HSBC AMANAH
Islamic Finance for Life

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

FINANCIAL STATEMENTS
31 DECEMBER 2011

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

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

Louisa Cheang Wai Wan
Non-Independent Non-Executive Director/Chairman
[appointed as Chairman on 1 January 2012]

Mukhtar Malik Hussain
Non-Independent Non-Executive Director
[resigned as Chairman on 1 January 2012 but remained as Director]

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

Mohamed Ross bin Mohd Din
Independent Non-Executive Director

Azlan bin Abdullah
Independent Non-Executive Director

Mohamed Ashraf bin Mohamed Iqbal
Independent Non-Executive Director

Lee Choo Hock
Independent Non-Executive Director

Mohd Razlan bin Mohamed
Independent Non-Executive Director
[Resigned on 6 August 2011)

PROFILE OF DIRECTORS

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

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

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

Mukhtar Malik Hussain
Non-Independent Non-Executive Director

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

In addition to his current role, Mr Hussain is also the Global Chief Executive Officer of HSBC Amanah, Deputy Chairman and Chief Executive Officer of HSBC Bank Malaysia Berhad, Chairman of HSBC Takaful (Malaysia) Sdn Bhd and a Non-Executive Director of HSBC Bank Middle East Limited.

PROFILE OF DIRECTORS (Cont'd)

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

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

En Rafe is currently a member of the Shariah Advisory Council of Securities Commission Malaysia.

Mohamed Ross bin Mohd Din
Independent Non-Executive Director

En Ross was appointed on 26 February 2008. He is the Chairman of the Risk Management Committee and a member of the Audit Committee and Nominating Committee of the Bank. En Ross joined HSBC Bank Malaysia Berhad in 1972 and served in various capacities ranging from Corporate and Retail Banking to Area and Branch Management. He also served as Head of Treasury and Head of Group Audit Malaysia between 1987 and 1996. During this period, he also worked in Hong Kong, London and New York in the areas of Foreign Exchange and Treasury. In his last appointment prior to his retirement from HSBC Bank Malaysia Berhad on 31 December 2007, he managed the HSBC Amanah Onshore business franchise in Malaysia and was responsible for the Islamic retail and corporate business emanating from the branch network. En Ross joined HSBC Amanah Takaful (Malaysia) Sendirian Berhad as the Executive Director and Senior Advisor from 1 January 2008 to 31 December 2008.

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

PROFILE OF DIRECTORS (Cont'd)

Azlan bin Abdullah
Independent Non-Executive Director

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

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

Mohamed Ashraf bin Mohamed Iqbal
Independent Non-Executive Director

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

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

PROFILE OF DIRECTORS (Cont'd)

Lee Choo Hock
Independent Non-Executive Director

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

BOARD RESPONSIBILITY AND OVERSIGHT

BOARD OF DIRECTORS

Composition of the Board

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

The concept of independence adopted by the Board is as defined in paragraph 2.26 of Bank Negara Malaysia's Guidelines on Corporate Governance for Licensed Islamic Banks (BNM/GP1-i). The key requirements for independent Directors are that they do not have a substantial shareholding interest in the Bank (5% equity interest, directly or indirectly), have not been employed or have an immediate family member employed in an executive position in the Bank within the past two (2) years, have not engaged in any transaction worth more than RM1 million with the Bank within the past two (2) years and generally, are independent of management and free from any business or other relationship which could interfere with the exercise of independent judgement or the ability to act in the best interests of the Bank.

There is a clear separation between the roles of Chairman and Chief Executive Officer to ensure an appropriate balance of role, responsibility, authority and accountability. The Board of Directors was led by Mr Mukhtar Malik Hussain as the Non-Independent Non-Executive Director and the executive management of the Bank is led by En Mohamed Rafe bin Mohamed Haneef, the Chief Executive Officer, Non-Independent Executive Director. Paragraph 2.38 of the Revised BNM/GP1-i prescribes that the Chairman of the Board should be in a non-executive capacity and should not have an executive position or responsibility at the parent or related institutions.

Roles and Responsibilities

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

BOARD OF DIRECTORS (Cont'd)

Frequency and Conduct of Board Meetings

To discharge their duties effectively, the Board has met eight (8) times during the year.

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

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

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

The attendance of Directors at the Board meetings held in the financial year ended 31 December 2011 was as follows:

Name of members	Designation	Attendance / No. of meetings
Mukhtar Malik Hussain	Chairman, Non-Independent Non-Executive Director	8 / 8
Mohamed Rafe bin Mohamed Haneef	Chief Executive Officer, Non-Independent Executive Director	7 / 8
Mohamed Ross bin Mohd Din	Independent Non-Executive Director	7 / 8
Azlan bin Abdullah	Independent Non-Executive Director	7 / 8
Mohd Razlan bin Mohamed *[resigned on 6 August 2011)*	Independent Non-Executive Director	6 / 6
Mohamed Ashraf bin Mohamed Iqbal	Independent Non-Executive Director	8 / 8
Lee Choo Hock	Independent Non-Executive Director	8 / 8

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

BOARD COMMITTEES

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

The Board Committees in the Bank are as follows:

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

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

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE

Composition

The present members of the Audit Committee comprise:

- Lee Choo Hock (Chairman)
- Azlan bin Abdullah
- Mohamed Ross bin Mohd Din *[appointed on 6 August 2011]*

Frequency of Meetings

A total of four (4) Audit Committee meetings were held during the financial year 2011. The attendance of the Directors at the Audit Committee meetings held was as follows:

Name of members	Designation	Attendance / No. of meetings
Lee Choo Hock	Chairman, Independent Non-Executive Director	4 / 4
Azlan bin Abdullah	Independent Non-Executive Director	3 / 4
Mohd Razlan bin Mohamed *[resigned on 6 August 2011]*	Independent Non-Executive Director	3 / 3
Mohamed Ross bin Mohd Din *[appointed on 6 August 2011]*	Independent Non-Executive Director	1 / 1

Terms of Reference

The revised Terms of Reference as set out below were approved at the Audit Committee and Board of Directors' meetings held on 15 February 2012.

Membership

The Committee shall comprise not less than three (3) members. All members shall be non-executive directors of which the majority shall be independent[1]non-executive directors.

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

The Board may from time to time appoint[2] to the Committee additional members it has determined to be independent[1]. In the absence of sufficient independent[1] non-executive directors, the Board may appoint individuals from elsewhere in the HSBC Group[3] with no line or functional responsibility for the activities of the Group[3].

The Chairman of the Committee shall be an independent[1] director.

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Meetings and Quorum

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

The quorum for meetings shall be two non-executive directors, including one independent[1] non-executive director.

At all meetings of the Committee, the Chairman of the Committee, if present, shall preside. If the Chairman is absent, the members present at the meeting shall elect a chairman of the meeting, who shall be an independent[1] non-executive director.

Objective

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

Responsibilities of the Committee

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

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

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

   In regard to the above:

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Responsibilities of the Committee (Cont'd)

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

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

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

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

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

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

8. To implement the HSBC Group[3] policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; where required under that policy to approve in advance any non-audit services provided by the external auditor that are not prohibited by the Sarbanes-Oxley Act of 2002 (in amounts to be pre-determined by the Group Audit Committee) and the fees for any such services; to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.

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

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Responsibilities of the Committee (Cont'd)

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

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

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

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

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

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

17. To receive from the Compliance function reports on the treatment of substantiated complaints regarding accounting, internal accounting controls or auditing matters received through the Group Disclosure Line (or such other system as the Group Audit Committee may approve) for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters[4].

18. To report any significant actual, suspected or alleged fraud (involving misconduct or unethical behaviour related to financial reporting) or misrepresentation of assets to the committee responsible for oversight of risk within the Company.

19. To agree the Company's policy for the employment of former employees of the external auditor, within the terms of the HSBC Group's[3] policy.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Responsibilities of the Committee (Cont'd)

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

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

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

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

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

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

26. To provide half-yearly certificates to the Group Audit Committee, or to any audit committee of an immediate holding company in the form required by the Group Audit Committee. Such certificates to include a statement that the members of the Committee are independent.[1]

27. To review any related party transactions that may arise within the Company pursuant to the applicable laws and regulations.

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

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

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Notes

1. The determination of independence should take into account the following:

- if the director has been an employee of the company or group within the last five years;
- if the director has, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
- if the director has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;
- if the director has close family ties with any of the company's advisers, directors or senior employees;
- if the director holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- if the director represents a significant shareholder; or
- the definition of an independent director under the BNM GP1-i. In the event of any inconsistency between GP1-i and the above criteria, the higher standard shall prevail.

Any other circumstances which might, or might be perceived, to compromise the ability of the committee member to reach an objective and impartial decision about matters relating to the company, its business or its customers. For example, the independence of a lawyer, accountant, auditor, or business associate of a customer would need to be considered carefully in relation to the affairs of that customer.

2. Appointments shall be subject to the endorsement by the Group Audit Committee, which will be satisfied that there are no circumstances which compromise the individual's independence.

3. In the context of a subsidiary company, HSBC Group means HSBC Holdings plc and its subsidiaries and "Group" means the group of companies headed by the subsidiary company.

4. A system is in place for a Group Disclosure Line (or such other system as the Group Audit Committee may approve). Unless prohibited by law, it is recommended that this system be used, in which case the Committee should discharge this responsibility by ensuring that the system is accessible within the areas in which the Company operates.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK MANAGEMENT COMMITTEE

Composition

The present members of the Risk Management Committee comprise:

- Mohamed Ross bin Mohd Din (appointed as Chairman on 6 August 2011)
- Lee Choo Hock
- Mohamed Ashraf bin Mohamed Iqbal (appointed on 6 August 2011)

Frequency of Meetings

A total of four (4) Risk Management Committee meetings were held during the financial year 2011. The attendance of the Directors at the Risk Management Committee meetings held was as follows:

Name of members	Designation	Attendance / No. of meetings
Mohd Razlan bin Mohamed *[resigned on 6 August 2011)*	Independent Non-Executive Director	3 / 4
Lee Choo Hock	Independent Non-Executive Director	4 / 4
Mohamed Ross bin Mohamed Din	Chairman, Independent Non-Executive Director	4 / 4
Mohamed Ashraf bin Mohamed Iqbal *[appointed on 6 August 2011]*	Independent Non-Executive Director	1 / 1

Terms of Reference

The revised Terms of Reference as set out below were approved at the Risk Management Committee and Board of Directors' meetings held on 15 February 2012.

Membership

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

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

The Chairman of the Committee shall be an independent[1] non-executive director. The Board may from time to time appoint[2] to the Committee additional members it has determined to be independent. In the absence of sufficient independent non-executive directors, the Board may appoint individuals from elsewhere in the HSBC Group[3] with no line or functional responsibility for the activities of the Company.

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Meetings and Quorum

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

The quorum for meetings shall be two non-executive directors, including one independent[1] non-executive director.

At all meetings of the Committee, the Chairman of the Committee, if present, shall preside. If the Chairman is absent, the members present at the meeting shall elect a chairman of the meeting, who shall be an independent[1] non-executive director.

Objective

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

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

Responsibilities of the Committee

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

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

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

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

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Responsibilities of the Committee (Cont'd)

4. To consider and advise the Board on the risks associated with proposed strategic acquisitions or disposals as requested from time to time by any Director in consultation with the Chairman of the Committee. In preparing such advice, the Committee shall satisfy itself that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the HSBC Group[3], drawing on independent external advice where appropriate and available, before the Board takes a decision whether to proceed.

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

    (i) enable the Committee to assess the risks involved in the Group's[3] business and how they are controlled and monitored by management; and

    (ii) give clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure which may require a complex assessment of the Group's[3] vulnerability to hitherto unknown or unidentified risks.

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

    In undertaking this responsibility, the Committee shall:

    (i) satisfy itself that there are adequate procedures for monitoring in a sufficiently timely and accurate manner, large exposures or risk types whose relevance may become of critical importance;

    (ii) satisfy itself that there are adequate procedures in place for requiring compliance with HSBC Group[4] policies;

    (iii) consider any material findings from regulatory reviews and interactions with regulators in relation to risk governance or risk assessment or management process;

    (iv) discuss the internal control systems with management and satisfy itself that management has discharged its duty to have an effective internal control system. The Audit Committee of HSBC Bank Malaysia Berhad shall have primary responsibility in this regard in relation to internal financial controls;

    (v) satisfy itself that the risk management function is adequately resourced (including taking into account qualifications and experience of staff and training programmes and budget), has appropriate standing within Company and is free from constraint by management or other restrictions; and

    (vi) seek assurance from internal audit that internal control processes for risk management are adequate for the strategy determined by the Board.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Responsibilities of the Committee (Cont'd)

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

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

   (i) participates in the risk management and oversight process at the highest level on an enterprise-wide basis;

   (ii) has satisfied himself or herself that risk originators in the business units are aware of and aligned with the Company's risk appetite;

   (iii) has a status of total independence from individual business units;

   (iv) reports to the Committee alongside an internal functional reporting line to the Group Chief Risk Officer;

   (v) cannot be removed from office without the prior agreement of the Board[2]; and

   (vi) has direct access to the chairman of the Committee in the event of need.

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

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

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

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

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

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

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Responsibilities of the Committee (Cont'd)

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

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

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

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

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

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

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

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK MANAGEMENT COMMITTEE (Cont'd)

Responsibilities of the Committee (Cont'd)

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

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

Written or Circulating Resolution

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

Notes

1. The determination of independence should take into account the following:
   - if the director has been an employee of the company or group within the last five years;
   - if the director, or has had within the last three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company.
   - if the director has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance related pay scheme, or is a member of the company's pension scheme.
   - if the director has close family ties with any of the company's advisers, directors or senior employees;
   - if the director holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
   - if the director represents a significant shareholder; or
   - the definition of an independent director under the BNM GP1-i. In the event of any inconsistency between GP1-i and the above criteria, the higher standard shall prevail.

   And any other circumstances which might, or might be perceived, to compromise the ability of the committee member to reach an objective and impartial decision about matters relating to the company, its business or its customers. For example, the independence of a lawyer, accountant, auditor, or business associate of a customer would need to be considered carefully in relation to the affairs of that customer.

2. Appointments shall be subject to the endorsement of the Group Risk Committee, which will wish to be satisfied that there are no circumstances which compromise the individual's independence.

3. In the context of a subsidiary company, HSBC Group means HSBC Holdings plc and its subsidiaries and "Group" means the group of companies headed by that subsidiary company.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE

Composition

The present members of the Nominating Committee comprise:

- Mohamed Ashraf bin Mohamed Iqbal (Chairman)
- Mohamed Ross bin Mohd Din
- Azlan bin Abdullah
- Lee Choo Hock
- Mohamed Rafe bin Mohamed Haneef *[appointed on 6 August 2011]*

Frequency of Meetings

A total of eight (8) Nominating Committee meetings were held during the financial year 2011. The attendance of the Directors at the Nominating Committee meeting held was as follows:

Name of members	Designation	Attendance / No. of meetings
Mohamed Ashraf bin Mohamed Iqbal	Chairman, Independent Non-Executive Director	8 / 8
Mohamed Ross bin Mohd Din	Independent Non-Executive Director	7 / 8
Azlan bin Abdullah	Independent Non-Executive Director	7 / 8
Mohd Razlan bin Mohamed *[resigned on 6 August 2011]*	Independent Non-Executive Director	6 / 6
Lee Choo Hock	Independent Non-Executive Director	8 / 8
Mohamed Rafe bin Mohamed Haneef *[appointed on 6 August 2011]*	Independent Non-Executive Director	2 / 2

Terms of Reference

The revised Terms of Reference as set out below were approved at the Board of Directors meeting held on 26 July 2011.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Membership

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

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

The Committee shall be supported by the Head of Human Resources and may invite any director, executive or other person to attend any meeting(s) of the Committee as it may from time to time consider appropriate to assist the Committee in the attainment of its objective.

Meetings and Quorum

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

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

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

Objective

The Committee shall be responsible for ensuring that there are formal and transparent procedures for the assessment of the effectiveness of the Board and the Board's various committees, and the performance of the key Senior Management Officers of the Bank.

NOMINATING COMMITTEE (Cont'd)

Responsibilities of the Committee

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

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

   1.2 To oversee the overall composition of the Board in terms of the appropriate size, skills, knowledge and experience and other core competencies and make recommendations to the Board with regards to any changes through an annual review;

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

   1.4 To ensure the establishment of performance evaluation processes on the effectiveness of the Board, the contribution of the Board's various committee, the performance of the CEO and other key Senior Management Officers of the Bank that are conducted based on objective performance criteria;

   1.5 To ensure that there are established procedures to oversee appointment and succession planning for key Senior Management Officers;

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

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

   1.8 To assess on an annual basis, to ensure that the directors and key Senior Management Officers are not disqualified under section 23 of the Islamic Banking Act 1983 and the Shariah Committee members are not disqualified under the Bank Negara Malaysia Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions (BNM/GPS 1).

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Responsibilities of the Committee (Cont'd)

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

    2.1 Discuss, evaluate and provide input on strategies and policies to suit the local environment; and

    2.2 Deliberate and make the necessary recommendations on such strategies and policies to assist the Board when approving major issues and strategies.

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

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

Written or Circulating Resolution

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

Amendment

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

CONNECTED PARTY TRANSACTIONS COMMITTEE

Terms of Reference

The Terms of Reference was revised and approved at the Board meetings on 10 May 2011 and 15 February 2012 respectively.

Composition

The Committee shall consist of at least four (4) members, of which two (2) must be non-executive directors. The present members of the Connected Party Transactions Committee comprise:
- Azlan bin Abdullah
- Mohamed Ashraf bin Mohamed Iqbal
- Chief Risk Officer (vacant)
- Edmund Pui (Head of Wholesale and Credit Risk, HSBC Bank Malaysia Berhad)

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

Quorum

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

Meetings and Chairman

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

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

Written Circular Resolution

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

CONNECTED PARTY TRANSACTIONS COMMITTEE (Cont'd)

Powers delegated by the Board

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

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

SHARIAH COMMITTEE TERMS OF REFERENCE

Membership

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

Composition

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

Meetings, Quorum and Decision Making

a. The Shariah Committee should hold meeting(s) once in a month and whenever required, and should report regularly to the Board of Directors.

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

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

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

e. Decisions shall be made on the basis of two-thirds of the members present, with majority of the two-thirds votes shall be members with Shariah background.

Objectives

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

SHARIAH COMMITTEE TERMS OF REFERENCE (Cont'd)

Responsibilities

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

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

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

c. to attend all Board meetings whenever required by the Board and accordingly, update the Board members on any Shariah matters pertaining to the Bank;

d. to endorse Shariah policies and procedures of the Bank and to ensure that the contents are Shariah compliant;

e. to approve the product structures and transactions which are being managed, executed and entered into by the Bank;

f. to endorse and validate the following documentations:

    i. the terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and

    ii. the product manuals, marketing advertisements, sales illustrations and brochures used to describe the products;

g. to assess the work carried out by Shariah Review and Shariah Audit to ensure Shariah compliance;

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

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

SHARIAH COMMITTEE TERMS OF REFERENCE (Cont'd)

Responsibilities (Cont'd)

k. to provide Shariah compliant endorsement in the annual financial statements of the Bank, supported by the Annual Shariah Committee Report; and

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

m. to provide consultation to the Audit Committee in the course of the Audit Committee determining the deliverables of the Shariah audit function.

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

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

Written or Circulating Resolution

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

SHARIAH COMMITTEE TERMS OF REFERENCE (Cont'd)

Restrictions

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

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

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

The Shariah Committee member shall not be:

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

b. currently serving another Islamic financial institution as a Shariah Committee member.

Recommendations

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

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

Law and Guidelines

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

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

MANAGEMENT REPORTS

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

- Quarterly business progress report
- Quarterly assets and liabilities summary
- Quarterly profit and loss statement
- Quarterly key financial ratios and statistics
- Quarterly significant Bank Negara Malaysia and HSBC Group's requirements
- Quarterly derivatives outstanding
- Quarterly update on Basel II
- Quarterly risk management reports on assets quality
- Quarterly credit advances reports
- Quarterly sustainability issues update
- Half-yearly Bank Negara Malaysia's benchmarking statistics
- Minutes of the monthly Executive Committee meetings held
- Minutes of the monthly Asset and Liability Management Committee meetings held
- Minutes of the Audit Committee meetings held
- Minutes of the Risk Management Committee meetings held
- Minutes of the Nominating Committee meetings held
- Minutes of the Shariah Committee meetings held
- Human resource update
- Comparative analysis of competitor banks and competitor performance report
- Bank Negara Malaysia stress testing results

INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

It is the responsibility of management at all levels to ensure that effective internal controls are in place for all the operations for which they are responsible. Primary controls within the internal control environment are provided by established and documented procedures, secondary controls by managerial and executive supervision. Internal Audit provides tertiary control through independent inspection.

Systems and procedures are in place to identify, control and report on all major risks including credit, volatility in the market prices of financial papers, liquidity, operational error, breaches of law or regulations, unauthorized activities, or fraud. These are monitored by the Asset and Liability Management Committee (ALCO), the Executive Committee (EXCO), the Operational Risk and Internal Control Committee, the Audit Committee, the Risk Management Committee and the Board of Directors.

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

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

The Audit Committee has kept under review the effectiveness of this system of internal control and has reported regularly to the Board of Directors. The key processes used by the Committee in carrying out its reviews include regular reports from the heads of key risk functions; the annual review of the internal control framework (RICF – a self certification process) against HSBC Group benchmarks, which covers all internal controls, both financial and non-financial; annual confirmations from the Chief Executive Officer that there have been no material losses, contingencies or uncertainties caused by weaknesses in internal controls; internal audit reports; external audit reports; prudential reviews; and regulatory reports.

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

RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

Rating Agency	Date	Rating Classification	Ratings Received**
RAM Ratings Services Berhad	October 2011	- Long term	AAA
		- Short term	P1
		- Outlook	Stable

***HSBC Amanah Malaysia Berhad was assigned the above ratings for the first time in 2011.*

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

The directors have pleasure in presenting their report together with the audited financial statements of HSBC Amanah Malaysia Berhad ("the Bank") for the year ended 31 December 2011.

Principal Activities

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

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

Results

	RM'000
Profit before taxation	**97,797**
Taxation	**(19,233)**
Profit after taxation	**78,564**

Dividend

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

Reserves and Provisions

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

Other statutory information

Before the statement of comprehensive income and statement of financial position of the Bank were finalised, the directors took reasonable steps to ascertain that:

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

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

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

Other statutory information (Cont'd)

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

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

ii) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than in the ordinary course of business.

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

In the opinion of the directors, the financial performance of the Bank for the financial year ended 31 December 2011 has not been substantially affected by any item, transaction, or event of a material and unusual nature, nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Business Strategy during the Year

The Malaysian financial services industry, supported by healthy local consumer demand and robust government and private investment activities, recorded a strong growth in both financing and deposits despite the uncertainty of the global economy. Amidst this backdrop, the Bank delivered a very strong performance, achieving the highest profit before tax in history. It was assigned ratings of AAA/P1 by RAM Ratings Services Berhad in its inaugural credit rating exercise during the year.

The Bank is committed to developing products and solutions in response to market trends and has expanded its range of market related products and services accordingly.

In 2011, the Bank continued to expand its branch and delivery network with the opening of 7 additional branches, bringing its total branch network to 15. The Bank also joined the Malaysian Electronic Payment System ("MEPS"), a shared automatic teller machine ("ATM") network with more than 10,000 ATMs nationwide.

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

Outlook For 2012

With intensified competition from both new and existing competitors, margins will be under pressure. Coupled with the introduction of new Bank Negara Malaysia ("BNM") guidelines on Responsible Financing practices, a move that is anticipated to have an impact on assets growth, the outlook for the local banking sector appears increasingly challenging. Nevertheless, growth in the local financial and insurance sectors in 2012 is still expected to remain resilient, supported by the continued expansion in domestic demand and private sector activities.

The focus in 2012 will remain on growing the Premier and Advance proposition. The Bank intends to increase its current share of high quality assets via the relationship-based approach, by increasing value added offerings, building on cross referrals and cross selling of various banking products (with special emphasis on wealth management services) to the Bank's existing customers. As there is a robust demand for Islamic financial services and products, the HSBC Amanah brand name will also be leveraged by the Bank to expand its market share of the Islamic financing business both locally and internationally and as a platform to tap into the Government sector. Currently, the Bank has 16 branches, and more branches are expected to be opened progressively in 2012.

The Bank will embark on improving the effectiveness and efficiency of its business model in 2012. The Bank will continue to have in place rigorous credit risk management and strict cost control. At the same time, the Bank will continue to deliver quality customer service and offer innovative banking products and business solutions, while at the same time deepening relationships with valued clients and customers. The Bank remains committed to achieving the Bank's objective of becoming the most preferred Islamic bank in Malaysia.

Directors' Report (Cont'd)

Directors and their Interests in Shares

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

- Louisa Cheang Wai Wan *[appointed as Chairman on 1 January 2012]*
- Mukhtar Malik Hussain *[resigned as Chairman on 1 January 2012]*
- Mohamed Rafe bin Mohamed Haneef
- Mohamed Ross bin Mohd Din
- Azlan bin Abdullah
- Mohamed Ashraf bin Mohamed Iqbal
- Lee Choo Hock
- Mohd Razlan bin Mohamed *[resigned on 6 August 2011]*

In accordance with Articles 72 and 107 of the Articles of Association, Mr Lee Choo Hock and En Mohamed Ross bin Mohamed Din shall retire from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 78 of the Articles of Association, Ms Louisa Cheang Wai Wan who was appointed after the last Annual General Meeting shall retire at the forthcoming Annual General Meeting, and being eligible, offers herself for re-election.

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

	Number of Shares			
Name **HSBC Holdings plc** **Ordinary Shares**	Balance at 1.1.2011 (or at date of appointment)	Bought	Sold	Balance at 31.12.2011
Mukhtar Malik Hussain	-	388,720	-	388,720

	Number of Shares			
Name **HSBC Holdings plc** **HSBC Share Plan**	Balance at 1.1.2011 (or at date of appointment)	Shares Issued Including Dividend	Shares Vested/ Forfeited	Balance at 31.12.2011
Mukhtar Malik Hussain	745,330	118,653	-	863,983

	Number of Shares			
Name **Options over HSBC Holdings plc shares**	Balance at 1.1.2011 or at date of appointment	Bought	Sold	Balance at 31.12.2011
Mukhtar Malik Hussain	-	4,016	-	4,016
Mohamed Ross bin Mohd Din	3,443	-	-	3,443

Directors' Report (Cont'd)

Directors' Benefits

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

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements to which the Bank is a party whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, except for:

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

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

Immediate and Ultimate Holding Company

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

Shariah Committee

The business activities of the Bank are subject to Shariah compliance and conformation by the Shariah Committee consisting of five (5) members appointed by the Board for two (2) years terms.

All Shariah Committee members are expected to participate and engage actively in deliberating on Shariah issues put before them. Without limiting the generality of the Shariah Committee's objectives as stipulated by the Bank's Shariah Governance Policy (to be read together with the Bank Negara Malaysia's Shariah Governance Framework as well as the Bank's Shariah Committee Terms of Reference) the Shariah Committee shall have the following responsibilities, authorities and discretion:

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

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

c. to attend all Board meetings whenever required by the Board and accordingly, update the Board members on any Shariah matters pertaining to the Bank;

d. to endorse Shariah policies and procedures of the Bank and to ensure that the contents are Shariah compliant;

Shariah Committee (Cont'd)

e. to approve the product structures and transactions which are being managed, executed and entered into by the Bank;

f. to endorse and validate the following documentations:

   i. the terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and

   ii. the product manuals, marketing advertisements, sales illustrations and brochures used to describe the products;

g. to assess the work carried out by Shariah Review and Shariah Audit to ensure Shariah compliance;

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

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

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

k. to provide Shariah compliant endorsement in the annual financial statements of the Bank, supported by the Annual Shariah Committee Certification; and

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

m. to provide consultation to the Audit Committee in the course of the Audit Committee determining the deliverables of the Shariah audit function.

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

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

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

Directors' Report (Cont'd)

Auditors

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

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

....Director
MUKHTAR MALIK HUSSAIN

....Director
MOHAMED RAFE BIN MOHAMED HANEEF

Kuala Lumpur, Malaysia
15 February 2012

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

DIRECTORS' STATEMENT

In the opinion of the directors:

We, Mukhtar Malik Hussain and Mohamed Rafe bin Mohamed Haneef, being two of the directors of HSBC Amanah Malaysia Berhad, do hereby state on behalf of the directors that, in our opinion, the financial statements set out on pages 47 to 110 are drawn up in accordance with the provisions of the Companies Act, 1965 and Financial Reporting Standards as modified by Bank Negara Malaysia's guidelines so as to give a true and fair view of the financial position of the Bank as at 31 December 2011 and of the financial performance and cash flows of the Bank for the year then ended.

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

....Director
MUKHTAR MALIK HUSSAIN

....Director
MOHAMED RAFE BIN MOHAMED HANEEF

Kuala Lumpur, Malaysia
15 February 2012

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

STATUTORY DECLARATION

I, Saw Say Pin, being the officer primarily responsible for the financial management of HSBC Amanah Malaysia Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 47 to 110 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur, Malaysia on 15 February 2012

....
SAW SAY PIN

BEFORE ME:

PESURUHJAYA SUMPAH
W 541
ZULKIFLA MOHD DAHLIM
MALAYSIA

....
Signature of Commissioner for Oaths

106, BANGUNAN LOKE YEW
1 JALAN MAHKAMAH PERSEKUTUAN
50050 KUALA LUMPUR

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

SHARIAH COMMITTEE'S REPORT

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

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

Assalamu 'Alaikum Warahmatullahi Wabarakatuh

In carrying out the roles and responsibilities as Shariah Committee of HSBC Amanah Malaysia Berhad as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia, the HSBC Amanah Shariah Governance Policy as well as the HSBC Amanah Shariah Committee's Terms of Reference, we hereby submit the following report for the financial year ended 31 December 2011:

1. We have conducted thirteen (13) meetings for the whole year of 2011 and reviewed the principles and the contracts relating to the transactions and applications introduced by HSBC Amanah Malaysia Berhad during the financial year ended 31 December 2011 to ensure conformity with Shariah requirements. The attendance of the members at the Shariah Committee meetings held was as follows:

Name of members	Designation	Attendance / No. of meetings
Assoc. Prof. Dr. Younes Soualhi	Chairman	12 / 13
Khairul Anuar Ahmad	Member	13 / 13
Dr. Yusuf Saleem Ghulam Nabi	Member	11 / 11
Prof. Dr. Obiyathulla Ismath Bacha	Member	11 / 11
Prof. Dr. Abdul Rahim Abdul Rahman	Member	6 / 7

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

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

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

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

SHARIAH COMMITTEE'S REPORT (Cont'd)

On that note, we, being the members of the Shariah Committee of HSBC Amanah Malaysia Berhad, do hereby confirm that in our opinion:-

a) the contracts, transactions, dealings entered into by HSBC Amanah Malaysia Berhad during the financial year ended 31 December 2011 have been reviewed by us and are in compliance with Shariah rules and principles; and

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

We, the members of the Shariah Committee of HSBC Amanah Malaysia Berhad, do hereby confirm that, to our view, the operations of HSBC Amanah Malaysia Berhad for the financial year ended 31 December 2011 have been conducted in conformity with the Shariah principles.

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

Wassalamu 'Alaikum Warahmatullahi Wabarakatuh

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

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

Kuala Lumpur, Malaysia
15 February 2012

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

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Fax +60 (3) 7721 3399
Internet www.kpmg.com.my

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

Report on the Financial Statements

We have audited the financial statements of HSBC Amanah Malaysia Berhad, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 47 to 110.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Guidelines, and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Bank as of 31 December 2011 and of its financial performance and cash flows for the year then ended.

KPMG

Independent Auditors' Report (Cont'd)

Report on Other Legal and Regulatory Requirements

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

Other Matters

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong
Approval Number: 2613/12/12(J)
Chartered Accountant

15 February 2012

Petaling Jaya

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	**31 Dec 2011 RM'000**	31 Dec 2010 RM'000
Assets			
Cash and short-term funds	*6*	**1,536,792**	1,508,998
Financial Assets Held-for-Trading	*7*	**216,716**	148,006
Financial Investments Available-for-Sale	*8*	**422,086**	330,665
Financing and advances	*9*	**7,546,346**	4,636,276
Other assets	*11*	**212,308**	59,035
Statutory deposits with Bank Negara Malaysia	*12*	**228,562**	34,729
Equipment	*13*	**18,926**	16,425
Intangible assets	*14*	**461**	1,499
Deferred tax assets	*15*	**15,182**	18,002
Total Assets		**10,197,379**	6,753,635
Liabilities			
Deposits from customers	*16*	**5,476,252**	3,782,536
Deposits and placements from banks and other financial institutions	*17*	**3,740,525**	2,084,599
Bills and acceptances payable		**7,600**	5,531
Other liabilities	*18*	**102,105**	91,670
Provision for taxation and zakat	*19*	**6,838**	4,448
Total Liabilities		**9,333,320**	5,968,784
Shareholder's Equity			
Share capital	*20*	**50,000**	50,000
Reserves	*21*	**814,059**	734,851
Total Shareholder's Equity		**864,059**	784,851
Total Liabilities and Shareholder's Equity		**10,197,379**	6,753,635
Commitments and Contingencies	*33*	**5,535,558**	1,823,148

The financial statements were approved for issue by the Board of Directors on 15 February 2012.

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

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	**31 Dec 2011 RM'000**	31 Dec 2010 RM'000
Income derived from investment of depositors' funds and others	*22*	**455,721**	314,951
Income derived from investment of shareholder's funds	*23*	**89,499**	78,811
Impairment losses on financing	*24*	**(124,337)**	(70,844)
Total distributable income		**420,883**	322,918
Income attributable to depositors	*25*	**(159,492)**	(100,059)
Total net income		**261,391**	222,859
Personnel expenses	*26*	**(26,452)**	(23,470)
Other overheads and expenditures	*27*	**(137,142)**	(136,111)
Profit before taxation		**97,797**	63,278
Taxation	*28*	**(19,233)**	(18,865)
Profit for the year		**78,564**	44,413
Other comprehensive income			
Fair value reserve			
Change in fair value		**379**	(765)
Income tax relating to components of other comprehensive income		**(95)**	192
Other comprehensive income for the year, net of tax		**284**	(573)
Total comprehensive income for the year		**78,848**	43,840
Basic earnings per RM0.50 ordinary share	*29*	**78.6 sen**	44.4 sen

The financial statements were approved for issue by the Board of Directors on 15 February 2012.

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

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

	←	*Non-distributable*		→		*Distributable*	
	Share capital	*Share premium*	*Statutory reserve*	*Available-for-sale reserve*	*Capital contribution reserve*	*Retained profits*	*Total*
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2010							
Balance as at 1 January 2010, as previously stated	50,000	610,000	40,104	437	143 *	40,103	740,787
- effect of adopting FRS 139	-	-	-	-	-	32	32
Balance as at 1 January 2010, restated	50,000	610,000	40,104	437	143	40,135	740,819
Total comprehensive income for the year							
Net profit for the year	-	-	-	-	-	44,413	44,413
Transfer to Statutory Reserve	-	-	9,896	-	-	(9,896)	-
Other comprehensive income, net of income tax							
Fair value reserve:							
Net change in fair value	-	-	-	(573)	-	-	(573)
Total other comprehensive income	-	-	-	(573)	-	-	(573)
Total comprehensive income for the year	-	-	9,896	(573)	-	34,517	43,840
Transactions with ultimate holding company, recorded directly in equity							
Share based payment transactions	-	-	-	-	192	-	192
Balance as at 31 December 2010	50,000	610,000	50,000	(136)	335	74,652	784,851
2011							
Balance as at 1 January 2011	**50,000**	**610,000**	**50,000**	**(136)**	**335**	**74,652**	**784,851**
Total comprehensive income for the year							
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**78,564**	**78,564**
Other comprehensive income, net of income tax							
Fair value reserve:							
Net change in fair value	**-**	**-**	**-**	**284**	**-**	**-**	**284**
Total other comprehensive income	**-**	**-**	**-**	**284**	**-**	**-**	**284**
Total comprehensive income for the year	**-**	**-**	**-**	**284**	**-**	**78,564**	**78,848**
Transactions with ultimate holding company, recorded directly in equity							
Share based payment transactions	**-**	**-**	**-**	**-**	**360**	**-**	**360**
Balance as at 31 December 2011	**50,000**	**610,000**	**50,000**	**148**	**695**	**153,216**	**864,059**

* This balance has been reclassified to conform to current year's presentation, please refer to Note 41 for further details.

The financial statements were approved for issue by the Board of Directors on 15 February 2012.

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

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Cash Flows from Operating Activities		
Profit before taxation	**97,797**	63,278
Adjustments for :		
Equipment written off	**51**	1
Reversal of capitalised charges	**810**	-
Share based payment transactions	**360**	192
Net transfer from parent company	**(527)**	-
Depreciation of equipment	**5,616**	3,625
Amortisation of intangible assets	**233**	736
Net gain on disposal of equipment	**(2)**	-
Operating profit before changes in operating assets and liabilities	**104,338**	67,832
(Increase)/ Decrease in operating assets		
Financial assets held-for-trading	**(68,710)**	(20,620)
Financing and advances	**(2,910,070)**	(1,471,271)
Other assets	**(153,273)**	317,618
Statutory deposits with Bank Negara Malaysia	**(193,833)**	(6,200)
Increase/ (Decrease) in operating liabilities		
Deposits from customers	**1,693,716**	1,310,125
Deposits and placements from banks and other financial institutions	**1,655,926**	573,692
Bills and acceptances payable	**2,069**	2,233
Other liabilities	**10,435**	30,195
Net cash generated from operating activities before income tax	**140,598**	803,604
Taxation paid	**(14,018)**	(22,121)
Utilisation of zakat provision	**(100)**	(20)
Net cash generated from operating activities	**126,480**	781,463
Cash Flows from Investing Activities		
Purchase of equipment	**(7,641)**	(12,567)
Purchase of intangible assets	**(5)**	(12)
Proceeds from disposal of equipment	**2**	16
Financial investments available-for-sale	**(91,042)**	52,790
Net cash (used in)/ generated from investing activities	**(98,686)**	40,227
Net increase in Cash and Cash Equivalents	**27,794**	821,690
Cash and Cash Equivalents at beginning of the year	**1,508,998**	687,308
Cash and Cash Equivalents at end of the year	**1,536,792**	1,508,998
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**1,536,792**	1,508,998

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

1 General Information

HSBC Amanah Malaysia Berhad ("the Bank") incorporated on 26 February 2008, is a licensed Islamic Bank under the Islamic Banking Act, 1983. The registered office of the Bank is at No. 2, Leboh Ampang, 50100 Kuala Lumpur.

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

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

2 Basis of Preparation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with the provisions of the Companies Act, 1965, generally accepted accounting principles and Financial Reporting Standards ("FRS") issued by the Malaysian Accounting Standards Board ("MASB") as modified by Bank Negara Malaysia's ("BNM") guidelines and Shariah requirements.

All significant accounting policies adopted are consistent with those of the audited annual financial statements for the year ended 31 December 2010, except for the adoption of the following FRSs, amendments to FRSs, Issues Committee ("IC") Interpretations and Technical Release.

	FRS/Interpretations	**Effective date**
-	FRS 1, First-time Adoption of Financial Reporting Standards	1 Jul 2010
-	FRS 3, Business Combinations	1 Jul 2010
-	FRS 127, Consolidated and Separate Financial Statements	1 Jul 2010
-	IC Interpretation 4, Determining whether an Arrangement contains a Lease	1 Jan 2011
-	IC Interpretation 12, Service Concession Arrangements	1 Jul 2010
-	IC Interpretation 16, hedges of a Net investment in a Foreign Operation	1 Jul 2010
-	IC Interpretation 17, Distribution of Non-cash Assets to Owners	1 Jul 2010
-	IC Interpretation 18, Transfers of Assets from Customers	1 Jan 2011
-	Amendments to FRS 1, First time Adoption of Financial Reporting Standards - Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters and Additional Exemptions for First-time Adopters	1 Jan 2011
-	Amendments to FRS 132, Financial Instruments: Presentation – Classification of Rights Issues	1 Mar 2010
-	Amendments to FRS 2, Share-based Payment	1 Jul 2010
-	Amendments to FRS 2, Group Cash-settled Share-based Payment Transactions	1 Jan 2011
-	Amendments to FRS 5, Non-current Assets Held for Sale and Discontinued Operations	1 Jul 2010
-	Amendments to FRS 7, Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments	1 Jan 2011
-	Amendments to FRS 138, Intangible Assets	1 Jul 2010
-	Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives	1 Jul 2010
-	Improvements to FRSs (2010)	1 Jan 2011
-	Technical Release *i*-4, Shariah Compliant Sale Contracts	1 Jan 2011

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

IC Interpretations 12, 16 and 17 did not have any impact on the financial statements of the Bank as they are not relevant to the operations of the Bank. The adoption of the remaining FRSs, amendments to FRSs and IC Interpretations did not have any material impact on the financial results of the Bank.

The Bank has not applied the following accounting standards, amendments and interpretations that have been issued by MASB as they are either not applicable or not yet effective for the Bank.

FRS/ Interpretations	**Effective date**
- IC interpretations 19, Extinguishing Financial Liabilities with Equity Instruments	1 Jul 2011
- Amendments to IC Interpretations 14, prepayments of a Minimum Funding Requirement	1 Jul 2011
- FRS 124, Related Party Disclosures (revised)	1 Jan 2012
- IC Interpretation 15, Agreements for the Construction of Real Estate	1 Jan 2012
- Amendments to FRS 1, First-time Adoption of Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 Jan 2012
- Amendments to FRS 7, Financial instruments: Disclosures – Transfers of Financial Assets	1 Jan 2012
- Amendments to FRS 112, Income Taxes – Deferred Tax: Recovery of Underlying Assets	1 Jan 2012
- Amendments to FRS 101, Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income	1 Jul 2012
- FRS 9, Financial Instruments (2009)	1 Jan 2013
- FRS 9, Financial Instruments (2010)	1 Jan 2013
- FRS 10, Consolidated Financial Statements	1 Jan 2013
- FRS 11, Joint Arrangements	1 Jan 2013
- FRS 12, Disclosure of Interests in Other Entities	1 Jan 2013
- FRS 13, Fair Value Measurement	1 Jan 2013
- FRS 119, Employee Benefits (2011)	1 Jan 2013
- FRS 127, Separate Financial Statements (2011)	1 Jan 2013
- FRS 128, Investments in Associates and Joint Ventures (2011)	1 Jan 2013
- IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine	1 Jan 2013

The Bank's financial statements for the annual period beginning on I January 2012 will be prepared in accordance with the Financial Reporting Standards (FRSs) issued by MASB, which will then be known as Malaysian Financial Reporting Standards (MFRSs), and International Financial Reporting Standards (IFRSs).

2 Basis of Preparation (Cont'd)

(b) Basis of measurement

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

- Financial assets held-for-trading
- Financial investments available-for-sale
- Financial instruments
- Derivatives and Hedge Accounting

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with FRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

There are no 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 in Note 5.

3 Significant Accounting Policies

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

(a) Foreign Currency Transactions

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

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

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

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

(b) Recognition of Financing Income and Financing Expenses

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

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

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

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

The Bank earns fee income from a diverse range of services it provides to its customers. Fee income is accounted for as follows:

- if the income is earned on the execution of a significant act, it is recognised as revenue when the significant act has been completed;

- if the income is earned as services are provided, it is recognised as revenue as the services are provided; and

- Fee and commission income and expense that are integral to the effective profit rate on a financial asset or liability are included in the measurement of the effective profit rate. It is recognised as an adjustment to the effective profit rate and recorded in ‘financing income’ (see Note 3b).

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

Net trading income comprises gains and losses from changes in the fair value of financial assets held-for-trading, together with the related profit income as well as income from derivative contracts.

3 Significant Accounting Policies (Cont'd)

(d) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Bank intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liabilities are generally recognised for all taxable temporary differences. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(e) Financial instruments

i) Initial recognition and measurement

The Bank initially recognises financing and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through statement of comprehensive income) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

ii) Classification

See accounting policies in Notes 3*(h)*, 3*(i)*, 3*(j)*.

iii) Derecognition

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

Financial liabilities are derecognised when the Bank's contractual obligations are discharged, cancelled, or expired.

3 Significant Accounting Policies (Cont'd)

(e) Financial instruments (Cont'd)

iv) Offsetting

Financial assets and financial 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 there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under the FRSs.

v) Amortised cost measurement

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

vi) Fair value measurement

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

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Fair values of financial instruments may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data, where current prices or observable market data are not available.

Valuation techniques incorporate assumptions about factors that other market participants would use in their valuations, including profit rate yield curves, exchange rates, volatilities, and prepayment and default rates. If there are additional factors that are not incorporated within the valuation model but would be considered by market participants, further fair value adjustments are applied to model calculated fair values. These fair value adjustments include adjustments for bid-offer spread, model uncertainty, credit risk and model limitation. Where a financial instrument has a quoted price in an active market and it is part of a portfolio, the fair value of the portfolio is calculated as the product of the number of units and quoted price and no block discounts are made.

If the fair value of a financial asset measured at fair value becomes negative, the financial instrument is recorded as a financial liability until the fair value becomes positive, at which time the financial instrument is recorded as a financial asset.

3 Significant Accounting Policies (Cont'd)

(e) Financial instruments (Cont'd)

vi) Fair value measurement (Cont'd)

The fair values of financial liabilities are measured using quoted market prices where available, or using valuation techniques. These fair values include market participants' assessments of the appropriate credit spread to apply to the Bank's liabilities. The amount of change during the period, and cumulatively, in the fair value of designated financial liabilities and financing and advances that is attributable to changes in their credit spread is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

vii) Identification of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

An asset is to be assessed as impaired when, and only when, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the asset (a "loss event") and that loss event has an adverse impact on the cash flows of the asset which can be reliably estimated.

The criteria used by the Bank to help determine whether there is objective evidence of impairment of such an asset include:

- principal or profit or both are past due for more than 90 days;
- known cash flow difficulties experienced by the customer;
- an overdue contractual payment of principal or profit;
- breach of financing covenants or conditions;
- the probability that the customer will enter bankruptcy or other distressed financial reorganisation,
- based on conditions existing at the reporting date; and
- a significant downgrading in credit rating by an external credit rating agency - not in itself evidence of impairment, but to be considered in conjunction with other information

The Bank takes a prudent approach, through its criteria for assessing whether objective evidence of impairment exists, to interpretation of the term 'objective evidence' and to quantifying impairment allowance requirements. However, it also allows circumstances in which, in the absence of other indicators of impairment, exposures designated as past due will not normally be regarded as impaired, including:

- individually assessed financing fewer than 90 days past due;
- financing fully secured by cash collateral;
- short-term trade facilities technically overdue, for instance through documentation delay, but where there is no concern over the creditworthiness of the customer/ counterparty; and

(f) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and bank balances, and short term deposits and placements maturing within one month that is readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

(g) Resale and Repurchase Agreements

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

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

3 Significant Accounting Policies (Cont'd)

(h) Financial assets held-for-trading

Financial assets are classified as held-for-trading if they have been acquired principally for the purpose of selling or repurchasing it in the near term or they form part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These financial assets are recognised on trade date, when the Bank enters into contractual arrangements with counterparties to purchase or sell the financial assets, and are normally derecognised when sold. Measurement is initially at fair value, with transaction costs taken to statement of comprehensive income. Subsequently, the fair values are remeasured, and gains and losses therein, together with any related profit earned are recognised in statement of comprehensive income as 'Net trading income'.

(i) Financial investments

i Held-to-maturity

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

ii Available-for-sale

Available-for-sale investments are non derivative financial assets that are not classified as held-for-trading or held-to-maturity investments; and are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income in 'Net unrealised gain/loss from revaluation of financial assets held-for-trading and other financial assets' until the financial assets are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in statement of comprehensive income as 'Net gains/loss from sale of financial assets held-for-trading and other financial instruments'.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

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

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

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

Impairment losses for available-for-sale debt securities are recognised within 'Financing impairment charges and other credit risk provisions' in the statement of comprehensive income and impairment losses for available-for-sale equity securities are recognised within 'Impairment losses on available-for-sale financial investments' in the statement of comprehensive income.

3 Significant Accounting Policies (Cont'd)

(i) Financial investments (Cont'd)

ii Available-for-sale (Cont'd)

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

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

For financing converted into debt or equity instruments classified as available-for-sale, these instruments are measured at fair value. The difference between the net book value of the restructured financing (outstanding amount of financing net of individual impairment provision) and the fair value of the debt or equity instruments will be a gain or loss from the conversion scheme.

- Where the net book value of the restructured financing is higher than the fair value of the debt or equity instruments, the loss shall be recognised in the statement of comprehensive income in the current reporting period.
- Where the fair value of the debt or equity instruments is higher than the net book value of the restructured financing, the gain from the conversion exercise is transferred to the "impairment loss" account, which would be netted off from the "Financial investments available-for-sale" account in the statement of financial position.

(j) Financing and Advances

Financing and advances include financing and advances originated from the Bank, which are not intended to be sold in the short term and have not been classified as held for trading or designated at fair value. Financing and advances are recognised when cash is advanced to customers. They are derecognised when either the customer repays its obligations, or the advances are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective profit rate method, less any impairment losses.

3 Significant Accounting Policies (Cont'd)

(k) Impairment of financing and advances

The Bank's allowances for impaired financing are in conformity with FRS 139 and Bank Negara Malaysia's "Guidelines on Classification and Impairment Provisions for Loans/Financing" issued on 1 January 2010. Accounts are classified as impaired when principal or profit or both are past due for more than ninety (90) days, or once there is objective evidence that the customer's account is impaired, whichever is sooner. Where repayments are scheduled on intervals of 3 months or longer, the financing is classified as impaired as soon as a default occurs, unless it does not exhibit any weakness that would render it classified according to the Bank's credit risk grading framework.

Individual impairment provisions are made for impaired financing which have been individually reviewed and specifically identified as impaired.

Collective impairment provisions based on a percentage (1.5%) of the total outstanding financing portfolio net of individual impairment provisions is also maintained to cover possible losses which are not specifically identified.

Financing (and related allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised financing, when the proceeds from the realisation of security have been received.

Impaired financing are measured at their estimated recoverable amount based on the discounted cash flow methodology. Individual impairment allowances are provided if the recoverable amount (present value of estimated future cash flows discounted at original effective profit rate) is lower than the net book value of the financing (outstanding amount of financing and advances). The expected cash flows are based on projections of liquidation proceeds, realisation of assets or estimates of future operating cash flows.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss may be reversed to the extent it is now excessive by reducing the financing impairment allowance account. The amount of any reversal is recognised in the statement of comprehensive income.

(l) Impairment of other assets

The carrying amounts of other assets (except for deferred tax asset, assets arising from employee benefits and non-current assets (or disposal groups) classified as held for sale) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets (known as cash-generating unit).

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the cash-generating unit (or a group of cash-generating units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

3 Significant Accounting Policies (Cont'd)

(m) Equipment

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

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

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

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

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

(n) Operating Leases

Leases, where the the Bank does not assume substantially all the risks and rewards of ownership, are classified as operating leases and the leased assets are not recognised in the statement of financial position of the Bank. Rentals payable under operating leases are accounted for on a straight line basis over the periods of the leases unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed and are recognised in profit or loss under "General administrative expenses."

Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

(o) Intangible Assets

Intangible assets represent computer software and are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation of intangible assets is calculated to write off the cost of the intangible assets on a straight line basis over the expected useful lives of 3 to 5 years. Intangible assets are subject to an impairment review if there are events or changes which indicate that the carrying amount may not be recoverable.

(p) Bills and Acceptances Payable

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

(q) Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which had arisen as a result of past events, and for which a reliable estimate can made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(r) Financial guarantees

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

3 Significant Accounting Policies (Cont'd)

(s) Derivatives and Hedge Accounting

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

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

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

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

Hedge accounting

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

i) Fair value hedge

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

3 Significant Accounting Policies (Cont'd)

(s) Derivatives and Hedge Accounting(Cont'd)

ii) Cash flow hedge

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

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

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

(t) Profit Equalisation Reserves (PER)

PER refers to the amount appropriated out of total gross income in order to maintain an acceptable level of return to depositors as stipulated by Bank Negara Malaysia's "The Framework of Rate of Return". PER is a provision shared by both the depositors and the Bank, and is deducted from the Bank's total gross income. Maximum monthly provision of PER is up to 15% of the gross income and can be accumulated up to a maximum of 30% of the Bank's shareholder's fund.

(u) Employee Benefits

i Short term employee benefits

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

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

ii Defined contribution plan

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

3 Significant Accounting Policies (Cont'd)

(v) Share based payments

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

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

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

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

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

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

(w) Earnings per share

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

4 Financial risk management

a) Introduction and overview

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

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

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

Risk management framework

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

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

The Risk Management Committee is entrusted with the responsibility to oversee senior management’s activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning. In addition, a separate internal Risk Committee was set up in 2009 in line with the Group's Risk Governance Structure to oversee and ensure that risk issues across all businesses are appropriately managed, and that adequate controls exist. The Bank also has an internal Operational Risk and Internal Control Committee to oversee and manage operational risk and ensure that adequate controls are maintained over operational processes.

b) Credit risk management

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

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

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

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

- risk concentration and exposures to industry sectors;
- large customer group exposures; and
- large impaired accounts and impairment allowances.

The Bank has systems in place to control and monitor its exposure at the customer and counterparty level. Regular audit of credit processes are undertaken by the Internal Audit function. Such audits include consideration of the completeness and adequacy of credit manuals and lending guidelines, together with an in-depth analysis of a representative sample of accounts, an overview of homogeneous portfolios of similar assets to assess the quality of the financing book and other exposures, and adherence to HSBC Group standards and policies in the extension of credit facilities.

Individual accounts are reviewed to ensure that risk grades are appropriate, that credit and collection procedures have been properly followed and that, where an account evidences deterioration, impairment allowances are raised in accordance with the HSBC Group's established processes and local regulatory requirements. Internal Audit will discuss with management, risk ratings they consider to be inappropriate, and their subsequent recommendations for revised grades must then be assigned to the facilities concerned.

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

Impairment assessment

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

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

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

Past due but not impaired financing and investment debt securities

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

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

Financing with renegotiated terms

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

Write-off of financing and advances

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

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

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

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

The estimated fair value of collateral and other security enhancements held against impaired financing as at 31 December 2011 amounted to RM28.1 million (31 December 2010 : RM11.8 million).

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

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

The Bank monitors concentration of credit risk by sector and geographical location. The analysis of concentration of credit risk from financing and advances to customers is shown in Note 9 (vi) and 9 (viii). The analysis of concentration of credit risk from financing and advances to banks and investment securities is shown in note 4 *b(ii)*.

Financial assets held-for-trading

The Bank holds financial assets held-for-trading of RM216.7 million. An analysis of the credit quality of the maximum credit exposure, based on the rating agency Standard & Poor's, is as disclosed in Note 7 to the financial statements.

Settlement risk

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

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

i) Exposure to credit risk

	2011		
	Financing and advances to customers RM'000	Financing and advances to banks* RM'000	Investment Securities RM'000
Carrying amount	**7,546,346**	**1,536,792**	**422,086**
Assets at amortised cost			
Individually impaired:			
Gross amount	**125,688**	**-**	**-**
Allowance for impairment	**(69,269)**	**-**	**-**
Carrying amount	**56,419**	**-**	**-**
Past due but not impaired:			
Carrying amount	**341,446**	**-**	**-**
Past due comprises:			
up to 29 days	**243,078**	**-**	**-**
30 - 59 days	**56,211**	**-**	**-**
60 - 89 days	**42,157**	**-**	**-**
90 - 179 days	**-**	**-**	**-**
180 days and over	**-**	**-**	**-**
	341,446	**-**	**-**
Neither past due nor impaired:			
Strong	**3,810,870**	**1,536,792**	**-**
Medium -good	**2,232,539**	**-**	**-**
Medium-satisfactory	**1,209,381**	**-**	**-**
Substandard	**10,991**	**-**	**-**
Carrying amount	**7,263,781**	**1,536,792**	**-**
of which includes accounts with renegotiated terms	***52,153***	-	-
Collective allowance for impairment	**(115,300)**	**-**	**-**
Carrying amount-amortised cost	**7,546,346**	**1,536,792**	**-**
Available-for-sale (AFS)			
Neither past due nor impaired:			
Strong	**-**	**-**	**422,086**
Carrying amount	**-**	**-**	**422,086**
of which includes accounts with renegotiated terms	-	-	-
Carrying amount-fair value	**-**	**-**	**422,086**

* Consists of cash and short term funds and deposits and placements with banks and other financial institutions.

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

i) Exposure to credit risk

	2010		
	Financing and advances to customers RM'000	**Financing and advances to banks* RM'000**	**Investment Securities RM'000**
Carrying amount	4,636,276	1,508,998	330,665
Assets at amortised cost			
Individually impaired:			
Gross amount	70,810	-	-
Allowance for impairment	(41,858)	-	-
Carrying amount	28,952	-	-
Past due but not impaired:			
Carrying amount	232,538	-	-
Past due comprises:			
up to 29 days	154,836	-	-
30 - 59 days	42,454	-	-
60 - 89 days	13,409	-	-
90 - 179 days	21,759	-	-
180 days and over	80	-	-
	232,538	-	-
Neither past due nor impaired:			
Strong	2,028,755	1,478,998	-
Medium -good	1,351,498	30,000	-
Medium-satisfactory	927,250	-	-
Substandard	137,938	-	-
Carrying amount	4,445,441	1,508,998	-
of which includes accounts with renegotiated terms	*12,653*	-	-
Collective allowance for impairment	(70,655)	-	-
Carrying amount-amortised cost	4,636,276	1,508,998	-
Available-for-sale (AFS)			
Neither past due nor impaired:			
Strong	-	-	326,163
Medium-satisfactory	-	-	4,502
Carrying amount	-	-	330,665
of which includes accounts with renegotiated terms	-	-	-
Carrying amount-fair value	-	-	330,665

* Consists of cash and short term funds and deposits and placements with banks and other financial institutions.

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

i) Exposure to credit risk

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

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

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

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

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

ii) Concentration by sector and by location#

	31 Dec 2011		31 Dec 2010	
	Financing and advances to banks* RM'000	**Investment Securities RM'000**	**Financing and advances to banks* RM'000**	**Investment Securities RM'000**
Carrying amount	**1,536,792**	**422,086**	1,508,998	330,665
By Sector				
Finance, insurance and business services	**1,536,792**	**25,004**	1,508,998	34,505
Others	**-**	**397,082**	-	296,160
	1,536,792	**422,086**	1,508,998	330,665
By geographical location				
Within Malaysia	**1,497,246**	**422,086**	1,508,998	330,665
Outside Malaysia	**39,546**	**-**	-	-
	1,536,792	**422,086**	1,508,998	330,665

* Consists of cash and short term funds and deposits and placements with banks and other financial institutions.

\# Concentration by sector and location for financing and advances is disclosed under Note 9 vi) and 9 viii) to the financial statements.

4 Financial risk management (Cont'd)

c) Liquidity and funding management

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

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

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

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

The Bank’s liquidity and funding management process includes:

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

4 Financial risk management (Cont'd)

c) Liquidity and funding management (Cont'd)

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

RM'000	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years
As at 31 Dec 2011					
Deposits by customers	**1,696,062**	**3,050,222**	**756,263**	**16,679**	**-**
Deposits and placements from banks and other financial institutions	**3,964**	**1,018,080**	**2,520,792**	**197,688**	**-**
Bills and acceptances payable	**-**	**-**	**-**	**-**	**-**
Other liabilities	**71,659**	**20,023**	**-**	**-**	**-**
	1,771,685	**4,088,325**	**3,277,055**	**214,367**	**-**
Financing and other credit-related commitments	**2,338,386**	**536,199**	**2,007,150**	**251,778**	**-**
Financial guarantees and similar contracts	**451,223**	**12,501**	**46,881**	**79,183**	**-**
	4,561,294	**4,637,025**	**5,331,086**	**545,328**	**-**

RM'000	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years
As at 31 Dec 2010					
Deposits by customers	1,169,328	2,123,871	452,566	179,863	-
Deposits and placements from banks and other financial institutions	-	1,060,643	28,885	995,071	-
Bills and acceptances payable	-	5,531	-	-	-
Other liabilities	56,272	21,991	-	-	-
	1,225,600	3,212,036	481,451	1,174,934	-
Financing and other credit-related commitments	1,250,640	613,551	1,241,250	135,399	-
Financial guarantees and similar contracts	72,519	18,238	2,564	122	-
	2,548,759	3,843,825	1,725,265	1,310,455	-

The balances in the above table 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.

4 Financial risk management (Cont'd)

d) Market risk management

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

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

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

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

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

Value at risk ('VAR')

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

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

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

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

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

RM'000	At 31 Dec 2011	Average	Maximum	Minimum
Foreign currentcy risk	**46**	**64**	**236**	**5**
Profit rate risk	**233**	**263**	**664**	**104**
Credit spread risk	**-**	**8**	**154**	**-**
Overall	**237**	**268**	**712**	**108**

RM'000	At 31 Dec 2010	Average	Maximum	Minimum
Foreign currentcy risk	37	59	185	6
Profit rate risk	293	496	1,144	188
Credit spread risk	148	62	1,135	-
Overall	330	506	1,366	207

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

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

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

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

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

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

Exposure to profit rate risk - non-trading portfolio

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

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

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

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

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

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

ii) Sensitivity of projected net finance income

Change in projected net finance income in next 12 months arising from a shift in profit rates of :	**31 Dec 2011 RM'000**	**31 Dec 2010 RM'000**
+ 100 basis points parallel increase	**6,286**	15,656
- 100 basis points parallel increase	**(6,868)**	(15,905)
+ 25 basis poimts at the beginning of each quarter	**4,488**	11,150
+25 basis points at the beginning of each quarter	**(4,764)**	(11,175)

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

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

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

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

Change in projected net finance income in next 12 months arising from a shift in profit rates of :	**31 Dec 2011 RM'000**	**31 Dec 2010 RM'000**
+ 100 basis points parallel increase	**(4,981)**	(5,085)
- 100 basis points parallel increase	**4,981**	5,085

Foreign Exchange Risk

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

Specific Issuer Risk

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

Equity Risk

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

4 Financial risk management (Cont'd)

e) Operational risk management

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency, systems failure or external events, including legal risk. It is inherent to every business organisation and covers a wide spectrum of issues.

The Bank manages this risk through a control-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by Internal Audit, and by monitoring external operational risk events, which ensure that the Bank stays in line with best practice and takes account of lessons learned from publicised operational failures within the financial services industry.

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

- operational risk management responsibility is assigned at senior management level within the business operation;

- information systems are used to record the identification and assessment of operational risks and generate appropriate, regular management reporting;

- operational risks are identified by assessments covering operational risks facing each business and risk inherent in processes, activities and products. Risk assessment incorporates a regular review of identified risks to monitor significant changes;

- operational risk loss data is collected and reported to senior management. Aggregate operational risk losses are recorded and details of incidents above a materiality threshold are reported to the Operational Risk and Internal Control Committee. The items are also reported to the internal Risk Committee, the Board level Risk Management Committee, the Audit Committee and as well as Regional Head of Operational Risk Management Asia Pacific; and

- risk mitigation, including insurance, is considered where this is cost-effective.

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

f) Capital management

The Bank's lead regulator, Bank Negara Malaysia ("BNM") sets and monitors capital requirements for the Bank. With effect from 2008, the Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital and Basic Indicator Approach for Operational Risk. The Bank adopts the Standardised approach for Credit and Market Risk in its trading portfolios. Please refer to Note 32 of the financial statements for the Bank's regulatory capital position under Basel II as at the reporting date.

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

5 Use of estimates and judgements

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

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

i) Impairment of financing and advances

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

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

ii) Valuation of financial instruments

The Bank's accounting policy for determining the fair value of financial instruments is described in Note 3*e (vi)* to the financial statements. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about profit rate yield curves, exchange rates, volatilities, and prepayment and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

The main assumptions and estimates which management considers when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. Management bases the determination of this rate on its assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate; and
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments will be based on some market observable inputs even where the unobservable inputs are significant.

5 Use of estimates and judgements (Cont'd)

ii) Valuation of financial instruments (Cont'd)

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

• Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
• Level 2 : Valuation techniques based on observable inputs, either directly, (ie as prices) or indirectly (derived from prices). This category includes instruments valued using: quoted prices for identical or similar instruments in markets that are considered less active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
• Level 3 : Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The tables below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2011				
Financial Assets Held-for-Trading (Note 7)	**216,716**	**-**	**-**	**216,716**
Financial Investments Available-for-Sale (Note 8)	**422,086**	-	-	**422,086**
Derivative financial assets (Note 11)	**-**	**26,937**	**4,048**	**30,985**
	638,802	**26,937**	**4,048**	**669,787**
Derivative financial liabilities (Note 18)	**-**	**10,288**	**273**	**10,561**
2010				
Financial Assets Held-for-Trading (Note 7)	83,646	64,360	-	148,006
Financial Investments Available-for-Sale (Note 8)	326,163	4,502	-	330,665
Derivative financial assets (Note 11)	-	6,101	5,054	11,155
	409,809	74,963	5,054	489,826
Derivative financial liabilities (Note 18)	-	6,101	5,054	11,155

The following tables show the reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	2011		2010	
	Derivative financial assets RM'000	Derivative financial liabilities RM'000	Derivative financial assets RM'000	Derivative financial liabilities RM'000
Balance at 1 January	**5,054**	**5,054**	7,610	7,610
Total gains or losses:				
in profit or loss	**(1,006)**	**(4,781)**	(1,450)	(1,450)
Transfer out of Level 3	**-**	**-**	(1,106)	(1,106)
Balance at 31 December	**4,048**	**273**	5,054	5,054

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

	2011		2010	
	Derivative financial assets RM'000	Derivative financial liabilities RM'000	Derivative financial assets RM'000	Derivative financial liabilities RM'000
Total gains or losses included in profit or loss for the year ended:				
- Net trading income	**(4,472)**	**(4,472)**	(2,563)	(2,563)
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the year:				
- Net trading income	**3,466**	**(309)**	1,113	1,113

6 Cash and Short-Term Funds

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Cash and balances with banks and other financial institutions	**113,412**	28,217
Money at call and interbank placements maturing within one month	**1,423,380**	1,480,781
	1,536,792	1,508,998

7 Financial Assets Held-for-Trading

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	**216,716**	58,552
Malaysian Government treasury bills	**-**	64,360
Unquoted securities:		
Private debt securities	**-**	25,094
	216,716	148,006

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

Money market instruments:		
Malaysian Government treasury bills		
AA+ to AA-	**-**	64,360
Malaysian Government Islamic bonds		
AA+ to AA-	**216,716**	58,552
Unquoted securities:		
Private debt securities		
Unrated	**-**	25,094
	216,716	148,006

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

8 Financial Investments Available-for-Sale

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	**397,082**	296,161
Negotiable instruments of deposit	**25,004**	30,002
Bankers' acceptances and Islamic accepted bills	**-**	4,502
	422,086	330,665

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

Maturing within one year	**206,016**	34,504
More than one year to three years	**216,070**	296,161
	422,086	330,665

9 Financing And Advances

(i) By type

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Cash line	**49,753**	14,502
Term financing		
House financing	**1,272,351**	460,173
Hire purchase receivables	**258,634**	176,381
Lease receivables	**129**	187
Other term financing	**4,629,180**	3,134,643
Trust receipts	**25,137**	704
Claims on customers under acceptance credits	**1,054,878**	758,077
Staff financing	**20,378**	9,332
Credit/ charge cards	**365,947**	261,517
Revolving credit	**168,726**	-
	7,845,113	4,815,516
Less: Unearned income	**(114,198)**	(66,727)
	7,730,915	4,748,789
Less: Allowance for impaired financing:		
- Collective allowances for impairment	**(115,300)**	(70,655)
- Individual allowances for impairment	**(69,269)**	(41,858)
Total net financing and advances	**7,546,346**	4,636,276

(ii) By contract

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Bai Bithaman Ajil *(deferred payment sale)*	**496,370**	762,967
Ijarah *(lease)*	**123**	173
Ijarah Thumma Al-Bai (AITAB) *(hire purchase)*	**234,425**	161,735
Murabahah *(cost-plus)*	**2,660,992**	1,410,169
Musharakah (*profit and loss sharing)*	**1,707,395**	552,958
Bai Al-Inah *(sell and buy back)*	**1,573,752**	1,234,198
Bai Al-Dayn *(sale of debt)*	**292,850**	267,797
Ujrah *(fee-based)*	**765,008**	358,786
Qard (*benevolent financing*)	**-**	6
	7,730,915	4,748,789

(iii) By type of customer

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Domestic non-bank financial institutions	**-**	78
Domestic business enterprises		
Small medium enterprises	**1,755,146**	942,457
Others	**2,319,437**	1,562,294
Government and statutory bodies	**25,086**	25,443
Individuals	**3,217,167**	1,969,341
Other domestic entities	**2,934**	3,614
Foreign entities	**411,145**	245,562
	7,730,915	4,748,789

9 Financing And Advances (Cont'd)

(iv) By profit rate sensitivity

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Fixed rate		
House financing	**14,812**	21,518
Hire purchase receivables	**234,425**	161,735
Other financing	**3,076,876**	2,717,503
Variable rate		
House financing	**1,309,663**	448,763
Other financing	**3,095,139**	1,399,270
	7,730,915	4,748,789

(v) By maturity structure

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Maturing within one year	**3,877,009**	2,483,534
More than one year to three years	**674,185**	639,036
More than three years to five years	**1,173,785**	935,955
Over five years	**2,005,936**	690,264
	7,730,915	4,748,789

(vi) By sector

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Agriculture, hunting, forestry & fishing	**495,346**	97,788
Mining and quarrying	**158,056**	138,104
Manufacturing	**1,539,219**	1,090,858
Electricity, gas and water	**76,628**	12,273
Construction	**256,840**	80,790
Real estate	**394,054**	323,738
Wholesale & retail trade, restaurants & hotels	**360,928**	231,219
Transport, storage and communication	**407,268**	233,059
Finance, insurance and business services	**180,895**	233,414
Household - Retail	**3,360,543**	2,000,719
Others	**501,138**	306,827
	7,730,915	4,748,789

(vii) By purpose

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Purchase of landed property:		
Residential	**1,254,170**	455,611
Non-residential	**63,002**	25,469
Purchase of securities	**-**	1,019
Purchase of transport vehicles	**1,578**	1,464
Purchase of fixed assets excluding land & building	**57,469**	76,779
Consumption Credit	**2,102,850**	1,541,544
Construction	**256,840**	80,790
Working Capital	**3,699,306**	2,323,025
Other Purpose	**295,700**	243,088
	7,730,915	4,748,789

9 Financing And Advances (Cont'd)

(viii) By geographical distribution

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Northern Region	**1,417,862**	954,542
Southern Region	**1,114,121**	516,849
Central Region	**4,396,499**	2,861,233
Eastern Region	**802,433**	416,165
	7,730,915	4,748,789

The Northern region consists of the states of Perlis, Kedah, Penang, Perak, Pahang, Kelantan and Terengganu.
The Southern region consists of the states of Johor, Malacca and Negri Sembilan.
The Central region consists of the states of Selangor and the Federal Territory of Kuala Lumpur.
The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.
Concentration by location for financing and advances is based on the location of the customer.

10 Impaired Financing

(i) Movements in impaired financing and advances

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
At beginning of year	**70,810**	55,453
Classified as impaired during the year	**169,700**	96,333
Reclassified as performing	**(492)**	(1,456)
Amount recovered	**(40,326)**	(18,785)
Amount written off	**(83,291)**	(66,250)
Other movements	**9,287**	5,515
At end of year	**125,688**	70,810
Less: Individual allowances for impairment	**(69,269)**	(41,858)
Net impaired financing and advances	**56,419**	28,952

(ii) Movements in allowance for impaired financing

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Collective allowance for impairment		
At beginning of year	**70,655**	52,597
Made during the year	**46,890**	18,988
Amount written back	**(2,245)**	(930)
At end of year	**115,300**	70,655

10 Impaired Financing (Cont'd)

(ii) Movements in allowance for impaired financing (Cont'd)

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Individual allowance for impairment		
At beginning of year	**41,858**	35,383
- effect of adopting FRS 139	**-**	(43)
At beginning of year, restated	**41,858**	35,340
Made during the year	**97,590**	68,769
Amount recovered	**(4,144)**	(5,668)
Amount written off	**(75,628)**	(61,545)
Other movement	**9,287**	5,558
Discount unwind	**306**	(596)
At end of year	**69,269**	41,858

(iii) By contract

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Bai Bithaman Ajil *(deferred payment sale)*	**779**	2,149
Ijarah Thumma Al-Bai (AITAB) *(hire purchase)*	**4,552**	2,545
Murabahah *(cost-plus)*	**7,420**	4,521
Musharakah (*profit and loss sharing)*	**19,385**	1,859
Bai Al-Inah *(sell and buy back)*	**83,315**	51,608
Ujrah *(fee-based)*	**10,237**	8,128
	125,688	70,810

(iv) By sector

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Manufacturing	**9,068**	2,929
Wholesale & retail trade, restaurants & hotels	**4,281**	5,246
Transport, storage and communication	**-**	80
Finance, insurance and business services	**-**	685
Household - Retail	**112,339**	61,870
	125,688	70,810

(v) By purpose

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Purchase of landed property:		
Residential	**19,032**	2,218
Non-residential	**111**	111
Purchase of transport vehicles	**3**	-
Consumption credit	**93,304**	59,652
Working Capital	**12,910**	8,829
Other purpose	**328**	-
	125,688	70,810

(vi) By geographical distribution

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Northern Region	**32,022**	19,219
Southern Region	**23,057**	12,865
Central Region	**64,135**	31,681
Eastern Region	**6,474**	7,045
	125,688	70,810

11 Other Assets

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Derivative financial assets (Note 33)	**30,985**	11,155
Income receivable	**6,691**	4,128
Amount due from holding company/ related companies	**161,007**	30,604
Other receivables, deposits and prepayments	**13,625**	13,148
	212,308	59,035

12 Statutory deposits with Bank Negara Malaysia

The non-interest 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.

13 Equipment

2011	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Total*
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cost				
Balance as at 1 January 2011	**14,692**	**7,024**	**-**	**21,716**
Additions	**3,517**	**3,903**	**221**	**7,641**
Disposals	**-**	**-**	**-**	**-**
Written off	**(612)**	**-**	**-**	**(612)**
Net transfers (to)/from parent company	**6**	**506**	**-**	**512**
Balance as at 31 December 2011	**17,603**	**11,433**	**221**	**29,257**
Accumulated depreciation				
Balance as at 1 January 2011	**3,518**	**1,773**	**-**	**5,291**
Charge for the year	**3,913**	**1,666**	**37**	**5,616**
Disposals	**-**	**-**	**-**	**-**
Written off	**(561)**	**-**	**-**	**(561)**
Net transfers to/ (from) parent company	**1**	**(16)**	**-**	**(15)**
Balance as at 31 December 2011	**6,871**	**3,423**	**37**	**10,331**
Net book value as at 31 December 2011	**10,732**	**8,010**	**184**	**18,926**

2010	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Total*
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cost				
Balance as at 1 January 2010	5,756	3,522	-	9,278
Additions	9,065	3,502	-	12,567
Disposals	(99)	-	-	(99)
Written off	(30)	-	-	(30)
Net transfers (to)/from parent company	-	-	-	-
Balance as at 31 December 2010	14,692	7,024	-	21,716
Accumulated depreciation				
Balance as at 1 January 2010	1,056	722	-	1,778
Charge for the year	2,574	1,051	-	3,625
Disposals	(83)	-	-	(83)
Written off	(29)	-	-	(29)
Net transfers (to)/from parent company	-	-	-	-
Balance as at 31 December 2010	3,518	1,773	-	5,291
Net book value as at 31 December 2010	11,174	5,251	-	16,425

14 Intangible assets

2011	*Computer software* **RM'000**
Cost	
Balance as at 1 January 2011	**5,879**
Additions	**5**
Reversal of capitalised charges to income statement	**(810)**
Balance as at 31 December 2011	**5,074**
Accumulated depreciation	
Balance as at 1 January 2011	**4,380**
Charge for the year	**233**
Balance as at 31 December 2011	**4,613**
Net book value as at 31 December 2011	**461**

2010	*Computer software* **RM'000**
Cost	
Balance as at 1 January 2010	5,867
Additions	12
Balance as at 31 December 2010	5,879
Accumulated depreciation	
Balance as at 1 January 2010	3,644
Charge for the year	736
Balance as at 31 December 2010	4,380
Net book value as at 31 December 2010	1,499

15 Deferred tax assets

The amounts, determined after appropriate offsetting are as follows:	**31 Dec 2011 RM'000**	31 Dec 2010 RM'000
Deferred tax assets	**17,246**	19,730
Deferred tax liabilities	**(2,064)**	(1,728)
	15,182	18,002

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

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

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Equipment		
Capital allowances	**(2,000)**	(1,728)
Available-for-sale reserve	**(49)**	46
Allowances		
Collective impairment allowance	**10,641**	15,058
Others	**6,605**	4,623
Lease receivables	**(15)**	3
	15,182	18,002

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

2011	*As at 1 Jan 2011* **RM'000**	*Recognised in income statement (Note 28)* **RM'000**	*Recognised in other comprehensive income* **RM'000**	*As at 31 Dec 2011* **RM'000**
Equipment				
Capital allowances	**(1,728)**	**(272)**	**-**	**(2,000)**
Available-for-sale reserve	**46**	**-**	**(95)**	**(49)**
Allowances				
Collective impairment allowance	**15,058**	**(4,417)**	**-**	**10,641**
Others	**4,623**	**1,982**	**-**	**6,605**
Lease receivables	**3**	**(18)**	**-**	**(15)**
	18,002	**(2,725)**	**(95)**	**15,182**

2010	*As at 1 Jan 2010* **RM'000**	*Recognised in income statement (Note 28)* **RM'000**	*Recognised in other comprehensive income* **RM'000**	*As at 31 Dec 2010* **RM'000**
Equipment				
Capital allowances	(784)	(944)	-	(1,728)
Available-for-sale reserve	(146)	-	192	46
Allowances				
Collective impairment allowance	13,149	1,909	-	15,058
Others	1,676	2,947	-	4,623
Lease receivables	(11)	14	-	3
	13,884	3,926	192	18,002

16 Deposits From Customers

(i) By type of deposit

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Non-Mudharabah Fund		
Demand deposits	**673,829**	513,731
Savings deposits	**822,480**	655,350
Fixed return investment deposits	**3,780,189**	705,179
Negotiable instruments of deposits	**15,400**	-
	5,291,898	1,874,260
Mudharabah Fund		
General investment deposits	**-**	1,778,568
Others	**184,354**	129,708
	5,476,252	3,782,536

The maturity structure of fixed return investment deposits is as follows:

	RM'000	RM'000
Due within six months	**3,217,397**	2,165,113
More than six months to one year	**548,110**	295,281
More than one year to three years	**14,682**	18,736
More than three years to five years	**-**	4,617
	3,780,189	2,483,747

(ii) By type of customer

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Government and statutory bodies	**86,624**	134,519
Business enterprises	**1,690,893**	1,571,992
Individuals	**3,076,632**	1,699,995
Others	**622,103**	376,030
	5,476,252	3,782,536

17 Deposits and Placements from Banks and Other Financial Institutions

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Mudharabah Fund		
Licensed banks	**3,261,118**	1,493,087
Bank Negara Malaysia	**48,405**	-
Other financial institutions	**431,002**	591,512
	3,740,525	2,084,599

18 Other Liabilities

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Derivative financial liabilities	**10,561**	11,155
Profit payable	**19,051**	15,182
Amounts due to holding company/ related companies	**14,237**	22,626
Profit equalisation reserve	**6,700**	6,700
Other creditors and accruals	**51,556**	36,007
	102,105	91,670

Movement in profit equalisation reserve is as follows:

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
At beginning and end of financial year	**6,700**	6,700

19 Provision for taxation and zakat

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Taxation	**6,838**	4,348
Zakat	**-**	100
	6,838	4,448

20 Share Capital

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Authorised:		
600 million ordinary shares of RM0.50 each	**300,000**	300,000
Issued and fully paid:		
100 million ordinary shares of RM0.50 each		
At beginning and end of financial year	**50,000**	50,000

21 Reserves

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Non-distributable		
Share premium	**610,000**	610,000
Statutory reserve	**50,000**	50,000
Available-for-sale reserve	**148**	(136)
Capital Contribution reserve	**695**	335
	660,843	660,199
Distributable		
Retained profits	**153,216**	74,652
	814,059	734,851

The statutory reserve is maintained in compliance with Section 15 (1) of the Islamic Banking Act, 1983 and is not distributable as cash dividends.

22 Income Derived from Investment of Depositors' Funds and Others

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Income derived from investment of:		
(i) general investment deposits	**322,391**	214,464
(ii) specific investment deposits	**57,227**	31,413
(iii) other deposits	**76,103**	69,074
	455,721	314,951

(i) Income derived from investment of general investment deposits

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Finance income and hibah:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**289,661**	197,936
- Recoveries from impaired financing	**(224)**	391
Financial investments available-for-sale	**297**	-
Money at call and deposit with financial institutions	**32,568**	16,137
	322,302	214,464
Other operating income		
Net gains from sale of financial assets held-for-trading and other financial instruments	**70**	-
Net profit earned from financial assets held-for-trading	**19**	-
	89	-
	322,391	214,464

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

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
(ii) Income derived from investment of specific investment deposits		
Finance income and hibah:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**21,971**	11,926
Financial investments available-for-sale	**9,627**	10,258
Accretion of discount less amortisation of premium	**478**	148
	32,076	22,332
Other operating income		
Fees and commission	**2,977**	2,434
Net gains from dealing in foreign currency	**9,746**	4,936
Net gain/(loss) from sale of financial assets held-for-trading and other financial instruments	**1,062**	(4,743)
Net gains from trading in derivatives	**8,908**	35
Net unrealised (loss)/ gain from revaluation of financial assets held-for-trading	**(490)**	140
Net profit earned from financial assets held-for-trading	**2,948**	6,279
	25,151	9,081
	57,227	31,413

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

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Service charges and fees	**1,931**	1,031
Credit facilities	**609**	365

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
(iii) Income derived from investment of other deposits		
Finance income and hibah:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**68,377**	63,751
- Recoveries from impaired financing	**(53)**	126
Financial investments available-for-sale	**70**	-
Money at call and deposit with financial institutions	**7,688**	5,197
	76,082	69,074
Other operating income		
Net gains from sale of financial assets held-for-trading and other financial instruments	**16**	-
Net profit earned from financial assets held-for-trading	**5**	-
	21	-
	76,103	69,074

23 Income Derived from Investment of Shareholder's Funds

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Finance income and hibah:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**38,514**	40,061
- Recoveries from impaired financing	**(30)**	79
Financial investments available-for-sale	**39**	-
Money at call and deposit with financial institutions	**4,330**	3,266
	42,853	43,406
Other operating income		
Fees and commission	**44,326**	30,584
Net gains from sale of financial assets held-for-trading and other financial instruments	**9**	-
Net profit earned from financial assets held-for-trading	**3**	-
Shared-service fees from holding company	**2,082**	4,642
Net gain on disposal of equipment	**2**	-
Other income	**224**	179
	46,646	35,405
	89,499	78,811

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

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Service charges and fees	**15,604**	12,954
Cards	**14,489**	11,094
Agency fees	**7,058**	5,507

24 Impairment Losses on Financing

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Impairment charges on financing:		
(a) Individual impairment		
- Provided	**97,590**	68,769
- Written back	**(4,144)**	(5,668)
(b) Collective impairment		
- Provided	**46,890**	18,988
- Written back	**(2,245)**	(930)
Impaired financing		
- Recovered	**(21,416)**	(15,021)
- Written off	**7,662**	4,706
	124,337	70,844

25 Income Attributable to Depositors

	31 Dec 2011	31 Dec 2010
	RM'000	RM'000
Deposits from customers		
- Mudharabah Fund	**35,308**	52,500
- Non-Mudharabah Fund	**64,725**	11,218
Deposits and placements of banks and other financial institutions		
- Mudharabah Fund	**55,447**	35,354
Others	**4,012**	987
	159,492	100,059

26 Personnel Expenses

	31 Dec 2011	31 Dec 2010
	RM'000	RM'000
Salaries, allowances and bonuses	**21,010**	18,470
Employees Provident Fund contributions	**3,396**	3,061
Other staff related costs	**2,046**	1,939
	26,452	23,470

27 Other Overheads and Expenditures

	31 Dec 2011	31 Dec 2010
	RM'000	RM'000
Promotion and marketing related expenses		
Advertising and promotion	**7,636**	8,880
Marketing	**2,755**	1,004
	10,391	9,884
Establishment related expenses		
Depreciation of equipment	**5,616**	3,625
Amortisation of intangible assets	**233**	736
Information technology costs	**767**	506
Hire of Equipment	**71**	191
Rental of premises	**5,074**	4,719
Equipment written off	**51**	1
Others	**1,917**	1,602
	13,729	11,380
General administrative expenses		
Shared-service fees to immediate holding company	**97,327**	98,498
Auditors' remuneration		
Audit fees		
KPMG Malaysia	**100**	80
Non-audit services		
KPMG Malaysia	**90**	130
Professional fees	**1,444**	976
Others	**14,061**	15,163
	113,022	114,847
	137,142	136,111

28 Taxation

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Malaysian income tax		
- Current year	**31,408**	17,337
- In respect of changes in tax treatment for collective allowance for impairment	**(15,058)**	-
- Prior year	**158**	5,454
Total current tax recognised in profit or loss	**16,508**	22,791
Deferred tax:		
Origination and reversal of temporary differences		
- Current year	**(10,377)**	(995)
- In respect of changes in tax treatment for collective allowance for impairment	**15,058**	-
- Prior year	**(1,956)**	(2,931)
Total deferred tax recognised in profit or loss	**2,725**	(3,926)
Total income tax expense	**19,233**	18,865

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 taxation and zakat	**97,797**	63,278
Taxation at Malaysian tax rate of 25% (2010 : 25%)	**24,449**	15,820
Non-deductible expenses	**955**	980
Tax exempt income	**(4,373)**	(458)
(Over)/Under provision in respect of prior years	**(1,798)**	2,523
Tax expense	**19,233**	18,865

29 Earnings per share

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

30 Significant related party transactions and balances

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

a. the Bank has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial or operational decisions, or vice versa, or
b. the Bank and the party are subject to common control or common significant influence. Related parties maybe individuals or other entities.

The related parties of the Bank comprise: -

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

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

	31 Dec 2011		31 Dec 2010	
	Parent companies	***Other related companies***	*Parent companies*	*Other related companies*
	RM'000	**RM'000**	RM'000	RM'000
Income				
Fees and commission	**707**	**5,531**	102	3,987
Other income	**2,082**	**-**	4,642	2
	2,789	**5,531**	4,744	3,989
Expenditure				
Profit attributable to intercompany deposits	**52,288**	**4,347**	33,572	9,520
Fees and commission	**2**	**29**	1	1,110
Operating expenses	**97,327**	**9,522**	98,533	13,801
	149,617	**13,898**	132,106	24,431
Amount due from				
Current account balances	**-**	**39,546**	230	13,004
Other assets	**160,913**	**94**	30,527	78
	160,913	**39,640**	30,757	13,082
Amount due to				
Intercompany deposits	**3,261,118**	**533,681**	1,493,087	745
Current account balances	**5,353**	**-**	11,296	-
Other liabilities	**3,057**	**5,827**	3,447	8,217
	3,269,528	**539,508**	1,507,830	8,962

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

Total financing due by key management personnel of the Bank as at 31 December 2011 is RM63,240 (2010: RM8,839).

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

(b) Key Management Personnel Compensation

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

The directors' shareholdings in the shares of the ultimate holding company, HSBC Holdings plc, are shown in the Directors' Report.

2011

RM'000	**Salaries and bonuses**	**Other remuneration and employee benefits**	**Benefits-in-kind**	**Fees**	**Total**
Directors					
Executive Director					
Mohamed Rafe Bin Mohamed Haneef (CEO)	**1,141**	**172**	**7**	**-**	**1,320**
Non Executive Directors					
Mukhtar Malik Hussain	**-**	**-**	**-**	**-**	**-**
Mohamed Ross bin Mohd Din	**-**	**-**	**-**	**82**	**82**
Azlan bin Abdullah	**-**	**-**	**-**	**80**	**80**
Mohamed Ashraf Bin Mohamed Iqbal	**-**	**-**	**-**	**77**	**77**
Lee Choo Hock	**-**	**-**	**-**	**88**	**88**
Mohd Razlan Bin Mohamed^	**-**	**-**	**-**	**52**	**52**
	1,141	**172**	**7**	**379**	**1,699**
Shariah Committee	**-**	**-**	**-**	**204**	**204**
	1,141	**172**	**7**	**583**	**1,903**

^ resigned 6 August 2011

2010

RM'000	**Salaries and bonuses**	**Other remuneration and employee benefits**	**Benefits-in-kind**	**Fees**	**Total**
Directors					
Executive Director					
Mohamed Rafe Bin Mohamed Haneef (CEO)*	124	18	1	-	143
Musa bin Abdul Malek#	410	604	4	-	1,018
Non Executive Directors					
Mukhtar Malik Hussain	-	-	-	-	-
Mohamed Ross bin Mohd Din	-	-	-	76	76
Azlan bin Abdullah	-	-	-	76	76
Mohamed Ashraf Bin Mohamed Iqbal	-	-	-	71	71
Lee Choo Hock	-	-	-	80	80
Mohd Razlan Bin Mohamed	-	-	-	81	81
	534	622	5	384	1,545
Shariah Committee	-	-	-	127	127
	534	622	5	511	1,672

* appointed 22 November 2010
# resigned 1 August 2010

31 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 2011	31 Dec 2010
Aggregate value of outstanding credit exposures to connected parties (RM'000)	**165,813**	221,573
As a percentage of total credit exposures	**1.80%**	4.28%
Aggregate value of outstanding credit exposures to connected parties which is non-performing or in default (RM'000)	**-**	-
As a percentage of total credit exposures	**-**	-

32 Capital Adequacy

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Tier 1 capital		
Paid-up ordinary share capital	**50,000**	50,000
Share premium	**610,000**	610,000
Retained profits	**153,216**	74,652
Statutory reserve	**50,000**	50,000
	863,216	784,652
Deferred tax adjustments	**(678)**	(2,047)
Total Tier 1 capital	**862,538**	782,605
Tier 2 capital		
Collective impairment allowance	**115,300**	69,592
Total Tier 2 capital	**115,300**	69,592
Capital base	**977,838**	852,197
Core capital ratio	**10.5%**	16.1%
Risk-weighted capital ratio	**11.9%**	17.5%

The capital ratios have been computed in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB).

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

	31 Dec 2011		31 Dec 2010	
	Principal RM'000	**Risk-weighted RM'000**	Principal RM'000	Risk-weighted RM'000
Total RWA for credit risk	**11,629,129**	**7,546,956**	6,991,418	4,443,562
Total RWA for market risk	**-**	**100,942**	-	29,276
Total RWA for operational risk	**-**	**580,027**	-	394,028
	11,629,129	**8,227,925**	6,991,418	4,866,866

32 Capital adequacy (Cont'd)

31 Dec 2011

Exposure Class		Gross Exposures (RM'000)	Net Exposures (RM'000)	Risk Weighted Assets (RWA) (RM'000)	RWA Absorbed by PSIA (RM'000)	Total RWA after PSIA (RM'000)	Capital Requirement (RM'000)
Credit Risk							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		**2,056,773**	**2,056,773**	**-**	**-**	**-**	**-**
Banks, Development Financial Institutions & MDBs		**676,593**	**676,593**	**137,296**	**-**	**137,296**	**10,984**
Corporates		**3,486,290**	**3,435,328**	**3,398,042**	**-**	**3,398,042**	**271,843**
Regulatory Retail		**2,392,019**	**2,368,664**	**1,786,161**	**-**	**1,786,161**	**142,893**
House Financing		**1,368,576**	**1,367,594**	**723,970**	**-**	**723,970**	**57,918**
Other Assets		**183,074**	**183,074**	**109,967**	**-**	**109,967**	**8,797**
Defaulted Exposures		**62,405**	**61,055**	**76,543**	**-**	**76,543**	**6,123**
Total for On-Balance Sheet		**10,225,730**	**10,149,081**	**6,231,979**	**-**	**6,231,979**	**498,558**
Off-Balance Sheet Exposures							
OTC Derivatives		**100,545**	**100,545**	**50,550**	**-**	**50,550**	**4,044**
Off balance sheet exposures other than OTC derivatives or credit derivatives		**1,392,438**	**1,379,058**	**1,263,759**	**-**	**1,263,759**	**101,101**
Defaulted Exposures		**445**	**445**	**668**	**-**	**668**	**53**
Total for Off-Balance Sheet Exposures		**1,493,428**	**1,480,048**	**1,314,977**	**-**	**1,314,977**	**105,198**
Total On and Off-Balance Sheet Exposures		**11,719,158**	**11,629,129**	**7,546,956**	**-**	**7,546,956**	**603,756**
Large Exposures Risk Requirement		**-**	**-**	**-**	**-**	**-**	**-**
Market Risk	**Long position**	**Short position**					
Profit Rate Risk	**1,664,488**	**1,429,512**	**234,976**	**93,387**	**-**	**93,387**	**7,471**
Foreign Currency Risk	**2,381**	**7,536**	**2,381**	**7,555**	**-**	**7,555**	**604**
Total market risk	**1,666,869**	**1,437,048**	**237,357**	**100,942**	**-**	**100,942**	**8,075**
Operational Risk	**-**	**-**	**-**	**580,027**	**-**	**580,027**	**46,402**
Total RWA and Capital Requirement	**-**	**-**	**-**	**8,227,925**	**-**	**8,227,925**	**658,233**

The table above discloses the gross and net exposures, risk weighted assets and capital requirements for credit risk, market large exposure risk and operational risk of the Bank as at reporting date. This requirement came into effect since 2008 with the adoption of the Basel II Standardised Approach under the Risk Weighted Capital Adequacy Framework "RWCAF"

Note:
PSIA - Profit Sharing Investment Account
MDBs - Multilateral Development Banks
OTC - Over the counter

32 Capital adequacy (Cont'd)

31 Dec 2010

Exposure Class	Gross Exposures (RM'000)	Net Exposures (RM'000)	Risk Weighted Assets (RWA) (RM'000)	RWA Absorbed by PSIA (RM'000)	Total RWA after PSIA (RM'000)	Capital Requirement (RM'000)
Credit Risk						
On-Balance Sheet Exposures						
Sovereigns/Central Banks	1,786,547	1,786,547	-	-	-	-
Banks, Development Financial Institutions & MDBs	77,914	77,914	15,583	-	15,583	1,247
Corporates	2,426,978	2,371,878	2,360,797	-	2,360,797	188,864
Regulatory Retail	1,708,832	1,691,727	1,267,743	-	1,267,743	101,419
House Financing	499,816	499,692	266,512	-	266,512	21,321
Other Assets	90,315	90,315	90,315	-	90,315	7,225
Defaulted Exposures	56,866	56,147	79,782	-	79,782	6,383
Total for On-Balance Sheet	6,647,268	6,574,220	4,080,732	-	4,080,732	326,459
Off-Balance Sheet Exposures						
OTC Derivatives	20,467	20,467	4,093	-	4,093	327
Off balance sheet exposures other than OTC derivatives or credit derivatives	408,389	396,462	358,337	-	358,337	28,667
Defaulted Exposures	269	269	400	-	400	32
Total for Off-Balance Sheet Exposures	429,125	417,198	362,830	-	362,830	29,026
Total On and Off-Balance Sheet Exposures	7,076,393	6,991,418	4,443,562	-	4,443,562	355,485
Large Exposures Risk Requirement	-	-	-	-	-	-

	Long position	Short position					
Market Risk							
Profit Rate Risk	174,661	25,074	149,586	26,583	-	26,583	2,127
Foreign Currency Risk	2,693	2,300	2,693	2,693	-	2,693	215
Total market risk	177,354	27,374	152,279	29,276	-	29,276	2,342
Operational Risk	-	-	-	394,028	-	394,028	31,522
Total RWA and Capital Requirement	-	-	-	4,866,866	-	4,866,866	389,349

The table above discloses the gross and net exposures, risk weighted assets and capital requirements for credit risk, market large exposure risk and operational risk of the Bank as at reporting date. This requirement came into effect since 2008 with the adoption of the Basel II Standardised Approach under the Risk Weighted Capital Adequacy Framework "RWCAF"

Note:
PSIA - Profit Sharing Investment Account
MDBs - Multilateral Development Banks
OTC - Over the counter

32 Capital adequacy (Cont'd)

2011

Risk Weights	Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	**Banks, MDBs and DFIs**	**Corporates**	**Regulatory Retail**	**Residental Mortgages**	**Other Assets**		
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
0%	**2,056,773**	**-**	**1,501**	**780**	**-**	**73,107**	**2,132,161**	**-**
20%	**-**	**693,839**	**45,692**	**694**	**-**	**-**	**740,225**	**148,045**
35%	**-**	**-**	**-**	**-**	**552,615**	**-**	**552,615**	**193,415**
50%	**-**	**79,026**	**107,466**	**2,075**	**322,716**	**-**	**511,283**	**255,642**
75%	**-**	**-**	**1,785**	**2,541,505**	**492,500**	**-**	**3,035,790**	**2,276,843**
100%	**-**	**-**	**4,444,910**	**50,908**	**19,357**	**109,967**	**4,625,142**	**4,625,142**
150%	**-**	**-**	**166**	**31,747**	**-**	**-**	**31,913**	**47,869**
Total Risk Weight	**-**	**-**	**-**	**-**	**-**	**-**	**11,629,129**	**7,546,956**
Average Risk Weight	**-**	**-**	**-**	**-**	**-**	**-**	**646,063**	`
Deduction from Capital Base	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

2010

Risk Weights	Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporates	Regulatory Retail	Residental Mortgages	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	1,786,547	-	-	1,402	-	-	1,787,949	-
20%	-	98,381	78	-	-	-	98,459	19,692
35%	-	-	-	-	145,148	-	145,148	50,802
50%	-	-	22,061	188	200,793	-	223,042	111,521
75%	-	-	-	1,808,757	187,770	-	1,996,527	1,497,395
100%	-	-	2,593,749	6,284	2,226	90,315	2,692,574	2,692,574
150%	-	-	25,782	21,937	-	-	47,719	71,578
Total Risk Weight	-	-	-	-	-	-	6,991,418	4,443,562
Average Risk Weight	-	-	-	-	-	-	388,412	246,865
Deduction from Capital Base	-	-	-	-	-	-	-	-

The above are disclosures on credit risk by risk weights of the Bank as at reporting date. This disclosure requirement came into effect since 2008 with the adoption of Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework, "RWCAF".

Note:
MDBs - Multilateral Development Banks
DFIs - Development Financial Institutions

33 Commitments and Contingencies

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

31 Dec 2011	**Principal amount RM'000**	**Positive fair value of derivative contracts RM'000**	**Credit equivalent amount * RM'000**	**Risk weighted amount * RM'000**
Direct credit substitutes	**461,660**	**-**	**461,660**	**404,287**
Transaction-related contingent items	**531,060**	**-**	**265,530**	**257,691**
Short-term self-liquidating trade-related contingencies	**32,928**	**-**	**6,586**	**4,745**
Irrevocable commitments to extend credit				
- Maturity not exceeding one year	**1,314,320**	**-**	**262,864**	**246,185**
- Maturity exceeding one year	**133,435**	**-**	**26,687**	**26,251**
Unutilised credit card lines	**885,773**	**-**	**177,155**	**132,866**
Sell and buy back agreement	**192,401**	**-**	**192,401**	**192,401**
Equity related contracts				
- One year to less than five years	**206,474**	**5,192**	**21,710**	**5,138**
Profit rate related contracts				
- One year to less than five years	**1,551,362**	**24,102**	**73,052**	**41,410**
Foreign exchange related contracts				
- Less than one year	**226,145**	**1,691**	**5,783**	**4,003**
	5,535,558	**30,985**	**1,493,428**	**1,314,977**
		Note 11		

31 Dec 2010	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount * RM'000	Risk weighted amount * RM'000
Direct credit substitutes	90,224	-	90,224	80,828
Transaction-related contingent items	22,347	-	11,174	9,800
Short-term self-liquidating trade-related contingencies	14,427	-	2,885	1,406
Irrevocable commitments to extend credit				
- Maturity not exceeding one year	766,956	-	-	-
- Maturity exceeding one year	81,217	-	40,609	31,995
Unutilised credit card lines	581,158	-	116,232	87,174
Sell and buy back agreement	147,534	-	147,534	147,534
Equity related contracts				
- Less than one year	13,177	4,642	5,439	1,087
- One year to less than five years	106,108	6,513	15,028	3,006
	1,823,148	11,155	429,125	362,830
		Note 11		

* The credit equivalent and risk weighted amounts were computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines (including the temporary (until 31 December 2011) measure related to credit conversion factor for undrawn facilities) and based on the Basel 2 Standardised Approach under the Risk Weighted Capital Adequacy Framework.

34 Profit Rate Risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The following table summarises the Bank's exposure to the profit rates risk. The assets and liabilities at carrying amount are allocated to time bands by reference to the earlier of the next contractual repricing dates and maturity dates.

	←		Non-trading book			→			Effective
31 Dec 2011	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**profit rate %**
ASSETS									
Cash and short-term funds	1,436,103	-	-	-	-	100,689	-	1,536,792	2.92
Financial assets held-for-trading	-	-	-	-	-	-	216,716	216,716	3.19
Financial investments available-for-sale	-	25,009	181,007	216,070	-	-	-	422,086	3.12
Financing and advances									
- performing	4,864,205	350,011	232,794	1,677,182	208,368	157,367	-	7,489,927	7.17
- impaired *	-	-	-	-	-	56,419	-	56,419	-
Others	-	-	-	-	-	440,826	34,613	475,439	-
Total Assets	6,300,308	375,020	413,801	1,893,252	208,368	755,301	251,329	10,197,379	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	3,048,152	1,032,454	745,690	191,343	-	458,613	-	5,476,252	2.41
Deposits and placements from banks and other financial institutions	701,280	316,800	2,520,792	197,689	-	3,964	-	3,740,525	2.09
Bills and acceptances payable	-	-	-	-	-	7,600	-	7,600	-
Others	-	-	-	-	-	97,515	11,428	108,943	-
Total Liabilities	3,749,432	1,349,254	3,266,482	389,032	-	567,692	11,428	9,333,320	
Shareholder's Equity	-	-	-	-	-	864,059	-	864,059	
Total Liabilities and Shareholders' Equity	3,749,432	1,349,254	3,266,482	389,032	-	1,431,751	11,428	10,197,379	
On-balance sheet profit sensitivity gap	2,550,876	(974,234)	(2,852,681)	1,504,220	208,368	(676,450)	239,901	-	
Off-balance sheet profit sensitivity gap									
- Profit rate swaps	49,190	(139,222)	56,482	33,550	-	-	-	-	
Total profit sensitivity gap	2,600,066	(1,113,456)	(2,796,199)	1,537,770	208,368	(676,450)	239,901	-	

* This is arrived at after deducting the individual allowance from impaired financing.

34 Profit rate risk (Cont'd)

31 Dec 2010	Non-trading book: Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short term funds	1,480,781	-	-	-	-	28,217	-	1,508,998	2.73
Financial assets held-for-trading	-	-	-	-	-	-	148,006	148,006	3.13
Financial investments available-for-sale	34,504	-	-	296,161	-	-	-	330,665	3.07
Financing and advances									
- performing	2,211,622	304,369	314,583	1,523,337	137,940	115,473	-	4,607,324	8.02
- impaired *	-	-	-	-	-	28,952	-	28,952	-
Others	-	-	-	-	-	84,885	44,805	129,690	-
Total Assets	3,726,907	304,369	314,583	1,819,498	137,940	257,527	192,811	6,753,635	
LIABILITIES AND SHAREHOLDERS' FUNDS									
Deposits from customers	2,011,780	753,511	413,250	23,353	-	580,642	-	3,782,536	2.10
Deposits and placements from banks and other financial institutions	668,547	788,583	607,426	20,043	-	-	-	2,084,599	2.01
Bills and acceptances payable	-	-	-	-	-	5,531	-	5,531	-
Others	-	-	-	-	-	84,963	11,155	96,118	-
Total Liabilities	2,680,327	1,542,094	1,020,676	43,396	-	671,136	11,155	5,968,784	
Shareholder's Equity	-	-	-	-	-	784,851	-	784,851	
Total Liabilities and Shareholders' Equity	2,680,327	1,542,094	1,020,676	43,396	-	1,455,987	11,155	6,753,635	
On-balance sheet profit sensitivity gap	1,046,580	(1,237,725)	(706,093)	1,776,102	137,940	(1,198,460)	181,656	-	
Off-balance sheet profit sensitivity gap	-	-	27,505	(27,505)	-	-	-	-	
Total profit sensitivity gap	1,046,580	(1,237,725)	(678,588)	1,748,597	137,940	(1,198,460)	181,656	-	

* This is arrived at after deducting the specific allowance from non-performing financing.

35 Collateral

In the normal course of business, the Bank sells assets to raise liabilities and accepts assets for resale. Assets sold and received are mainly via repurchase agreements and reverse repurchase agreements. Collateral is accepted and pledged on derivative contracts, mainly in the form of cash.

	31 Dec 2011	31 Dec 2010
Carrying amount of assets pledged as collateral	**RM'000**	RM'000
- Collateral pledged for repurchase agreements	**192,401**	147,534

36 Fair values of financial assets and liabilities

The following table summarises the fair values of the financial assets and liabilities carried on the balance sheet as at 31 December.

	31 Dec 2011 Carrying amount RM'000	**31 Dec 2011 Fair Value RM'000**	31 Dec 2010 Carrying amount RM'000	31 Dec 2010 Fair Value RM'000
Financial Assets				
Cash and short-term funds	**1,536,792**	**1,536,792**	1,508,998	1,508,998
Securities held for trading	**216,716**	**216,716**	148,006	148,006
Securities available for sale	**422,086**	**422,086**	330,665	330,665
Financing and advances	**7,546,346**	**7,541,459**	4,636,276	4,616,371
Financial Liabilities				
Deposits from customers	**5,476,252**	**5,438,197**	3,782,536	3,780,630
Deposits and placements from banks and other financial institutions	**3,740,525**	**3,670,857**	2,084,599	2,083,113
Bills and acceptances payable	**7,600**	**7,600**	5,531	5,531

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

Cash and short-term funds
Bills and acceptances payable

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

36 Fair values of financial assets and liabilities (Cont'd)

Financing and advances

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

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

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

37 Lease commitments

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

Year	**31 Dec 2011 RM'000**	31 Dec 2010 RM'000
Less than one year	**2,870**	4,675
Between one and five years	**651**	2,421
	3,521	7,096

38 Capital commitments

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Capital expenditure:		
- Authorised and contracted for	**1,387**	1,038
- Authorised but not contracted for	**733**	-
	2,120	1,038

39 Equity-based compensation

The Bank participated in the Savings-Related Share Option Schemes operated by the HSBC Group for the acquisition of HSBC Holdings plc shares.

Savings-Related Share Option Schemes

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

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

Year	**31 Dec 2011 Number ('000)**	**Weighted average exercise price £**	31 Dec 2010 Number ('000)	Weighted average exercise price £
Outstanding as at 1 January / Amount vested from HSBC Bank	**39**	**4.79**	44	4.32
Granted in the year/ period	**14**	**5.10**	8	5.46
Exercised in the year/ period	**(3)**	**5.80**	(4)	3.51
Lapsed in the year/ period	**(16)**	**3.73**	(9)	3.58
Outstanding as at 31 December	**34**	**5.35**	39	4.81
Options vested as at 31 December	**3**		-	

	31 Dec 2011 RM'000	31 Dec 2010 RM'000
Compensation cost recognised during the year	**360**	165

40 Shariah Advisors

In line with Bank Negara Malaysia's "Shariah Governance Framework for Islamic Financial Institutions", the following Shariah scholars were appointed:

1) Dr. Younes Soualhi, Associate Professor in International Islamic University Malaysia (IIUM). He holds a Bachelor, Master and PhD in Usul al-Fiqh from the Emir Abdul Qadir University for Islamic Sciences in in Algeria, IIUM and University of Malaya respectively. He also holds a diploma in Islamic Banking and Insurance from the Institute of Islamic Banking and Insurance in London, U.K.

2) Khairul Anuar bin Ahmad, lecturer with Selangor International Islamic University College. He holds a Bachelor and Master of Shariah from University of Malaya.

3) Dr. Muhammad Yusuf Saleem Ghulam Nabi, lecturer with International IIUM. He holds a Bachelor of Law (LLB), Master of Comparatuve Laws and PhD in Law from IIUM.

4) Prof. Dr. Obiyathulla Ismath Bacha, Head of Finance and Accounting and Head of Graduate Studies in International Centre for Education in Islamic Finance. He holds a Bachelor of Social Science, Master of Business Administration, Master of Arts (Economics) and Doctor of Business Adminstration specialising in Finance from Boston University.

5) Prof. Dr. Abdul Rahim Abdul Rahman, Professor of Accounting in IIUM. He holds a Bachelor in Finance and Accounting from University of East London, and Master in Accounting and Management Sciences and PhD in Accounting for Islamic Institutions from University of Southampton, United Kingdom.

41 Comparative Figures

Restatement of Comparative Figures

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

(i) Reclassification/restatement to conform to current year's presentation due to a change in the internal classification of states in Malaysia making up the geographical regions.

Statement of Financial Position as at 31 December 2010

	As restated RM'000	As previously stated RM'000
(a) Financing and Advances		
By geographical distribution		
Northern Region	954,542	794,176
Southern Region	516,849	642,158
Central Region	2,861,233	2,896,290
Eastern Region	416,165	416,165
	4,748,789	4,748,789
(b) Impaired Financing and Advances		
By geographical distribution		
Northern Region	19,219	16,443
Southern Region	12,865	14,399
Central Region	31,681	32,923
Eastern Region	7,045	7,045
	70,810	70,810

41 Comparative Figures (Cont'd)

Restatement of Comparative Figures

(ii) Reclassification to conform to current year's presentation upon adoption of Amendment to FRS 2, Share Based Payment. However, as the impact is not significant, the statement of financial position as at 1 January 2010 was not presented.

Statement of Financial Position as at 31 December 2010

	As restated RM'000	As previously stated RM'000
(a) Other Liabilities		
Derivative financial liabilities	11,155	11,155
Profit payable	15,182	15,182
Amounts due to holding company/ related companies *	22,626	22,961
Profit equalisation reserve	6,700	6,700
Other creditors and accruals	36,007	36,007
	91,670	92,005
(b) Reserves		
Capital contribution reserve	335	-

* Reclassification of capital contribution on share options of RM335,000 to capital contribution reserves

Statement of Financial Position as at 1 January 2010

	As restated RM'000	As previously stated RM'000
(a) Other Liabilities		
Derivative financial liabilities	10,237	10,237
Profit payable	8,043	8,043
Amounts due to holding company/ related companies *	6,142	6,285
Profit equalisation reserve	6,700	6,700
Other creditors and accruals	30,364	30,364
	61,486	61,629
(b) Reserves		
Capital contribution reserve	143	-

* Reclassification of capital contribution on share options of RM143,000 to capital contribution reserves

(iii) Reclassification to conform to current year's presentation.

Statement of Comprehensive Income as at 31 December 2010

	As restated RM'000	As previously stated RM'000
(a) Income Derived from Investment of Depositors' Funds and Others		
Finance income and hibah:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	197,936	193,677
- Recoveries from impaired financing	391	4,650
(b) Income derived from investment of other deposits		
Finance income and hibah:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	63,751	62,379
- Recoveries from impaired financing	126	1,498
(c) Income Derived from Investment of Shareholder's Funds		
Finance income and hibah:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	40,061	39,199
- Recoveries from impaired financing	79	941