such as through the use of automation technologies.

INTERNAL CONTROL FRAMEWORK (Cont’d)

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

  - **Financial reporting controls**
    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 Head of Finance and Board’s approval.

    The report also contains the Bank’s disclosure on its Shariah Governance policies and practices, the Board’s oversight accountability for Shariah governance implementation and disclosure by the Shariah Committee in discharging its responsibilities relating to Shariah governance and the Shariah Committee’s opinion on the state of the Bank’s compliance with Shariah principles.

  - **Subsidiary Certifications**
    Half yearly confirmations are provided to the holding company’s Audit Committee and Risk Committee; and yearly confirmation is provided to the holding company’s Nominations/ Remuneration Committee from the respective Audit, Risk and Nominations/Remuneration committees of key material subsidiary companies confirming amongst other things that:
    a. Audit – the financial statements of the subsidiary have been prepared in accordance with group policies, present fairly the state of affairs of the subsidiary and are prepared on a going concern basis;
    b. Risk – the Risk Committee of the subsidiary has carried out its oversight activities consistent with and in alignment to the RMF; and
    c. Nominations/Remuneration – the Nominations/Remuneration Committee of the subsidiary has discharged its obligations in overseeing the implementation and operation of HSBC’s Group Remuneration Policy.

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.

REMUNERATION POLICY

The Group refreshed the reward strategy and widened the employee proposition centred on our purpose and values. The refreshed principles and supporting commitments articulate the experience for employees and provide a clear framework to create a dynamic culture where the best talent is motivated to deliver high performance. These principles are:

- **We will reward you responsibly** through fixed pay security and protection through core benefits, a competitive total compensation opportunity, and pay equity with a more inclusive and sustainable benefits proposition over time.
- **We will recognise your success** through our performance culture and routines, including feedback and recognition, pay for performance, and all employee share ownership opportunities.
- **We will support you to grow** through our proposition beyond pay, with a focus on future skills and development, your mental, physical, social and financial well-being, and flexibility in working practices.

Our aim is to use the framework to deliver an exceptional colleague experience – strengthening our ability to attract, retain and motivate the people we need in competitive labour markets, in the context of evolving employee expectations.

In 2023, we have undertaken significant design work to review our performance approach and pay structures to simplify, improve transparency, and foster an environment focused on growth, learning, and motivating colleagues to perform at their best. This will be implemented in 2024.

In addition to performance and pay, work is underway to drive improvements to our proposition beyond pay, aligned to the principles of our reward strategy, building on our strong benefits and well-being programmes, including flexible working, and more inclusive and sustainable benefits.

Please refer to the HSBC remuneration practices and governance at www.hsbc.com/who-we-are/leadership-and-governance/remuneration for details of the major design characteristics of the remuneration strategy including alignment between risk and reward and the updates on the reward strategy and principles in 2024.

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 33(b) 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	September 2023	• 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 2023.

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:

- Datin Che Teh Ija binti Mohd Jalil
- Dato' Omar Siddiq bin Amin Noer Rashid
- Lim Tiang Siew (appointed on 8 March 2023)
- Datuk Md Arif bin Mahmood (appointed on 1 September 2023)
- Ng Ing Peng (appointed on 1 October 2023)
- Mukhtar Malik Hussain (retired on 14 December 2023)
- Adil Ahmad (retired on 4 May 2023)
- Albert Quah Chei Jin (retired on 31 December 2023)
- Ho Chai Huey (retired on 1 January 2023)

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	462,199
Tax expense	(104,339)
Profit for the financial year	357,860

RESERVES AND PROVISIONS

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

ISSUANCE AND/OR REDEMPTION OF DEBT AND EQUITY SECURITIES

During the financial year under review, the Bank redeemed the fourth series of RM500 million Multi-Currency Sukuk Programme (MCSP) upon maturity on 2 October 2023. Further details is disclosed in Note 23. There were no other issuance and/or redemption of debt and equity securities 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 1.1.2023	Acquired	Disposed	As at 31.12.2023
HSBC Holdings plc				
Ordinary shares of USD0.50				
Dato' Omar Siddiq Bin Amin Noer Rashid	–	18,410	–	18,410

	Number of Shares			
	Shares held at 1.1.2023	Shares issued during the year	Shares vested during the year	Shares held at 31.12.2023
HSBC Holdings plc				
HSBC Share Plan				
Dato' Omar Siddiq Bin Amin Noer Rashid	–	38,314	–	38,314

None of the other Directors holding office at 31 December 2023 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

DIVIDENDS

The Board of Directors via a resolution on 5 February 2024, has approved the payment of a final dividend of 53.7 sen per ordinary share, amounting to net dividend payment of RM53.7 million in respect of the financial year ended 31 December 2023. The dividend will be accounted for in the shareholder's equity as an appropriation of retained earnings in the subsequent financial year.

HOLDING COMPANIES

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

OTHER STATUTORY INFORMATION

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

i) to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of allowance for doubtful debts and satisfied themselves that all known bad debts and financing had been written off and that adequate allowance had been made for doubtful debts and financing; 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 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 and financing, or the amount of the allowance for doubtful debts and financing 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 other than those arising in the normal course of business of the Bank.

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 2023.

DIRECTORS' REMUNERATION

Directors' remuneration for the financial year is RM979,000 (2022: RM798,000). Details of Directors' remuneration are set out in Note 33(b) to the financial statements.

AUDITORS' REMUNERATION

Auditors' remuneration for the financial year is RM377,000 (2022: RM168,000). Details of auditors' remuneration are set out in Note 30 to the financial statements.

PERFORMANCE REVIEW, BUSINESS HIGHLIGHTS AND OUTLOOK

Performance Review

The Bank recorded profit before tax (PBT) of RM462.2 million for the financial year ended 31 December 2023, an increase of RM108.5 million or 30.7% year-on-year. The increase in PBT was mainly due to higher operating income before impairment charges by RM81.5 million. This was mainly attributed to higher financing income, which grew by RM135.7 million as a result of rate hikes and improved margins. The Bank also recorded higher impairment write-back of RM30.0 million this year as compared to impairment charge of RM21.6 million last year.

Total assets as at 31 December 2023 stood at RM21.3 billion, a decrease of RM0.9 billion or 4.1% compared to 31 December 2022 of RM22.2 billion. After deducting proposed dividends, the Bank continues to be well capitalised with Common Equity Tier 1 capital ratio of 16.7%, Tier 1 capital ratio of 20.1% and Total capital ratio of 21.2%. The Bank also has a strong liquidity position with its liquidity ratio well above regulatory requirements.

Business Highlights during the Year 2023

2023 continued to be a positive year for HSBC Amanah Malaysia Berhad (the Bank). In addition to improved financial performance, the Bank garnered various meaningful awards and rolled out various innovative propositions and solutions for its customers.

In our Wealth and Personal Banking (WPB) business, we continued to provide a full suite of services to our customers focusing on premier and emerging affluent clients to meet their wealth and personal banking needs. During the year, we rolled-out Apple Pay and Google Wallet for HSBC credit cards. We also launched the Digital Investment Account Opening (DIAO) service on the HSBC Malaysia mobile banking app allowing our customers to open unit trust and sukuk investment accounts on their mobile devices. HSBC was the first bank in Malaysia to offer customers the option to open sukuk investment accounts on mobile devices, supplementing the earlier DIAO service via the online banking browser introduced in May 2022. In addition, the Global Transfers feature on our online banking platform was also enhanced, offering 24x7 MYR live rates. Customers can now engage in real-time with Global Transfer transactions involving MYR currency pairing at any time, even on weekends.

Separately, our Commercial Banking (CMB) and Global Banking (GB) businesses continued to grow sustainably by acting as the trusted advisor to our clients, accelerating the utilisation of our digital capabilities, and balancing growth with proactive risk management. CMB also launched a RM500 million 'HSBC New Economy Fund' to support lending to technology-led businesses and emerging startups who are tapping opportunities within Malaysia's growing digital economy. Separately, the Bank's Markets and Securities Services (MSS) business successfully executed the first Reverse Sell and Buy Back Agreement structure for a Shariah-compliant foreign-currency funding.

On the cash payment front, we continued to offer the best-in-class solutions and services to our customers. We rolled out bulk payment for DuitNow which supports real time bulk payment with 24x7 capability as compared to the existing batch-clearing payment function. We also developed a comprehensive and centralised suite of Omni Collect reports with intelligent data analytics dashboards that provide enhanced visibility and control for customers on their collections.

Our trade financing solutions also won us "Best Trade Finance Bank" by The Asset Islamic Finance Awards 2023 for the sixth consecutive year. HSBC's position as the largest trade bank in the world, offering global reach, coupled with our product capabilities, are the key factors to our success. Our bespoke and cost-effective financing has helped many businesses optimise their working capital through direct Traditional Trade funding as well as Structured Trade solutions such as Receivables Finance and Supply Chain Finance.

During the year, the Bank was awarded the "Best International Islamic Bank (Global)" at the Euromoney Global Islamic Finance Awards 2023. This world's best award by Euromoney recognises our strength in several categories including cross-border transactions, supply-side financing and capital markets, as well as its strong suite of Shariah-compliant hedging instruments and its role as a Value-Based Intermediation practitioner and sustainability leader. In addition, the Bank was also awarded the "Islamic Bank of the Year (International)" by The Banker Islamic Banking Awards 2023.

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

Business Highlights during the Year 2023 (Cont'd)

In line with HSBC Group's ambition to "Transition to Net Zero by 2050", we continued to be the preferred partner for our customers, having successfully supported many of our clients on sukuk issuances and provided financing for sustainability and social projects. The Bank solidified its position as a leading bank in sustainability, by winning the "ESG Bank of the Year" from The Asset Islamic Finance Awards 2023 for the fourth year in a row.

More awards and recognitions are disclosed on page 23 under the Directors' Report section.

Outlook for 2024

Malaysia's Gross Domestic Product (GDP) growth expanded at a slower pace of 3.7% in 2023 (2022: 8,7%), mainly due to lower export. The weakness in trade is relatively broad-based as both commodity and electronics shipments are facing external challenges. However, despite trade weakness, the services sector still remains resilient where growth is seen in tourism-related and consumer-oriented sectors.

Looking into 2024, the outlook of global economy remains uncertain, with global economy soft landing scenario and China economy recovery remain to be seen. However, the Malaysian economy is expected to remain resilient, supported by domestic expenditure, inbound and outbound tourism and investment activities from continued progress of multi-year infrastructure projects. Measures under Budget 2024, Madani Economy framework, the New Industrial Master Plan 2030 (NIMP 2030), and the National Energy Transition Roadmap (NETR) that were rolled out by our government, along with promising Foreign Direct Investments, are expected to spur the economy, enhance the country's competitiveness, and facilitate sustainable growth in 2024 and beyond. On the monetary front, overnight policy rate has been kept steady by BNM at 3% since May 2023 and is expected to remain supportive of business growth.

2024 marks HSBC's 140th year anniversary in Malaysia. Since the opening of the Bank's first office in Penang in 1884, we have supported, and will continue to support, our customers and communities, growing and prospering together. And today, we remain deeply committed to the country and to our customers here.

Awards won during the financial year:

1. **Best International Islamic Bank (Global)** – Euromoney Global Islamic Finance Awards 2023
2. **Islamic Bank of the Year (International)** – The Banker Islamic Banking Awards 2023
3. **Innovation in Islamic ESG Award** – The Banker Islamic Banking Awards 2023
4. **Most Innovative Murabaha – HSBC (led by Middle East)** – The Banker Islamic Banking Awards 2023
5. **Most Innovative Bank in Malaysia** - IFN Best Banks Poll, Country
6. **UK Deal of the Year for Permodalan Nasional -** IFN Deals of the Year
7. **ESG Bank of the Year** – The Asset Islamic Finance Awards 2023 (4th consecutive year)
8. **Best Trade Finance Bank** – The Asset Islamic Finance Awards 2023 (6th consecutive year)
9. **Best Loan Adviser** - The Asset Islamic Finance Awards 2023
10. **Best Green Sukuk (ROI)** - The Asset Islamic Finance Awards 2023 (Best in Sustainable Finance)
11. **Best ASEAN Social SRI Sukuk (Cagamas)** - The Asset Islamic Finance Awards 2023 (Best in Sustainable Finance)
12. **Best Social Sukuk (MyEG)** - The Asset Islamic Finance Awards 2023 (Best in Sustainable Finance)
13. **Best Supply Chain Finance Solution (UEM Edgenta)** - The Asset Islamic Finance Awards 2023 (Best in Treasury in Trade)
14. **Best Social Sukuk (MyEG)** - The Asset Islamic Finance Awards 2023 (Best Deals by Country)
15. **Best ASEAN Social SRI Sukuk (Cagamas)** - The Asset Islamic Finance Awards 2023 (Best Deals by Country)
16. **Best Green Financing (Ikano Johor Jaya)** - The Asset Islamic Finance Awards 2023 (Best Deals by Country)
17. **Best Local Currency Sukuk (Point Zone (M)**) - The Asset Islamic Finance Awards 2023 (Best Deals by Country)
18. **Best Corporate Sukuk - Real Estate (Eco World Capital)** - The Asset Islamic Finance Awards 2023 (Best Deals by Country)
19. **Best Corporate Sukuk – Manufacturing (VS Capital Management)** - The Asset Islamic Finance Awards 2023 (Best Deals by Country)
20. **Best Islamic Cross Border Financing (PNB Battersea)** - The Asset Islamic Finance Awards 2023 (Best Deals by Country)
21. **Best Structured Product (Twin Win)** - The Asset Islamic Finance Awards 2023 (Best Deals by Country)
22. **Best Islamic Loan (OMSSB Group)** - The Asset Islamic Finance Awards 2023 (Best Deals by Country)
23. **Best Social Loan for Jayyid Land** - The Asset Triple A Country Awards for Sustainable Finance
24. **Lead Manager (Issue Count) Award** - MARC's Lead Manager's League Table Award

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.

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

…………………………………………………	…………………………………………
DATO' OMAR SIDDIQ BIN AMIN NOER RASHID	**NG ING PENG**
Director	Director

Kuala Lumpur, Malaysia
19 April 2024

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

In the opinion of the Directors:

We, Dato' Omar Siddiq Bin Amin Noer Rashid and Ng Ing Peng, 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 33 to 153 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2023 and financial performance of the Bank for the financial year ended 31 December 2023 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.

…………………………………………………	…………………………………………
DATO' OMAR SIDDIQ BIN AMIN NOER RASHID	**NG ING PENG**
Director	Director

Kuala Lumpur, Malaysia
19 April 2024

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

I, Loo Huai Cheng, 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 33 to 153 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 above-named at Kuala Lumpur, Malaysia on 19 April 2024.

……………………………………………...................

LOO HUAI CHENG
Chartered Accountant
Malaysian Institute of Accountants No: CA 39985

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.

Peace be upon you, with the Mercy and Blessings of God

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 2023:

1. We have conducted eleven (11) meetings for 2023. The attendance of the members at the Shariah Committee meetings is as follows:

Name of Member	**Designation**	**Attendance/No. of Meetings**
Assoc. Prof. Dr. Ziyaad Mahomed	Chairman	11/11
Dr. Aida binti Othman	Member	11/11
Dr. Mohamed Ashraf bin Mohamed Iqbal	Member	11/11
Dr. Muhammad Syahmi bin Mohd Karim	Member	11/11
Encik Aminuddin Abu Bakar	Member	10/11
Dato' Prof. Dr. Ahmad Hidayat bin Buang *(appointed on 14 Aug 2023)*	Member	5/5

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

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

4. We have reviewed the products, services, operations 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 2023 to ensure conformity with Shariah requirements.

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 based on the selected areas which have been agreed upon as part of the Annual Shariah Review and Shariah Audit Planning 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, Shariah Advisory Council of Securities Commission Malaysia and by us. Appropriate measures and mechanisms have been implemented to rectify and close the gaps.

7. In performing our duties, we have 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)

As members of the Shariah Committee of HSBC Amanah Malaysia Berhad, we hereby confirm that, to best of our knowledge and attention, 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 2023 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. call identified 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 2023 because its shareholder has no obligation to pay zakat.

We, the members of the Shariah Committee of HSBC Amanah Malaysia Berhad, hereby confirm that the operations of the Bank for the financial year ended 31 December 2023 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
Assoc. 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. Muhammad Syahmi bin Mohd Karim

…………………………………………….….

Member of the Shariah Committee
Encik Aminuddin Abu Bakar

…………………………………………….….

Member of the Shariah Committee
Dato' Prof. Dr. Ahmad Hidayat bin Buang

…………………………………………….….

Kuala Lumpur, Malaysia
19 April 2024

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 2023, 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 2023, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including material accounting policies, as set out on pages 33 to 153.

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.

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.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the 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	03085/07/2025 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur
19 April 2024

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	Note	**31 Dec 2023 RM'000**	31 Dec 2022 RM'000
Assets			
Cash and short-term funds	*6*	**3,552,662**	4,930,875
Reverse sell and buy back agreement		**117,102**	–
Deposits and placements with banks and other financial institutions	*7*	**200,000**	933,429
Financial investments at fair value through other comprehensive income (FVOCI)	*8*	**1,857,289**	1,442,649
Financial investments at amortised cost	*9*	**989,916**	454,124
Financing and advances	*10*	**14,021,211**	13,843,011
Derivative financial assets	*13*	**100,435**	158,316
Other assets	*14*	**126,176**	163,624
Statutory deposits with Bank Negara Malaysia	*15*	**242,261**	198,860
Equipment	*16*	**4,740**	6,769
Tax recoverable		**–**	7,104
Deferred tax assets	*18*	**39,848**	31,275
Total assets		**21,251,640**	22,170,036
Liabilities			
Deposits from customers	*19*	**13,943,576**	13,957,652
Deposits and placements from banks and other financial institutions	*20*	**1,474,999**	2,043,447
Structured liabilities designated at fair value through profit or loss (FVTPL)	*21*	**1,939,498**	2,102,483
Bills payable		**10,288**	19,641
Derivative financial liabilities	*13*	**158,083**	292,572
Other liabilities	*22*	**625,593**	507,115
Provision for taxation		**20,473**	–
Multi-Currency Sukuk Programme	*23*	**–**	504,771
Total liabilities		**18,172,510**	19,427,681
Equity			
Share capital and other equity	*24*	**1,161,063**	1,161,063
Reserves	*25*	**1,918,067**	1,581,292
Total equity attributable to owner of the Bank		**3,079,130**	2,742,355
Total liabilities and equity		**21,251,640**	22,170,036
Restricted investment accounts [1]		2,415,224	2,177,223
Total Islamic Banking asset [1]		23,666,864	24,347,259
Commitments and contingencies	*36*	**32,551,244**	31,348,580

[1] The disclosure is in accordance with the requirements of Bank Negara Malaysia's Guideline on Financial Reporting for Islamic Banking Institutions dated 29 April 2022.

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

STATEMENT OF PROFIT OR LOSS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

	Note	**31 Dec 2023 RM'000**	31 Dec 2022 RM'000
Income derived from investment of depositors' funds and others	*26*	**853,700**	684,773
Income derived from investment of shareholder's funds	*27*	**212,517**	157,677
Impairment write-back/(provision)	*28*	**30,014**	(21,604)
Total distributable income		**1,096,231**	820,846
Income attributable to depositors	*29*	**(355,285)**	(212,977)
Total net income		**740,946**	607,869
Operating expenses	*30*	**(278,747)**	(254,136)
Profit before tax		**462,199**	353,733
Tax expense	31	**(104,339)**	(112,575)
Profit for the financial year		**357,860**	241,158
Profit attributable to the owner of the Bank		**357,860**	241,158
Basic earnings per RM0.50 ordinary share		**357.9 sen**	241.2 sen
Dividends per RM0.50 ordinary share (net)			
- final dividend paid in respect of prior year		**–**	–

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

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Profit for the financial year	**357,860**	241,158
Other comprehensive income/(expense)		
Items that will not be reclassified to profit or loss		
Own credit reserve:		
Change in fair value	**821**	(3,866)
Income tax effect	**(197)**	928
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	**9,920**	(8,991)
Impairment write-back	**(25)**	(145)
Income tax effect	**(2,381)**	2,158
Other comprehensive income/(expense) for the financial year, net of income tax	**8,138**	(9,916)
Total comprehensive income for the financial year	**365,998**	231,242
Total comprehensive income attributable to the owner of the Bank	**365,998**	231,242

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

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

	Non-distributable						Distributable	
	Share capital	*Other equity instrument*	*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**	**RM'000**
2023								
Balance at 1 January	**660,000**	**501,063**	**(9,829)**	**(5,131)**	**491**	**73,800**	**1,521,961**	**2,742,355**
Profit for the financial year	–	–	–	–	–	–	**357,860**	**357,860**
Other comprehensive income, net of tax								
FVOCI reserve/Own Credit reserve								
Net change in fair value	–	–	**7,539**	**624**	–	–	–	**8,163**
Impairment write-back	–	–	**(25)**	–	–	–	–	**(25)**
Total other comprehensive income	–	–	***7,514***	***624***	–	–	–	***8,138***
Total comprehensive income for the financial year	–	–	**7,514**	**624**	–	–	**357,860**	**365,998**
Net change in regulatory reserves	–	–	–	–	–	**(38,000)**	**38,000**	–
Transactions with the owner, recorded directly in equity								
Share based payment transactions	–	–	–	–	**(114)**	–	–	**(114)**
Discretionary coupon on other equity instruments	–	–	–	–	–	–	**(29,109)**	**(29,109)**
Balance at 31 December	**660,000**	**501,063**	**(2,315)**	**(4,507)**	**377**	**35,800**	**1,888,712**	**3,079,130**

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

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023 (Cont'd)

	Non-distributable						Distributable	
	Share capital	*Other equity instrument*	*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**	**RM'000**
2022								
Balance at 1 January	660,000	–	(2,851)	(2,193)	511	46,800	1,307,774	2,010,041
Profit for the financial year	–	–	–	–	–	–	241,158	241,158
Other comprehensive income, net of tax								
FVOCI reserve/Own Credit reserve								
Net change in fair value	–	–	(6,833)	(2,938)	–	–	–	(9,771)
Impairment write-back	–	–	(145)	–	–	–	–	(145)
Total other comprehensive expense	–	–	*(6,978)*	*(2,938)*	–	–	–	*(9,916)*
Total comprehensive (expense)/income for the financial year	–	–	(6,978)	(2,938)	–	–	241,158	231,242
Net change in regulatory reserves	–	–	–	–	–	27,000	(27,000)	–
Transactions with the owner, recorded directly in equity								
Share based payment transactions	–	–	–	–	(20)	–	29	9
Other equity instrument issued	–	501,063	–	–	–	–	–	501,063
Balance at 31 December	660,000	501,063	(9,829)	(5,131)	491	73,800	1,521,961	2,742,355

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 2023

	31 Dec 2023	31 Dec 2022
	RM'000	RM'000
Cash flows from operating activities		
Profit before tax	**462,199**	353,733
Adjustments for:		
Equipment written off	**5**	72
Unrealised (gain)/loss from dealing in foreign currency	**(31,606)**	35,230
Unrealised loss from revaluation of financial assets at FVTPL	**–**	2
Unrealised (gain)/loss from trading in derivatives	**(50,063)**	97,654
Allowance for impairment losses	**33,944**	79,730
Share based payment transactions	**143**	66
Depreciation of equipment	**2,053**	2,195
Depreciation of right of use assets	**5,847**	6,074
Net expense/(income) on financial instruments FVTPL	**113,821**	(48,492)
Modification gain on financing and advances, net of unwinding	**(2,720)**	(3,283)
Operating profit before changes in operating assets and liabilities	**533,623**	522,981
(Increase)/Decrease in operating assets		
Reverse sell and buy back agreement	**(117,102)**	–
Deposits and placements with banks and other financial institutions	**733,407**	(933,438)
Financing and advances	**(210,046)**	(1,039,407)
Derivative financial assets	**139,550**	(198,344)
Other assets	**7,452**	(71,652)
Statutory deposits with Bank Negara Malaysia	**(43,401)**	(178,999)
Total decrease/(increase) in operating assets	**509,860**	(2,421,840)
Increase/(Decrease) in operating liabilities		
Deposits from customers	**(14,076)**	1,165,950
Deposits and placements from banks and other financial institutions	**(568,448)**	258,585
Structured liabilities designated at FVTPL	**(280,756)**	948,448
Bills payable	**(9,353)**	6,774
Derivative financial liabilities	**(134,489)**	224,957
Other liabilities	**139,605**	39,587
Total (decrease)/increase in operating liabilities	**(867,517)**	2,644,301
Cash generated from operating activities	**175,966**	745,442
Income tax paid	**(87,987)**	(85,263)
Net cash generated from operating activities	**87,979**	660,179

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

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023 (Cont'd)

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Cash flows from investing activities		
Purchase of financial investments at amortised cost	**(881,652)**	(453,853)
Purchase of financial investments at fair value through other comprehensive income	**(1,954,321)**	(51,056)
Proceeds from disposal of financial investments at fair value through other comprehensive income	**1,570,001**	828,473
Proceeds from disposal/redemption of financial investment at amortised cost	**350,000**	–
Purchase of equipment	**(653)**	(2,131)
Net cash (used in)/generated from investing activities	**(916,625)**	321,433
Cash flows from financing activities		
Redemption of Subordinated Commodity Murabahah Financing	**–**	(600,777)
Issuance of other equity instrument	**–**	501,063
Profits paid on Multi-Currency Sukuk Programme	**(20,458)**	(14,102)
Profit paid on Subordinated Commodity Murabahah Financing	**–**	(12,270)
Redemption of Multi-Currency Sukuk Programme	**(500,000)**	–
Discretionary coupon on other equity instruments	**(29,109)**	–
Net cash used in financing activities	**(549,567)**	(126,086)
Net (decrease)/increase in cash and cash equivalents	**(1,378,213)**	855,526
Cash and cash equivalents at beginning of the financial year	**4,930,875**	4,075,349
Cash and cash equivalents at end of the financial year	**3,552,662**	4,930,875
Analysis of cash and cash equivalents		
Cash and short-term funds	**3,552,662**	4,930,875

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

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023 (Cont'd)

Changes in liabilities arising from financing activities

	At 1 January RM'000	Cash outflow RM'000	Fair value movement RM'000	Profit accrual RM'000	At 31 December RM'000
2023					
Multi-Currency Sukuk Programme	**504,771**	**(500,000)**	**(4,771)**	**–**	**–**
Other Liabilities of which:					
Profit paid on Multi-Currency Sukuk Programme	**5,301**	**(20,458)**	**–**	**15,157**	**–**
	510,072	**(520,458)**	**(4,771)**	**15,157**	**–**
2022					
Multi-Currency Sukuk Programme	515,333	–	(10,562)	–	504,771
Subordinated Commodity Murabahah Financing	600,777	(600,777)	–	–	–
Other Liabilities of which:					
Profit paid on Multi-Currency Sukuk Programme	5,242	(14,102)	–	14,161	5,301
Profit paid on Subordinated Commodity Murabahah Financing	143	(12,270)	–	12,127	–
Other equity instrument	–	501,063	–	–	501,063
	1,121,495	(126,086)	(10,562)	26,288	1,011,135

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, Tun Razak Exchange, 55188 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 5 February 2024, any amendments made to the notes of the financial statement are in accordance with the delegated authority of the resolution of the Directors.

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 (IFRS), 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 and applicable to the Bank

The amendments to published standards that are effective and applicable to the Bank for the financial year beginning on 1 January 2023 are as follows:

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

- Amendments to MFRS 101, MFRS Practise Statement 2 'Disclosure of Accounting Policies' and MFRS108 'Definition of Accounting Estimates'

- Amendment to MFRS 112 on 'International Tax Reform-Pillar Two Model Rules'

  On 20 June 2023, legislation was substantively enacted in the UK, the jurisdiction of the Bank's ultimate parent entity, HSBC Holdings plc, to introduce the 'Pillar Two' global minimum tax model rules of the Organisation for Economic Co-operation and Development (OECD)'s Inclusive Framework on Base Erosion and Profit Shifting (BEPS), with effect from 1 January 2024. Additionally, in the Asia-Pacific region the governments of Australia, Hong Kong, Indonesia, Japan, Malaysia, Singapore and Vietnam, have announced their intention to introduce Pillar Two legislation and a Qualified Domestic Minimum Top-up Tax (QDMTT) from year 2024 or later years as may be prescribed. Malaysia has recently passed the regulation to implement the regulation effective year 2025.

  Under these rules, a top-up tax liability arises if the effective tax rate of the Bank's operations in a jurisdiction, calculated based on principles set out in the OECD's Pillar Two model rules, is below 15%. Any additional tax arising in relation to jurisdictions in which a QDMTT applies will be payable to the tax authority in that jurisdiction. Where there is no QDMTT, any resulting tax is payable by HSBC Holdings plc, being the Group's ultimate parent, to the UK tax authority.

  Based on the HSBC Group's forecasts, no material top-up tax liability is expected to arise in Malaysia, subject to ongoing evolution of rules and guidance in Malaysia and other jurisdictions.

The adoption of the above Amendments to MFRSs does not give rise to any material financial impact to the Bank.

(a) Statement of compliance (Cont'd)

(ii) Standards and amendments to published standards that are applicable to the Bank but not yet effective

The Bank will apply these standards and amendments to published standards from:

Financial year beginning on or after 1 January 2024

- Amendments to MFRS 16 'Lease Liability in a Sale and Leaseback'

  The amendments specify the measurement of the lease liability arises in a sale and leaseback transaction that satisfies the requirements in MFRS 15 'Revenue from Contracts with Customers' to be accounted for as a sale. In accordance with the amendments, the seller-lessee shall determine the 'lease payments' or 'revised lease payments' in a way that it does not result in the seller-lessee recognising any amount of the gain or loss that relates to the right of use it retains.

  The amendments shall be applied retrospectively to sale and leaseback transactions entered into after the date when the seller-lessee initially applied MFRS 16.

Financial year beginning on or after 1 January 2025

- Amendments to MFRS 121 on 'Lack of Exchangeability'

  Currency is exchangeable when an entity is able to exchange it into another currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism that creates enforceable rights and obligations. If an entity can only obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, then the currency is not exchangeable. In such cases, the entity is required to estimate the spot exchange rate at the measurement date.

  The amendments do not specify how an entity estimates the spot exchange rate, but permit an entity to use observable exchange rate without adjustment or another estimation technique, provided it could meet the objective for estimating the spot exchange rate set out in the amendments.

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

(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 at fair value through other comprehensive income (FVOCI)
- Derivatives financial instruments and hedge accounting
- Financial liabilities designated at fair value through profit or loss (FVTPL)

(c) Functional and presentation currency

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

2 Basis of Preparation (Cont'd)

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and estimates. The material 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 5). There are no other significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed above.

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

3 Material Accounting Policies

The accounting policies set out below have been applied consistently to the financial year 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*

Recognition of 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. 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 gross carrying amount of the financial asset or to the amortised cost of a financial 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 is recognised by applying the effective profit rate to the amortised cost (i.e. gross carrying amount of the asset less allowance for ECL).

The method of recognising the income and expenses is in compliance with Shariah rulings and principles.

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

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

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

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

(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;

(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)).

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.

3 Material Accounting Policies (Cont'd)

(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 statement of financial position 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 end of the reporting period. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Bank has a legal right to offset.

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

(e) Cash and cash equivalents

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

(f) Financial instruments

(i) Initial recognition and measurement

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

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

(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));
- financial instruments designated at fair value through profit or loss (FVTPL) (Note 3(i)).

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(i)).

(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 expired.

(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 5(b)(iii).

(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 where doing so reduces an accounting mismatch, 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 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.

(f) Financial instruments (Cont'd)

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

Hedge accounting (Cont'd)

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

  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 were reviewed in the second half of 2022. On 25 March 2022, Bank Negara Malaysia announced the launch of Malaysia Islamic Overnight Rate (MYOR-I) which replaced the the Kuala Lumpur Islamic Reference Rate (KLIRR), hence KLIRR was discontinued with immediate effect.

  The Bank does not have any hedging instruments as at 31 December 2023 and 31 December 2022.

(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.

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 financing 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(j). They are derecognised when either the customer 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.

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

(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) 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;
- 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;
- 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 Other Comprehensive Income(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 statement of financial position as 'Structured Liabilities Designated at Fair Value'. Please refer to Note 21.

(j) 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 recognised for ECL resulting from possible default events 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, an allowance (or provision) is recognised 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'.

(j) Impairment of amortised cost and FVOCI financial assets (Cont’d)

(i) Credit-impaired (stage 3)

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

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

- Qualitative criteria
  - there are other indications that the customer is unlikely to pay such as when a concession has been granted to the customer for economic or legal reasons relating to the customer’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 allowance for ECL.

(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) Forbearance

Financing are identified as forborne and classified as either performing or non-performing when we modify the contractual payment terms due to financial difficulty of the customer. Non-performing forborne financing are stage 3 and classified as non-performing until they meet the cure criteria, as specified by applicable credit risk policy (for example, when the financing is no longer in default and no other indicators of default have been present for at least 12 months). Any amount written off as a result of any modification of contractual terms upon entering forbearance would not be reversed.

Performing forborne financing are initially stage 2 and remain classified as forborne until they meet applicable cure criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the financing is either stage 1 or stage 2 as determined 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).

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

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

Financing and advances modifications that are not identified as forborne 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 customer-specific, for example market-wide customer relief programmes, generally do not result 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.

(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 customer, 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 financing, 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 the 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.

(j) 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 customer 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Material Accounting Policies (Cont'd)

(j) 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. In the case of non-performing forborne financing, such financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

(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 reporting 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.

(j) 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 are exposed to credit risk. However, where the financial instrument includes both 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 cash line-i 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 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. For wholesale cash line-i facilities, credit risk management actions are taken no less frequently than on an annual basis.

(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. In certain 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).

(k) 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 10 years
Computer equipment	4 to 5 years
Motor vehicles	5 years

Additions to equipment costing RM4,600 and below are expensed to profit or loss in the month of purchase. For assets costing more than RM4,600, 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.

(l) 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 have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment at similar terms and conditions.

The 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.

(m) 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 purchased software and internally generated software are between 3 and 5 years in general except for core banking applications with useful life of between 3 and 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.

(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) 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.

(p) 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 recognises 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 Material Accounting Policies (Cont'd)

(q) 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.

Fair value is determined using market prices or appropriate valuation models. 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.

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.

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.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

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

(r) 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.

(s) 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 financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk

(a) Introduction and overview

(i) Risk appetite

The Bank recognises the importance of a strong culture, which refers to shared attitudes, values, beliefs and standards that shape behaviours including those 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. Our risk appetite defines the level and types of risk that we are willing to take, while informing the financial planning process and guiding strategic decision making.

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

Financial position

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

Operating model

- We seek to generate returns in line with our risk appetite and strong risk management capability.
- We aim to deliver sustainable and diversified earnings and consistent returns for shareholders.

Business practice

- We have no appetite for deliberately or knowingly causing detriment to consumers, or incurring a breach of the letter or spirit of regulatory requirements.
- We have no appetite for inappropriate market conduct by any member of staff or by any group business.
- We are committed to managing the climate risks that have an impact on our financial position, and delivering on our net zero ambition.
- We consider and, where appropriate, mitigate reputational risk that may arise from our business activities and decisions.
- We monitor non-financial risk exposure against risk appetite, including exposure related to inadequate or failed internal processes, people and systems, or events that impact our customers or can lead to sub-optimal returns to shareholders, censure or reputational damage.

Enterprise-wide application

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

We define financial risk as the risk of a financial loss as a result of business activities. We actively take these types of risks to maximise shareholder value and profits. Non-financial risk is the risk to achieving the Bank's strategy or objectives as the result of 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 entities such as the Bank. It continues to evolve and expand its scope as part of its regular review process.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(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 regularly 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 ensure that we agree a suitable level of risk for our strategy. In this way, risk appetite informs financial planning process and helps senior management to allocate capital to business activities, services and products.

The RAS 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 any 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 help protect our 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. We also perform periodic risk assessments, including against strategies, to help ensure retention of key personnel for our continued effective operation.

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by the Bank's risk culture and values. This is outlined in our risk management framework, including the key principles and practices that we 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 and escalation process. It also supports a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities, with clear accountabilities. We actively review and enhance our risk management framework and our approach to managing risk, through our activities with regard to people and capabilities, governance, reporting and management information, credit risk management models and data.

(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	Our 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 Bank.
Roles and responsibilities	**Three lines of defence model**	Our 'three lines of defence' model defines roles and responsibilities for risk management. An independent Risk and Compliance function helps ensure the necessary balance in risk/return decisions.
Processes and tools	**Risk appetite**	The Bank has processes in place to identify, assess, monitor, manage and report risks to help ensure we remain within our risk appetite.
	Enterprise-wide risk management tools	
	Active risk management: identification/assessment, monitoring, management and reporting	
Internal controls	**Policies and procedures**	Policies and procedures define the minimum requirements for the controls required to manage our risks.
	Control activities	Operational and resilience risk management defines minimum standards and processes for managing operational risks and internal controls.
	Systems and infrastructure	The Bank has systems and processes that support the identification, capture and exchange of information to support risk management activities.

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Risk governance

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

The Chief Risk Officer, supported by members of 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-wide risk oversight responsibilities, through the RMM.

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, 'Our responsibilities'.

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

Our responsibilities

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 our risk management approach and processes are designed and operating effectively.

Risk and Compliance function

The Risk sub-functions, headed by the Chief Risk Officer, are 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 sub-functions cover all risks to our business. Forming part of the second line of defence, the Risk sub-functions are independent from the global businesses, including sales and trading functions, to provide challenge, appropriate oversight and balance in risk/return decisions.

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

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Our Responsibilities (Cont'd)

Risk and Compliance function (Cont'd)

We maintain adequate oversight of risks through our various specialist Risk Stewards and the collective accountability held by the Chief Risk Officer.

We have continued to strengthen the control environment and our approach to the management of non-financial risk, as set out in our risk management framework. 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 the 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 is a key part of our 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 the Bank's financial stability.

As well as undertaking regulatory-driven stress tests, the Bank conducts 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 to understand the nature and extent of vulnerabilities to which the Bank is exposed to and informed decisions about preferred capital or liquidity levels.

Separately, reverse stress tests are conducted by 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Our Responsibilities (Cont'd)

Key developments in 2023

We actively managed the risks related to macroeconomic and geopolitical uncertainties, as well as other key risks described in this section.

In addition, we sought to enhance our risk management in the following areas:

- We enhanced our management of concentration risk at country and single customer group levels in our existing frameworks to strengthen our control of risk tolerance and appetite.

- We enhanced our processes, framework and reporting capabilities have been enhanced to improve the control and oversight of our material third parties, and to help maintain our operational resilience and meet new and evolving regulatory requirements.

- We continued to make progress with our comprehensive regulatory reporting programme to strengthen our processes, improve consistency, and enhance controls across regulatory reports.

- We continued to leverage on the HSBC Group's climate risk programme, which drive the delivery of our enhanced climate risk management approach. The programme has continued to embed climate considerations throughout the HSBC Group, including through risk policy updates and the completion of an annual climate risk materiality assessment. HSBC Group has developed risk metrics to monitor and manage exposures, and further enhanced our internal climate scenario analysis.

- We deployed industry-leading technology and advanced analytics capabilities to improve our ability to identify suspicious activities and prevent financial crime.

- We continued to develop and enhance our electronic communication policies and standards, to help ensure we acted on our most substantive issues.

- We are embedding our suite of regulatory management systems following the HSBC Group-wide roll-out of regulatory horizon scanning capabilities and enhanced regulation mapping tooling.

- We implemented Net Profit Margin (NPM) stabilisation measures in view of changes in interest rate outlook, which were driven by central bank rate increases and a trajectory of inflation in major economies.

Emerging risks

The Bank uses an emerging risk reporting process to provide a forward looking view of issues that have the potential to threaten the execution of our strategy or operations over the medium to long term.

The Bank proactively assesses the internal and external risk environment, as well as reviews the themes identified across regions and global businesses, for any risks that may require global escalation. We update our emerging risk report as necessary.

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 emerging risks are as follows:
- Geopolitical risk
- Climate-related risk

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

(ii) Risk management (Cont’d)

Emerging risk (Cont’d)

Geopolitical risk

The Russia-Ukraine war continues to have far-reaching geopolitical and economic implications beyond those two countries borders. There is also uncertainty about the scope, duration and potential escalation of the Israel-Hamas war. HSBC Group is monitoring the impacts of these wars. Additionally, recent attacks on shipping in the Red Sea and resulting counter-measures have disrupted supply chains.

HSBC Group continues to respond to evolving economic sanctions and trade restrictions, in particular significant sanctions and trade restrictions imposed against Russia by the UK, the US and the EU, as well as other countries. Such sanctions and restrictions have targeted certain Russian government officials, politically exposed persons, business people, Russian oil imports, energy products, financial institutions, and other major Russian companies and sanctions evasion networks. There have also been put in place more generally applicable investment, export, and import bans and restrictions. In addition, US authorities have been granted significant and broad discretion to impose secondary sanctions on non-US banks engaged in certain transactions or services involving Russia’s military-industrial base. In response to such sanctions and trade restrictions, as well as asset flight, Russia has implemented certain countermeasures including the expropriation of foreign assets.

The US-China relationship remains complex. To date, the US, the UK, the EU and other countries have imposed various sanctions and trade restrictions on Chinese persons and companies and the countries’ respective approaches to strategic competition with China continue to develop. Although sanctions and trade restrictions are difficult to predict, increase in diplomatic tensions between China and the US and other countries could result in further sanctions and trade restrictions that could negatively impact HSBC group and its customers. For example, there is a risk of additional sanctions and trade restrictions being imposed by the US and other governments in relation to human rights, technology, and other issues which could create a more complex operating environment for HSBC group and its customers.

China has in turn announced a number of its own sanctions and trade restrictions that target, or provide authority to target, foreign individuals and companies. These, as well as law enforcement measures, have been imposed against certain Western consulting and data intelligence firms, defense companies, and public officials associated with the implementation of foreign sanctions against China.

Further sanctions, counter-sanctions, and trade restrictions across the markets in which the HSBC group operates may adversely affect the group and its customers by creating regulatory, reputational and market risks.

A fall in global energy prices from the highs of 2022 facilitated a sustained disinflation process across most key economies over the course of 2023. Global commodity markets were impacted by heightened geopolitical risks – including the Russia-Ukraine war and Israel-Hamas war – which fuelled concerns about supply disruptions, although weak economic activity in China and Europe dampened demand growth. As of January 2024, geopolitical turmoil in the Middle East has not led to a sustained increase in energy prices. The Israel-Hamas war has not disrupted energy supply, while producers not from the Organisation of the Petroleum Exporting Countries (OPEC), including the US, increase output through the fourth quarter of 2023.

The reduction in global inflation rates prompted developed market central banks to pause monetary policy tightening, from the third quarter of 2023. A decrease in inflation trend is now visible across most major economies and interest rates are forecast to fall through 2024, although they are expected to remain materially higher than in recent years.

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Emerging risk (Cont'd)

Geopolitical risk (Cont'd)

Budget deficits are set to remain large for many economies as governments try to meet a range of spending demands. Alongside this, higher bond yields will increase interest payment burdens for many counterparties. We continue to monitor our risk profile closely in the context of uncertainty over global macroeconomic policies.

Higher inflation and interest rates, alongside lower growth have had an impact on expected credit losses and other credit impairment charges (ECL). The pressure on real disposable income of households and business costs may have impacted the ability of our customers to repay debt.

Expanding data privacy, national security and cybersecurity laws in a number of markets could pose potential challenges to intra-group data sharing. These developments could increase financial institutions' compliance obligations in respect of cross-border transfers of personal information, which may affect our ability to manage financial crime risks from outside of Malaysia.

Mitigating actions

- We closely monitor geopolitical and economic developments in key markets and sectors, and undertake scenario analysis where appropriate. This helps us to take actions to manage our portfolios where necessary, including through enhanced monitoring, amending our risk appetite and/or reducing limits and exposures.
- We stress test portfolios of particular concern to identify sensitivity to loss under a range of scenarios, with management actions being taken to rebalance exposures and manage risk appetite where necessary.
- We regularly review key portfolios to help ensure that individual customer or portfolio risks are understood and that our ability to manage the level of facilities offered through any downturn is appropriate.
- We continue to manage sanctions and trade restrictions through the use of, testing and auditing of, and enhancements to, our existing controls.

Climate-related risks

Climate change can have an impact across HSBC's risk taxonomy through both transition and physical risks. 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. We are subject to financial and non-financial risks associated with climate risk which can impact us both directly and indirectly through our customers.

Our assessment of climate risks covers three distinct time periods, comprising: short term, which is up to 2025; medium term, which is between 2026 and 2035; and long term, which is between 2036 and 2050.

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Emerging risk (Cont'd)

Climate-related risks (Cont'd)

We are exposed to a number of risks resulting from climate change and the move to a net zero economy:

- We may face credit losses if our customers find that their business models fail to align to a net zero economy or face disruptions to their operations or deterioration to their assets as a result of extreme weather.
- We may face trading losses if we fail to accurately reflect the risks associated with climate risk within our trading book assets.
- We may face impacts from physical risk on our own operations, owing to the increase in frequency and severity of weather events and chronic shifts in weather patterns, which could affect our ability to conduct our day-to-day operations.
- We may face increased reputational, legal and regulatory risk if we fail to make sufficient progress towards our net zero ambition, or if we fail to meet evolving regulatory expectations or requirements on climate risk management.
- We may face additional risks if we knowingly or unknowingly make inaccurate, unclear, misleading, or unsubstantiated claims regarding sustainability to stakeholders.
- We may face financial reporting risk in relation to our climate disclosures, as any data, methodologies and standards we have used may evolve over time in line with market practice, regulation or owing to developments in climate science. We may also face the risk of making reporting errors due to data, system, process and control challenges. Any changes could result in revisions to our internal frameworks and reported data, and could mean that reported figures are not reconcilable or comparable year on year. We may also have to re-evaluate our progress towards climate-related targets in future and this could result in reputational, legal and regulatory risks.
- We may face climate related litigation risks, either directly if stakeholders feel we are not adequately managing climate risks or indirectly if our clients and customers are themselves the subject of litigation, potentially resulting in the revaluation of client assets.

Mitigating actions

- We aim to deepen our understanding of the drivers of climate risk. A dedicated Climate Risk Oversight Forum is responsible for shaping and overseeing our approach and providing support in managing climate risk within the Bank.
- HSBC Group's climate risk programme continues to support the development of our climate risk management capabilities across four key pillars: governance and risk appetite, risk management, stress testing and scenario analysis, and disclosures. We continue to enhance our approach and mitigation to the risk of greenwashing.
- HSBC Group published our updated energy policy covering the broader energy system including upstream oil and gas, oil and gas power generation, coal, hydrogen, renewables and hydropower, nuclear, biomass and energy from waste. We updated our thermal coal phase-out policy, in which we committed to not provide new finance or advisory services for the specific purposes of the conversion of existing coal-to-gas-fired power plants, or new metallurgical coal mines.

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Emerging risk (Cont'd)

Climate-related risks (Cont'd)

Mitigating actions (Cont'd)

- Climate stress tests and scenarios are planned for adoption in 2024 as per BNM's requirement to further improve our understanding of our risk exposures for use in risk management and business decision making.

- We continue to engage with our customers and regulators, investors proactively on the management of climate risks. HSBC Group also engages with initiatives, including the Climate Financial Risk Forum, Equator Principles, Taskforce on Climate-related Financial Disclosures and CDP (formerly the Carbon Disclosure Project) to help drive best practice for climate risk management.

(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
- treasury 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 financing, trade finance and leasing business, but also from other products, such as guarantees and credit derivatives.

(ii) Credit risk management framework

Key developments in 2023

Credit policies and practices were reviewed and optimised based on the strategy of the business and the emerging risk which is observe from the portfolio. The policies and practices remain guided by Group and Regional policies and are compliant to the requirement of Bank Negara Malaysia.

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 financing, 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.

(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 Risk Management, 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 financing 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 financing*
  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 financing*
  Retail financing credit quality is based on a 12-month point-in-time (PIT) probability-weighted PD.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(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 financing/ 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 financing	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)

Forborne financings and forbearance

Forbearance measures consist of concessions towards an obligor that is experiencing or is about to experience difficulties in meeting its financial commitments due to financial difficulties.

The Bank continues to classify financings as forborne when we modified the contractual payment terms due to significant concerns about the the customers' ability to meet contractual payments when they were due.

Our definition of forborne captures non-payment related concessions, such as covenant waivers.

For details of our policy on forborne financing, see Note 3(j)(iii) on the financial statements.

Credit quality of forborne financing

For wholesale financing, where payment-related forbearance measures result in a diminished financial obligation, or if there are other indicators of impairment, the financing will be classified as credit impaired if it is not already so classified. All facilities with a customer, including financings that have not been modified, are considered credit impaired following the identification of a payment-related forborne financing. For retail financing, where a material concession has been granted, the financing will be classified as credit impaired. In isolation, non-payment forbearance measures may not result in the financing being classified as credit impaired unless combined with other indicators of credit impairment. These are classed as performing forborne financings for both wholesale and retail financing.

Wholesale and retail forborne financings 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. Any forborne financing not considered credit impaired will remain forborne for a minimum of two years from the date that credit impairment no longer applies.

Forborne financings and recognition of expected credit losses

Forborne financing expected credit loss assessments reflect the higher rates of losses typically experienced with these types of financings such that they are in stage 2 and stage 3. The higher rates are more pronounced in unsecured retail financing requiring further segmentation. For wholesale financing, forborne 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 forborne financings.

Impairment assessment

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

(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(j)(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.

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 assessed the current economic environment, reviewed the latest economic forecasts and discussed key risks before selecting the economic scenarios and their weightings. Management judgemental adjustments are used where modelled ECL does not fully reflect the identified risks and related uncertainty, or to capture significant late breaking events.

At 31 December 2023, there was an overall reduction in management judgemental adjustments compared with 31 December 2022.

(b) Credit risk (Cont'd)

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

Methodology for developing forward looking economic scenarios

Four economic scenarios are used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Each scenario is updated with new forecasts and estimates each quarter.

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. Consensus upside and downside scenarios are created with reference to distributions for select markets that capture forecasters views of the entire range of outcomes. In the later years of the scenarios, projections revert to long-term consensus trend expectations. In the consensus outer scenarios, reversion to trend expectations is done mechanically with reference to historically observed quarterly changes in the values of macroeconomic variables. The fourth scenario, Downside 2, is designed to represent management's view of severe downside risks. It is a globally consistent narrative-driven scenario that explores more extreme economic outcomes than those captured by the consensus scenarios. In this scenario, variables do not, by design, revert to long-term trend expectations. They may instead explore alternative states of equilibrium, where economic activity moves permanently away from past trends.

The consensus Downside and the consensus Upside scenarios are each constructed to the consistent with a 10% probability. The Downside 2 is constructed with a 5% probability. The Central scenario is assigned the remaining 75% probability. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. However, management may depart from this probability-based scenario weighting approach when the economic outlook and forecasts are determined to be particularly uncertain and risks are elevated.

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

	2023				2022			
	Scenario				Scenario			
	Central (%)	**Upside (%)**	**Downside (%)**	**Downside 2 (%)**	Central (%)	Upside (%)	Downside (%)	Downside 2 (%)
GDP growth rate	**4.4**	**5.6**	**3.1**	**2.1**	4.4	5.6	3.1	2.6
Inflation	**2.3**	**2.1**	**2.3**	**2.4**	2.5	2.2	2.5	2.5
Unemployment rate	**3.4**	**3.3**	**3.5**	**4.8**	3.4	3.3	3.5	4.9
Property price growth	**2.8**	**3.7**	**1.8**	**-2.4**	2.3	3.3	1.2	-3.5
Short term profit rate	**3.2**	**3.1**	**2.8**	**2.2**	3.2	3.1	2.0	2.1
Probability	**75.0**	**10**	**10**	**5.0**	70.0	5.0	20.0	5.0

4 Risk (Cont'd)

(b) Credit risk (Cont'd)

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

Critical accounting estimates and judgements

The calculation of ECL under MFRS 9 involves significant judgements, assumptions and estimates, as set out in the Note 2(d). These included:

- the selection of weights to apply to the economic scenarios, given the rapidly changing economic conditions and the inherent uncertainty of the underlying forecast under each scenario;
- the selection of scenarios to consider given the changing nature of macroeconomic and geopolitical risks that the Bank and wider economy faces; and
- estimating the economic effects of those scenarios on ECL, particularly sector and portfolio specific risks and the uncertainty of default and recovery experience under all scenarios.

How economic scenarios are reflected in the calculation of ECL

Models are used to reflect economic scenarios on ECL estimates. Modelled assumptions and linkages based on historical information could not alone produce relevant information under the conditions experienced in 2023, and management judgemental adjustments were still required to support modelled outcomes.

HSBC Group has developed a globally consistent methodology for the application of forward economic guidance into the calculation of ECL for wholesale and retail credit risk.

For our wholesale portfolio, a global methodology is used for the estimation of the term structure of probability of default (PD) and loss given default (LGD). For PDs, we consider the correlation of forward economic guidance to default rates for a particular industry in a country. For LGD calculations, we consider the correlation of forward economic guidance to collateral values and realisation rates for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For impaired financings 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, we incorporate forward economic guidance proportionate to the probability-weighted outcome and the Central scenario outcome for non-stage 3 populations.

For our retail portfolios, the impact of economic scenarios on PD is modelled at a portfolio level. Historical relationships between observed default rates and macroeconomic variables are integrated into MFRS 9 ECL estimates by using economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of the underlying asset or assets. The impact on LGD is modelled for home financing portfolios by forecasting future financing-to-value (FTV) profiles for the remaining maturity of the asset by using national level forecasts of the house price index and applying the corresponding LGD expectation. These models are based largely on historical observations and correlations with default rates.

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. This includes refining model inputs and outputs and using adjustments to ECL based on management judgement and higher-level quantitative analysis for impacts that are difficult to model. The effect of management judgmental adjustments are considered for balances and ECL when determining whether or not a significant increase in credit risk has occurred and are attributed or allocated to a stage as appropriate. This is in accordance with the internal adjustments framework.

(b) Credit risk (Cont’d)

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

Management judgemental adjustments (Cont’d)

Management judgmental adjustments are reviewed under the governance process for MFRS 9. Review and challenge focuses on the rationale and quantum of the adjustments with further review by the second line of defence where significant. For some management judgemental adjustments, internal frameworks establish the conditions under which these adjustments should no longer be required and as such are considered as part of the governance process. This internal governance process allows management judgemental adjustments to be reviewed regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate. The drivers of management judgemental adjustments continue to evolve with the economic environment, and as new risks emerge.

Economic scenarios sensitivity analysis of ECL estimates

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

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the 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 financings and advances at the reporting date.

There is a particularly high degree of estimation uncertainty in numbers representing more severe 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. When compared with the performing portfolio, the defaulted obligors represent a significantly smaller portion of the wholesale exposures, even if accounting for the larger portion of the allowance for ECL.

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

Wholesale and retail sensitivity

The wholesale and retail sensitivity analysis is stated inclusive of management judgemental adjustments, as appropriate to each scenario. The results tables exclude small portfolios, and as such cannot be directly compared to retail and wholesale lending/financing presented in other credit risk tables. 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 relative with the consensus scenarios for the period end.

(b) Credit risk (Cont'd)

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

Wholesale analysis

MFRS 9 ECL sensitivity to future economic conditions [1]

ECL coverage of financial instruments subject to significant measurement uncertainty [2]	**31 Dec 2023**	31 Dec 2022
Reported ECL (RM'000)	**24,980**	22,706
Gross carrying value/nominal amount [3] (RM'000)	**22,517,392**	26,207,455
Reported ECL Coverage (%)	**0.11%**	0.09%
Coverage Ratios by Scenario (%)		
Consensus central scenario	**0.10%**	0.07%
Consensus upside scenario	**0.08%**	0.05%
Consensus downside scenario	**0.17%**	0.12%
Alternative (downside 2) scenario	**0.39%**	0.31%

[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 2023**	31 Dec 2022
Reported ECL (RM'000)	**248,558**	199,948
Drawn Amount (RM'000)	**5,646,820**	5,264,745
Reported ECL Coverage (%)	**4.40%**	3.80%
Coverage Ratios by Scenario (%)		
Consensus central scenario	**4.15%**	3.67%
Consensus upside scenario	**3.89%**	3.23%
Consensus downside scenario	**4.61%**	4.17%
Alternative (downside 2) scenario	**6.06%**	5.14%

[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.

(vi) Credit quality

Credit quality of financial instruments

The Bank assesses 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 financing businesses and the external ratings attributed by external agencies to debt securities, as shown in the table below on the following page.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(b) Credit risk (Cont'd)

(vi) Credit quality (Cont'd)

Distribution of financial assets by credit quality

(RM'000)	Gross Carrying Amount						ECL allowances	Carrying amount (net of impairment provision)
	Strong	Good	Satisfactory	Sub-standard	Credit Impaired	Total		
At 31 December 2023								
Cash and short-term funds	**3,552,671**	**–**	**–**	**–**	**–**	**3,552,671**	**(9)**	**3,552,662**
Reverse sell and buy back agreement	**–**	**–**	**117,102**	**–**	**–**	**117,102**	**–**	**117,102**
Deposits and placements with banks and other financial institutions	**200,000**	**–**	**–**	**–**	**–**	**200,000**	**–**	**200,000**
Financial assets at FVOCI	**1,857,399**	**–**	**–**	**–**	**–**	**1,857,399**	**(110)**	**1,857,289**
Financial investments at amortised cost	**890,149**	**100,000**	**–**	**–**	**–**	**990,149**	**(233)**	**989,916**
Financing and advances to customers held at amortised cost	**4,948,547**	**3,607,108**	**4,829,659**	**371,314**	**613,449**	**14,370,077**	**(348,866)**	**14,021,211**
of which:								
- retail	***1,736,265***	***1,517,562***	***1,966,700***	***187,613***	***514,788***	**5,922,928**	***(254,055)***	**5,668,873**
- corporate and commercial	***3,212,282***	***2,089,546***	***2,862,959***	***183,701***	***98,661***	**8,447,149**	***(94,811)***	**8,352,338**
Derivatives financial assets	**92,064**	**500**	**7,861**	**2**	**8**	**100,435**	**–**	**100,435**
Other financial assets	**90,324**	**–**	**–**	**–**	**–**	**90,324**	**–**	**90,324**
Irrevocable financing commitments and financial guarantees	**3,536,000**	**1,976,000**	**1,176,000**	**110,000**	**17,000**	**6,815,000**	**(4,000)**	**6,811,000**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(b) Credit risk (Cont'd)

(vi) Credit quality (Cont'd)

Distribution of financial assets by credit quality (Cont'd)

(RM'000)	Gross Carrying Amount						ECL allowances	Carrying amount (net of impairment provision)
	Strong	Good	Satisfactory	Sub-standard	Credit Impaired	Total		
At 31 December 2022								
Cash and short-term funds	4,928,768	2,118	–	–	–	4,930,886	(11)	4,930,875
Deposits and placements with banks and other financial institutions	933,429	–	–	–	–	933,429	–	933,429
Financial assets at FVOCI	1,442,783	–	–	–	–	1,442,783	(134)	1,442,649
Financial investments at amortised cost	454,126	–	–	–	–	454,126	(2)	454,124
Financing and advances to customers held at amortised cost	5,083,365	3,270,806	4,621,814	397,417	971,931	14,345,333	(502,322)	13,843,011
of which:								
- retail	*2,008,907*	*1,292,598*	*1,826,506*	*157,056*	*702,493*	5,987,560	*(258,117)*	5,729,443
- corporate and commercial	*3,074,458*	*1,978,208*	*2,795,308*	*240,361*	*269,438*	8,357,773	*(244,205)*	8,113,568
Derivatives financial assets	156,294	288	1,713	21	–	158,316	–	158,316
Other financial assets	128,850	–	–	–	–	128,850	–	128,850
Irrevocable financing commitments and financial guarantees	4,256,000	1,680,000	1,846,000	123,000	48,000	7,953,000	(8,000)	7,945,000

(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 customer is unlikely to pay, such as when a concession has been granted to the customer for economic or legal reasons relating to the customer'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 financing, 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, financing is made on the basis of the customer's capacity to repay, as opposed to placing primary reliance on credit risk mitigation. 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; home financing 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, such as 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 financing 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 that are 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 2023 are 52.9% (2022: 45.7%).

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.

As part of the risk management practices arising from derivatives activity, the Bank will enter into legally enforceable arrangements with its counterparties. The Bank will either (a) enter into a master agreement which (i) provides for a contractual framework within which dealing activity across a full range of OTC products is conducted, and (ii) contractually binds both parties to apply close-out netting across all outstanding transactions covered by the master agreement if either party defaults or another pre-agreed termination event occurs, or (b) specifically in respect of FX forward-i only, the Bank will enter into a master Wa'ad (undertaking) arrangement with its counterparties.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(b) Credit risk (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 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 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:

Description	(i) Gross amounts of recognised assets	(ii) Gross amounts offset in the statement of financial position	(iii) = (i) + (ii) Net amount of assets presented in the statement of financial position	(iv)a Gross amounts not offset in the statement of financial position: Financial instruments	(iv)b Gross amounts not offset in the statement of financial position: Cash collateral	(v) = (iii) - (iv) Net amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2023						
Bank						
Reverse sell and buy back agreement	**117,102**	**–**	**117,102**	**117,102**	**–**	**–**
Derivative financial assets	**100,435**	**–**	**100,435**	**–**	**–**	**100,435**
Derivative financial liabilities	**158,083**	**–**	**158,083**	**–**	**–**	**158,083**
2022						
Bank						
Derivative financial assets	158,316	–	158,316	–	–	158,316
Derivative financial liabilities	292,572	–	292,572	–	–	292,572

(c) Treasury risk

Overview

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk to our earnings or capital due to structural foreign exchange exposures and changes in market profit rates.

Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.

Approach and policy

The main objective in the management of treasury risk is to maintain appropriate levels of capital, liquidity, funding, foreign exchange and market risk to support business strategy, and meet regulatory and stress testing-related requirements. The approach to treasury management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital and liquidity base to support the risks inherent in our business and invest in accordance with our strategy, meeting regulatory requirements at all times. Our policy is underpinned by our risk management framework, our internal capital adequacy assessment process (ICAAP) and our internal liquidity adequacy assessment process (ILAAP). The risk framework incorporates a number of measures aligned to our assessment of risks for both internal and regulatory purposes.

Governance and structure

The Board approves the policy and risk appetite for capital risk, liquidity and funding risk, and profit rate risk in the banking book. It is supported and advised by the Risk Committee (RC).

The Asset, Liability and Capital Management (ALCM) sub-function manages capital, liquidity and funding risk on an on-going basis and provides support to the Asset and Liability Management Committee (ALCO), and is overseen by the Treasury Risk Management sub-function (TRM) and the Risk Management Meeting (RMM).

The ALCM sub-function also manages profit rate risk in the banking book, maintains the transfer pricing framework and informs the ALCO of the overall banking book profit rate exposure. Banking book profit rate positions may be transferred to be managed by the Markets Treasury business, within the market risk limits approved by the Board.

The Treasury Risk Management sub-function carries out independent review, challenge and assurance of the appropriateness of the risk management activities undertaken by ALCM and Markets Treasury. Internal Audit provides independent assurance that risk is managed effectively.

(c) Treasury risk (Cont'd)

(i) Capital Risk

Capital management

The Bank'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 ICAAP and annual capital plan which are approved by the Board. The ICAAP is an assessment of the Bank's capital position, outlining both regulatory and internal capital resources and requirements resulting from our business model, strategy, risk profile and management, performance and planning, risks to capital, and the implications of stress testing. The capital 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 (AT1) Capital. CET1 Capital includes ordinary share capital, retained earnings, reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. On 19 August 2022, the Bank has issued AT1 capital in the form of Wakalah Financing Facility which was fully subscribed by HSBC Bank Malaysia Berhad.

  From 1 January 2020 to 31 December 2023, the Bank's CET1 will also include a portion of the impairment allowances equal to 12-month 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 impairment allowances equal to 12-month and lifetime expected credit losses for non-credit impaired financing (commonly known as stage 1 and 2 provisions) and regulatory reserve. On 19 August 2022, the Bank has fully redeemed its Tier 2 subordinated commodity murabahah financing.

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.

(c) Treasury risk (Cont’d)

(i) Capital Risk (Cont’d)

Basel III

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

In 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.

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%.

(ii) Liquidity and funding risk

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 arises from mismatches in the timing of cash flows. Funding risk is the risk that the Bank cannot raise funding or can only do so at excessive cost.

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

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

(c) Treasury risk (Cont'd)

(ii) Liquidity and funding risk (Cont'd)

Framework

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. The Bank is required to meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through the ILAAP, which ensures there are robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day. The ILAAP informs the validation of risk tolerance and the setting of risk appetite. It also assesses the capability to manage liquidity and funding effectively. 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.

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;
- cumulative term funding maturity concentrations limit;
- liquidity metrics to monitor minimum requirement by currency;
- intra-day liquidity;
- the application of liquidity funds transfer pricing; and
- forward-looking funding assessments.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(c) Treasury risk (Cont'd)

(ii) Liquidity and funding risk (Cont'd)

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.

	Non-trading book							
31 December 2023	**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	3,552,662	–	–	–	–	–	–	3,552,662
Reverse sell and buy back agreement	–	–	117,102	–	–	–	–	117,102
Deposits and placements with banks and other financial institutions	–	200,000	–	–	–	–	–	200,000
Financial investments at FVOCI	–	66,479	1,790,810	–	–	–	–	1,857,289
Financial investments at amortised cost	–	–	210,326	779,590	–	–	–	989,916
Financing and advances	2,890,477	1,765,278	1,372,885	3,248,901	4,743,670	–	–	14,021,211
Derivative financial assets	–	–	–	–	–	–	100,435	100,435
Others [1]	59,595	810	7,748	23,399	3,869	310,679	6,925	413,025
Total assets	6,502,734	2,032,567	3,498,871	4,051,890	4,747,539	310,679	107,360	21,251,640
LIABILITIES AND EQUITY								
Deposits from customers	9,717,624	1,661,668	2,290,825	273,438	21	–	–	13,943,576
Deposits and placements from banks and other financial institutions	899,013	–	575,986	–	–	–	–	1,474,999
Structured liabilities designated as FVTPL	87,891	117,022	572,704	1,161,881	–	–	–	1,939,498
Bills payable	10,288	–	–	–	–	–	–	10,288
Derivative financial liabilities	–	–	–	–	–	–	158,083	158,083
Others[2]	151,367	14,451	36,640	9,833	–	433,775	–	646,066
Total liabilities	10,866,183	1,793,141	3,476,155	1,445,152	21	433,775	158,083	18,172,510
Equity	–	–	–	–	–	3,079,130	–	3,079,130
Total liabilities and equity	10,866,183	1,793,141	3,476,155	1,445,152	21	3,512,905	158,083	21,251,640
Net maturity mismatches	(4,363,449)	239,426	22,716	2,606,738	4,747,518	(3,202,226)	(50,723)	–
Commitments and contingencies	13,258,471	8,179,745	7,871,454	2,959,039	282,535	–	–	32,551,244

[1] Others comprises other assets, statutory deposits with Bank Negara Malaysia, equipment and deferred tax assets.
[2] Others comprises other liabilities and provision for taxation.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(c) Treasury risk (Cont'd)

(ii) Liquidity and funding risk (Cont'd)

Liquidity risk (Cont'd)

31 December 2022	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	4,930,875	–	–	–	–	–	–	4,930,875
Deposits and placements with banks and other financial institutions	–	833,430	99,999	–	–	–	–	933,429
Financial investments at FVOCI	–	–	972,713	469,936	–	–	–	1,442,649
Financial investments at amortised cost	–	–	225,659	228,465	–	–	–	454,124
Financing and advances	2,870,431	1,265,471	680,688	4,170,000	4,856,421	–	–	13,843,011
Derivative financial assets	–	–	–	–	–	–	158,316	158,316
Others[1]	106,773	1,437	8,065	19,869	7,362	262,853	1,273	407,632
Total assets	7,908,079	2,100,338	1,987,124	4,888,270	4,863,783	262,853	159,589	22,170,036
LIABILITIES AND EQUITY								
Deposits from customers	9,904,072	1,792,408	1,920,445	340,727	–	–	–	13,957,652
Deposits and placements from banks and other financial institutions	418,090	289,683	1,331,692	–	–	3,982	–	2,043,447
Structured liabilities designated as FVTPL	17,570	84,199	401,094	1,599,620	–	–	–	2,102,483
Bills payable	19,641	–	–	–	–	–	–	19,641
Multi-Currency Sukuk Programme	–	–	504,771	–	–	–	–	504,771
Derivative financial liabilities	–	–	–	–	–	–	292,572	292,572
Others[2]	217,042	10,799	28,715	12,599	–	237,960	–	507,115
Total liabilities	10,576,415	2,177,089	4,186,717	1,952,946	–	241,942	292,572	19,427,681
Equity	–	–	–	–	–	2,742,355	–	2,742,355
Total liabilities and equity	10,576,415	2,177,089	4,186,717	1,952,946	–	2,984,297	292,572	22,170,036
Net maturity mismatches	(2,668,336)	(76,751)	(2,199,593)	2,935,324	4,863,783	(2,721,444)	(132,983)	–
Commitments and contingencies	13,620,309	5,927,287	6,777,696	4,581,298	441,990	–	–	31,348,580

[1] Others comprises other assets, statutory deposits with Bank Negara Malaysia, equipment, tax recoverable and deferred tax assets.
[2] Others comprises other liabilities.

(c) Treasury risk (Cont'd)

(ii) Liquidity and funding risk (Cont'd)

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

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.

RM'000	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 to 5 years	Due after 5 years	Total
At 31 December 2023						
Non-derivative liabilities						
Deposits by customers	**6,414,354**	**5,013,434**	**2,346,576**	**314,902**	**–**	**14,089,266**
Deposits and placements from banks and other financial institutions	**–**	**907,440**	**597,585**	**–**	**–**	**1,505,025**
Structured liabilities designated at fair value through profit or loss (FVTPL)	**97,984**	**125,829**	**635,364**	**1,129,595**	**–**	**1,988,772**
Bills payable	**10,288**	**–**	**–**	**–**	**–**	**10,288**
Other liabilities	**227,098**	**47,203**	**37,349**	**58,491**	**235,042**	**605,183**
Financing and other credit-related commitments	**8,871,854**	**237,143**	**1,348,081**	**468,976**	**–**	**10,926,054**
Financial guarantees and similar contracts	**404,387**	**300,206**	**938,734**	**634,238**	**146,283**	**2,423,848**
	16,025,965	**6,631,255**	**5,903,689**	**2,606,202**	**381,325**	**31,548,436**
Derivative liabilities						
Gross settled derivatives						
- Inflow	**–**	**(5,882,093)**	**(2,236,111)**	**(56,375)**	**(3,226)**	**(8,177,805)**
- Outflow	**–**	**5,941,287**	**2,271,137**	**91,430**	**3,313**	**8,307,167**
Net settled derivatives	**–**	**1,134**	**3,798**	**510**	**–**	**5,442**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(c) Treasury risk (Cont'd)

(ii) Liquidity and funding risk (Cont'd)

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

RM'000	**On Demand**	**Due within 3 months**	**Due between 3 months to 12 months**	**Due between 1 to 5 years**	**Due after 5 years**	**Total**
At 31 December 2022						
Non-derivative liabilities						
Deposits by customers	6,359,436	5,293,663	1,965,233	384,570	–	14,002,902
Deposits and placements from banks and other financial institutions	4,080	1,212,838	842,358	–	–	2,059,276
Structured liabilities designated at fair value through profit or loss (FVTPL)	17,183	96,228	452,545	1,631,176	–	2,197,132
Bills payable	19,641	–	–	–	–	19,641
Multi-Currency Sukuk Programme	–	–	521,500	–	–	521,500
Other liabilities	194,427	45,602	52,354	59,208	114,385	465,976
Financing and other credit-related commitments	9,331,907	434,087	1,145,107	772,757	120,000	11,803,858
Financial guarantees and similar contracts	301,342	342,254	719,859	678,634	163,788	2,205,877
	16,228,016	7,424,672	5,698,956	3,526,345	398,173	33,276,162
Derivative liabilities						
Gross settled derivatives						
- Inflow	–	(6,153,073)	(1,465,804)	(135,547)	(16,197)	(7,770,621)
- Outflow	–	6,303,875	1,500,498	221,088	16,537	8,041,998
Net settled derivatives	–	1,268	5,476	3,916	–	10,660

(c) Treasury risk (Cont'd)

(iii) Profit Rate Risk in the Banking Book

Assessment and risk appetite

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 aims 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 early prepayment of fixed-rate financings. 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.

(c) Treasury risk (Cont'd)

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

Sensitivity of projected net finance income

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

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

	RM'000			
	31 Dec 23		31 Dec 22	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**42,992**	**(44,006)**	6,038	(7,000)
USD	**1,811**	**(2,023)**	17,966	(17,947)
Others	**2,720**	**(2,703)**	7,074	(7,056)
	47,523	**(48,732)**	31,078	(32,003)

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 23		31 Dec 22	
Basis point parallel shift in yield curve	***+200bps***	***-200bps***	*+200bps*	*-200bps*
RM	**(75,658)**	**84,488**	(42,339)	50,566
USD	**(988)**	**1,466**	(1,807)	2,671
Others	**2,149**	**(1,936)**	900	(416)
	(74,497)	**84,018**	(43,246)	52,821

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 to parallel movements of plus or minus 100 basis points in all yield curves.

	RM'000			
	31 Dec 23		31 Dec 22	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(8,122)**	**8,122**	(12,959)	12,959

(c) Treasury risk (Cont'd)

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 2023	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	3,452,888	–	–	–	–	99,783	–	3,552,671	3.50
- impairment allowances	–	–	–	–	–	(9)	–	(9)	–
Reverse sell and buy back agreement	–	–	117,102	–	–	–	–	117,102	5.91
Deposits and placements with banks and other financial institutions	–	200,000	–	–	–	–	–	200,000	3.59
Financial investments at FVOCI	–	66,479	1,790,920	–	–	–	–	1,857,399	2.82
- impairment allowances	–	–	–	–	–	(110)	–	(110)	–
Financial investments at amortised cost	–	–	210,326	779,823	–	–	–	990,149	3.62
- impairment allowances	–	–	–	–	–	(233)	–	(233)	–
Financing and advances									
- performing	4,224,957	8,131,577	707,345	579,676	113,073	–	–	13,756,628	5.56
- impaired	–	–	–	–	–	613,449	–	613,449	–
- impairment allowances	–	–	–	–	–	(348,866)	–	(348,866)	–
Derivative financial assets	–	–	–	–	–	–	100,435	100,435	–
Other assets	–	–	–	–	–	83,399	6,925	90,324	–
Total financial assets	7,677,845	8,398,056	2,825,693	1,359,499	113,073	447,413	107,360	20,928,939	
LIABILITIES									
Deposits from customers	8,729,436	1,661,668	2,290,825	273,438	21	988,188	–	13,943,576	2.26
Deposits and placements from banks and other financial institutions	899,013	–	575,986	–	–	–	–	1,474,999	3.75
Structured liabilities designated as FVTPL	87,891	117,022	572,704	1,161,881	–	–	–	1,939,498	1.01
Bills payable	–	–	–	–	–	10,288	–	10,288	–
Derivative financial liabilities	–	–	–	–	–	–	158,083	158,083	–
Other liabilities									
- provision for credit commitments	–	–	–	–	–	32,485	–	32,485	–
- others	–	–	–	–	–	277,769	–	277,769	–
Total financial liabilities	9,716,340	1,778,690	3,439,515	1,435,319	21	1,308,730	158,083	17,836,698	
Total profit sensitivity gap	(2,038,495)	6,619,366	(613,822)	(75,820)	113,052	(861,317)	(50,723)	3,092,241	

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(c) Treasury risk (Cont'd)

(iii) Profit Rate Risk (Cont'd)

31 December 2022	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	>1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	4,756,336	–	–	–	–	174,550	–	4,930,886	2.11
- impairment allowances	–	–	–	–	–	(11)	–	(11)	–
Deposits and placements with banks and other financial institutions	–	833,430	99,999	–	–	–	–	933,429	2.15
Financial investments at FVOCI	–	–	972,713	470,070	–	–	–	1,442,783	2.32
- impairment allowances	–	–	–	–	–	(134)	–	(134)	–
Financial investments at amortised cost	–	–	225,659	228,467	–	–	–	454,126	3.32
- impairment allowances	–	–	–	–	–	(2)	–	(2)	–
Financing and advances									
- performing	3,768,108	8,350,128	465,164	676,853	113,149	–	–	13,373,402	4.37
- impaired	–	–	–	–	–	971,931	–	971,931	–
- impairment allowances	–	–	–	–	–	(502,322)	–	(502,322)	–
Derivative financial assets	–	–	–	–	–	–	158,316	158,316	–
Other assets	–	–	–	–	–	127,577	1,273	128,850	–
Total financial assets	8,524,444	9,183,558	1,763,535	1,375,390	113,149	771,589	159,589	21,891,254	
LIABILITIES									
Deposits from customers	8,745,820	1,792,408	1,920,445	340,727	–	1,158,252	–	13,957,652	1.38
Deposits and placements from banks and other financial institutions	917,992	289,683	831,692	–	–	4,080	–	2,043,447	1.71
Structured liabilities designated as FVTPL	17,570	84,199	401,094	1,599,620	–	–	–	2,102,483	1.46
Bills payable	–	–	–	–	–	19,641	–	19,641	–
Multi-Currency Sukuk Programme	–	–	504,771	–	–	–	–	504,771	2.78
Derivative financial liabilities	–	–	–	–	–	–	292,572	292,572	–
Other liabilities									
- provision for credit commitments	–	–	–	–	–	33,017	–	33,017	–
- others	–	–	–	–	–	316,153	–	316,153	–
Total financial liabilities	9,681,382	2,166,290	3,658,002	1,940,347	–	1,531,143	292,572	19,269,736	
Total profit sensitivity gap	(1,156,938)	7,017,268	(1,894,467)	(564,957)	113,149	(759,554)	(132,983)	2,621,518	

(d) Market risk

(i) Overview

Market risk is the risk of adverse financial impact on trading activities arising from changes in market parameters such as profit rates, foreign exchange rates, asset prices, volatilities, correlations and credit spreads.

(ii) Market risk management

Key developments in 2023

There were no material changes to our policies and practices for the management of market risk in 2023.

Governance and structure

The following diagram summarises the main business areas where trading market risks reside, and the market risk measures used to monitor and limit exposures.

Risk types	**Trading risk** • Foreign exchange and commodities • Profit rates • Credit spreads • Equities
Global business	Global Banking and Markets (GBM)
Risk measure	Value at Risk (VaR) | Sensitivity | Stress Testing

The objective of our risk management policies and measurement techniques is to manage and control market risk exposures to optimise return on risk while maintaining a market profile consistent with our established risk appetite.

Market risk is managed and controlled through limits approved by the Bank's Board of Directors and Senior Management. These limits are allocated across business lines and legal entities. 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 Bank is required to assess the market risks arising in its business and to transfer them either to its Markets and Securities Services or Markets Treasury for management, or to separate books managed under the supervision of ALCO. The Traded Risk function enforces the controls around trading in permissible instruments approved for each site as well as changes that follow completion of the new product approval process. Traded Risk also restricts trading in the more complex derivatives products to entities with appropriate levels of product expertise and robust control systems.

Key risk management processes

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 analysis, VaR and stress testing.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(d) Market risk (Cont'd)

(ii) Market risk management (Cont'd)

Key risk management processes (Cont'd)

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios including profit rates, foreign exchange rates, credit spreads and equity prices. We use sensitivity measures to monitor the market risk positions within each risk type. Granular sensitivity limits are set 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 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 we capitalise them. Where we do not calculate VaR explicitly, we use alternative tools as summarised in the Stress Testing section below.

Our models are predominantly based on historical simulation that incorporates the following features:

- historical market rates and prices, which are calculated with reference to foreign exchange rates, 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
- calculations to a 99% confidence level and using 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 2023**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**13**	**20**	**76**	**5**
Profit rate risk	**542**	**605**	**1,881**	**375**
Equity risk	**1**	**9**	**315**	**1**
Credit spread risk	**–**	**–**	**68**	**–**
Overall	**544**	**604**	**1,881**	**364**

RM'000	At 31 December 2022	Average	Maximum	Minimum
Foreign currency risk	14	21	86	5
Profit rate risk	619	554	1,396	173
Equity risk	1	–	19	–
Credit spread risk	–	–	8	–
Overall	625	556	1,391	185

(d) Market risk (Cont’d)

(ii) Market risk management (Cont’d)

Value at risk (VaR) (Cont’d)

VaR model limitations

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. As the model is calibrated on the last 500 business days, it does not adjust instantaneously to a change in the market regime.
- the use of a one-day holding period for risk management purposes of trading books assumes that this short period is sufficient to hedge or liquidate all positions.
- the use of a 99% 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.

Risk not in VaR framework

The risks not in VaR (RNIV) framework captures material market risks that are not adequately covered in the VaR model.

Risk factors are reviewed on a regular basis and are either incorporated directly in the VaR models where possible, or quantified through either the VaR-based RNIV approach or a stress test approach within the RNIV framework. While VaR-based RNIVs are calculated by using historical scenarios, stress-type RNIVs are estimated on the basis of stress scenarios whose severity is calibrated to be in line with the capital adequacy requirements. The outcome of the VaR-based RNIV approach is included in the overall VaR calculation but excluded from the VaR measure used for the HSBC Group’s regulatory back-testing. In addition, the stressed VaR measure also includes risk factors considered in the VaR-based RNIV approach.

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. A set of scenarios is used consistently across all regions within the HSBC Group. The risk appetite around potential stress losses for the Bank is set and monitored against a referral limit.

Market risk reverse stress tests are designed to identify vulnerabilities in our portfolios by looking for scenarios that lead to loss levels considered severe for the relevant portfolio. These scenarios may be local or idiosyncratic in nature, and complement the systematic top-down stress testing.

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

(d) Market risk (Cont’d)

(ii) Market risk management (Cont’d)

Trading portfolios

Trading portfolios comprise positions held for client servicing and market-making, with the intention of short-term resale and/or to hedge risks resulting from such positions.

Back-testing

The accuracy of VaR models are routinely validated by back-testing the VaR metric against both actual and hypothetical profit and loss. Hypothetical profit and loss excludes non-modelled items such as fees, commissions and revenue of intra-day transactions. The hypothetical profit and loss reflects the profit and loss that would be realised if positions were held constant from the end of one trading day to the end of the next. This measure of profit and loss does not align with how risk is dynamically hedged, and is not therefore necessary indicative of the actual performance of the business.

The number of hypothetical loss back-testing exceptions, together with a number of other indicators, are used to assess model performance and to consider whether enhanced internal monitoring of a VaR model is required.

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 23		31 Dec 22	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after tax	**219**	**(219)**	17	(17)

Change in foreign exchange rate has no significant impact to other comprehensive income for the financial year ended 31 December 2023 and 31 December 2022.

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.

(e) Resilience risk

(i) Overview

Resilience risk is the risk of sustained and significant business disruption from execution, delivery, physical security or safety events, causing the inability to provide critical services to our customers, affiliates, and counterparties.

(ii) Resilience risk management

Key developments in 2023

The Operational and Resilience Risk sub-function provides robust Risk Steward oversight of the management of resilience risk for the businesses, functions and legal entities. This includes effective and timely independent challenge and expert advice. During the year, we carried out a number of initiatives to keep pace with regulatory, technology changes and to strengthen the management of resilience risk:

- We focused on enhancing our understanding of our risk and control environment, by updating our risk taxonomy and control libraries, and refreshing risk and control assessments.
- We provided analysis and reporting of non-financial risks providing easy-to-access risk and control information and metrics that enable management to focus on non-financial risk in their decision-making and appetite setting.
- We further strengthened our non-financial risk governance and improved our coverage and Risk Steward Oversight for various sub-risks within resilience risk.
- We prioritise our efforts on material risks and areas undergoing strategic growth, aligning our location strategy to this need.

Governance and structure

The Operational and Resilience Risk target operating model provides a globally consistent view across resilience risks, strengthening our risk management oversight while operating effectively as part of a simplified non-financial risk structure. We view resilience risk across seven sub-risk types related to: third party risk; technology and cyber security risk; transaction processing risk; business interruption and incident risk; data risk; change execution risk; and facilities availability, safety and security risk.

Risk appetite for Operational Risk and key escalations for resilience risk are reported to the Country Risk Management Meeting, chaired by the Country Chief Risk Officer.

Key risk management processes

Operational resilience is our ability to anticipate, prevent, adapt, respond to, recover and learn from operational disruption while minimising customer and market impact. Resilience is determined by assessing whether we are able to continue to provide our most important services, within an agreed level. This is achieved via day-to-day oversight, periodic and ongoing assurance, such as controls monitoring reviews, which may result in challenges being raised to the business & functions by Risk Stewards. Further challenge is also raised in the form of Risk Steward opinion papers to formal governance.

(f) Regulatory compliance risk

(i) Overview

Regulatory compliance risk is the risk associated with breaching our duty to clients and other counterparties, inappropriate market conduct and breaching related financial services regulatory standards. Regulatory compliance risk arises from the failure to observe relevant laws, codes, rules and regulations and can manifest itself in poor market or customer outcomes and lead to fines, penalties and reputational damage to our business.

(ii) Regulatory compliance risk management

Key developments in 2023

The dedicated programme to embedding our updated purpose-led Conduct Approach has concluded. Work to map applicable regulations to our risks and controls continued in 2023 alongside adoption of new tooling to support enterprise-wide horizon scanning for new regulatory obligations and manage our regulatory reporting inventories. Climate risk has been integrated into regulatory compliance policies and processes, with enhancements made to the product governance framework and controls in order to ensure the effective consideration of climate - and in particular greenwashing - risks.

Governance and structure

The Country Chief Compliance Officer reports to the ASP Chief Compliance Officer and the Country CEO at an entity level. They attend the RMM and the Risk Committee. The Country Regulatory Conduct and Country Financial Crime capabilities both continue to work closely with the Country Chief Compliance Officer and their respective teams to identify and manage regulatory and financial crime compliance risks in the country. They also work together, and with all relevant stakeholders, to ensure we achieve good conduct outcomes and provide enterprise-wide support on the Compliance risk agenda in close collaboration with the Risk function.

Key risk management processes

The Global Regulatory Compliance capability is responsible for setting global policies, standards and risk appetite to guide the HSBC Group's management of regulatory compliance risk. It also devises the required frameworks, support processes and tooling to protect against regulatory compliance risks. The HSBC Group capability provides oversight, review and challenge to the local Chief Compliance Officers and their teams to help them identify, assess and mitigate regulatory compliance risks, where required. The HSBC Group's regulatory compliance risk policies are regularly reviewed. In Malaysia, Regulatory Conduct similarly provides oversight, review and challenge to the Country Chief Compliance Officer and their teams.

Global policies and procedures require the prompt identification and escalation of any actual or potential regulatory breaches, and relevant events and issues are escalated to the RMM and the Risk Committee meeting, as appropriate.

(g) Financial crime risk

(i) Overview

Financial crime risk is the risk that HSBC's products and services will be exploited for criminal activity. This includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing. Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.

(ii) Financial crime risk management

Key developments in 2023

We regularly review the effectiveness of our financial crime risk management framework, which includes continued consideration of the complex and dynamic nature of sanctions compliance and export control risk. We continued to respond to the economic sanctions and trade restrictions that have been imposed on Russia, including methods used to limit sanctions evasion, following its invasion of Ukraine.

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

- We successfully introduced the required changes to our transaction screening capability to accommodate the global change to payment systems formatting under ISO 20022 requirement.

- We made enhancements in response to the rapidly evolving and complex global payments landscape and refined our digital assets and currencies strategy.

In addition, we commenced work to deploy our intelligence-led, dynamic risk assessment capability for customer account monitoring.

Governance and structure

The structure of the Financial Crime sub-function remained substantively unchanged in 2023, although we continued to review the effectiveness of our governance framework to manage financial crime risk. The HSBC Group Head of Financial Crime and HSBC Group Money Laundering Reporting Officer continues to report to the HSBC Group Chief Compliance Officer, while the HSBC Group Risk Committee retains oversight of matters relating to fraud, bribery and corruption, tax evasion, sanctions and export control breaches, money laundering, terrorist financing and proliferation financing.

The Country Chief Compliance Officer reports to the ASP Chief Compliance Officer and the Country CEO at an entity level. The Country Financial Crime capabilities continue to work closely with the Country Chief Compliance Officer and their respective teams to identify and manage financial crime compliance risks in the country.

Key risk management processes

We will not tolerate knowingly conducting business with individuals or entities believed to be engaged in criminal activity. We require everybody in HSBC to play their role in maintaining effective systems and controls to prevent and detect financial crime. Where we believe we have identified suspected criminal activity or vulnerabilities in our control framework, we will take appropriate mitigating action.

We manage financial crime risk because it is the right thing to do to protect our customers, shareholders, staff, the communities in which we operate, as well as the integrity of the financial system on which we all rely. We operate in a highly regulated industry in which these same policy goals are codified in laws and regulations. We are committed to complying with the law and regulation of all the markets in which we operate and applying a consistently high financial crime standard globally.

(g) Financial crime risk (Cont'd)

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

Key risk management processes (Cont'd)

We continue to assess the effectiveness of our 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, improved our investigative and monitoring capabilities through technology deployments, as well as developed 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 and we participate in numerous public-private partnerships and information sharing initiatives around the world. In 2023, our focus remained on measures to improve the overall effectiveness of the global financial crime framework, notably by providing input into legislative and regulatory reform activities. We did this by contributing to the development of responses to consultation papers focused on how financial crime risk management frameworks can deliver more effective outcomes in detecting and deterring criminal activity, including tackling evolving criminal behaviour such as fraud. Through our work with the Wolfsberg Group and the Institute of International Finance, we supported the efforts of the global standard setter, the Financial Action Task Force, on the use of technology and data pooling to advance information sharing, as well as their work to strengthen beneficial ownership standards. In addition, we participated in a number of public events related to tackling forestry crimes, wildlife trafficking and human trafficking. Locally, the Bank participates in activities as led by the Regulator and Law Enforcement Agencies to deter and thwart scam & fraud attacks on customers.

(h) Model risk

(i) Overview

Model risk is the risk of inappropriate or incorrect business decisions arising from models that have been inadequately designed, implemented or used, or that models do not perform in line with expectations and predictions.

(ii) Key developments in 2023

In 2023, the Bank continued to make improvements in our model risk management processes cognisant of regulatory changes at HSBC Group and HBAP level in model requirements.

Initiatives during the year included:

- Made changes to the Value at Risk (VaR) model in response to the interest rate changes by our central bank to curb inflationary pressures.
- Following the changes to address gaps in the control framework that emerged as a result of increases in adjustments and overlays during the Covid-19 pandemic; the dependency on adjustments and overlays being applied to model outputs has reduced significantly as global economies have stabilised.
- Enhanced our frameworks and controls as more Climate Risk and Artificial Intelligence (AI) and Machine Learning (ML) models are being embedded in business processes. Focus also on Generative AI due to the pace of technological changes where applicable model risks need to be managed.
- Continued to carry out regular review on model inventory completeness and accuracy, and increased awareness of model landscape and model limitations across the business lines in-country.
- Conducted model risk refresher session across the Bank to strengthen the business ownership and management of model risk and the connection between model risk holders and model developing areas.

(iii) Governance

The HBAP Model Risk Committee (MRC) provides oversight of models used in HBAP (including the Bank in Malaysia) and focuses on local delivery and requirements. The Committee is chaired by the HSBC Group's Chief Risk Officer and the Regional Heads of Businesses, senior executives from Risk, Finance and Compliance 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.

(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 and the group Risk Committee on a regular basis through the use of the risk map, risk appetite 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

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 were due to be replaced under Phase 2 as at 31 December 2022. All exposures to IBOR benchmarks have been replaced in 2023. Amounts disclosed for 31 December 2022 were 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.

	31 December 2022	
	Carrying value	Of which: Have yet to transition to an alternative benchmark profit rate
		USD LIBOR
	RM'000	RM'000
Assets		
Financing and Advances (Note 10)	13,843,011	568,420
Derivative		
Notional contract amount (Note 13)	17,338,845	–

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements

The results of the Bank are sensitive to the accounting policies, assumptions and estimates that underline the preparation of its financial statements. The material 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(j). 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 cash line-i 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

(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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

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

	Level 1	Level 2	Level 3	Total
2023	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial investments at FVOCI (Note 8)	**471,182**	**1,386,107**	**–**	**1,857,289**
Derivative financial assets (Note 13)	**2,840**	**97,434**	**161**	**100,435**
	474,022	**1,483,541**	**161**	**1,957,724**
Structured liabilities designated at FVTPL (Note 21)	**–**	**781,001**	**1,158,497**	**1,939,498**
Derivative financial liabilities (Note 13)	**1,293**	**124,863**	**31,927**	**158,083**
	1,293	**905,864**	**1,190,424**	**2,097,581**
2022				
Financial investments at FVOCI (Note 8)	1,442,649	–	–	1,442,649
Derivative financial assets (Note 13)	572	154,675	3,069	158,316
	1,443,221	154,675	3,069	1,600,965
Structured liabilities designated at FVTPL (Note 21)	–	933,138	1,169,345	2,102,483
Derivative financial liabilities (Note 13)	849	265,666	26,057	292,572
Multi-Currency Sukuk Programme (Note 23)	–	504,771	–	504,771
	849	1,703,575	1,195,402	2,899,826

(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

  These are 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

  These are 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

  These are 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 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, recorded in other comprehensive income, reverse over the contractual life of the debt, provided that the debt is not paid at a premium or a discount.

5 Use of estimates and judgements (Cont'd)

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

(iv) Fair value adjustments

We adopt the use of fair value adjustments when we take into consideration additional factors not incorporated within the valuation model that would otherwise be considered by a market participant. We classify fair value adjustments as either 'risk-related' or 'model related'. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

<u>Bid-offer</u>

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

<u>Uncertainty</u>

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

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

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

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

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

The Bank calculates the CVA by applying the 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'. Wrong way risk is an adverse correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. The risk can either be general, perhaps related to the currency of the issuer country, or specific to the transaction concerned. 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:

	2023			2022		
	Derivative financial assets	**Derivative financial liabilities**	**Structured liabilities**	Derivative financial assets	Derivative financial liabilities	Structured liabilities
RM'000						
Balance at 1 January	**3,069**	**26,057**	**1,169,345**	20,841	3,968	795,691
Total gains or losses						
- In profit or loss	**(2,908)** [1]	**(8,642)** [2]	**27,099** [1]	(17,772) [1]	30,125 [1]	(36,909) [2]
- in OCI	**–**	**–**	**9,643** [1]	–	–	4,975 [1]
Issues	**–**	**–**	**269,886**	–	–	698,689
Settlements	**–**	**–**	**(420,460)**	–	–	(256,713)
Transfer into Level 3	**–**	**14,512**	**108,840**	–	–	–
Transfer out of Level 3	**–**	**–**	**(5,856)**	–	(8,036)	(36,388)
Balance at 31 December	**161**	**31,927**	**1,158,497**	3,069	26,057	1,169,345

[1] Denotes losses in the Profit or Loss or OCI
[2] Denotes gains 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. Transfers into and out of levels of the fair value hierarchy are primarily attributable to changes in observability of valuation inputs and price transparency.

For structured liabilities, realised and unrealised gains and losses are presented in profit or loss under 'Net Income from Financial Liabilities designated at Fair Value '.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

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

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

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

2023 **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	**(2,975)[1]**	**(4,018)[2]**	**18,048[1]**
Total gains or losses included in profit or loss for assets and liabilities held at the end of the financial year			
- Net trading income	**67[2]**	**(4,624)[2]**	**9,052[1]**
2022 RM'000			
Total gains or losses included in profit or loss for the financial year ended:			
- Net trading income	(5,472)[1]	7,228[1]	(9,103)[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	(12,300)[1]	22,897[1]	(27,806)[2]

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

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

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

Type of financial instrument	Valuation technique	Key unobservable inputs	Range of estimates for unobservable input
Structured liabilities	Option model	Long term equity volatility	**2023: 6.4%-66.2%** 2022: 6.4%-57.2%
		Equity/Equity Index Correlation	**2023: 0.599** 2022: NIL
Equity derivatives	Option model	Long term equity volatility	**2023: 6.4%-66.2%** 2022: 6.4%-57.2%
		Equity/Equity Index Correlation	**2023: 0.599** 2022: NIL

(vii) Key unobservable inputs to Level 3 financial instruments

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

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

The fair value of each financial asset and liability 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 2023 Carrying amount RM'000	**31 Dec 2023 Fair value RM'000**	31 Dec 2022 Carrying amount RM'000	31 Dec 2022 Fair value RM'000
Financial assets				
Financial investments at amortised cost	**989,916**	**989,996**	454,124	454,327
Financing and advances	**14,021,211**	**14,038,319**	13,843,011	13,782,506
Financial liabilities				
Deposits from customers	**13,943,576**	**13,937,943**	13,957,652	13,938,184
Deposits and placements from banks and other financial institutions	**1,474,999**	**1,474,999**	2,043,447	2,043,447

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**
- **Bills payable**

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

(i) 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 reporting 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 reporting 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.

(ii) Financial investments at amortised costs

The fair values of listed financial investments are determined using bid market prices. The unlisted financial investments is short term in nature, hence the carrying amount is a reasonable approximation of its fair value.

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

(iii) Deposits from customers
Deposits and placements from banks and other financial institutions

The fair values of on-demand deposits are approximated by their carrying value. For deposits with longer term maturities, fair values are estimated using discounted cash flows, applying current rates offered for deposits or similar remaining maturities.

Fair value hierarchy

The fair value of each financial asset and liability 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 2023	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total fair value RM'000**	**Total carrying amount RM'000**
Financial assets					
Financial investments at amortised cost	**710,150**	**279,846**	**–**	**989,996**	**989,916**
Financing and advances	**–**	**–**	**14,038,319**	**14,038,319**	**14,021,211**
Financial liabilities					
Deposits from customers	**–**	**13,937,943**	**–**	**13,937,943**	**13,943,576**
Deposits and placements from banks and other financial institutions	**–**	**1,474,999**	**–**	**1,474,999**	**1,474,999**
31 Dec 2022					
Financial assets					
Financial investments at amortised cost	258,916	195,411	–	454,327	454,124
Financing and advances	–	–	13,782,506	13,782,506	13,843,011
Financial liabilities					
Deposits from customers	–	13,938,184	–	13,938,184	13,957,652
Deposits and placements from banks and other financial institutions	–	2,043,447	–	2,043,447	2,043,447

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Cash and Short-Term Funds

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Cash and balances with banks and other financial institutions	**197,382**	278,477
Money at call and interbank placements maturing within one month	**3,355,280**	4,652,398
	3,552,662	4,930,875

Money at call and interbank placements maturing within one month is within stage 1 allocation (12-month ECL) with RM9,000 impairment allowance as at 31 December 2023 (31 December 2022: RM11,000).

7 Deposits and Placements with Banks and Other Financial Institutions

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Licensed bank - parent company	**200,000**	300,000
Bank Negara Malaysia	**–**	633,429
	200,000	933,429

The balance is within stage 1 allocation (12-month ECL) with no impairment allowance required for the Bank as at 31 December 2023 and 31 December 2022.

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

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Money market instruments:		
Malaysian Government Islamic Sukuk	**471,182**	1,442,649
Malaysian Government Islamic treasury bills	**1,386,107**	–
	1,857,289	1,442,649

Financial investments at FVOCI are within stage 1 allocation (12-month ECL) with RM110,000 impairment allowance as at 31 December 2023 (31 December 2022: RM134,000). The carrying amount of financial investments at FVOCI is equivalent to their fair value. The impairment allowance is recognised in other comprehensive income and does not reduce the carrying amount in the statement of financial position.

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

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Maturing within one year	**1,857,289**	972,579
More than one year to three years	**–**	470,070
	1,857,289	1,442,649

9 Financial Investments at Amortised Cost

	31 Dec 2023	**31 Dec 2022**
	RM'000	RM'000
Money market instruments:		
Malaysian Government Islamic Sukuk	**710,070**	258,715
Malaysian Government Islamic Treasury Bills	**–**	195,409
Unquoted:		
Corporate Sukuk	**279,846**	–
	989,916	454,124

Financial investments at amortised cost are within stage 1 allocation (12-month ECL) with RM233,000 impairment allowance for the Bank as at 31 December 2023 (31 December 2022: RM 2,000).

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 2023	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash line-i	83,208	–	–	–	83,208
Term financing:					
House financing	–	–	3,657,159	–	3,657,159
Hire purchase receivables	–	198,575	–	–	198,575
Syndicated term financing	1,379,208	–	–	–	1,379,208
Other term financing	3,272,971	–	701,531	–	3,974,502
Trust receipts	633,003	–	–	–	633,003
Claims on customers under acceptance credits	206,166	–	–	–	206,166
Bills receivables	1,081,897	–	–	–	1,081,897
Staff financing-i	1,008	–	249	–	1,257
Credit cards-i	–	–	–	1,252,514	1,252,514
Revolving financing	1,899,955	–	–	–	1,899,955
Other financing	–	–	2,633	–	2,633
Gross financing and advances	8,557,416	198,575	4,361,572	1,252,514	14,370,077
Less: Impairment allowance					(348,866)
Total net financing and advances					14,021,211

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financing and Advances (Cont'd)

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

At amortised cost	Sale-based contracts	Lease-based contracts	Equity-based contracts		
	Commodity Murabahah	Ijarah Thumma Al-Bai	Diminishing Musharakah	Ujrah	Total
31 Dec 2022	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	84,397	–	–	–	84,397
Term financing:					
House financing	–	–	3,666,246	–	3,666,246
Hire purchase receivables	–	234,388	–	–	234,388
Syndicated term financing	874,897	–	–	–	874,897
Other term financing	3,854,433	–	796,342	–	4,650,775
Trust receipts	743,760	–	–	–	743,760
Claims on customers under acceptance credits	195,945	–	–	–	195,945
Bills receivables	969,679	–	–	–	969,679
Staff financing-i	1,382	–	266	–	1,648
Credit cards-i	–	–	–	1,185,408	1,185,408
Revolving financing	1,735,974	–	–	–	1,735,974
Other financing	–	–	2,216	–	2,216
Gross financing and advances	8,460,467	234,388	4,465,070	1,185,408	14,345,333
Less: Impairment allowance					(502,322)
Total net financing and advances					13,843,011

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financing and Advances (Cont'd)

(ii) By type of customer

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Domestic non-bank financial institutions	**140,377**	429,335
Domestic business enterprises:		
Small medium enterprises	**1,098,650**	1,168,499
Others	**5,349,108**	5,167,281
Individuals	**5,462,830**	5,532,839
Other domestic entities	**654**	769
Foreign entities/individuals	**2,318,458**	2,046,610
	14,370,077	14,345,333

(iii) By profit rate sensitivity

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Fixed rate:		
Hire purchase receivables	**198,575**	234,388
Other financing	**3,770,673**	3,683,443
Variable rate:		
Base Rate/Base Financing Rate	**4,143,480**	4,541,872
Cost-plus	**6,257,349**	5,885,630
	14,370,077	14,345,333

(iv) By residual contractual maturity

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Maturing within one year	**6,145,648**	5,113,770
More than one year to three years	**1,608,064**	2,321,922
More than three years to five years	**1,698,173**	1,904,623
Over five years	**4,918,192**	5,005,018
	14,370,077	14,345,333

10 Financing and Advances (Cont'd)

(v) By sector

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Agriculture, hunting, forestry & fishing	**5,538**	7,922
Mining and quarrying	**62,621**	49,586
Manufacturing	**1,552,366**	1,613,701
Electricity, gas and water	**62,613**	67,904
Construction	**1,038,082**	976,846
Real estate	**1,268,220**	1,268,388
Wholesale & retail trade, restaurants & hotels	**1,111,478**	1,124,997
Transport, storage and communication	**263,050**	305,748
Finance, takaful and business services	**951,818**	1,177,927
Household - Retail	**5,922,928**	5,987,560
Others	**2,131,363**	1,764,754
	14,370,077	14,345,333

(vi) By purpose

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Purchase of landed property:		
Residential	**3,657,409**	3,666,511
Non-residential	**563,720**	654,597
Purchase of transport vehicles	**778**	1,142
Purchase of fixed assets excluding land & building	**198,979**	234,846
Consumption credit	**2,117,428**	2,147,910
Construction	**631,793**	823,317
Working capital	**5,341,610**	5,225,121
Other purpose	**1,858,360**	1,591,889
	14,370,077	14,345,333

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financing and Advances (Cont'd)

(vii) By geographical distribution

	31 Dec 2023	31 Dec 2022
	RM'000	RM'000
Northern Region	**1,349,011**	1,437,664
Southern Region	**1,763,999**	1,448,889
Central Region	**10,972,261**	11,152,118
Eastern Region	**284,806**	306,662
	14,370,077	14,345,333

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, Melaka 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.

(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 2023	31 Dec 2022
	RM'000	RM'000
Total gross financing and advances	**2,357,883**	2,189,511
Less: Impairment allowance	**(96,799)**	(240,817)
Total net financing and advances	**2,261,084**	1,948,694
Maturity not exceeding one year	**10,092**	144,981
Maturity exceeding one year	**144,048**	83,548
Total commitments and contingencies	**154,140**	228,529
Total restricted investment accounts	**2,415,224**	2,177,223
Risk weighted assets (RWA) of restricted investment accounts	**1,285,909**	1,007,324

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 2023 RM'000	31 Dec 2022 RM'000
Gross carrying amount as at 1 January	**971,931**	1,175,011
Transfer within stages	**(54,563)**	30,833
Net changes in risk parameters - further repayments	**(115,291)**	(150,777)
Written-off	**(188,628)**	(83,136)
Gross carrying amount as at 31 December	**613,449**	971,931

(ii) By contract

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Ijarah Thumma Al-Bai (AITAB) (hire purchase)	**6,246**	172
Commodity Murabahah (cost-plus)	**277,370**	505,561
Diminishing Musharakah (profit and loss sharing)	**318,097**	447,234
Ujrah (fee-based)	**11,736**	18,964
	613,449	971,931

(iii) By sector

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Agriculture, hunting, forestry & fishing	**452**	40
Manufacturing	**9,552**	14,029
Electricity, gas and water	**58,509**	57,826
Construction	**10,267**	116,070
Real estate	**3,246**	3,639
Wholesale & retail trade, restaurants & hotels	**9,413**	4,073
Transport, storage and communication	**3,181**	1,532
Finance, takaful and business services	**4,041**	53,876
Household - Retail	**514,788**	702,493
Others	**–**	18,353
	613,449	971,931

11 Impaired Financing (Cont’d)

(iv) By purpose

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Purchase of landed property:		
Residential	**297,566**	419,059
Non-residential	**7,494**	9,328
Purchase of fixed assets excluding land & building	**6,245**	172
Consumption credit	**215,095**	282,039
Construction	**4,845**	116,070
Working capital	**82,204**	127,652
Others	**–**	17,611
	613,449	971,931

(v) By geographical distribution

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Northern Region	**39,980**	53,616
Southern Region	**51,815**	72,461
Central Region	**510,916**	827,089
Eastern Region	**10,738**	18,765
	613,449	971,931

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Expected credit losses allowance charges (ECL)

(i) Movements in ECL allowances for financing and advances

The following table shows reconciliation from the opening to the closing balance of the ECL allowance for financing and advances:

	Stage 1 12-month ECL not credit impaired RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Balance at 1 January 2023	**32,961**	**73,144**	**396,217**	**502,322**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to stage 1	**31,039**	**(16,992)**	**(14,047)**	**–**
- Transferred to stage 2	**(3,935)**	**10,377**	**(6,442)**	**–**
- Transferred to stage 3	**(379)**	**(2,698)**	**3,077**	**–**
New financial assets originated or purchased	**7,710**	**–**	**–**	**7,710**
Net remeasurement due to changes in credit risk and assets derecognised	**(33,620)**	**53,386**	**6,874**	**26,640**
Asset written-off	**–**	**–**	**(188,628)**	**(188,628)**
Others	**–**	**–**	**822**	**822**
Balance at 31 December 2023	**33,776**	**117,217**	**197,873**	**348,866**
Balance at 1 January 2022	32,095	86,539	404,748	523,382
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to stage 1	59,856	(23,657)	(36,199)	–
- Transferred to stage 2	(3,256)	17,954	(14,698)	–
- Transferred to stage 3	(190)	(6,467)	6,657	–
New financial assets originated or purchased	13,119	–	–	13,119
Net remeasurement due to changes in credit risk and assets derecognised	(68,663)	(1,225)	112,500	42,612
Asset written-off	–	–	(82,413)	(82,413)
Others	–	–	5,622	5,622
Balance at 31 December 2022	32,961	73,144	396,217	502,322

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 decreased by RM153.5 million compared to the balance at the beginning of the year. This net decrease was mainly contributed by asset written-off (RM188.6 million), and partly offset by net remeasurement due to changes in credit risk and assets derecognised (RM26.6 million) and new financial assets originated or purchased (RM7.7 million).

- 12-month ECL not credit impaired (stage 1) - increased by RM0.8 million primarily due to migration of financing and advances from stage 2 and 3, new financial assets originated or purchased and partially offset by net remeasurement due to changes in credit risk.
- Lifetime ECL not credit-impaired (stage 2) - increased by RM44.1 million, primarily due to net remeasurement due to changes in credit risk, and partially offset by migration of financing and advances to stage 1 and 3.
- Lifetime ECL credit-impaired (stage 3) - decreased by RM198.3 million, primarily due to asset written-off and migration of financing and advances to stage 1 and 2, partially offset by net remeasurement due to changes in credit risk.

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 12-month ECL not credit impaired RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Balance at 1 January 2023	**1,636**	**7,153**	**24,228**	**33,017**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to stage 1	**1,117**	**(1,117)**	**–**	**–**
- Transferred to stage 2	**(15)**	**15**	**–**	**–**
- Transferred to stage 3	**(68)**	**(9)**	**77**	**–**
New financial assets originated or purchased	**268**	**–**	**–**	**268**
Net remeasurement due to changes in credit risk and assets derecognised	**(526)**	**(4,039)**	**3,444**	**(1,121)**
Others	**321**	**–**	**–**	**321**
Balance at 31 December 2023	**2,733**	**2,003**	**27,749**	**32,485**
Balance at 1 January 2022	2,542	6,395	–	8,937
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to stage 1	45	(45)	–	–
- Transferred to stage 2	(43)	43	–	–
- Transferred to stage 3	–	(75)	75	–
New financial assets originated or purchased	551	–	–	551
Net remeasurement due to changes in credit risk and assets derecognised	(1,419)	835	24,153	23,569
Others	(40)	–	–	(40)
Balance at 31 December 2022	1,636	7,153	24,228	33,017

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 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			
	Up to 1 Year	>1 - 5 Years	> 5 Years	Total	Up to 1 Year	>1 - 5 Years	> 5 Years	Total	Up to 1 Year	>1 - 5 Years	> 5 Years	Total
31 Dec 2023	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trading derivatives:												
Foreign exchange contracts												
- Forwards	15,096,261	–	–	15,096,261	90,188	–	–	90,188	87,963	–	–	87,963
- Swaps	158,444	–	136,252	294,696	1,573	–	2,400	3,973	1,466	–	2,205	3,671
- Options	28,936	–	–	28,936	8	–	–	8	8	–	–	8
Profit rate related contracts												
- Swaps	1,068,453	733,520	–	1,801,973	321	4,276	–	4,597	3,679	1,918	–	5,597
- Options	–	417,938	–	417,938	–	–	–	–	–	17,558	–	17,558
Equity related contracts												
- Options purchased	857,171	704,367	–	1,561,538	1,615	54	–	1,669	27,833	15,453	–	43,286
Total	**17,209,265**	**1,855,825**	**136,252**	**19,201,342**	**93,705**	**4,330**	**2,400**	**100,435**	**120,949**	**34,929**	**2,205**	**158,083**

The Bank does not have any hedging instrument as at 31 December 2023.

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	> 5 Years	Total	Up to 1 Year	>1 - 5 Years	> 5 Years	Total	Up to 1 Year	>1 - 5 Years	> 5 Years	Total
31 Dec 2022	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trading derivatives:												
Foreign exchange contracts												
- Forwards	12,200,429	155,272	–	12,355,701	145,181	3,162	–	148,343	174,850	2,874	–	177,724
- Swaps	21,490	–	158,202	179,692	787	–	1,918	2,705	354	–	1,780	2,134
- Options	17,760	–	–	17,760	113	–	–	113	113	–	–	113
Profit rate related contracts												
- Swaps	1,233,160	1,325,473	–	2,558,633	1,353	2,437	–	3,790	3,937	6,981	–	10,918
- Options	–	451,095	–	451,095	–	–	–	–	–	40,537	–	40,537
Equity related contracts												
- Options purchased	577,897	1,198,067	–	1,775,964	3,283	82	–	3,365	17,353	43,793	–	61,146
Total	14,050,736	3,129,907	158,202	17,338,845	150,717	5,681	1,918	158,316	196,607	94,185	1,780	292,572

The Bank does not have any hedging instrument as at 31 December 2022.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Other Assets

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Settlements	**6,925**	1,273
Income receivable	**7,726**	5,610
Profit receivable	**19,852**	15,992
Prepayments	**28**	–
Amount due from holding company	**55,793**	105,975
ROU assets [1]	**19,776**	21,540
Other receivables	**16,076**	13,234
	126,176	163,624

[1] ROU assets comprise solely properties. There were RM Nil leases terminated by the Bank during the financial year (2022: RM24,000). Existing leases that were subjected to modification during the financial year for the Bank were RM4,084,000 (2022: RM6,260,000).

Lease related expenses and cash outflows during the financial year:

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Finance expense	**1,021**	1,016
Expense related to short-term leases (Included in establishment related expenses)	**14**	23
Cash outflow for leases payments	**7,083**	7,118

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Equipment

2023	Office equipment, fixtures and fittings	Computer equipment	Motor vehicles	Work in progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Cost					
Balance at 1 January	**30,324**	**12,562**	**301**	**1,955**	**45,142**
Additions	**132**	**16**	**–**	**505**	**653**
Disposals	**–**	**(5)**	**–**	**–**	**(5)**
Written off	**(690)**	**(3,523)**	**–**	**–**	**(4,213)**
Reclassification	**1,804**	**–**	**–**	**(1,804)**	**–**
Other movements	**–**	**–**	**–**	**(624)**	**(624)**
Balance at 31 December	**31,570**	**9,050**	**301**	**32**	**40,953**
Accumulated depreciation					
Balance at 1 January	**28,804**	**9,333**	**236**	**–**	**38,373**
Charge for the financial year	**1,062**	**931**	**60**	**–**	**2,053**
Disposals	**–**	**(5)**	**–**	**–**	**(5)**
Written off	**(685)**	**(3,523)**	**–**	**–**	**(4,208)**
Balance at 31 December	**29,181**	**6,736**	**296**	**–**	**36,213**
Net book value at 31 December	**2,389**	**2,314**	**5**	**32**	**4,740**
2022					
Cost					
Balance at 1 January	30,292	12,565	301	–	43,158
Additions	176	–	–	1,955	2,131
Disposals	–	(3)	–	–	(3)
Written off	(144)	–	–	–	(144)
Balance at 31 December	30,324	12,562	301	1,955	45,142
Accumulated depreciation					
Balance at 1 January	27,680	8,397	176	–	36,253
Charge for the financial year	1,196	939	60	–	2,195
Disposals	–	(3)	–	–	(3)
Written off	(72)	–	–	–	(72)
Balance at 31 December	28,804	9,333	236	–	38,373
Net book value at 31 December	1,520	3,229	65	1,955	6,769

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Intangible assets

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Computer software		
Cost		
Balance at 1 January	**2,490**	2,490
Written off	**(2,486)**	–
Balance at 31 December	**4**	2,490
Accumulated amortisation		
Balance at 1 January	**2,490**	2,490
Written off	**(2,486)**	–
Balance at 31 December	**4**	2,490
Net book value at 31 December	**–**	**–**

18 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Deferred tax assets	**45,501**	37,139
Deferred tax liabilities	**(5,653)**	(5,864)
	39,848	31,275

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 2023 RM'000	31 Dec 2022 RM'000
Deferred tax assets		
- settled more than 12 months	**21,915**	14,243
- settled within 12 months	**23,586**	22,896
Deferred tax liabilities		
- settled more than 12 months	**(4,128)**	(4,263)
- settled within 12 months	**(1,525)**	(1,601)
	39,848	31,275

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deferred Tax Assets (Cont'd)

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

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Equipment capital allowances	**(906)**	(693)
ROU assets	**(4,747)**	(5,171)
Lease liabilities	**5,217**	5,684
FVOCI reserve	**767**	3,148
Own credit reserve	**1,423**	1,620
Provision for accrued expenses	**15,733**	10,432
Deferred income	**5,429**	4,535
Financing and advances	**16,932**	11,720
	39,848	31,275

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

2023	**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	**11,720**	**5,212**	**–**	**16,932**
Own credit reserve	**1,620**	**–**	**(197)**	**1,423**
Provision for accrued expenses	**10,432**	**5,301**	**–**	**15,733**
Deferred income	**4,535**	**894**	**–**	**5,429**
Lease liabilities	**5,684**	**(467)**	**–**	**5,217**
FVOCI reserve	**3,148**	**–**	**(2,381)**	**767**
Deferred Tax Assets	**37,139**	**10,940**	**(2,578)**	**45,501**
Equipment capital allowances	**(693)**	**(213)**	**–**	**(906)**
ROU assets	**(5,171)**	**424**	**–**	**(4,747)**
Deferred Tax Liabilities	**(5,864)**	**211**	**–**	**(5,653)**
Net Deferred Tax Assets	**31,275**	**11,151**	**(2,578)**	**39,848**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deferred Tax Assets (Cont'd)

2022	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	11,683	37	–	11,720
Own credit reserve	692	–	928	1,620
Provision for accrued expenses	31,347	(20,915)	–	10,432
Deferred income	4,856	(321)	–	4,535
Lease liabilities	6,932	(1,248)		5,684
FVOCI reserve	990	–	2,158	3,148
Deferred Tax Assets	56,500	(22,447)	3,086	37,139
Equipment capital allowances	(851)	158	–	(693)
ROU assets	(6,303)	1,132		(5,171)
Deferred Tax Liabilities	(7,154)	1,290	–	(5,864)
Net Deferred Tax Assets	49,346	(21,157)	3,086	31,275

19 Deposits From Customers

(i) By type of deposit

At amortised cost	**31 Dec 2023 RM'000**	31 Dec 2022 RM'000
Non-Mudharabah Fund		
Demand deposits		
- Qard	**3,335,107**	3,381,215
Savings deposits		
- Qard	**2,881,014**	2,920,903
Term deposits		
- Commodity Murabahah	**7,529,222**	7,502,806
- Qard*	**198,233**	152,728
	13,943,576	13,957,652

* Refers to incidental qard treatment due to timing differences between the deposit placement and the execution of Commodity Murabahah.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Deposits From Customers (Cont'd)

(i) By type of deposit (Cont'd)

The maturity structure of term deposits is as follows:

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Due within six months	**6,337,261**	6,306,058
More than six months to one year	**1,118,275**	1,016,754
More than one year to three years	**208,620**	280,211
More than three years to five years	**63,299**	52,511
	7,727,455	7,655,534

(ii) By type of customer

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Government and statutory bodies	**12,200**	22,452
Business enterprises	**3,420,378**	3,732,877
Individuals	**5,535,547**	5,749,721
Foreign entities/individuals	**4,028,488**	3,646,709
Others	**946,963**	805,893
	13,943,576	13,957,652

20 Deposits and Placements from Banks and Other Financial Institutions

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Non-Mudharabah Fund		
Licensed bank	**1,459,202**	2,034,464
Bank Negara Malaysia	**15,786**	8,972
Other financial institutions	**11**	11
	1,474,999	2,043,447

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

At fair value	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Structured liabilities		
- Tawarruq	**1,939,498**	2,102,483

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 2023 RM'000**	31 Dec 2022 RM'000
At amortised cost			
Settlements		**4,515**	540
Amounts due to holding company		**99,014**	161,528
Profit payable		**83,307**	67,368
Deferred income		**22,621**	18,899
Marginal deposit		**22,528**	35,213
Accrued expenses		**66,380**	43,522
Lease liabilities		**21,736**	23,739
Other creditors	(a)	**273,007**	123,289
Provision on financing and credit related commitments	(b)	**32,485**	33,017
		625,593	507,115

(a) Other creditors

Included in other creditors is income from Shariah non-compliant activities. The income is to be distributed to charity organisations approved by the Shariah Committee. There are two (2) actual Shariah Non-Compliant event identified during the financial period relating to financing and advances (2022: Nil). The event will be rectified in accordance with the Shariah Governance Policy Document.

Source and use of charity funds	**31 Dec 2023 RM'000**	31 Dec 2022 RM'000
Balance at 1 January	**3**	1
Shariah non-compliant income for the financial year [1]	**231**	5
Contribution to non-profit organisations	**(117)**	(3)
Balance at 31 December	**117**	3

[1] Income received from transactions in nostro accounts and from financing and advances.

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

23 Multi-Currency Sukuk Programme

	31 Dec 2023 **RM'000**	31 Dec 2022 RM'000
Multi-Currency Sukuk Programme (MCSP)	**–**	504,771

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

	Nominal Value RM'000	**Issue Date**	**Maturity Date**	**Carrying Value** **31 Dec 2023** **RM'000**	Carrying Value 31 Dec 2022 RM'000
Issuance under MCSP					
At fair value					
4th series	500,000	2 Oct 2018	2 Oct 2023	**–**	504,771

Movement in MCSP

	4th series **31 Dec 2023** **RM'000**	4th series 31 Dec 2022 RM'000
Balance at 1 January	**504,771**	515,333
Change in fair value other than from own credit risk	**1,748**	(14,521)
Change in fair value from own credit risk	**(6,519)**	3,959
Redemption of Multi-Currency Sukuk	**(500,000)**	–
Balance at 31 December	**–**	504,771

24 Share Capital and Other Equity

	31 Dec 2023 **Number of Shares ('000)**	**31 Dec 2023** **RM'000**	31 Dec 2022 Number of Shares ('000)	31 Dec 2022 RM'000
Share capital, issued and fully paid				
Ordinary shares of RM0.50 each				
At 1 January / 31 December	**100,000**	**660,000**	100,000	660,000
Other equity				
Additional Tier 1 USD Wakalah Financing Facility [1]		**501,063**		501,063
Total share capital and other equity		**1,161,063**		1,161,063

[1] On 19 August 2022, the Bank had issued USD Wakalah Financing Facility (the Facility) equivalent to RM501 million to its immediate holding company, HSBC Bank Malaysia Berhad (HBMY). The Facility qualifies as Additional Tier 1 capital of the Bank as per the Capital Adequacy Framework for Islamic Banks (Capital Components) issued by Bank Negara Malaysia (BNM). The Facility will be perpetual with no fixed maturity and may be callable at the option of the Bank after a period of five years, subject to prior approval from BNM. The expected returns generated from the Wakalah investments pursuant to the disbursement of the Facility are payable on a semi-annual basis (at the full discretion of the Bank at all times) at the rate of compounded Secured Overnight Financing Rate (SOFR) plus 137 basis points. The Facility has no step up features, or any other terms that may create an expectation that the option for prepayment will be exercised. The Facility meets the requirements of equity classification as per MFRS 132 'Financial instruments: Presentation'.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Reserves

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Non-distributable		
FVOCI Reserve	**(2,315)**	(9,829)
Own credit reserve [1]	**(4,507)**	(5,131)
Capital contribution reserve [2]	**377**	491
Regulatory reserves [3]	**35,800**	73,800
	29,355	59,331
Distributable		
Retained profits	**1,888,712**	1,521,961
	1,918,067	1,581,292

[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 programme.

[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 29 April 2022, to maintain, in aggregate, loss allowance for non-credit-impaired exposures and regulatory reserve of no less than 1.0% of total credit exposures, net of loss allowance for credit-impaired exposures.

The regulatory reserve is debited against retained profits.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

26 Income Derived from Investment of Depositors' Funds and Others

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Income derived from investment of:		
(i) Term deposit	**519,051**	457,161
(ii) Other deposits	**334,649**	227,612
	853,700	684,773

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
(i) Income derived from investment of term deposits		
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**432,295**	319,339
- Recoveries from impaired financing	**19,445**	19,846
Financial investments at FVOCI	**31,895**	24,017
Money at call and deposit with financial institutions	**81,682**	56,752
Financial investments at amortised cost	**17,950**	831
	583,267	420,785
Other operating income		
Realised gain from dealing in foreign currency	**12,446**	48,360
Unrealised gain/(loss) from dealing in foreign currency	**18,212**	(20,191)
Unrealised loss from revaluation of financial assets at FVTPL	**–**	(1)
Realised (loss)/gain from trading in derivatives	**(9,901)**	15,684
Unrealised gain/(loss) from trading in derivatives	**28,848**	(55,968)
Net (expense)/income from financial liabilities designated at FVTPL	**(113,821)**	48,492
	(64,216)	36,376
	519,051	457,161

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

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
(ii) Income derived from investment of other deposits		
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**228,588**	177,859
- Recoveries from impaired financing	**10,282**	11,053
Financial investments at FVOCI	**16,865**	13,378
Money at call and deposit with financial institutions	**43,192**	31,608
Financial investments at amortised cost	**9,492**	463
	308,419	234,361
Other operating income		
Realised gain from dealing in foreign currency	**6,581**	26,935
Unrealised gain/(loss) from dealing in foreign currency	**9,630**	(11,246)
Unrealised loss from revaluation of financial assets at FVTPL	**–**	(1)
Realised (loss)/gain from trading in derivatives	**(5,235)**	8,735
Unrealised gain/(loss) from trading in derivatives	**15,254**	(31,172)
	26,230	(6,749)
	334,649	227,612

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Income Derived from Investment of Shareholder's Funds

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**89,332**	59,990
- Recoveries from impaired financing	**4,018**	3,728
Financial investments at FVOCI	**6,591**	4,512
Money at call and deposit with financial institutions	**16,879**	10,661
Financial investments at amortised cost	**3,709**	156
	120,529	79,047
Other operating income		
Fee commission [1]	**78,939**	77,845
Realised gain from dealing in foreign currency	**2,572**	9,085
Unrealised gain/(loss) from dealing in foreign currency	**3,764**	(3,793)
Realised (loss)/gain from trading in derivatives	**(2,046)**	2,946
Unrealised gain/(loss) from trading in derivatives	**5,961**	(10,514)
Shared-service fees from holding company	**1,119**	1,150
Other income	**1,679**	1,911
	91,988	78,630
	212,517	157,677

[1] The above fees and commissions were derived from the following major contributors:

Service charges and fees	**16,238**	27,766
Credit cards	**26,662**	20,806
Credit facilities	**13,027**	12,366
Agency fee	**14,910**	12,992

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Impairment (write-back)/provision

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Net increase in allowance/provision	**33,728**	79,716
Recoveries	**(63,958)**	(58,126)
Written off	**216**	14
Total (write-back from)/charge to statement of profit or loss	**(30,014)**	21,604

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

(i) Financing and advances

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Net increase in allowance	**34,350**	55,731
Recoveries	**(63,958)**	(58,126)
Written off	**216**	14
Total write-back from statement of profit or loss	**(29,392)**	(2,381)

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

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Net increase in allowance/provision	**22**	9

(iii) Financing commitments

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Net (release)/increase in allowance/provision	**(853)**	24,120

(iv) Financial investment at FVOCI

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Net release in allowance/provision	**(25)**	(145)

(v) Financial investments at amortised costs

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Net increase in allowance/provision	**234**	1

29 Income Attributable to Depositors

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Non-Mudharabah Fund		
- Deposits from customers	**278,407**	155,263
- Deposits and placements of banks and other financial institutions	**60,086**	30,116
- Lease liabilities	**1,021**	1,016
- Others	**15,771**	26,582
	355,285	212,977

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Operating Expenses

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Personnel expenses	**39,718**	37,607
Promotion and marketing related expenses	**7,397**	8,605
Establishment related expenses	**15,023**	10,631
General administrative expenses	**26,119**	30,758
Related company charges	**190,490**	166,535
	278,747	254,136
Personnel expenses		
Salaries, allowances and bonuses	**31,528**	29,661
Employees Provident Fund contributions	**5,649**	5,445
Share based payment	**143**	66
Other staff related costs	**2,398**	2,435
	39,718	37,607
Establishment related expenses		
Depreciation of equipment	**2,053**	2,195
Depreciation of ROU assets	**5,847**	6,074
Information technology costs	**2,275**	917
Equipment written off	**5**	72
General repairs and maintenance	**3,238**	–
Utilities	**977**	944
Others	**628**	429
	15,023	10,631
General administrative expenses		
Auditors' remuneration		
- Statutory audit fees	**162**	158
- Regulatory related fees	**155**	10
- Non-audit fee	**60**	–
Professional fees [1]	**1,678**	1,252
Communication	**1,646**	1,191
Others	**22,418**	28,147
	26,119	30,758

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

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Fees	**579**	475
Assoc. Prof. Dr. Ziyaad Mahomed	**137**	108
Dr. Aida binti Othman	**95**	96
Encik Aminuddin Abu Bakar	**121**	93
Dr. Mohamed Ashraf bin Mohamed Iqbal	**94**	89
Dr. Muhammad Syahmi bin Mohd Karim	**93**	89
Dato' Prof. Dr. Ahmad Hidayat bin Buang	**39**	–

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Operating Expenses (Cont'd)

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Related company charges	**190,490**	166,535
Of which by:		
(i) Type of service		
- Information technology related cost	**35,903**	38,732
- Non information technology related cost	**154,587**	127,803
(ii) Country/ territory		
- Malaysia	**189,205**	165,713
- Others	**1,285**	822

31 Tax Expense

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Malaysian income tax		
- Current year	**124,649**	93,220
- Prior year	**(9,159)**	(1,802)
Total current tax recognised in profit or loss	**115,490**	91,418
Deferred tax:		
Origination and reversal of temporary differences		
- Current year	**(11,151)**	21,157
Total deferred tax recognised in profit or loss	**(11,151)**	21,157
Total income tax expense	**104,339**	112,575

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	**462,199**	353,733
Income tax using Malaysian tax rate	**110,928**	84,896
Non-deductible expenses	**2,570**	1,603
Impact on change of tax rate [1]	**–**	27,878
Over provision in respect of prior years	**(9,159)**	(1,802)
Tax expense	**104,339**	112,575

[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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Earnings per share

The earnings per ordinary share have been calculated based on profit for the financial year and 100,000,000 (2022: 100,000,000) number of ordinary shares in issue during the financial year.

33 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 and responsibility 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.

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

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

	31 Dec 2023			31 Dec 2022		
	Parent	**Other related companies**	**Key management personnel**	Parent	Other related companies	Key management personnel
	RM'000	**RM'000**	**RM'000**	RM'000	RM'000	RM'000
Income						
Finance income on deposits and placements with banks and other financial institutions	**8,315**	**–**	**–**	3,950	–	–
Finance income from financing and advances	**–**	**–**	**1**	–	–	–
Fees and commission	**1,225**	**1,603**	**–**	1,484	1,384	–
Net trading (expense)/income	**(31,139)**	**693**	**–**	56,380	15,667	–
Other income	**1,119**	**116**	**–**	1,150	–	–
	(20,480)	**2,412**	**1**	62,964	17,051	–
Expenditure						
Profit attributable to deposits and placements from banks and other financial institutions	**60,063**	**30,519**	**36**	40,183	5,960	14
Fees and commission	**–**	**1,334**	**–**	–	1,028	–
Operating expenses	**180,336**	**10,154**	**–**	157,056	9,479	–
	240,399	**42,007**	**36**	197,239	16,467	14

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

	31 Dec 2023			31 Dec 2022		
	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
Amount due from						
Deposits and placements with banks and other financial institutions (including cash and short term funds)	**200,000**	**93,258**	**–**	300,000	100,985	–
Financing and advances	**–**	**–**	**15**	–	–	36
Derivative financial assets	**80,271**	**–**	**–**	143,985	–	–
Other assets	**57,913**	**97**	**–**	107,386	–	–
	338,184	**93,355**	**15**	551,371	100,985	36
Amount due to						
Deposits and placements from banks and other financial institutions	**1,458,588**	**811,519**	**–**	2,034,464	711,230	–
Deposits from customers	**–**	**–**	**606**	–	–	806
Derivative financial liabilities	**82,415**	**–**	**–**	121,440	–	–
Other liabilities	**152,532**	**6,002**	**–**	189,286	3,954	–
	1,693,535	**817,521**	**606**	2,345,190	715,184	806

All transactions between the Bank and its related parties are made in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 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:

2023 **RM'000**	**Salaries and bonuses**	**Other short-term employee benefits**	**Shared-based payment**	**Fees**	**Total**
Executive Directors					
Dato' Omar Siddiq bin Amin Noer Rashid	–	–	–	–	–
Non-Executive Directors					
Datin Che Teh Ija binti Mohd Jalil	–	–	–	**211**	**211**
Lim Tiang Siew[1]	–	–	–	**132**	**132**
Datuk Md Arif bin Mahmood[2]	–	–	–	**51**	**51**
Ng Ing Peng[3]	–	–	–	**39**	**39**
Adil Ahmad[4]	–	–	–	**61**	**61**
Albert Quah Chei Jin[5]	–	–	–	**178**	**178**
Ho Chai Huey[6]	–	–	–	**176**	**176**
Mukhtar Malik Hussain[7]	–	–	–	**131**	**131**
	–	–	–	**979**	**979**
CEO					
Raja Amir Shah bin Raja Azwa	**1,083**	**273**	**13**	–	**1,369**
	1,083	**273**	**13**	–	**1,369**

[1] Appointed on 8 March 2023
[2] Appointed on 1 September 2023
[3] Appointed on 1 October 2023
[4] Retired on 4 May 2023
[5] Retired on 31 December 2023
[6] Retired on 1 January 2024
[7] Retired on 14 December 2023

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

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

i) The remuneration of CEO and Directors (Cont'd)

2022 RM'000	Salaries and bonuses	Other short-term employee benefits	Shared-based payment	Fees	Total
Executive Directors					
Dato' Omar Siddiq bin Amin Noer Rashid [1]	–	–	–	–	–
Stuart Paterson Milne [2]	–	–	–	–	–
Non-Executive Directors					
Datin Che Teh Ija binti Mohd Jalil [3]	–	–	–	173	173
Adil Ahmad	–	–	–	151	151
Albert Quah Chei Jin	–	–	–	151	151
Ho Chai Huey	–	–	–	150	150
Mukhtar Malik Hussain	–	–	–	117	117
Lee Choo Hock [4]	–	–	–	56	56
	–	–	–	798	798
CEO					
Raja Amir Shah bin Raja Azwa	954	263	–	–	1,217
	954	263	–	–	1,217

[1] Appointed on 31 March 2022
[2] Retired on 31 March 2022
[3] Appointed on 1 January 2022
[4] Retired on 29 May 2022

(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 consists 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 but 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 2023 and 31 December 2022.

Total Remuneration

Senior Management	**31 Dec 2023**		31 Dec 2022	
	Unrestricted	**Deferred**	Unrestricted	Deferred
	RM'000	**RM'000**	RM'000	RM'000
Fixed remuneration				
Cash	**3,019**	**–**	3,025	–
Variable remuneration				
Cash	**1,393**	**–**	1,335	–
Shares and share-linked instruments	**–**	**97**	–	77
	1,393	**97**	1,335	77
Total Senior Management's Remuneration	**4,412**	**97**	4,360	77

Number of officers having received a variable remuneration during the financial year: 6 (2022: 8).

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 2023**	31 Dec 2022
	RM'000	RM'000
Outstanding deferred remuneration		
Cash	**21**	68
Shares and share-linked instruments	**194**	148
	215	216
Deferred remuneration paid out	**186**	107

Total amount of outstanding deferred and retained remuneration exposed to ex-post explicit and implicit adjustments as at 31 December 2023 for senior management is RM429,000. There was none as at 31 December 2022.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 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 2023 RM'000	31 Dec 2022 RM'000
Aggregate value of outstanding credit exposures to connected parties	**616,839**	365,559
As a percentage of total credit exposures	**2.4%**	1.4%
Aggregate value of outstanding credit exposures to connected parties which is non-performing or in default	**–**	–
As a percentage of total credit exposures	**–**	–

35 Capital Adequacy

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Common Equity Tier 1 (CET1) capital		
Paid-up ordinary share capital	**660,000**	660,000
Retained profits	**1,888,712**	1,521,961
Other reserves	**29,355**	54,429
Regulatory adjustments	**(53,229)**	(95,253)
Total CET1 capital	**2,524,838**	2,141,137
Tier 1 capital		
Additional Tier 1 capital	**501,063**	501,063
Total Tier 1 capital	**3,025,901**	2,642,200
Tier 2 capital		
Impairment allowance (unimpaired portion) & regulatory reserves	**168,645**	169,287
Total Tier 2 capital	**168,645**	169,287
Capital base	**3,194,546**	2,811,487
Before deducting proposed dividend		
CET1 Capital Ratio	**17.041%**	14.465%
Tier 1 Capital Ratio	**20.423%**	17.849%
Total Capital Ratio	**21.561%**	18.993%

35 Capital Adequacy (Cont'd)

	31 Dec 2023	31 Dec 2022
After deducting proposed dividend		
CET1 Capital Ratio	**16.679%**	14.465%
Tier 1 Capital Ratio	**20.061%**	17.849%
Total Capital Ratio	**21.199%**	18.993%

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 (%)	
	31 Dec 2023	31 Dec 2022	**31 Dec 2023**	31 Dec 2022
Before deducting proposed dividend				
CET1 Capital Ratio	**17.041%**	14.465%	**16.909%**	14.465%
Tier 1 Capital Ratio	**20.423%**	17.849%	**20.290%**	17.849%
Total Capital Ratio	**21.561%**	18.993%	**21.429%**	18.993%
After deducting proposed dividend				
CET1 Capital Ratio	**16.679%**	14.465%	**16.546%**	14.465%
Tier 1 Capital Ratio	**20.061%**	17.849%	**19.928%**	17.849%
Total Capital Ratio	**21.199%**	18.993%	**21.066%**	18.993%

Breakdown of RWA in the various categories of risk weights:

	31 Dec 2023	31 Dec 2022
	RM'000	RM'000
Total RWA for credit risk	**13,491,613**	13,542,956
Total RWA for market risk	**158,723**	208,767
Total RWA for operational risk	**1,165,851**	1,050,968
	14,816,187	14,802,691

36 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 2023 RM'000**	31 Dec 2022 RM'000
Direct credit substitutes	**33,709**	128,998
Transaction-related contingent items	**2,226,484**	1,950,300
Short-term self-liquidating trade-related contingencies	**163,655**	126,579
Formal standby facilities and credit lines		
- Maturity not exceeding one year	**1,084,116**	1,670,824
- Maturity exceeding one year	**3,287,101**	3,847,754
Other unconditionally cancellable	**3,250,120**	2,938,881
Unutilised credit card lines	**3,304,717**	3,346,399
Equity related contracts		
- Less than one year	**857,171**	577,897
- One year to less than five years	**704,367**	1,198,067
Profit rate related contracts		
- Less than one year	**1,068,453**	1,233,160
- One year to less than five years	**1,151,458**	1,776,568
Foreign exchange related contracts		
- Less than one year	**15,283,641**	12,239,679
- One year to less than five years	**–**	155,272
- Over five years	**136,252**	158,202
	32,551,244	31,348,580

37 Reverse Repurchase Transactions and Collateral Accepted

In the normal course of business, Bank sells assets to raise liabilities and accept assets for resale. During the year, assets and collateral accepted were mainly from reverse sell and buy back agreements.

	31 Dec 2023 RM'000	31 Dec 2022 RM'000
Fair value of assets and collateral accepted		
- Securities bought under reverse sell and buy back agreement	**117,758**	–

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Capital commitments

	31 Dec 2023	31 Dec 2022
	RM'000	RM'000
Property and equipment		
-Authorised and contracted, but not provided for	**–**	543

39 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 2023	31 Dec 2022
	Number	Number
	('000)	('000)
Balance at 1 January	**14**	16
Granted in the financial year	**4**	8
Released in the financial year	**(6)**	(7)
Cancelled in the financial year	**(1)**	(2)
Transferred out in the financial year	**–**	(1)
Balance at 31 December	**11**	14
Compensation cost recognised during the financial year	**143**	66

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan and the Share Match Schemes is £5.44 (2022: £4.38). The weighted average fair value of the HSBC share at 31 December 2023 was £4.75 (2022: £4.19). The weighted average remaining vesting period as at 31 December 2023 for shares granted during the financial year was 0.88 years (2022: 1.03 years).

40 Shariah Advisors

In line with Bank Negara Malaysia's Policy Document on Shariah Governance (SGPD), the current Scholars appointed for HSBC Amanah are as follows:

1) Assoc. Prof. Dr. Ziyaad Mahomed

Assoc. Prof. Dr. Ziyaad is a member of the Shariah Committee with effect from 02 January 2017, and the Chairman of Shariah Committee since February 2017. He, a South African Islamic Finance Scholar, has consulted and advised financial institutions and regulators in Islamic finance, regulation, social finance, fintech and Islamic law for almost 25 years. He is currently the Lead Researcher (Shari'ah) at Centre of Excellence in Islamic Social Finance at International Center for Education in Islamic Finance (INCEIF) University and former Associate Dean of E-Learning and Director of Executive Education at INCEIF University. Dr. Ziyaad 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. Dr. Ziyaad serves as Chairman and member of several Shariah Advisory Boards of Islamic banks, fintechs and takaful companies internationally.

2) Dr. Aida binti Othman

Dr. Aida is a member of the Shariah Committee with effect from 01 April 2017. She is currently a Partner at Messrs. Zaid Ibrahim & Co. since 2008 and Shariah Advisor for ZICO Shariah Advisory Services Sdn Bhd. She specializes in Islamic banking and finance, Islamic capital market instruments and takaful products and operations. She also advises financial institutions on Shariah compliance and governance, including on the legal and regulatory framework for Islamic finance. Dr. Aida 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 International Islamic University Malaysia (IIUM). Dr. Aida is the Advocate and Solicitor at High Court of Malaya and serves as a member of Shariah Advisory Committee of Permodalan Nasional Berhad (PNB) and ASNB and AmMetLife Takaful Berhad.

3) Dr. Mohamed Ashraf bin Mohamed Iqbal

Dr. Ashraf is a member of the Shariah Committee with effect from 01 January 2018. He is a Founder of MindSpring Sdn Bhd, an advisory firm that he started in 2005 specializing in business performance solutions focusing on knowledge-based organizations. He is also the Chairman of Waafi Bank Ltd, the virtual global Islamic bank established in 2020. Dr. Ashraf was appointed as a Non-Executive Director for HSBC Amanah Malaysia Berhad for ten years and was an Independent Non-Executive Director of Bank Pembangunan and Chairman of Pembangunan Leasing and Credit. He holds a Bachelor of Science in Mechanical Engineering, Masters in Business Administration from California State University, United States of America, and a Postgraduate Diploma in Islamic Studies from IIUM. He subsequently obtained his doctorate in Islamic Finance from INCEIF in 2016. Dr. Ashraf completed the ICA Certificate in Money Laundering (Distinction) from the University of Manchester, Alliance Manchester Business School, Manchester, England in 2022. He participated in the Business Sustainability Management Program, University of Cambridge Institute for Sustainability Leadership, Cambridge, England in 2019 and the 8th Asean Senior Management Development Program, Harvard Business Alumni Club of Malaysia in 2017.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Shariah Advisors (Cont'd)

4) Dr. Muhammad Syahmi bin Mohd Karim

Dr. Syahmi is a member of the Shariah Committee with effect from 01 January 2020. He is the Deputy President Operations at INCEIF University. He has vast experience in various capacities in banking services locally and internationally for the past 23 years. Prior to his role in INCEIF University, he was the Deputy CEO/ Senior Consultant at ISRA Consulting and was the Global Lead Islamic Finance Specialist, Islamic Development Bank (IsDB) Group in Saudi Arabia, with the main task to provide advisory service and technical assistance to IsDB member countries and non-member countries in establishing Islamic finance enabling environment. He was also involved in projects as an external expert for Islamic finance field for the International Monetary Fund based in Washington DC. He was also a member of Islamic Financial Services Board (IFSB) working group member in developing standards on Guiding Principles on Disclosure Requirements for Islamic Capital Market Products (Sukûk and Islamic Collective Investment Schemes). Prior joining the IDB, he was with the Bank Negara Malaysia (Central Bank of Malaysia) for 15 years mainly in Banking Supervision Department with his last position as the Head of Shariah Risk Section, Specialist Risk Unit. He graduated with a Bachelor's Degree in Accounting from International Islamic University, Malaysia and received his master of science degree in Finance (Islamic Finance) and awarded with a best student award from the same university. Subsequently he obtained his Ph.D in Islamic banking and finance from Durham University, United Kingdom. He is a Chartered Accountant of the Malaysian Institute of Accountants an Associate Member of Certified Institute of Management Accountants (CIMA) United Kingdom, CPA Australia and Association of Shariah Advisors in Islamic Finance (ASAS) respectively.

5) Encik Aminuddin Abu Bakar

Encik Aminuddin is a member of the Shariah Committee with effect from 01 January 2022. He is currently the Principal Consultant, S Tradition, a boutique consultancy firm in Islamic Finance and Halal industry, the Board member of Pergas Investment Holdings and the Shariah Committee Member of Financial Shariah Advisory & Consultancy (FSAC) 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) and a Member of the Association of Shariah Advisors in Islamic Finance (ASAS), having completed their Certified Shariah Advisor (CSA). 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 nearly 20 years of working experience in the areas of Shariah, Islamic Finance and socio-religious development.

6) Dato' Prof. Dr. Ahmad Hidayat bin Buang

Dato' Prof. Hidayat is a member of the Shariah Committee with effect from 14 August 2023. Currently, he is an Honorary Professor at the Shariah and Law Department, Academy of Islamic Studies, University of Malaya, Malaysia and Chairman of Shariah Supervisory Council at Amanah Raya Berhad. Prior to joining HSBC Amanah, he served as the Chairman of Shariah Advisory Board of Bank Islam Malaysia Berhad and Shariah Committee member of other Islamic Banks and Takaful companies. He has conducted various research, authored books, and made journal entries on Shariah, and has also presented at various local and international conferences. Dato' Prof. Hidayat had been teaching at the Department of Shariah and Law, Academy of Islamic Studies, University of Malaya since 1987 both at postgraduate and undergraduate levels. He studied at University of Malaya and received Bachelor in Shariah (Islamic Law) in 1987. He obtained his Master of Law (LLM) in 1989 and PhD in 1996 at the School of Oriental and African Studies, University of London. United Kingdom. He is an Accredited mediator from Australian Accord Group (2018) and certified Shariah Advisor from ASAS (2022). He is a qualified Shariah Legal Counsel in the Federal Territory Shariah Courts and Serves.