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

FINANCIAL STATEMENTS - 31 DECEMBER 2022

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

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

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

Dato' Omar Siddiq bin Amin Noer Rashid
Non-Independent Executive Director
(Appointed effective 31 March 2022)

Mukhtar Malik Hussain
Non-Independent Non-Executive Director

Adil Ahmad
Independent Non-Executive Director

Albert Quah Chei Jin
Independent Non-Executive Director

Ho Chai Huey
Independent Non-Executive Director

Stuart Paterson Milne
Non-Independent Executive Director
(Retired effective 31 March 2022)

Lee Choo Hock
Non-Independent Non-Executive Director
(Retired effective 29 May 2022)

CORPORATE GOVERNANCE DISCLOSURES

The corporate governance practices set out on pages 2 to 17 and the information referred to therein constitute the Corporate Governance Report of HSBC Amanah Malaysia Berhad (the Bank). As a banking institution licensed under the Islamic Financial Services Act 2013, the Bank complies with the corporate governance standards set out in the Bank Negara Malaysia (BNM) Policy Document on Corporate Governance (BNM Corporate Governance Policy).

Directors

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

Datin Che Teh Ija binti Mohd Jalil, 70
Independent Non- Executive Chairperson
Member of the Risk Committee
Appointed to the Board: January 2022

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

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

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

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

Datin Teh does not have any shareholding in the Bank.

Dato' Omar Siddiq bin Amin Noer Rashid, 50
Non-Independent Executive Director
Appointed to the Board: March 2022

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

Dato' Omar graduated from the London School of Economics and Political Science with a Bachelor of Science degree in Economics. He is a Fellow member of the Institute of Chartered Accountants in England and Wales and a member of the Malaysian Institute of Accountants. He is also a CFA charterholder.

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

Dato' Omar is a Non-Independent Executive Director and CEO of HSBC Bank Malaysia Berhad.

Dato' Omar does not have any shareholding in the Bank.

Directors (Cont'd)

Mukhtar Malik Hussain, 63
Non-Independent Non-Executive Director
Member of Nominations and Remuneration Committee
Appointed to the Board: December 2009

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

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

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

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

Mr Mukhtar does not have any shareholding in the Bank. His interest in the Bank's related corporation is as disclosed in the Directors' Report on page 20.

Adil Ahmad, 66
Independent Non-Executive Director
Chairman of the Risk Committee and member of Audit Committee and Nominations and Remuneration Committee
Appointed to the Board: May 2014

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

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

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

Mr Adil is currently a council member of GLG (Gerson Lehrman Group), an Independent Director of FIDE Forum, Independent Chairman/Director of FWD Takaful Berhad and Non-Executive Director of Vingroup Joint Stock Company (Vietnam).

Mr Adil does not have any shareholding in the Bank. His interest in the Bank's related corporation is as disclosed in the Directors' Report on page 20.

Directors (Cont'd)

Albert Quah Chei Jin, 70
Independent Non-Executive Director
Chairman of Audit Committee and member of Risk Committee and Nominations and Remuneration Committee
Appointed to the Board: September 2016

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

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

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

In addition to his current role, Mr Albert Quah is also the Non-Executive Trustee of Methodist Education Foundation.

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

Directors (Cont'd)

Ho Chai Huey, 63
Independent Non-Executive Director
Chairperson of Nominations and Remuneration Committee and Member of Audit Committee and Risk Committee
Appointed to the Board: January 2018

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

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

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

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

Ms Ho is currently an IT and project management senior consultant to an outsourcing company and provides IT consultancy service on IT strategic plans and digital transformation including technology risk management to affiliated professional institutes in the financial sector.

In addition to her current role, Ms Ho also sits on the Board of Cagamas Berhad, and a member of the Risk Committee and Board Staff Compensation and Organisation Committee.

Ms Ho does not have any shareholding in the Bank.

BOARD RESPONSIBILITY AND OVERSIGHT

Board of Directors

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

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

At the date of this report, the Board consists of six (6) members; comprising one (1) Executive Director, one (1) Non-Independent Non-Executive Director and four (4) Independent Non-Executive Directors. The names of the Directors serving at the date of this report and brief biographical particulars for each of them are set out on pages 2 to 5.

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

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

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

Independent Non-Executive Directors are not HSBC employees and do not participate in the daily business management of the Bank. Instead, they provide views from an external perspective, challenge constructively as well as help the management in the development of the Bank's strategy. They also scrutinise the performance of management in meetings, and monitor the risk profile and reporting of performance of the Bank. The Board has determined that each Non-Executive Director is independent in character and judgement, and there are no relationships or circumstances likely to affect the judgement of the Independent Non-Executive Directors.

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

Board and Committee Meetings

Seven (7) Board meetings were held in 2022. The table below shows each Director's attendance (including attendance via video conferencing) at meetings of all Board and Committees' meetings during 2022. All Directors have complied with the Bank Negara Malaysia requirements that Directors must attend at least 75% of Board meetings held in the financial year.

2022 Board and Committee meeting attendance	Board	Audit Committee	Risk Committee	Nominations and Remuneration Committee
Total number of meetings held	**7**	**4**	**6**	**6**
Independent Non-Executive Chairperson				
Datin Che Teh Ija binti Mohd Jalil	7	-	6	-
Non-Independent Executive Directors				
Stuart Paterson Milne[1]	2	-	-	-
Dato' Omar Siddiq bin Amin Noer Rashid[2]	5	-	-	-
Independent Non-Executive Directors				
Adil Ahmad	7	4	6	6
Albert Quah Chei Jin	7	4	6	6
Ho Chai Huey	7	4	6	6
Non-Independent Non-Executive Directors				
Lee Choo Hock[3]	4	2	3	3
Mukhtar Malik Hussain	7	-	-	6

[1] Retired as Non-Independent Executive Director effective 31 March 2022.
[2] Appointed as Non-Independent Executive Director effective 31 March 2022.
[3] Retired as Non-Independent Non-Executive Director and member of Audit Committee, Risk Committee and Nominations and Remuneration Committee effective 29 May 2022.

Directors' Emoluments

Details of the emoluments of the Directors of the Bank for 2022, disclosed in accordance with the Companies Act 2016, are shown in Note 35(b) to the financial statements.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

Training and Development

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

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

During the year, Directors attended talks, dialogue sessions and focus group sessions organised by various organisations, among others including Financial Institutions Directors' Education (FIDE) Forum, Bank Negara Malaysia, Cambridge Institute of Sustainable Leadership & Islamic Banking and Finance Institute Malaysia as well as United Nations COP Secretariat. In addition, they attended the HSBC Group's Non-Executive Directors Summit held in March 2022 and September 2022 respectively.

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

Board Committees

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

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

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

1. Audit Committee

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

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

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

1. Audit Committee (Cont'd)

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

The current members of the Audit Committee, majority being Independent Non-Executive Directors, are:
- Albert Quah Chei Jin (Chairman)
- Adil Ahmad
- Ho Chai Huey
- Lee Choo Hock (retired effective 29 May 2022)

During 2022, the Audit Committee held 4 meetings. The attendance is set out in the table on page 7.

2. Risk Committee

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

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

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

The current members of the Risk Committee, majority being Independent Non-Executive Directors, are:
- Adil Ahmad (Chairman)
- Albert Quah Chei Jin
- Ho Chai Huey
- Datin Che Teh Ija binti Mohd Jalil
- Lee Choo Hock (retired effective 29 May 2022)

During 2022, the Risk Committee held 6 meetings. The attendance is set out in the table on page 7.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

3. Nominations and Remuneration Committee

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

The Nominations and Remuneration Committee also considers plans for orderly succession to the Board by taking into consideration the appropriate balance of skills, knowledge and experience on the Board. The Nominations and Remuneration Committee assists the Board in the evaluation of the Board's own effectiveness and that of its committees annually. The findings of the performance evaluation and the actions to be taken to address the gaps, are reported to the Board during 2022.

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

The current members of the Nominations and Remuneration Committee, majority being Independent Non-Executive Directors, are:
- Ho Chai Huey (Chairperson)
- Adil Ahmad
- Albert Quah Chei Jin
- Mukhtar Malik Hussain
- Lee Choo Hock (retired effective 29 May 2022)

During 2022, the Nominations and Remuneration Committee held 6 meetings. The attendance is set out in the table on page 7.

Delegations by the Board

Shariah Committee

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

The current members of the Shariah Committee are:
- Asst. Prof Dr Ziyaad Mahomed (Chairman)
- Dr Aida binti Othman
- Dr Mohamed Ashraf bin Mohamed Iqbal
- Dr Muhammad Syahmi bin Mohd Karim
- Ustaz Aminuddin Abu Bakar

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

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

Delegations by the Board (Cont'd)

Connected Party Transactions Committee

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

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

Executive Committee

The Executive Committee which consists of key senior management members, meets regularly and operates as a general management committee under the direct authority of the Board. The committee exercises all the power, authorities and discretions of the Board in so far as they concern the management and day-to-day running of the Bank and these are performed in accordance with the policies and directions set by the Board. The Bank's CEO, Raja Amir Shah bin Raja Azwa, chairs the Executive Committee.

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

(i) Asset and Liability Management Committee

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

(ii) Risk Management Meeting

The Risk Management Meeting is responsible for the oversight of the risk framework. Regular Risk Management Meetings (RMM) which are chaired by the Chief Risk Officer are held to establish, maintain and periodically review the policy and guidelines for the management of risk within the Bank. It serves as the governance body for enterprise-wide risk management with particular focus on risk culture, risk appetite, risk profile and integration of risk management into the Bank's strategic objectives including the management of all financial crime risks.

(iii) IT Steering Committee

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

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

Conflicts of Interest and Indemnification of Directors

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

The Bank maintains on a group basis, a Directors' and Officers' Liability and Company Reimbursement Insurance which provides adequate insurance cover for the Directors and officers of the Bank against any legal liability incurred by the Directors and officers in the discharge of their duties while holding office for the Bank. The Directors and officers shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them. During the financial year, the limit of indemnity of the Directors' and Officers' Liability and Company Reimbursement Insurance of HSBC Malaysia was USD25,000,000 for any one claim and in the aggregate for all claims. The amount of insurance premium paid by HSBC Bank Malaysia Berhad for the Directors' and Officers' Liability and Company Reimbursement Insurance for the financial year 2022 was RM303,979.

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

MANAGEMENT REPORTS

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

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

INTERNAL CONTROL FRAMEWORK

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems, and for approving the aggregate levels and types of risks the Bank is willing to take in achieving their strategic objectives. The Board also has oversight accountability over Shariah governance and compliance in ensuring the integration of Shariah governance considerations within the business and risk strategies of the Bank.

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

These procedures provide reasonable assurance against material misstatement, errors, losses or fraud. They are designed to provide effective internal control within the Bank. The procedures have been in place throughout the year and up to 7 February 2023, the date of approval of the audited financial statements of the Bank for the financial year ended 31 December 2022.

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

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

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

  The management of risk faced by the Bank, predominantly on Shariah non-compliance risk, is governed by the HBMS Risk Management Framework (HRMF) which serves as an addendum to the Group’s RMF. The HRMF applies to all the types of risk, both financial and non-financial (including Shariah risk) that the Banks face in its business and operational activities. It is used throughout HBMS, including all Businesses, Functions and Digital Business Services. The Bank has an internal Shariah Governance structure to ensure all its processes and business operations are in accordance with Shariah, and it provides comprehensive guidance to the Board, Shariah Committee and Management of the Bank in discharging its duties on matters relating to Shariah. The Shariah Committee is a formal governance committee established to oversee Shariah operations and management of day-to-day activities of the bank in accordance with Shariah compliance and principles. The Shariah Committee is a sub-committee of the Board and its members are appointed by the Board. The committee meets at least once in every two (2) months or more frequently if needed to discharge their duties and responsibilities. The roles and responsibilities of the Shariah Committee are governed by the Bank’s Shariah Governance Policy (SGP) and Shariah Committee’s Terms of Reference (TOR).

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

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

INTERNAL CONTROL FRAMEWORK (Cont'd)

- **Delegation of authority within limits set by the Board (Cont'd)**
  The Shariah Committee is responsible to provide objective and sound advice to the Bank to ensure that its aims and operations, business, affairs and activities are in compliance with Shariah.

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

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

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

  During 2022, due to the prolonged impact of the COVID-19 pandemic on the economy, banks continued to play an expanded role to support society and customers. The pandemic and its impact on the global economy had impacted many of our customers' business models and income, requiring significant levels of support from both governments and banks. To meet the additional challenges, we supplemented our existing approach to risk management with additional tools and practices and these continue to be in place.

  We continue our focus on the quality and timeliness of the data used to inform management decisions, through measures such as early warning indicators, prudent active risk management of our risk appetite, and ensuring regular communication with our Board and other key stakeholders.

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

  The Board has delegated to the Audit Committee (AC) oversight for the implementation of the Bank's policies and procedures for capturing and responding to whistleblower concerns and ensuring confidentiality, protection and fair treatment of whistleblowers and receiving reports arising from the operation of those policies as well as ensuring arrangements are in place for independent investigation.

  The Shariah Committee has delegated selected responsibilities to the Shariah Department. The Shariah Committee has an oversight over the approvals and decisions provided by the Shariah Department in discharging its Shariah Risk Stewardship function. The Committee remains as the ultimate approver, and is fully accountable for the decisions and any ensuing implications arising from the delegated authority.

INTERNAL CONTROL FRAMEWORK (Cont'd)

- **Strategic plans**
  Strategic plans are prepared for global businesses, global functions and geographical region within the framework of the HSBC Group's overall strategy. The Bank also prepares and adopts a Financial Resource Plan, which is informed by detailed analysis of risk appetite describing the types and quantum of risk that the Bank is prepared to take in executing our strategy and sets out the key business initiatives and the likely financial effects of those initiatives.

- **Internal control over financial reporting**
  As subsidiaries of HSBC Holding Plc, the Bank is required to comply with section 404 of the US Sarbanes-Oxley Act of 2002 and assess its effectiveness of internal control over financial reporting at 31 December 2022. In 2014, HSBC Group Audit Committee (GAC) endorsed the adoption of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) 2013 framework for the monitoring of risk management and internal control systems to satisfy the requirements of section 404 of the Sarbanes-Oxley Act.

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

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

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

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

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

INTERNAL CONTROL FRAMEWORK (Cont'd)

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

  - **Financial reporting (Cont'd)**
    The report also contains the Bank's disclosure on its Shariah Governance policies and practices, the Board's oversight accountability for Shariah governance implementation and disclosure by the Shariah Committee in discharging its responsibilities relating to Shariah governance and the Shariah Committee's opinion on the state of the Bank's compliance with Shariah.

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

The annual review of the effectiveness of the Bank's system of risk management and internal control over financial reporting was conducted with reference to the COSO 2013 framework, and is reviewed regularly by the Board, the Risk Committee and the Audit Committee.

REMUNERATION POLICY

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

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

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

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

Quantitative disclosures on remuneration of the Bank's key management and other material risk takers are in Note 35(b) to the financial statements.

RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

Rating Agency	Date	Rating Classification	Ratings Received
RAM Ratings Services Berhad	July 2022	• Long term	AAA
		• Short term	P1
		• Multi-currency Sukuk Programme	AAA
		• Outlook	Stable

DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of HSBC Amanah Malaysia Berhad (the Bank) for the financial year ended 31 December 2022.

DIRECTORS

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

- Datin Che Teh Ija binti Mohd Jalil (appointed on 1 January 2022)
- Dato' Omar Siddiq bin Amin Noer Rashid (appointed on 31 March 2022)
- Mukhtar Malik Hussain
- Adil Ahmad
- Albert Quah Chei Jin
- Ho Chai Huey
- Stuart Paterson Milne (retired on 31 March 2022)
- Lee Choo Hock (retired on 29 May 2022)

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

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

Profit for the financial year attributable to the owner of the Bank	**RM'000**
Profit before tax	**353,733**
Tax expense	**(112,575)**
Profit for the financial year	**241,158**

RESERVES AND PROVISIONS

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

ISSUANCE AND/OR REDEMPTION OF DEBT AND EQUITY SECURITIES

On 19 August 2022, the Bank had:

(i) issued USD Wakalah Financing Facility (the Facility) equivalent to RM501 million to its immediate holding company, HSBC Bank Malaysia Berhad (HBMY). The Facility qualifies as Additional Tier 1 capital of the Bank as per the Capital Adequacy Framework for Islamic Banks (Capital Components) issued by Bank Negara Malaysia (BNM). Further details are disclosed in Note 26.

(ii) redeemed two tranches of existing Basel III compliant Tier 2 Subordinated Commodity Murabahah Financing of USD equivalent of RM250 million each from HBMY. Further details are disclosed in Note 25.

There were no other issuance and/or redemption of debt and equity securities during the financial year under review.

DIRECTORS' BENEFITS

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

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

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

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

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

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

	Number of Ordinary Shares			
	As at 1.1.2022	Acquired	Disposed	As at 31.12.2022
HSBC Holdings plc				
Ordinary shares of USD0.50				
Mukhtar Malik Hussain	1,713,853	–	–	1,713,853
Adil Ahmad	3,200	–	–	3,200

	Number of Shares			
	Shares held at 1.1.2022	Shares issued during the year	Shares vested during the year	Shares held at 31.12.2022
HSBC Holdings plc				
HSBC Share Plan				
Mukhtar Malik Hussain	182,681	–	–	182,681

None of the other Directors holding office at 31 December 2022 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

DIVIDENDS

The Directors do not recommend any dividend payment in respect of the current financial year and previous financial year.

HOLDING COMPANIES

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

OTHER STATUTORY INFORMATION

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

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

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

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

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

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

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

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

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

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

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

OTHER STATUTORY INFORMATION (Cont'd)

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

In the opinion of the Directors:

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

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

SIGNIFICANT AND SUBSEQUENT EVENTS

There were no significant events and events subsequent to the date of the statement of financial position that require disclosure or adjustment to the audited financial statements.

SUBSIDIARIES

The Bank does not have any subsidiary company.

ZAKAT OBLIGATION

The Bank is not obliged to pay zakat for the financial year ended 31 December 2022.

DIRECTORS' REMUNERATION

Directors' remuneration for the financial year is RM 798,000 (2021: RM 764,000). Details of Directors' remuneration are set out in Note 35(b) to the financial statements.

AUDITORS' REMUNERATION

Auditors' remuneration for the financial year is RM 168,000 (2021: RM 60,000). Details of auditors' remuneration are set out in Note 32 to the financial statements.

PERFORMANCE REVIEW, BUSINESS HIGHLIGHTS AND OUTLOOK

Performance Review

The Bank recorded profit before tax (PBT) of RM353.7 million for the financial year ended 31 December 2022, an increase of RM299.7 million year-on-year. The increase in PBT was mainly due to higher operating income of RM629.5 million (up RM102.8 million) from higher financing income (up RM88.6 million) on improved net financing margin and higher total assets. The Bank also recorded lower impairment charges of RM21.6 million (down RM195.3 million) mainly attributable to the upgrades of retail customers previously under relief assistance programme who have resumed instalment repayments, and a better economic outlook. There was also a decrease in Stage 3 impairment charges on non-retail portfolio compared to prior year.

Total assets as at 31 December 2022 stood at RM22.2 billion, an increase of RM2.7 billion or 14.0% compared to 31 December 2021 of RM19.4 billion. The Bank continues to be well capitalised with Common Equity Tier 1 capital ratio of 14.5%, Tier 1 capital ratio of 17.8% and Total capital ratio of 19.0% respectively. The Bank also has a strong liquidity position with its liquidity ratio well above regulatory requirements.

Business Highlights during the Year 2022

2022 has been a positive year for HSBC Amanah Malaysia Berhad. In addition to improved financial performance as highlighted under Performance Review in the previous section, we have successfully rolled out numerous key initiatives.

In February 2022, we officially moved to our new head office in Menara IQ, which is strategically located in Tun Razak Exchange (TRX). The new head office integrates the highest standards of environmental sustainability features and was voted the Best New Green & Sustainable Commercial Building by Malaysia Green Building Council. It also provides a fit-for-purpose, modern working and banking environment to our employees and customers with enhanced digital offerings and innovative technology. We have also embraced a new Future of Work model for our employees, which offers a shift towards a more hybrid and flexible working environment.

Our Wealth and Personal Banking (WPB) successfully enhanced digital innovations and features to provide a more convenient and seamless banking experience for our customers while maintaining our commitment to become a net zero bank. Some of the key initiatives rolled out during the year are as follow:

- Re-designed branches to ensure point of presence at the right distance and right-sized. WiFi was enabled at all banking halls to facilitate self-served and Assisted Digital journeys. We also commenced a phased approach to upgrade existing Cash Deposit Machines (CDM) to Cash Recycler Machines (CRM) which can be used for both 'Cash-Deposit' and 'Cash-Withdrawal'.

- Launched Digital Investment Account Opening on browser, whereby investors can kick off their investment journey without the need to be physically present at the branch.

- Launched Balance Conversion Plan via mobile app, whereby customers are now able to convert their credit card statement balance into monthly instalments via HSBC Malaysia mobile banking app.

- Innovated our wealth propositions to scale up climate change and sustainability awareness. WPB introduced its maiden Shariah Environmental, Social and Governance (ESG) Unit Trust as well as two ESG-linked structured investments.

On the wholesale banking front, Commercial Banking (CMB) and Global Banking (GB) continue to serve as trusted advisors to our clients, embrace emerging technology and remain flexible to adopt evolving business models through digital capabilities. Notable initiatives undertaken during the year include the following:

- Enabled an entirely digital and paperless on-boarding journey, with no branch visit required. This was made possible with implementation of Electronic Identification & Verification (eID&V), e-signature functionalities and a new self-serve digital portal (SmartServe). All these technological capabilities allow efficient on-boarding process and provide good customer experience throughout.

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

Business Highlights during the Year 2022 (Cont'd)

- HSBC Business Go - HSBC's first all-in-one beyond banking platform which provides integrated partnership platform and customised content to support the growth aspirations of SMEs.

- Business Financial Management (BFM) tools - data led initiative to provide customer insights which include a cash flow dashboard and financial analysis capability on HSBCnet Mobile for corporate banking customers, allowing them to receive timely notifications and insights to facilitate treasury planning for their business.

- MiVision - an online tool for client and their cardholders to control and monitor their card program and business spending in real time (e.g. online card application, real time card limit updates and instant spending insights).

- Digital Receivable Finance (DRF) - a new digital on-boarding tool that digitises receivable finance data acquisition and automates risk assessments on suitability of customers' receivables, accelerating the receivable finance acquisition process.

- LeapXpert - a customer-preferred messaging channel, making it easier, secure and compliant for communications between HSBC and customers.

During the year, our Markets and Securities Services (MSS) has improved our FX e-banking penetration rate and expanded structured investment product offerings to corporate and institutional clients.

On the sustainability front, the Bank aims to help and support our customers' transition to a more sustainable way of doing business. This is in line with HSBC Group's ambition of achieving net zero in financed emissions by 2050. During the year, we have completed several ESG initiatives, as follow:

- Supported affordable housing in Malaysia through the development of a Social Finance Framework and introduction of HSBC's first Social Loan Principles (SLP) based financing in South East Asia for real estate sector to finance housing program development under the purview of the Ministry of Federal Territories to promote homeownership.

- During the year, the Bank also arranged various sustainable financing and Sukuk issuance programmes for its customers.

- The Bank also solidified its position as a leading bank in Sustainability, winning the coveted 'Islamic ESG Bank of the Year' by The Asset Triple A Islamic Finance Awards 2022 for the third year in a row.

2022 has been a year with many milestones achieved for the Bank. Amid the challenging macroeconomic environment at both global and domestic fronts, the Bank remains committed to continue to support our employees and customers, as well as Malaysian government's regulatory and fiscal measures.

Outlook for 2023

In 2022, the global economy grew at a slower pace due to geopolitical conflicts, supply chain disruptions and persistent inflationary pressures, leading regulators across the globe to increase interest rates to combat inflation.

This year alone, the US Federal Reserve implemented seven interest rate hikes with a total of 425 bps. The Malaysian Ringgit (MYR), alongside with many major currencies around world, depreciated to its lowest in 24 years against the US dollars in September 2022 before gradually improving in November/December 2022. On local front, Bank Negara Malaysia (BNM) raised Overnight Policy Rate (OPR) by a cumulative 100 basis points (bps) during the year to 2.75% from the historic low of 1.75% since the pandemic in 2020.

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

Outlook for 2023 (Cont'd)

Nevertheless, Malaysia's economy continues to be resilient and has bounced back from the pandemic after the reopening of the economy in April 2022. For 2022, Malaysia's economy recorded an encouraging performance, with the GDP for 2022 recording 8.7%, surpassing BNM's forecasted GDP growth of 6.5% to 7% and the highest since 2020. The growth was mainly driven by strong domestic demand, underpinned by improvements in labour market and income condition, robust exports, recovery of inbound tourism and ongoing policy support.

Looking into 2023, the Malaysian economy is expected to expand by 4.0 - 5.0% in 2023 and continued to be supported by firm domestic demand amid continued improvements in the labour market. Economic growth is also anticipated to be backed by government fiscal policies as well as stronger tourism activities. However, Malaysia's growth remains susceptible to a weaker-than-expected global growth, higher risk aversion in global financial markets, further escalation of geopolitical conflicts and re-emergence of supply chain disruption. Headline and core inflation are expected to remain elevated amid both demand and cost pressures, as well as any changes to domestic policy measures. Additional upward pressures to inflation may remain though partly contained by the existing price controls and subsidies.

Malaysia remains important to HSBC Group's strategy and is crucial to its growth plans across ASEAN. At HSBC Malaysia, we will continue to strategise our efforts to be the preferred international financial partner for our clients. This includes supporting the growing wealth needs of our customers and leveraging the reach and value of our global network for our corporate and institutional clients while also investing at scale domestically. We will also continue to invest in technology, inspire a dynamic and inclusive culture, help employees to develop future-ready skills, and support clients to achieve their transition to net-zero.

Awards won during the financial year:

1. **IFN Wakalah Deal of the year** for Malaysian government's US$800 million Sukuk issued via Malaysia Wakalah Sukuk - IFN Deal Awards 2022

2. **ESG Top Lead Arrange**r - BPAM Bond Market Awards 2022

3. **ESG Bank of the Year** - The Asset Triple A Islamic Finance Awards 2022 (3rd consecutive year)

4. **Best Trade Finance Bank** - The Asset Triple A Islamic Finance Awards 2022 (5th consecutive year)

5. **Sustainability Structuring Adviser** - The Asset Triple A Islamic Finance Awards 2022

6. **Best Sustainability-Linked Sukuk** - The Asset Triple A Islamic Finance Awards 2022

7. **Best Sustainability Sukuk** - The Asset Triple A Islamic Finance Awards 2022

8. **Best Sustainability-linked Term Financing** - The Asset Triple A Islamic Finance Awards 2022

9. **Best Quasi-Sovereign Sukuk** - The Asset Triple A Islamic Finance Awards 2022

10. **Best Corporate Sukuk - Real Estate** - The Asset Triple A Islamic Finance Awards 2022

11. **Best Corporate Sukuk - Airport (Malaysia)** - The Asset Triple A Islamic Finance Awards 2022

12. **Best Trade Finance Solution (Malaysia) -** The Asset Triple A Islamic Finance Awards 2022

AUDITORS

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

This report was approved by the Board of Directors on 7 February 2023.

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

………………………………………………………	………………………………………………
DATO' OMAR SIDDIQ BIN AMIN NOER RASHID	**ALBERT QUAH CHEI JIN**
Director	Director

Kuala Lumpur, Malaysia
7 February 2023

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

In the opinion of the Directors:

We, Dato' Omar Siddiq Bin Amin Noer Rashid and Albert Quah Chei Jin, being two of the Directors of HSBC Amanah Malaysia Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 35 to 155 are drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2022 and financial performance of the Bank for the financial year ended 31 December 2022 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 7 February 2023.

………………………………………………………

DATO' OMAR SIDDIQ BIN AMIN NOER RASHID
Director

………………………………………………………

ALBERT QUAH CHEI JIN
Director

Kuala Lumpur, Malaysia
7 February 2023

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

I, Loo Huai Cheng, being the officer primarily responsible for the financial management of HSBC Amanah Malaysia Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 35 to 155 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the above-named

at Kuala Lumpur, Malaysia on 7 February 2023.

……………………………………………..................

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

BEFORE ME:

……………………………………………..….

Signature of Commissioner for Oaths

SHARIAH COMMITTEE'S REPORT

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

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

Assalamu 'Alaikum Warahmatullahi Wabarakatuh

In carrying out the roles and responsibilities as Shariah Committee of HSBC Amanah Malaysia Berhad as prescribed in the Shariah Governance Policy Document issued by Bank Negara Malaysia, the Bank's Shariah Governance Policy as well as the Shariah Committee's Terms of Reference, we hereby submit the following report for the financial year ended 31 December 2022:

1. We have conducted seven (7) meetings for the whole year of 2022. The attendance of the members at the Shariah Committee meetings held is as follows:

Name of Member	Designation	Attendance/No. of Meetings
Asst. Prof. Dr. Ziyaad Mahomed	Chairman	7/7
Dr. Aida binti Othman	Member	7/7
Dr. Mohamed Ashraf bin Mohamed Iqbal	Member	7/7
Dr. Muhammad Syahmi bin Mohd Karim	Member	6/7
Ustaz Aminuddin Abu Bakar	Member	7/7

2. We have reviewed the products, services and transactions offered by the Bank based on the approved Shariah principles and the contracts relating to the transactions and applications introduced by the Bank during the financial year ended 31 December 2022 to ensure conformity with Shariah requirements.

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

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

5. We have overseen the work carried out by Shariah Department and assessed its effectiveness to implement the Shariah Governance Policy which includes pre and post examination, on a test basis, each type of transaction across business lines, the relevant documentations and procedures adopted and/or entered into by the Bank.

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

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

SHARIAH COMMITTEE'S REPORT (Cont'd)

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

a) nothing has come to the Shariah Committee's attention that causes the Shariah Committee to believe that the operations, business, affairs and activities of the Bank involve any material Shariah non-compliances;

b) the contracts, transactions, dealings entered into by the Bank during the financial year ended 31 December 2022 that have been reviewed by us, are in compliance with Shariah rules and principles;

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

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

e) the Bank is not required to pay zakat for the financial year ended 31 December 2022 because its shareholder has no obligation to pay zakat.

We, the members of the Shariah Committee of HSBC Amanah Malaysia Berhad, do hereby confirm that with the exception of identified breaches that are being remedied, the operations of the Bank for the financial year ended 31 December 2022 have been conducted in conformity with the Shariah principles.

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

Wassalamu 'Alaikum Warahmatullahi Wabarakatuh

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

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

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

Member of the Shariah Committee ……………………………………………….….
Dr. Muhammad Syahmi bin Mohd Karim

Member of the Shariah Committee ……………………………………………….….
Ustaz Aminuddin Abu Bakar

Kuala Lumpur, Malaysia
7 February 2023

pwc

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of HSBC Amanah Malaysia Berhad ("the Bank") give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Bank, which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 35 to 155.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors' report thereon

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT	WILLIAM MAH JIN CHIEK
LLP0014401-LCA & AF 1146	03085/07/2023 J
Chartered Accountants	Chartered Accountant

Kuala Lumpur
24 February 2023

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Note	**31 Dec 2022 RM'000**	31 Dec 2021 RM'000
Assets			
Cash and short-term funds	*7*	**4,930,875**	4,075,349
Deposits and placements with banks and other financial institutions	*8*	**933,429**	–
Financial investments at fair value through other comprehensive income (FVOCI)	*9*	**1,442,649**	2,252,951
Financial investments at amortised cost	*10*	**454,124**	–
Financing and advances	*11*	**13,843,011**	12,856,066
Derivative financial assets	*14*	**158,316**	92,858
Other assets	*15*	**163,624**	74,424
Statutory deposits with Bank Negara Malaysia	*16*	**198,860**	19,861
Equipment	*17*	**6,769**	6,905
Tax recoverable		**7,104**	13,260
Deferred tax assets	*19*	**31,275**	49,346
Total assets		**22,170,036**	19,441,020
Liabilities			
Deposits from customers	*20*	**13,957,652**	12,791,702
Deposits and placements from banks and other financial institutions	*21*	**2,043,447**	1,784,862
Structured liabilities designated at fair value through profit or loss (FVTPL)	*22*	**2,102,483**	1,188,099
Bills payable		**19,641**	12,867
Derivative financial liabilities	*14*	**292,572**	67,615
Other liabilities	*23*	**507,115**	469,724
Multi-Currency Sukuk Programme	*24*	**504,771**	515,333
Subordinated Commodity Murabahah Financing	*25*	**–**	600,777
Total liabilities		**19,427,681**	17,430,979
Equity			
Share capital and other equity	*26*	**1,161,063**	660,000
Reserves	*27*	**1,581,292**	1,350,041
Total equity attributable to owner of the Bank		**2,742,355**	2,010,041
Total liabilities and equity		**22,170,036**	19,441,020
Restricted investment accounts [1]		2,177,223	3,799,016
Total Islamic Banking asset [1]		24,347,259	23,240,036
Commitments and contingencies	*38*	**31,348,580**	27,296,398

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

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

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

STATEMENT OF PROFIT OR LOSS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	Note	**31 Dec 2022 RM'000**	31 Dec 2021 RM'000
Income derived from investment of depositors' funds and others	*28*	**684,773**	550,179
Income derived from investment of shareholder's funds	*29*	**157,677**	149,490
Impairment provision	*30*	**(21,604)**	(216,886)
Total distributable income		**820,846**	482,783
Income attributable to depositors	*31*	**(212,977)**	(173,017)
Total net income		**607,869**	309,766
Operating expenses	*32*	**(254,136)**	(255,773)
Profit before tax		**353,733**	53,993
Tax expense	33	**(112,575)**	(5,614)
Profit for the financial year		**241,158**	48,379
Profit attributable to the owner of the Bank		**241,158**	48,379
Basic earnings per RM0.50 ordinary share		**241.2 sen**	48.4 sen
Dividends per RM0.50 ordinary share (net)			
- final dividend paid in respect of prior year		**–**	50.0 sen

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

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Profit for the financial year	**241,158**	48,379
Other comprehensive income/(expense)		
Items that will not be reclassified to profit or loss		
Own credit reserves:		
Change in fair value	**(3,866)**	(1,408)
Income tax effect	**928**	338
Items that will subsequently be reclassified to profit or loss when specific conditions are met:		
Fair value through other comprehensive income reserve:		
Change in fair value	**(8,991)**	(16,947)
Net amount transferred from profit or loss	**–**	(2,554)
Impairment (write-back)/charges	**(145)**	102
Income tax effect	**2,158**	4,680
Other comprehensive expense for the financial year, net of income tax	**(9,916)**	**(15,789)**
Total comprehensive income for the financial year	**231,242**	**32,590**
Total comprehensive income attributable to the owner of the Bank	**231,242**	**32,590**

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

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

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

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

[1] On 19 August 2022, the Bank had issued RM501.0 million Additional Tier 1 USD Wakalah Financing Facility. Details of the issuance are set out in Note 26 to the financial statements.

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

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022 (Cont'd)

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

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

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Cash Flows from Operating Activities		
Profit before tax	**353,733**	53,993
Adjustments for:		
Equipment written off	**72**	121
Unrealised loss/(gain) from dealing in foreign currency	**35,230**	(6,963)
Unrealised loss from revaluation of financial assets at FVTPL	**2**	1
Unrealised loss from trading in derivatives	**97,654**	21,450
Allowance for impairment losses	**79,730**	272,080
Share based payment transactions	**66**	68
Depreciation of equipment	**2,195**	2,443
Depreciation of Right-of-use (ROU) assets	**6,074**	6,553
Impairment of ROU assets	**–**	129
Unrealised loss of foreign exchange translation on subordinated commodity murabahah financing	**–**	22,077
Net (income)/expenses on financial instruments FVTPL	**(48,492)**	4,165
Modification gain on financing and advances, net of unwinding	**(3,283)**	(14,442)
Operating profit before changes in operating assets and liabilities	**522,981**	**361,675**
(Increase)/Decrease in operating assets		
Deposits and placements with banks and other financial institutions	**(933,438)**	48,210
Financing and advances	**(1,039,407)**	385,622
Derivative financial assets	**(198,344)**	123,988
Other assets	**(71,652)**	(5,713)
Statutory deposits with Bank Negara Malaysia	**(178,999)**	5,641
Total (increase)/decrease in operating assets	**(2,421,840)**	557,748
Increase/(Decrease) in operating liabilities		
Deposits from customers	**1,165,950**	644,753
Deposits and placements from banks and other financial institutions	**258,585**	206,909
Structured liabilities designated at FVTPL	**948,448**	60,765
Bills payable	**6,774**	(35,140)
Derivative financial liabilities	**224,957**	(108,367)
Other liabilities	**39,587**	241,038
Total increase in operating liabilities	**2,644,301**	1,009,958

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

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022 (Cont'd)

	31 Dec 2022	31 Dec 2021
	RM'000	RM'000
Cash generated from operating activities	**745,442**	1,929,381
Income tax paid	**(85,263)**	(33,125)
Net cash generated from operating activities	**660,179**	1,896,256
Cash Flows from Investing Activities		
Purchase of financial investments at fair value through other comprehensive income	**(51,056)**	(1,476,664)
Purchase of financial investments at amortised cost	**(453,853)**	–
Proceeds from disposal of financial investments at fair value through other comprehensive income	**828,473**	479,936
Purchase of equipment	**(2,131)**	(385)
Net cash generated from/(used in) investing activities	**321,433**	(997,113)
Cash Flows from Financing Activities		
Redemption of Subordinated Commodity Murabahah Financing	**(600,777)**	–
Issuance of other equity instrument	**501,063**	–
Profit paid on Multi-Currency Sukuk Programme	**(14,102)**	(12,107)
Profit paid on Subordinated Commodity Murabahah Financing	**(12,270)**	(13,570)
Dividend paid	**–**	(50,000)
Net cash used in financing activities	**(126,086)**	(75,677)
Net increase in Cash and Cash Equivalents	**855,526**	823,466
Cash and Cash Equivalents at beginning of the financial year	**4,075,349**	3,251,883
Cash and Cash Equivalents at end of the financial year	**4,930,875**	4,075,349
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**4,930,875**	4,075,349

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

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022 (Cont'd)

Changes in liabilities arising from financing activities

	At 1 January RM'000	Cash inflow/ outflow RM'000	Foreign exchange adjustment RM'000	Fair value movement RM'000	Profit accrual RM'000	At 31 December RM'000
2022						
Multi-Currency Sukuk Programme	**515,333**	**–**	**–**	**(10,562)**	**–**	**504,771**
Subordinated Commodity Murabahah Financing	**600,777**	**(600,777)**	**–**	**–**	**–**	**–**
Other Liabilities of which:						
Profit paid on Multi-Currency Sukuk Programme	**5,242**	**(14,102)**	**–**	**–**	**14,161**	**5,301**
Profit paid on Subordinated Commodity Murabahah Financing	**143**	**(12,270)**	**–**	**–**	**12,127**	**–**
Other equity instrument	**–**	**501,063**	**–**	**–**	**–**	**501,063**
	1,121,495	**(126,086)**	**–**	**(10,562)**	**26,288**	**1,011,135**
2021						
Multi-Currency Sukuk Programme	523,841	–	–	(8,508)	–	515,333
Subordinated Commodity Murabahah Financing	578,700	–	22,077	–	–	600,777
Other Liabilities of which:						
Profit paid on Multi-Currency Sukuk Programme	5,360	(12,107)	–	–	11,989	5,242
Profit paid on Subordinated Commodity Murabahah Financing	118	(13,570)	–	–	13,595	143
	1,108,019	(25,677)	22,077	(8,508)	25,584	1,121,495

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

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

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

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

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

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

The financial statements were approved and authorised for issue by the Board of Directors on 7 February 2023.

2 Basis of Preparation

(a) Statement of compliance

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

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

The amendments to published standards that are effective and applicable to the Bank for the financial year beginning on 1 January 2022 are as follows:

- Amendments to MFRS 16 'COVID-19-Related Rent Concessions beyond 30 June 2021'
- Amendments to MFRS 116 'Proceeds before Intended Use'
- Amendments to MFRS 137 'Onerous Contracts – Cost of Fulfilling a Contract'
- Amendments to MFRS 3 'Reference to the Conceptual Framework'
- Annual Improvements to Illustrative Example accompanying MFRS 16 Leases: Lease Incentives
- Annual Improvements to MFRS 9 Financial Instruments: Fees in the '10 per cent' Test for Derecognition of Financial Liabilities
- Annual Improvements to MFRS 1 'Subsidiary as First-time Adopter'

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

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

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

<u>Effective for annual periods commencing on or after 1 January 2023</u>

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

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

(a) Statement of compliance (Cont'd)

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

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

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

  – Amendments on disclosure of accounting policies

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

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

  – Amendments on definition of accounting estimates

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

Effective for annual periods commencing on or after 1 January 2024

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

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

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

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

2 Basis of Preparation (Cont'd)

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

Management believes that the Bank's critical accounting policies where judgement is necessarily applied are those which relate to impairment of financing and advances and the valuation of financial instruments (refer to Note 6). There are no other significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed above.

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

3 Significant Accounting Policies

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

(a) Foreign Currencies

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

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

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

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

(b) Financing Income and Expenses

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

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

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

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

The method of recognizing the income and expenses are in compliance to the Shariah rulings and principles.

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

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

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

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

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

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

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

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

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

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

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

Fee income is earned from a diverse range of services the Bank provides to their customers. Fee income is accounted for as follows:

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

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

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

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

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

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

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

(d) Income tax

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

Current tax is the tax expected to be payable or receivable on the taxable income or loss for the financial year, calculated using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous financial years. The Bank provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. Current tax assets and liabilities are offset when the Bank intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

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

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

(e) Cash and cash equivalents

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

(f) Financial instruments

(i) Initial recognition and measurement

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

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

(ii) Financial instruments categories and subsequent measurement

The Bank categorises financial instruments as follows:

- financial instruments measured at amortised cost (See Note 3(g));
- financial assets measured at fair value through other comprehensive income (FVOCI) (Note 3(h));
- financial instruments designated at fair value through profit or loss (FVTPL) (Note 3(i)).

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

(iii) Derecognition of financial assets and liabilities

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

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

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

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

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

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

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

(f) Financial instruments (Cont’d)

(v) Valuation of financial instruments

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

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

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

(vi) Derivative financial instruments and hedge accounting

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

Hedge accounting

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

- *Fair value hedge*

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

(f) Financial instruments (Cont'd)

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

Hedge accounting (Cont'd)

- *Cash flow hedge*

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

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

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

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

On 24 September 2021, Bank Negara Malaysia announced the launch of the Malaysia Overnight Rates (MYOR) as the new alternative reference rate for Malaysia. The MYOR will run in parallel to the existing KLIBOR rates. The publication of the 2- and 12-month KLIBOR tenors will be discontinued on 1 January 2023. The remaining 1-, 3- and 6-month KLIBOR tenors were reviewed in the second half of 2022. On 25 March 2022, Bank Negara Malaysia announced the launch of Malaysia Islamic Overnight Rate (MYOR-I) which replaced the the Kuala Lumpur Islamic Reference Rate (KLIRR), hence KLIRR was discontinued with immediate effect.

The Bank does not have any hedging instruments as at 31 December 2022 and 31 December 2021.

(g) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and profit, such as most advances and financing to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

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

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

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

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

(i) Contracts under Islamic sell and buyback agreements

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

(ii) Financial liabilities measured at amortised cost

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

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

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

3 Significant Accounting Policies (Cont'd)

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

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

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

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

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

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

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

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

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

- Structured liabilities designated at fair value through profit or loss

  Structured liabilities of the Bank designated at fair value are recognised in the balance sheet in 'Structured Liabilities Designated at Fair Value'. Please refer to Note 22.

(j) Impairment of amortised cost and FVOCI financial assets

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

(i) Credit-impaired (stage 3)

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

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

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

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

(ii) Write-off

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

(iii) Forbearance

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

Performing forborne financing are initially stage 2 and remain classified as forborne until they meet applicable cure criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the financing is either stage 1 or stage 2 as determined by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

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

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

Financing and advances modifications that are not identified as forborne are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new financing contract) such that the Bank's rights to the cash flows under the original contract have expired, the old financing is derecognised and the new financing is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

Mandatory and general offer of financing and advances modifications that are not customer-specific, for example market-wide customer relief programmes, generally do not result in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy.

Changes made to these financial instruments, including financing and advances that are economically equivalent and required by profit rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective profit rate to be updated to reflect the change of the profit rate benchmark.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(vii) Movement between stages

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. In the case of non-performing forborne financing, such financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

(viii) Measurement of ECL

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

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

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

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

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

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

(ix) Period over which ECL is measured

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

(x) Forward-looking economic inputs

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

(k) Equipment

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

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

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

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

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

(l) Leases

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

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

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

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

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

(m) Intangible assets

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

Amortisation of intangible assets is calculated to write off the cost of the intangible assets on a straight line basis over the estimated useful lives. The useful lives of internally generated software are between 3 and 5 years in general except for core banking applications with useful life of 10 years. Intangible assets are subject to impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

(n) Bills payable

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

(o) Provisions, contingent liabilities and financial guarantees contracts

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

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

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

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

(p) Employee benefits

(i) Short term employee benefits

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

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

(ii) Defined contribution plan

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

(iii) Termination benefits

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

(q) Share based payments

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

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

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

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

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

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

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

(r) Share capital and other equity instruments

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

(s) Earnings per share

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

4 Risk

(a) Introduction and overview

(i) Risk appetite

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

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

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

<u>Financial position</u>

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

<u>Operating model</u>

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

<u>Business practice</u>

- We have zero tolerance for any of our people knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and/or mitigated.
- We have no appetite for deliberately or knowingly causing detriment to consumers, or incurring a breach of the letter or spirit of regulatory requirements.
- We have no appetite for inappropriate market conduct by any member of staff or by any group business.
- We are committed to managing the climate risks that have an impact on our financial position, and delivering on our net zero ambition.

<u>Enterprise-wide application</u>

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

We define financial risk as the risk of a financial loss as a result of business activities. We actively take these types of risks to maximise shareholder value and profits. Non-financial risk is the risk to achieving the Bank’s strategy or objectives as the result of failed internal processes, people and systems or from external events.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(i) Risk appetite (Cont'd)

Enterprise-wide application (Cont'd)

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

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

The Bank formally articulates risk appetite through the risk appetite statement (RAS), which is approved by the Board on the recommendation of the Risk Committee (RC). Setting out risk appetite ensures that we agree a suitable level of risk for our strategy. In this way, risk appetite informs financial planning process and helps senior management to allocate capital to business activities, services and products.

The RAS consists of qualitative statements and quantitative metrics, covering financial and non-financial risks. It is applied to the development of business line strategies, strategic and business planning, and remuneration.

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

(ii) Risk management

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

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by the Bank's risk culture and values. This is outlined in our risk management framework, including the key principles, and practices that we employed in managing material risks, both financial and non-financial.

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

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

<u>Risk management framework</u>

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

Key components of our risk management framework

HSBC Values and risk culture

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

(a) Introduction and overview (Cont’d)

(ii) Risk management (Cont’d)

Risk governance

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

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

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

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

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

Our responsibilities

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

Three lines of defence

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

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

The three lines of defence are summarised below:

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

Risk function

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

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

(a) Introduction and overview (Cont’d)

(ii) Risk management (Cont’d)

Our Responsibilities (Cont’d)

Risk function (Cont’d)

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

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

Stress testing

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

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

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

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

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Our Responsibilities (Cont'd)

Key developments in 2022

We continued to actively managed the risks related to the Russia-Ukraine war and broader macroeconomic and geopolitical uncertainties, as well as the continued risk resulting from the COVID-19 pandemic and its impacts on our customers and operations during 2022, as well as other key risks described in this section.

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

- We continued to improve our risk governance decision making, particularly with regard to the governance of treasury risk to ensure senior executives have appropriate oversight and visibility of macroeconomic trends around inflation and profit rates.

- We kept our credit risk management process robust through the review of the Bank's risk plan where credit appetite is established, to align to the current economic environment.

- We continued to develop our approach on emerging risk identification and management to place greater focus on our emerging risks.

- We made progress with our comprehensive regulatory reporting programme to strengthen our global processes, improve consistency, and enhance controls.

- We enhanced and continued to embed the governance and oversight around model adjustments and related processes for MFRS 9 models as well as Sarbanes-Oxley controls.

- We established a dedicated Climate Risk Oversight Forum to oversee our approach to climate risk in support of our climate change strategy and the development of our climate risk management capabilities. We leveraged on the HSBC Group's climate risk programme, which continues to drive the delivery of our enhanced climate risk management approach. The programme has continued to embed climate considerations throughout the HSBC Group, including the increased coverage of all risk types, expanding the scope of climate related training and developing new climate risk metrics to monitor and manage exposures.

- We continued to improve the effectiveness of our financial crime controls, deploying advanced analytics capabilities into new markets. We are refreshing our financial crime policies, ensuring they remain up-to-date and address changing and emerging risks including fraud & money laundering. We will continue to monitor regulatory changes.

Emerging risks

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Emerging risk (Cont'd)

The Bank's current key emerging risks are as follows:
- Geopolitical risk
- Climate-related risk

Geopolitical risk

The Russia-Ukraine war has had far-reaching geopolitical and economic implications. HSBC Group, including HSBC Malaysia is monitoring the direct and indirect impacts of the war, and continues to respond to the extensive sanctions and trade restrictions that have been imposed, noting the challenges that arise in implementing the complex, novel and ambiguous aspects of certain sanctions. Numerous sanctions have been imposed against the Russian government and its officials, alongside individuals with close ties to the Russian government and a number of Russian financial institutions and companies.

Global commodity markets have been significantly impacted by the Russia-Ukraine war and localised Covid-19 outbreaks, leading to lingering supply chain disruptions. This has resulted in product shortages appearing across several regions, and increased prices for both energy and non-energy commodities, such as food. We do not expect these to ease significantly in the near term. In turn, this has had a significant impact on global inflation.

Rising global inflation is prompting central banks to continue tightening monetary policy. The US Federal Reserve Board ('FRB') delivered a cumulative 425bps increase in the Federal Funds rate between March and December 2022, to 4.25%-4.50%.

Global tensions over trade, technology and ideology are manifesting themselves in divergent regulatory standards and compliance regimes, presenting long-term strategic challenges for multinational businesses. The US, the UK, the EU, Canada and other countries have imposed various sanctions and trade restrictions on Chinese persons and companies and this could create a more complex operating environment for the group and its customers. China in turn has announced a number of its own sanctions and trade restrictions on foreign individuals and companies. These and any future measures and countermeasures that may be taken by the US, China and other countries may affect our customers.

The impact of the Covid-19 pandemic and second order impacts from other geopolitical events remain uncertain and may lead to significant credit losses on specific exposures, which may not be fully captured in ECL estimates. To help mitigate this risk, model outputs and management adjustments are closely monitored and independently reviewed at the Group and country level for reliability and appropriateness.

(a) Introduction and overview (Cont’d)

(ii) Risk management (Cont’d)

Emerging risk (Cont’d)

Geopolitical risk (Cont’d)

Expanding data privacy, national security and cybersecurity laws in a number of markets could pose potential challenges to intragroup data sharing. These developments could increase financial institutions’ compliance burdens in respect of cross-border transfers of personal information, and degrade our enterprise-wide financial crime risk management capabilities.

Mitigating actions

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

Climate-related risks

Climate change can have an impact across HSBC’s risk taxonomy through both transition and physical channels. Transition risk can arise from the move to a low-carbon economy, such as through policy, regulatory and technological changes. Physical risk can arise through increasing severity and/or frequency of severe weather or other climatic events, such as rising sea levels and flooding. We are subject to financial and non-financial risks associated with climate risk which can impact us both directly and indirectly through our customers.

Focus on climate-related risk increased during 2022, owing to the pace and volume of policy and regulatory changes globally particularly on climate risk management, stress testing and scenario analysis and disclosures. If we fail to meet evolving regulatory expectations or requirements on climate risk management, this could have regulatory compliance and reputational impacts for HSBC Group. We could face direct impact from the increase in frequency and severity of weather events and chronic shifts in weather patterns, which could impact our ability to conduct our day to day operations. Our customers may find that their business models fail to align to a net zero economy or face disruption to their operations or deterioration to their assets as a result of extreme weather. We face increased reputational, legal and regulatory risk as we make progress towards our net zero ambition, with stakeholders likely to place greater focus on our actions such as the development of climate-related policies, our disclosures and financing and investment decisions relating to our ambition. We will face additional risks if we are perceived to mislead stakeholders in respect of our climate strategy, the climate impact of a product or service, or the commitments of our customers. Climate risk will also have an impact on model risk, as the uncertain impacts of climate change and data limitations present challenges to creating reliable and accurate model outputs.

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Emerging risk (Cont'd)

Climate-related risks (Cont'd)

To track and report on progress towards achieving our ambition, we rely on internal and external data, guided by industry standards. While emissions reporting has improved over time, data remains of limited quality and consistency. Methodologies may develop over time in line with market practice, regulations, and developments in climate science. Any developments in data and methodologies could result in revisions to reported data going forward, meaning that reported figures may not be reconcilable or comparable year-on-year. We may also have to reevaluate our progress towards our climate-related targets in future and this could result in reputational, legal and regulatory risks.

- Integrating climate risk into risk management

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

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

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

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

  HSBC Group's dedicated climate risk programme continues to accelerate the development of climate risk management capability across four key pillars – (i) governance and risk appetite, (ii) risk management, (iii) stress testing and scenario analysis, and (iv) disclosures. This includes the forthcoming evolution of our risk appetite and continuing to increase the availability and quality of data so that new metrics can be developed to strengthen how we assess and manage climate risk and opportunities. We are also enhancing our approach to greenwashing risk management.

  We have identified key sectors where our wholesale credit customers have the highest climate risk exposure, based on their carbon dioxide (CO_2) emissions. These include oil and gas, building and construction, chemicals, automotive, power and utilities and metals and mining. We track our exposure within these six high risk sectors, including environmentally responsible and sustainable finance activities as part of our Risk Appetite. Our reporting will evolve as our approach to climate risk management matures.

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

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

<u>Emerging risk (Cont'd)</u>

Climate-related risks (Cont'd)

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

  We also classify our corporate customers and retail products according the BNM's Climate Change Principal Based Taxonomy (CCPT) and monitor our portfolio's readiness to transition to a low carbon economy.

- Ongoing actions

  – We continue to deepen our understanding of the drivers of climate risk as well as manage our exposure. A dedicated Climate Risk Oversight Forum is responsible for shaping and overseeing our approach and providing support in managing climate risk within the Bank.

  – In December, HSBC Group announced our revised energy policy and we will use our positive relationships to partner with customers in this sector to help them transition to cleaner, safer and cheaper energy alternatives.

  – The Bank is also developing a Climate Risk Implementation Plan to address the requirements set forth within the recently published Climate Risk Management and Scenario Analysis policy by Bank Negara Malaysia on 30 November 2022.

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

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

Area of Special Interest - Risks related to COVID-19

Despite the successful roll-out of vaccines around the world, the Covid-19 pandemic and its effect on the global economy have continued to impact our customers and organisation. The emergence of new variants and sub-variants pose a continuing risk. The global vaccination roll-out has helped reduce the social and economic impact of the Covid-19 pandemic. Countries continue to differ in their approach to restrictions on activity and travel, and if these differences persist, this could prolong or worsen supply chain and international travel disruptions.

Central banks in most major economies - with the exception of mainland China - are tightening their monetary policies, with the speed of such tightening varying across jurisdictions based on specific macroeconomic conditions. Policy tightening in emerging markets has already begun in order to counteract rising inflation and the risk of capital outflows. Governments are also expected to make fiscal support more targeted as the appetite for broad lockdowns and public health restrictions decreases. Government debt has risen in many economies, and is expected to remain high into the medium term. High government debt burdens have raised fiscal vulnerabilities, increasing the sensitivity of debt service costs to profit rate increases and potentially reducing the fiscal space available to address future economic downturns.

(a) Introduction and overview (Cont'd)

(ii) Risk management (Cont'd)

Emerging risk (Cont'd)

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

Our central scenario used to calculate impairment assumes that economic activity will continue to recover through 2023, surpassing peak pre-pandemic levels of GDP in all our key markets. It is assumed that the private sector growth will accelerate, ensuring strong recovery is sustained even as pandemic-related fiscal support is withdrawn.

We continue to monitor the situation closely, given the novel and prolonged impact of the pandemic.

(iii) Material banking risks

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

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

Note 4(b) to 4(h) presents information about the Bank's exposure to each of the above risks as well as the objectives, policies and processes for measuring and managing those risks.

(b) Credit risk

(i) Overview

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

(ii) Credit risk management framework

<u>Key developments in 2022</u>

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

<u>Governance and structure</u>

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

(iii) Credit risk sub-function

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

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

<u>Key risk management processes</u>

MFRS 9 'Financial Instruments' process

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

- Modelling and data

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

- Implementation

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

(b) Credit risk (Cont'd)

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

Key risk management processes (Cont'd)

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

- Governance

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

Concentration of exposure

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

We monitor concentration of credit risk by sector and geographical location. The analysis of concentration of credit risk from financing and advances is shown in Notes 11(v) and 11(vii). The analysis of concentration of credit risk from the Bank's financial assets is shown in Note 4(b)(vi).

Credit quality of financial instruments

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

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

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

(b) Credit risk (Cont’d)

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

Key risk management processes (Cont’d)

Credit quality of financial instruments (Cont’d)

- *Credit quality classification*

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

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

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

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

Quality classification definitions:

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

(b) Credit risk (Cont'd)

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

<u>Key risk management processes (Cont'd)</u>

Forborne financings and forbearance

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

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

In 2022, we expanded our definition of forborne to capture non-payment related concessions, such as covenant waivers. For our wholesale portfolio, we began identifying non-payment related concession in 2021 when our internal policies were changed. For retail portfolios, we began identifying them during 2022.

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

Credit quality of forborne financing

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

Wholesale and retail forborne financings are classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. Any forborne financing not considered credit impaired will remain forborne for a minimum of two years from the date that credit impairment no longer applies.

Forborne financings and recognition of expected credit losses

Forborne financing expected credit loss assessments reflect the higher rates of losses typically experienced with these types of financings such that they are in stage 2 and stage 3. The higher rates are more pronounced in unsecured retail financing requiring further segmentation. For wholesale financing, forborne financing and advances are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessments. The individual impairment assessment takes into account the higher risk of the future non-payment inherent in forborne financings.

Impairment assessment

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

(b) Credit risk (Cont'd)

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

Key risk management processes (Cont'd)

Write-off of financing and advances

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

Unsecured personal facilities, including credit cards, are generally written off at between 180 and 210 days past due except for unsecured restructured facilities which are usually written off at 90 days past due. The standard period runs until the end of the month in which the account becomes 180 days contractually delinquent.

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

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

(iv) Credit risk profile

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

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

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

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

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

(v) Credit deterioration of financial instruments

Measurement uncertainty and sensitivity analysis of ECL estimates

Amid a deterioration in the economic and geopolitical environment, management judgements and estimates continued to be subject to a high degree of uncertainty in relation to assessing economic scenarios for impairment allowances in 2022.

Inflation, economic contraction and high profit rates combined with an unstable geopolitical environment and the effects of global supply chain disruption contributed to elevated levels of uncertainty during the year.

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

(b) Credit risk (Cont'd)

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

Methodology for developing forward looking economic scenarios

Four economic scenarios have been used to capture the exceptional nature of the current economic environment and to articulate management's view of the range of potential outcome. Scenarios produced to calculate ECL are aligned to HSBC's top and emerging risks.

Three of these scenarios are drawn from consensus forecasts and distributional estimates. The central scenario is deemed the 'most likely' outcome and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution which are less likely to occur. The central scenario is created using the average of a panel of external forecasters. Consensus upside and downside scenarios are created with reference to distributions for select markets that capture forecasters views of the entire range of outcomes. In the later years of the scenarios, projections revert to long-term consensus trend expectations. In the consensus outer scenarios, reversion to trend expectations is done mechanically with reference to historically observed quarterly changes in the values of macroeconomic variables. The fourth scenario, Downside 2, is designed to represent management's view of severe downside risks. It is a globally consistent narrative-driven scenario that explores more extreme economic outcomes than those captured by the consensus scenarios. In this scenario, variables do not, by design, revert to long-term trend expectations. They may instead explore alternative states of equilibrium, where economic activity moves permanently away from past trends.

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

	2022				2021			
	Scenario				Scenario			
	Central (%)	**Upside (%)**	**Downside (%)**	**Downside 2 (%)**	Central (%)	Upside (%)	Downside (%)	Downside 2 (%)
GDP growth rate	**4.4**	**5.6**	**3.1**	**2.6**	4.8	6.2	3.6	3.1
Inflation	**2.5**	**2.2**	**2.5**	**2.5**	2.1	2.4	1.7	0.9
Unemployment rate	**3.4**	**3.3**	**3.5**	**4.9**	3.7	3.6	3.9	5.2
Property price growth	**2.3**	**3.3**	**1.2**	**-3.5**	2.0	2.7	1.2	-3.9
Short term profit rate	**3.2**	**3.1**	**2.0**	**2.1**	2.9	3.1	1.8	1.8
Probability	**70.0**	**5.0**	**20.0**	**5.0**	70.0	5.0	20.0	5.0

Critical accounting estimates and judgements

The calculation of ECL under MFRS 9 involves significant judgements, assumptions and estimates, as set out in the Note 2(d). The level of estimation uncertainty and judgement remained high during 2022 as a result of the economic effects of the COVID-19 outbreak, including significant judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions and a wide distribution of economic forecasts. There is judgement in making assumptions about the effects of inflation and profit, global growth, supply chain disruption; and

- estimating the economic effects of those scenarios on ECL, particularly as the historical relationship between macroeconomic variables and defaults might not reflect the dynamics of current macroeconomic conditions.

(b) Credit risk (Cont’d)

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

How economic scenarios are reflected in the calculation of ECL

Models are used to reflect economic scenarios on ECL estimates. Modelled assumptions and linkages based on historical information could not alone produce relevant information under the conditions experienced in 2022, and management judgemental adjustments were still required to support modelled outcomes.

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

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

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

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

Management judgemental adjustments

In the context of MFRS 9, management judgemental adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late breaking events, model and data limitations and deficiencies, and expert credit judgement applied following management review and challenge. This includes refining model inputs and outputs and using adjustments to ECL based on management judgement and higher-level quantitative analysis for impacts that are difficult to model. The effect of management judgmental adjustments are considered for balances and ECL when determining whether or not a significant increase in credit risk has occurred and are attributed or allocated to a stage as appropriate. This is in accordance with the internal adjustments framework.

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

(b) Credit risk (Cont'd)

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

Economic scenarios sensitivity analysis of ECL estimates

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

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the lower and upper limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating ECL for financings and advances at the balance sheet date.

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

For wholesale credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios. Therefore, it is impracticable to separate the effect of macro-economic factors in individual assessments. When compared with the performing portfolio, the defaulted obligors represent a significantly smaller portion of the wholesale exposures, even if accounting for the larger portion of the allowance for ECL.

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

Wholesale and retail sensitivity

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

Wholesale analysis

MFRS 9 ECL sensitivity to future economic conditions [1]

ECL coverage of financial instruments subject to significant measurement uncertainty [2]	**31 Dec 2022**	31 Dec 2021
Reported ECL (RM'000)	**22,706**	23,714
Gross carrying value/nominal amount [3] (RM'000)	**26,207,455**	19,535,080
Reported ECL Coverage (%)	**0.09%**	0.12 %
Coverage Ratios by Scenario (%)		
Consensus central scenario	**0.07%**	0.11 %
Consensus upside scenario	**0.05%**	0.08 %
Consensus downside scenario	**0.12%**	0.13 %
Alternative (downside 2) scenario	**0.31%**	0.25 %

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

(b) Credit risk (Cont'd)

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

Retail analysis

MFRS 9 ECL sensitivity to future economic conditions [1]

ECL coverage of financing and advances[2]	**31 Dec 2022**	31 Dec 2021
Reported ECL (RM'000)	**199,948**	190,052
Drawn Amount (RM'000)	**5,264,745**	4,392,397
Reported ECL Coverage (%)	**3.80%**	4.33 %
Coverage Ratios by Scenario (%)		
Consensus central scenario	**3.67%**	4.10 %
Consensus upside scenario	**3.23%**	3.87 %
Consensus downside scenario	**4.17%**	4.52 %
Alternative (downside 2) scenario	**5.14%**	5.38 %

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

(vi) Credit quality

Credit quality of financial instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(b) Credit risk (Cont'd)

(vi) Credit quality (Cont'd)

Distribution of financial assets by credit quality

(RM'000)	Gross Carrying Amount							
	Strong	Good	Satisfactory	Sub-standard	Credit Impaired	Total	ECL allowances	Carrying amount (net of impairment provision)
At 31 December 2022								
Cash and short-term funds	**4,928,768**	**2,118**	**–**	**–**	**–**	**4,930,886**	**(11)**	**4,930,875**
Deposits and placements with banks and other financial institutions	**933,429**	**–**	**–**	**–**	**–**	**933,429**	**–**	**933,429**
Financial assets at FVOCI	**1,442,783**	**–**	**–**	**–**	**–**	**1,442,783**	**(134)**	**1,442,649**
Financial investments at amortised cost	**454,126**	**–**	**–**	**–**	**–**	**454,126**	**(2)**	**454,124**
Financing and advances to customers held at amortised cost	**5,083,365**	**3,270,806**	**4,621,814**	**397,417**	**971,931**	**14,345,333**	**(502,322)**	**13,843,011**
of which:								
- retail	***2,008,907***	***1,292,598***	***1,826,506***	***157,056***	***702,493***	***5,987,560***	***(258,117)***	***5,729,443***
- corporate and commercial	***3,074,458***	***1,978,208***	***2,795,308***	***240,361***	***269,438***	***8,357,773***	***(244,205)***	***8,113,568***
Derivatives financial assets	**156,294**	**288**	**1,713**	**21**	**–**	**158,316**	**–**	**158,316**
Other financial assets	**128,850**	**–**	**–**	**–**	**–**	**128,850**	**–**	**128,850**
Irrevocable financing commitments and financial guarantees	**4,256,000**	**1,680,000**	**1,846,000**	**123,000**	**48,000**	**7,953,000**	**(8,000)**	**7,945,000**
At 31 December 2021								
Cash and short-term funds	4,075,279	71	–	–	–	4,075,350	(1)	4,075,349
Financial assets at FVOCI	2,253,231	–	–	–	–	2,253,231	(280)	2,252,951
Financing and advances to customers held at amortised cost	3,740,647	2,986,416	4,908,283	569,091	1,175,011	13,379,448	(523,382)	12,856,066
of which:								
- retail	*1,612,717*	*1,287,543*	*2,116,124*	*245,354*	*933,809*	*6,195,547*	*(325,659)*	5,869,888
- corporate and commercial	*2,127,930*	*1,698,873*	*2,792,159*	*323,737*	*241,202*	*7,183,901*	*(197,723)*	6,986,178
Derivatives financial assets	87,646	12	5,009	191	–	92,858	–	92,858
Other financial assets	35,840	–	–	–	–	35,840	–	35,840
Irrevocable financing commitments and financial guarantees	4,622,000	854,000	1,766,000	67,000	–	7,309,000	(8,647)	7,300,353

(b) Credit risk (Cont'd)

(vi) Credit quality (Cont'd)

Credit impaired financings (Stage 3)

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

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

Collateral and other credit enhancements

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

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

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

(b) Credit risk (Cont’d)

(vi) Credit quality (Cont’d)

Collateral and other credit enhancements (Cont’d)

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for impaired advances and financing for the Bank as at 31 December 2022 are 45.7% (2021: 51.3%).

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

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

Derivatives

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(b) Credit risk (Cont'd)

(vi) Credit quality (Cont'd)

Offsetting financial assets and liabilities

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

	(i)	(ii)	(iii) = (i) + (ii)	(iv)a	(iv)b	(v) = (iii) - (iv)
	Gross amounts of recognised assets	Gross amounts offset in the statement of financial position	Net amount of assets presented in the statement of financial position	Gross amounts not offset in the statement of financial position		Net amount
Description				Financial instruments	Cash collateral	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2022						
Bank						
Derivative financial assets	**158,316**	**–**	**158,316**	**–**	**–**	**158,316**
Derivative financial liabilities	**292,572**	**–**	**292,572**	**–**	**–**	**292,572**
2021						
Bank						
Derivative financial assets	92,858	–	92,858	–	–	92,858
Derivative financial liabilities	67,615	–	67,615	–	–	67,615

(c) Liquidity and funding risk

(i) Overview

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

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

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

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

(ii) Governance and structure

The management of liquidity and funding is primarily carried out through HSBC Group's liquidity and funding risk framework (LFRF) and BNM's Liquidity Coverage Ratio and Net Stable Funding Ratio Framework. The Bank is required to meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through the Internal Liquidity Adequacy Assessment Process (ILAAP), which ensures there are robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day. The ILAAP informs the validation of risk tolerance and the setting of risk appetite. It also assesses the capability to manage liquidity and funding effectively. Limits are proposed by Asset, Liability and Capital Management (ALCM) through the RMM and approved by the Board. These limits vary to take account of the depth and liquidity of the local market in which the Bank operates. The Bank maintains strong liquidity positions and manage the liquidity profile of the assets, liabilities and commitments to ensure that cash flows are appropriately balanced and all obligations are met when due.

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

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

(c) Liquidity and funding risk (Cont’d)

(iii) Management of liquidity and funding risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

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

(iv) Liquidity risk

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

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

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

[2] Others comprises other liabilities.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

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

(iv) Liquidity risk (Cont'd)

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

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

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

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

The balances in the tables below will not agree directly with the balances in the statement of financial position as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments. In addition, financing and other credit-related commitments and financial guarantees and similar contracts are generally not recognised on the statement of financial position.

Cash flows payable in respect of customer accounts are primarily contractually repayable on demand or at short notice. However, in practice, short term deposit balances remain stable as inflows and outflows broadly match and a significant portion of financing commitments expire without being drawn upon.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

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

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

RM'000	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years	Total
At 31 December 2021						
Non-derivative liabilities						
Deposits by customers	6,235,786	4,339,801	1,827,097	460,875	–	12,863,559
Deposits and placements from banks and other financial institutions	–	966,198	825,859	–	–	1,792,057
Structured liabilities designated at fair value through profit or loss (FVTPL)	2,977	2,246	236,860	1,062,977	–	1,305,060
Bills payable	12,867	–	–	–	–	12,867
Multi-Currency Sukuk Programme	–	–	21,500	521,500	–	543,000
Subordinated Commodity Murabahah financing	–	3,326	10,340	626,951	–	640,617
Other liabilities	152,117	29,531	30,211	40,198	120,485	372,542
Financing and other credit-related commitments	8,898,535	218,924	916,116	320,180	1,516	10,355,271
Financial guarantees and similar contracts	126,874	112,256	861,131	533,097	139,596	1,772,954
	15,429,156	5,672,282	4,729,114	3,565,778	261,597	29,657,927
Derivative liabilities						
Gross settled derivatives						
- Inflow	–	(3,273,213)	(3,054,653)	(6,781)	–	(6,334,647)
- Outflow	–	3,302,529	3,078,291	23,788	–	6,404,608
Net settled derivatives	–	85	453	914	–	1,452

(d) Market risk

(i) Overview

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

(ii) Market risk management

Key developments in 2022

There were no material changes to our policies and practices for the management of market risk in 2022.

Governance and structure

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

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

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

Market risk is managed and controlled through limits approved by the Bank's Board of Directors. These limits are allocated across business lines. The Bank has an independent market risk management and control sub-function, which is responsible for measuring, monitoring and reporting market risk exposures against limits on a daily basis. The Bank is required to assess the market risks arising in its business and to transfer them either to its Markets and Securities Services or Markets Treasury for management, or to separate books managed under the supervision of ALCO. The Traded Risk function enforces the controls around trading in permissible instruments approved for each site as well as changes that follow completion of the new product approval process. Traded Risk also restricts trading in the more complex derivatives products to offices with appropriate levels of product expertise and robust control systems.

Key risk management processes

Monitoring and limiting market risk exposures

Our objective is to manage and control market risk exposures while maintaining a market profile consistent with our risk appetite.

We use a range of tools to monitor and limit market risk exposures including sensitivity analysis, VaR and stress testing.

(d) Market risk (Cont'd)

(ii) Market risk management (Cont'd)

Key risk management processes (Cont'd)

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios including profit rates, foreign exchange rates, credit spreads and equity prices. We use sensitivity measures to monitor the market risk positions within each risk type. Granular sensitivity limits are set primarily for trading desks with consideration of market liquidity, customer demand and capital constraints, among other factors.

Value at risk (VaR)

VaR is a technique for estimating potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into market risk management and is calculated for all trading positions regardless of how we capitalise them. Where we do not calculate VaR explicitly, we use alternative tools as summarised in the stress testing section below.

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

- historical market rates and prices, which are calculated with reference to foreign exchange rates, commodity prices, profit rates, equity prices and the associated volatilities;
- potential market movements that are calculated with reference to data from the past two years; and
- calculations to a 99% confidence level and use a one-day holding period.

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

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

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

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

(d) Market risk (Cont'd)

(ii) Market risk management (Cont'd)

Value at risk (VaR) (Cont'd)

VaR model limitations

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

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

Risk not in VaR framework

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

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

Stress testing

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

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

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

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

(d) Market risk (Cont’d)

(ii) Market risk management (Cont’d)

Trading portfolios

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

Back-testing

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

The actual number of profits or losses in excess of VaR over this period can be used to gauge how well the models are performing. We consider enhanced internal monitoring of a VaR model if more than five profit exceptions or more than five loss exceptions occur in a 250-day period.

Market risk in 2022

We continued to manage market risk prudently during 2022. Sensitivity exposures and VaR remained within risk appetite as the business pursued its core market-making activity in support of our customers.

(iii) Profit Rate Risk in the Banking Book

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

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

Sensitivity of net financing income

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

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

(d) Market risk (Cont'd)

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

Sensitivity of economic value of equity

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

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

Non-traded VaR

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

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

Sensitivity of projected Net Finance Income

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

	RM'000			
	31 Dec 22		31 Dec 21	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**6,038**	**(7,000)**	(12,186)	8,640
USD	**17,966**	**(17,947)**	2,824	(2,466)
Others	**7,074**	**(7,056)**	236	(42)
	31,078	**(32,003)**	(9,126)	6,132

Sensitivity of projected Economic value of equity

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

	RM'000			
	31 Dec 22		31 Dec 21	
Basis point parallel shift in yield curve	***+200bps***	***-200bps***	*+200bps*	*-200bps*
RM	**(42,339)**	**50,566**	(101,380)	114,487
USD	**(1,807)**	**2,671**	(4,988)	2,450
Others	**900**	**(416)**	(1,404)	320
	(43,246)	**52,821**	(107,772)	117,257

(d) Market risk (Cont'd)

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

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

Sensitivity of reported reserves in 'other comprehensive income' to profit rate movements are monitored on a monthly basis by assessing the expected reduction in valuation of FVOCI portfolios and cash flow hedges to parallel movements of plus or minus 100 basis points in all yield curves.

	RM'000			
	31 Dec 22		31 Dec 21	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(12,959)**	**12,959**	(29,565)	29,565

Foreign exchange risk

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

	RM'000			
	31 Dec 22		31 Dec 21	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after tax	**17**	**(17)**	(36)	36

Change in foreign exchange rate has no significant impact to other comprehensive income for the financial year ended 31 December 2022 and 31 December 2021.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(d) Market risk (Cont'd)

(iii) Profit Rate Risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(d) Market risk (Cont'd)

(iii) Profit Rate Risk (Cont'd)

31 December 2021	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	3,771,558	–	–	–	–	303,792	–	4,075,350	1.46
- impairment allowances	–	–	–	–	–	(1)	–	(1)	–
Financial investments at FVOCI	–	210,456	625,682	1,417,093	–	–	–	2,253,231	2.35
- impairment allowances	–	–	–	–	–	(280)	–	(280)	–
Financing and advances									
- performing	3,721,513	7,072,503	608,073	595,771	206,577	–	–	12,204,437	4.18
- impaired	–	–	–	–	–	1,175,011	–	1,175,011	–
- impairment allowances	–	–	–	–	–	(523,382)	–	(523,382)	–
Derivative financial assets	–	–	–	–	–	–	92,858	92,858	–
Other assets	–	–	–	–	–	33,063	2,777	35,840	–
Total Financial Assets	7,493,071	7,282,959	1,233,755	2,012,864	206,577	988,203	95,635	19,313,064	
LIABILITIES									
Deposits from customers	7,415,891	1,988,450	1,807,091	430,766	–	1,149,504	–	12,791,702	1.17
Deposits and placements from banks and other financial institutions	363,657	600,516	820,689	–	–	–	–	1,784,862	0.84
Structured liabilities designated as FVTPL	1,883	2,324	248,266	917,305	18,321	–	–	1,188,099	2.97
Bills payable	–	–	–	–	–	12,867	–	12,867	–
Multi-Currency Sukuk Programme	–	–	–	515,333	–	–	–	515,333	2.31
Subordinated Commodity Murabahah Financing	–	–	–	600,777	–	–	–	600,777	2.28
Derivative financial liabilities	–	–	–	–	–	–	67,615	67,615	–
Other liabilities									
- provision for credit commitments	–	–	–	–	–	8,937	–	8,937	–
- others	–	–	–	–	–	310,816	–	310,816	–
Total Financial Liabilities	7,781,431	2,591,290	2,876,046	2,464,181	18,321	1,482,124	67,615	17,281,008	
Total profit sensitivity gap	(288,360)	4,691,669	(1,642,291)	(451,317)	188,256	(493,921)	28,020	2,032,056	

(e) Resilience risk

(i) Overview

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

(ii) Resilience risk management

Key developments in 2022

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

- We focused on enhancing our understanding of our risk and control environment, by updating our risk taxonomy and control libraries, and refreshing risk and control assessments.

- We provided analysis and reporting of non-financial risks, providing easy-to-access risk and control information and metrics that enable management to focus on non-financial in their decision-making and appetite setting.

- We further strengthened our non-financial risk governance and improved our coverage and risk steward oversight for various sub-risks within resilience risk.

- We prioritised our efforts on material risks and areas undergoing strategic growth, aligning our location strategy to this need.

Governance and structure

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

- failure to manage third parties
- technology and cybersecurity
- transaction processing
- failure to protect people and places from physical malevolent acts
- business interruption and incident risk
- data risk
- change execution risk
- building unavailability
- workplace safety

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

Key risk management processes

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

(f) Regulatory compliance risk

(i) Overview

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

(ii) Regulatory compliance risk management

Key developments in 2022

The dedicated programme to embedding our updated purpose-led conduct approach has concluded. Work to map applicable regulations to our risks and controls continues in 2023 alongside adoption of new tools to support manage our regulatory reporting inventories. Climate risk had been integrated into regulatory compliance policies and processes, with enhancements made to the product governance framework and controls in order to ensure the effective consideration of climate risk and in particular greenwashing risks.

Governance and structure

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

Key risk management processes

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

Global Policies and Procedures require the prompt identification and escalation of actual or potential regulatory breaches, and relevant reportable events are escalated to the RMM and the Risk Committee meeting, as appropriate.

(g) Financial crime risk

(i) Overview

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

(ii) Financial crime risk management

Key developments in 2022

We consistently review the effectiveness of our financial crime risk management framework, which includes consideration of geopolitical and wider economic factors. We continue to support the Businesses in navigating the complex and dynamic nature of geopolitics as it relates to sanctions and export control risk. A key focus area in this regard relates to the array of new regulations and designations in 2022 and in alignment with our policy, which is to comply with all applicable sanctions regulations in the jurisdictions in which we operate. Regulatory and Public-Private Partnerships were also an area of focus for the Bank and the Financial Crime management team.

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

- The Group deployed a key component of our intelligence-led, dynamic risk assessment capabilities for customer account monitoring in one of our home markets, and we undertook ongoing review of our traditional transaction monitoring systems.

- We strengthened our anti-fraud capabilities, notably with respect to the early identification of first party financing fraud and the identification of new strategic detection tools.

- We reconfigured our transaction screening capability in readiness for the global change to payment systems formatting under ISO20022 requirements, and enhanced transaction screening capabilities by implementing automated alert discounting.

- Our team worked collectively with local industry banks, relevant associations and the regulator on activities to deter and manage scam & fraud activity.

Governance and structure

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

In respect of the organisation of the Financial Crime team, we reorganised the transaction monitoring and fraud management resources with dedicated expertise to be able to focus on these important areas.

(g) Financial crime risk (Cont’d)

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

Key risk management processes

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

We are committed to working in partnership with the wider industry and the public sector in managing financial crime risk, protecting the integrity of the financial system, the communities we serve. We participate in numerous public-private partnerships and information-sharing initiatives around the world also supporting national governments and international standard setters’ reforms activity. Locally, the Bank participates in activities as led by the Regulator and Law Enforcement Agencies to deter and thwart scam & fraud attacks on customers.

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

(h) Model risk

(i) Overview

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

(ii) Key developments in 2022

In 2022, we actively managed the risks related to the broader macroeconomic and geopolitical uncertainties, as well as the continued risks resulting from the Covid-19 pandemic. Initiatives during the year included:

- Continued to develop our approach on emerging risk identification and management, including the use of forward-looking indicators to support our analysis.
- Enhanced our enterprise risk reporting processes to place a greater focus on our emerging risks, including by capturing the materiality, oversight and individual monitoring of these risks.
- Continued to embed the governance and oversight around model adjustments and related processes for models which are subject to Sarbanes-Oxley controls including the MFRS9 models
- Commenced a Programme to enhance our framework for managing the risks associated to enhance our framework for managing the risks associated with Machine Learning and Artificial Intelligence.
- Implemented HBAP regional engagement strategy in country in response to growing maturity of model risk management and demand, and enhanced the awareness of model inventory, model limitations and risk controls.
- Participated in targeted briefing sessions by HBAP to strengthen the awareness of models used and to strengthen the engagement between the model user community and model developing areas.

(iii) Governance

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

(iv) Key risk management processes

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

The Bank’s model risk management policies and procedures were regularly reviewed and required the First Line of Defence to demonstrate comprehensive and effective controls based on a library of model risk controls provided by Model Risk Management.

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

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

(i) IBOR Transition

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

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

During 2022, we continued to develop processes, technology and new near risk free rates (RFR) product capabilities through our IBOR transition programme whilst actively engaging with our clients to discuss options for transition of their legacy contracts. As a result of the progress made by the programme in implementing new processes and controls, the heightened financial and non-financial risks of IBOR transition that the Bank is exposed to is reduced.

The Bank met the industry milestones to cease issuance of new LIBOR contracts in the demising benchmarks in 2022, with the transition for remaining USD LIBOR legacy contracts to be completed by June 2023.

Financial Instruments Impacted by IBOR reform

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

Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by profit rate benchmark reform, do not result in the derecognition or a change in the carrying amount of the financial instrument. Instead, they require the effective profit rate to be updated to reflect the change in the profit rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the profit rate benchmark if the hedge meets other hedge accounting criteria. We have adopted the amendments from 1 January 2021.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Risk (Cont'd)

(i) IBOR Transition (Cont'd)

Financial Instruments Impacted by IBOR reform (Cont'd)

	31 December 2022		31 December 2021	
	Carrying value	**Of which: Have yet to transition to an alternative benchmark profit rate**	Carrying value	Of which: Have yet to transition to an alternative benchmark profit rate
		USD LIBOR		USD LIBOR
	RM'000	**RM'000**	RM'000	RM'000
Assets				
Financing and Advances (Note 11)	**13,843,011**	**568,420**	12,856,066	1,478,944
Liabilities				
Subordinated Commodity Murabahah Financing (Note 25)	**–**	**–**	600,777	600,777
Derivative				
Notional contract amount (Note 14)	**17,338,845**	**–**	15,168,176	9,850

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Capital management

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

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

The Bank's capital management process is articulated in its ICAAP and annual capital plan which are approved by the Board. The ICAAP is an assessment of the Bank's capital position, outlining both regulatory and internal capital resources and requirements resulting from our business model, strategy, risk profile and management, performance and planning, risks to capital, and the implications of stress testing.The capital plan is drawn up with the objective of maintaining both an appropriate amount of capital and an optimal mix between the different components of capital.

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

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

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

- Tier 1 capital is divided into Common Equity Tier 1 (CET1) Capital and Additional Tier 1 (AT1) Capital. CET1 Capital includes ordinary share capital, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. On 19 August 2022, the Bank has issued AT1 capital in the form of Wakalah Financing Facility which was fully subscribed by HSBC Bank Malaysia Berhad.

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

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

- Tier 2 capital, which includes qualifying subordinated term financing, impairment allowances equal to 12-month and lifetime expected credit losses for non-credit impaired financing (commonly known as Stage 1 and 2 provisions) and regulatory reserve. On 19 August 2022, the Bank has fully redeemed its Tier 2 subordinated commodity murabahah financing.

(a) Externally imposed capital requirements

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

(b) Basel III

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

5 Capital management (Cont'd)

(b) Basel III (Cont'd)

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

(c) Leverage ratio

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

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

6 Use of estimates and judgements

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

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

(a) Impairment of financing and advances

The Bank's accounting policy for losses arising from the impairment of customer financing and advances is described in Note 3(j). The calculation of the Bank's ECL under MFRS 9 requires a number of judgements, assumptions and estimates to be made. The most significant are set out below:

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
2022	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial investments at FVOCI (Note 9)	**1,442,649**	**–**	**–**	**1,442,649**
Derivative financial assets (Note 14)	**572**	**154,675**	**3,069**	**158,316**
	1,443,221	**154,675**	**3,069**	**1,600,965**
Structured liabilities designated at FVTPL (Note 22)	**–**	**933,138**	**1,169,345**	**2,102,483**
Derivative financial liabilities (Note 14)	**849**	**265,666**	**26,057**	**292,572**
Multi-Currency Sukuk Programme (Note 24)	–	**504,771**	–	**504,771**
	849	**1,703,575**	**1,195,402**	**2,899,826**
2021				
Financial investments at FVOCI (Note 9)	2,252,951	–	–	2,252,951
Derivative financial assets (Note 14)	177	71,840	20,841	92,858
	2,253,128	71,840	20,841	2,345,809
Structured liabilities designated at FVTPL (Note 22)	–	392,408	795,691	1,188,099
Derivative financial liabilities (Note 14)	904	62,743	3,968	67,615
Multi-Currency Sukuk Programme (Note 24)	–	515,333	–	515,333
	904	970,484	799,659	1,771,047

(i) Control framework

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

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

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

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

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

(ii) Determination of fair value

Fair values are determined according to the following hierarchy:

- Level 1 – Valuation technique using quoted market price

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

- Level 2 – Valuation technique using observable inputs

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

- Level 3 – Valuation technique with significant unobservable inputs

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

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

(iii) Valuation techniques

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

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

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

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

(iv) Fair value adjustments

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

Bid-offer

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

Uncertainty

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

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

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

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

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

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

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

The methodologies do not, in general, account for 'wrong-way risk'. Wrong way risk is an adverse correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. The risk can either be general, perhaps related to the currency of the issuer country, or specific to the transaction concerned. When there is significant wrong-way risk, a trade-specific approach is applied to reflect this risk in the valuation.

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

(iv) Fair value adjustments (Cont'd)

Funding fair value adjustment (FFVA)

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

Model limitation

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

Inception profit (Day 1 profit or loss reserves)

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

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

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

	2022			2021		
	Derivative financial assets	**Derivative financial liabilities**	**Structured liabilities**	Derivative financial assets	Derivative financial liabilities	Structured liabilities
RM'000						
Balance at 1 January	**20,841**	**3,968**	**795,691**	13,516	48	502,354
Total gains or losses						
- In profit or loss	**(17,772)** [1]	**30,125** [1]	**(36,909)** [2]	6,746 [2]	3,920 [1]	(3,968) [2]
- in OCI	**–**	**–**	**4,975** [1]	–	–	2,826 [1]
Issues	**–**	**–**	**698,689**	–	–	289,433
Settlements	**–**	**–**	**(256,713)**	–	–	(34,134)
Transfer into Level 3	**–**	**–**	**–**	579	–	39,180
Transfer out of Level 3	**–**	**(8,036)**	**(36,388)**	–	–	–
Balance at 31 December	**3,069**	**26,057**	**1,169,345**	20,841	3,968	795,691

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

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to changes in observability of valuation inputs and price transparency.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgements (Cont'd)

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

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

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

2022 **RM'000**	**Derivative financial assets**	**Derivative financial liabilities**	**Structured liabilities**
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	**(5,472)[1]**	**7,228[1]**	**(9,103)[2]**
Total gains or losses included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	**(12,300)[1]**	**22,897[1]**	**(27,806)[2]**
2021 RM'000			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	(1,590)[1]	–	(1,226)[2]
Total gains or losses included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	8,336[2]	3,920[1]	(2,742)[2]

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

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

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

Type of financial instrument	Valuation technique	Key unobservable inputs	Range of estimates for unobservable input
Structured liabilities	Option model	Long term equity volatility	**2022: 6.4%-57.2%** 2021: 6.3%-31.4%
Equity derivatives	Option model	Long term equity volatility	**2022: 6.4%-57.2%** 2021: 6.3%-31.4%

(vii) Key unobservable inputs to Level 3 financial instruments

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

6 Use of estimates and judgements (Cont'd)

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

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

	31 Dec 2022 Carrying amount RM'000	**31 Dec 2022 Fair value RM'000**	31 Dec 2021 Carrying amount RM'000	31 Dec 2021 Fair value RM'000
Financial Assets				
Financial investments at amortised cost	**454,124**	**454,327**	–	–
Financing and advances	**13,843,011**	**13,782,506**	12,856,066	12,874,441
Financial Liabilities				
Deposits from customers	**13,957,652**	**13,938,184**	12,791,702	12,784,474
Deposits and placements from banks and other financial institutions	**2,043,447**	**2,043,447**	1,784,862	1,784,862
Subordinated Commodity Murabahah Financing	**–**	**–**	600,777	631,025

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

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

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

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

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

(ii) Financial investments at amortised costs

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Use of estimates and judgements (Cont'd)

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

(iii) Deposits from customers
Deposits and placements from banks and other financial institutions
The fair values of on-demand deposits are approximated by their carrying value. For deposits with longer term maturities, fair values are estimated using discounted cash flows, applying current rates offered for deposits or similar remaining maturities.

(iv) Subordinated Commodity Murabahah Financing
The fair value of subordinated Commodity Murabahah Financing was estimated based on discounted cash flows using rates currently offered for debt instruments of similar remaining maturities and credit grading.

Fair value hierarchy

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

31 Dec 2022	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total fair value RM'000**	**Total carrying amount RM'000**
Financial Assets					
Financial investments at amortised cost	**258,916**	**195,411**	**–**	**454,327**	**454,124**
Financing and advances	**–**	**–**	**13,782,506**	**13,782,506**	**13,843,011**
Financial Liabilities					
Deposits from customers	**–**	**13,938,184**	**–**	**13,938,184**	**13,957,652**
Deposits and placements from banks and other financial institutions	**–**	**2,043,447**	**–**	**2,043,447**	**2,043,447**
31 Dec 2021					
Financial Assets					
Financing and advances	–	–	12,874,441	12,874,441	12,856,066
Financial Liabilities					
Deposits from customers	–	12,784,474	–	12,784,474	12,791,702
Deposits and placements from banks and other financial institutions	–	1,784,862	–	1,784,862	1,784,862
Subordinated Commodity Murabahah Financing	–	631,025	–	631,025	600,777

7 Cash and Short-Term Funds

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Cash and balances with banks and other financial institutions	**278,477**	377,259
Money at call and interbank placements maturing within one month	**4,652,398**	3,698,090
	4,930,875	4,075,349

Money at call and interbank placements maturing within one month is within Stage 1 allocation (12-month ECL) with RM11,000 impairment allowance as at 31 December 2022 (31 December 2021: RM1,000).

8 Deposits and Placements with Banks and Other Financial Institutions

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Licensed banks	**300,000**	–
Bank Negara Malaysia	**633,429**	–
	933,429	–

The balance is within Stage 1 allocation (12-months ECL) with RM Nil impairment allowance as at 31 December 2022 (31 December 2021: RM Nil).

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

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Money market instruments:		
Malaysian Government Islamic Sukuk	**1,442,649**	2,252,951

Financial investments at FVOCI are within Stage 1 allocation (12-month ECL) with RM134,000 impairment allowance as at 31 December 2022 (31 December 2021: RM280,000). The carrying amount of financial investments at FVOCI is equivalent to their fair value. The impairment allowance is recognised in other comprehensive income and does not reduce the carrying amount in the statement of financial position.

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

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Maturing within one year	**972,579**	836,139
More than one year to three years	**470,070**	1,416,812
	1,442,649	2,252,951

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Financial Investments at Amortised Cost

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Money market instruments:		
Malaysian Government Islamic Sukuk	**258,715**	–
Malaysian Government Islamic Treasuary Bills	**195,409**	–
	454,124	–

Financial investments at amortised cost are within Stage 1 allocation (12-month ECL) with RM2,000 impairment allowance for the Bank as at 31 December 2022 (31 December 2021: RM Nil).

11 Financing and Advances

(i) By type and Shariah contracts

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Financing and Advances (Cont'd)

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Financing and Advances (Cont'd)

(ii) By type of customer

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Domestic non-bank financial institutions	**429,335**	417,793
Domestic business enterprises:		
Small medium enterprises	**1,168,499**	1,116,987
Others	**5,167,281**	4,357,333
Individuals	**5,532,839**	5,722,624
Other domestic entities	**769**	2
Foreign entities/individuals	**2,046,610**	1,764,709
	14,345,333	13,379,448

(iii) By profit rate sensitivity

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Fixed rate:		
Hire purchase receivables	**234,388**	210,548
Other financing	**3,683,443**	3,648,621
Variable rate:		
Base Rate/Base Financing Rate	**4,541,872**	4,783,525
Cost-plus	**5,885,630**	4,736,754
	14,345,333	13,379,448

(iv) By residual contractual maturity

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Maturing within one year	**5,113,770**	6,234,729
More than one year to three years	**2,321,922**	590,214
More than three years to five years	**1,904,623**	1,054,031
Over five years	**5,005,018**	5,500,474
	14,345,333	13,379,448

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Financing and Advances (Cont'd)

(v) By sector

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Agriculture, hunting, forestry & fishing	**7,922**	10,608
Mining and quarrying	**49,586**	77,899
Manufacturing	**1,613,701**	1,486,450
Electricity, gas and water	**67,904**	344,869
Construction	**976,846**	963,817
Real estate	**1,268,388**	956,755
Wholesale & retail trade, restaurants & hotels	**1,124,997**	839,134
Transport, storage and communication	**305,748**	146,321
Finance, takaful and business services	**1,177,927**	900,248
Household - Retail	**5,987,560**	6,195,547
Others	**1,764,754**	1,457,800
	14,345,333	13,379,448

(vi) By purpose

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Purchase of landed property:		
Residential	**3,666,511**	3,857,897
Non-residential	**654,597**	729,179
Purchase of transport vehicles	**1,142**	878
Purchase of fixed assets excluding land & building	**234,846**	210,292
Consumption credit	**2,147,910**	2,140,872
Construction	**823,317**	700,915
Working capital	**5,225,121**	4,447,629
Other purpose	**1,591,889**	1,291,786
	14,345,333	13,379,448

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Financing and Advances (Cont'd)

(vii) By geographical distribution

	31 Dec 2022	31 Dec 2021
	RM'000	RM'000
Northern Region	**1,437,664**	1,309,927
Southern Region	**1,448,889**	1,527,607
Central Region	**11,152,118**	10,225,163
Eastern Region	**306,662**	316,751
	14,345,333	13,379,448

Concentration by location for financing and advances is based on the location of the customer.

The Northern region consists of the states of Perlis, Kedah, Penang, Perak, Pahang, Kelantan and Terengganu.

The Southern region consists of the states of Johor, Malacca and Negeri Sembilan.

The Central region consists of the states of Selangor, Federal Territory of Kuala Lumpur and Federal Territory of Putrajaya.

The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.

(viii) Assets under Management

The details of assets under management in respect of the Syndicated Investment Account Financing (SIAF)/ Investment Agency Account (IAA) financing are as below. The exposures and the corresponding risk weighted amount are reported in investors' financial statements.

	31 Dec 2022	31 Dec 2021
	RM'000	RM'000
Total gross financing and advances	**2,189,511**	3,802,192
Less: Impairment allowance	**(240,817)**	(183,710)
Total net financing and advances	**1,948,694**	3,618,482
Maturity not exceeding one year	**144,981**	–
Maturity exceeding one year	**83,548**	180,534
Total commitments and contingencies	**228,529**	180,534
Total restricted investment accounts	**2,177,223**	3,799,016
Risk weighted assets (RWA) of restricted investment accounts	**1,007,324**	2,941,036

The SIAF/IAA arrangement is based on the Wakalah principle where HBMY, solely or together with other financial institutions provide the funds, whilst the assets are managed by the Bank (as the Wakeel or agent). However, in the arrangement, the profits of the underlying assets are recognised by HBMY and the other financial institutions proportionately in relation to the funding provided in the syndication arrangement. At the same time, risks on the financing are also proportionately borne by HBMY and the other financial institutions. Hence, the underlying assets and allowance for impairment arising thereon, if any, are proportionately recognised and accounted for by HBMY and the other financial institutions.

The recognition and derecognition treatments of the above are in accordance to Note 3(f).

12 Impaired Financing

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

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Gross carrying amount as at 1 January	**1,175,011**	606,695
Transfer within stages	**30,833**	692,116
Net remeasurement due to changes in credit risk	**(150,777)**	(32,714)
Written-off	**(83,136)**	(91,086)
Gross carrying amount as at 31 December	**971,931**	1,175,011

(ii) By contract

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Ijarah Thumma Al-Bai (AITAB) (hire purchase)	**172**	172
Commodity Murabahah (cost-plus)	**505,561**	542,650
Diminishing Musharakah (profit and loss sharing)	**447,234**	608,253
Ujrah (fee-based)	**18,964**	23,936
	971,931	1,175,011

(iii) By sector

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Agriculture, hunting, forestry & fishing	**40**	214
Manufacturing	**14,029**	25,502
Electricity, gas and water	**57,826**	–
Construction	**116,070**	136,921
Real estate	**3,639**	–
Wholesale & retail trade, restaurants & hotels	**4,073**	8,211
Transport, storage and communication	**1,532**	–
Finance, takaful and business services	**53,876**	53,276
Household - Retail	**702,493**	933,809
Others	**18,353**	17,078
	971,931	1,175,011

12 Impaired Financing (Cont'd)

(iv) By purpose

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Purchase of landed property:		
Residential	**419,059**	571,650
Non-residential	**9,328**	9,571
Purchase of fixed assets excluding land & building	**172**	169
Consumption credit	**282,039**	362,159
Construction	**116,070**	137,322
Working capital	**127,652**	77,892
Others	**17,611**	16,248
	971,931	1,175,011

(v) By geographical distribution

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Northern Region	**53,616**	94,031
Southern Region	**72,461**	110,511
Central Region	**827,089**	949,437
Eastern Region	**18,765**	21,032
	971,931	1,175,011

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Expected credit losses allowance charges (ECL)

(i) Movements in ECL allowances for financing and advances

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

	Stage 1 12-month ECL not credit impaired RM'000	**Stage 2** Lifetime ECL not credit impaired RM'000	**Stage 3** Lifetime ECL credit impaired RM'000	Total RM'000
Balance at 1 January 2022	**32,095**	**86,539**	**404,748**	**523,382**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	**59,856**	**(23,657)**	**(36,199)**	**–**
- Transferred to Stage 2	**(3,256)**	**17,954**	**(14,698)**	**–**
- Transferred to Stage 3	**(190)**	**(6,467)**	**6,657**	**–**
New financial assets originated or purchased	**13,119**	**–**	**–**	**13,119**
Net remeasurement due to changes in credit risk	**(68,663)**	**(1,225)**	**112,500**	**42,612**
Asset written-off	**–**	**–**	**(82,413)**	**(82,413)**
Others	**–**	**–**	**5,622**	**5,622**
Balance at 31 December 2022	**32,961**	**73,144**	**396,217**	**502,322**
Balance at 1 January 2021	88,787	75,764	183,764	348,315
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	20,826	(10,099)	(10,727)	–
- Transferred to Stage 2	(23,881)	29,788	(5,907)	–
- Transferred to Stage 3	(3,832)	(28,688)	32,520	–
New financial assets originated or purchased	8,524	–	–	8,524
Net remeasurement due to changes in credit risk	(59,179)	19,774	296,184	256,779
Asset written-off	–	–	(91,086)	(91,086)
Others	850	–	–	850
Balance at 31 December 2021	32,095	86,539	404,748	523,382

The Bank measures the expected credit losses (ECL) using the three-stage approach. The following section explains how significant changes in the gross carrying amount of financing and advances during the year have contributed to the changes in the ECL allowances for the Bank under the expected credit loss model.

The total ECL allowances decreased by RM21.1 million compared to the balance at the beginning of the year. This net decrease was mainly contributed by asset written-off (RM82.4 million), and partly offset by remeasurement driven by changes in credit risk (RM42.6 million), new financial assets originated or purchased (RM13.1 million) and others (RM5.6 million).

- 12-months ECL not credit impaired (Stage 1) - increased by RM0.9 million, mainly from net migration of financings from/to Stage 1, Stage 2 and Stage 3, new financial assets originated or purchased and partially offset by remeasurement driven by changes in credit risk.
- Lifetime ECL not credit-impaired (Stage 2) - decreased by RM13.4 million, mainly from migration of financings from/to Stage 1, Stage 2 and Stage 3, and remeasurement driven by changes in credit risk.
- Lifetime ECL credit-impaired (Stage 3) - decreased by RM8.5 million, mainly from asset written-off and migration of financings from/to Stage 1, Stage 2 and Stage 3, partially offset by remeasurement driven by changes in credit risk and others,.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Expected credit losses allowance charges (ECL) (Cont'd)

(ii) Movements in ECL allowances for financing commitments

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

	Stage 1 12-month ECL not credit impaired RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Balance at 1 January 2022	**2,542**	**6,395**	**–**	**8,937**
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	**45**	**(45)**	**–**	**–**
- Transferred to Stage 2	**(43)**	**43**	**–**	**–**
- Transferred to Stage 3	**–**	**(75)**	**75**	**–**
New financial assets originated or purchased	**551**	**–**	**–**	**551**
Net remeasurement due to changes in credit risk	**(1,419)**	**835**	**24,153**	**23,569**
Others	**(40)**	**–**	**–**	**(40)**
Balance at 31 December 2022	**1,636**	**7,153**	**24,228**	**33,017**
Balance at 1 January 2021	1,509	759	–	2,268
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	26	(26)	–	–
- Transferred to Stage 2	(419)	419	–	–
- Transferred to Stage 3	–	–	–	–
New financial assets originated or purchased	180	–	–	180
Net remeasurement due to changes in credit risk	1,231	5,243	–	6,474
Others	15	–	–	15
Balance at 31 December 2021	2,542	6,395	–	8,937

For retail portfolio, the split of ECL allowance for drawn amount and provision for undrawn commitments is not available. In accordance to MFRS 7 Financial Instruments disclosure, the provisions for the financing and other credit related commitments for retail portfolio are presented together with the allowance for the drawn financing and advances.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts:

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Derivative Financial Instruments (Cont'd)

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Other Assets

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Settlements	**1,273**	2,777
Income receivable	**5,610**	11,718
Profit receivable	**15,992**	20,824
Prepayments	**–**	150
Amount due from holding company	**105,975**	371
ROU assets [1]	**21,540**	21,503
Other receivables	**13,234**	17,081
	163,624	74,424

[1] ROU assets comprise solely properties. There were RM24,000 leases terminated by the Bank during the year (2021: RM1,607,000). Existing leases that were subjected to modification during the year for the Bank were RM6,260,000 (2021: RM9,888,000).

Lease related expenses and cash outflows during the financial year:

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Finance expense	**1,016**	2,196
Expense related to short-term leases (Included in establishment related expenses)	**23**	–
Cash outflow for leases payments	**7,118**	7,904

16 Statutory Deposits with Bank Negara Malaysia

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Equipment

2022	Office equipment, fixtures and fittings	Computer equipment	Motor vehicles	Work in progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Cost					
Balance at 1 January	**30,292**	**12,565**	**301**	**–**	**43,158**
Additions	**176**	**–**	**–**	**1,955**	**2,131**
Disposals	**–**	**(3)**	**–**	**–**	**(3)**
Written off	**(144)**	**–**	**–**	**–**	**(144)**
Balance at 31 December	**30,324**	**12,562**	**301**	**1,955**	**45,142**
Accumulated depreciation					
Balance at 1 January	**27,680**	**8,397**	**176**	**–**	**36,253**
Charge for the financial year	**1,196**	**939**	**60**	**–**	**2,195**
Written off	**(72)**	**–**	**–**	**–**	**(72)**
Disposals	**–**	**(3)**	**–**	**–**	**(3)**
Balance at 31 December	**28,804**	**9,333**	**236**	**–**	**38,373**
Net book value at 31 December	**1,520**	**3,229**	**65**	**1,955**	**6,769**
2021					
Cost					
Balance at 1 January	34,099	12,491	301	–	46,891
Additions	385	–	–	–	385
Written off	(4,087)	(85)	–	–	(4,172)
Reclassification	(173)	159	–	–	(14)
Other movements	68	–	–	–	68
Balance at 31 December	30,292	12,565	301	–	43,158
Accumulated depreciation					
Balance at 1 January	30,386	7,306	115	–	37,807
Charge for the financial year	1,365	1,017	61	–	2,443
Written off	(3,966)	(85)	–	–	(4,051)
Reclassification	(173)	159	–	–	(14)
Other movements	68	–	–	–	68
Balance at 31 December	27,680	8,397	176	–	36,253
Net book value at 31 December	2,612	4,168	125	–	6,905

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Intangible assets

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Computer software		
Cost		
Balance at 1 January	**2,490**	4,379
Written off	**–**	(1,903)
Other movement	**–**	14
Balance at 31 December	**2,490**	2,490
Accumulated amortisation		
Balance at 1 January	**2,490**	4,379
Written off	**–**	(1,903)
Other movement	**–**	14
Balance at 31 December	**2,490**	2,490
Net book value at 31 December	**–**	–

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

	31 Dec 2022	31 Dec 2021
	RM'000	RM'000
Deferred tax assets	**31,968**	50,197
Deferred tax liabilities	**(693)**	(851)
	31,275	49,346

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

	31 Dec 2022	31 Dec 2021
	RM'000	RM'000
Deferred tax assets		
- settled more than 12 months	**13,169**	13,090
- settled within 12 months	**18,799**	37,107
Deferred tax liabilities		
- settled more than 12 months	**(416)**	(514)
- settled within 12 months	**(277)**	(337)
	31,275	49,346

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

	31 Dec 2022	31 Dec 2021
	RM'000	RM'000
Equipment capital allowances	**(693)**	(851)
ROU assets	**513**	629
FVOCI reserve	**3,148**	990
Own credit reserve	**1,620**	692
Provision for accrued expenses	**10,432**	31,347
Deferred income	**4,535**	4,856
Financing and advances	**11,720**	11,683
	31,275	49,346

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Deferred Tax Assets (Cont'd)

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

2022	**Balance at 1 January RM'000**	**Recognised in profit or loss RM'000**	**Recognised in other comprehensive income RM'000**	**Balance at 31 December RM'000**
Financing and advances	**11,683**	**37**	**–**	**11,720**
Own Credit reserve	**692**	**–**	**928**	**1,620**
Provision for accrued expenses	**31,347**	**(20,915)**	**–**	**10,432**
Deferred income	**4,856**	**(321)**	**–**	**4,535**
ROU assets	**629**	**(116)**	**–**	**513**
Financial investment at FVOCI	**990**	**–**	**2,158**	**3,148**
Deferred Tax Assets	**50,197**	**(21,315)**	**3,086**	**31,968**
Equipment capital allowances	**(851)**	**158**	**–**	**(693)**
Deferred Tax Liabilities	**(851)**	**158**	**–**	**(693)**
Net Deferred Tax Assets	**49,346**	**(21,157)**	**3,086**	**31,275**
2021				
Financing and advances	12,520	(837)	–	11,683
Own Credit reserve	354	–	338	692
Provision for accrued expenses	15,842	15,505	–	31,347
Deferred income	2,645	2,211	–	4,856
ROU assets	266	363	–	629
Financial investment at FVOCI	–	–	990	990
Deferred Tax Assets	31,627	17,242	1,328	50,197
Equipment capital allowances	(177)	(674)	–	(851)
Financial investment at FVOCI	(3,690)	–	3,690	–
Deferred Tax Liabilities	(3,867)	(674)	3,690	(851)
Net Deferred Tax Assets	27,760	16,568	5,018	49,346

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Deposits From Customers

(i) By type of deposit

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
At amortised cost		
Non-Mudharabah Fund		
Demand deposits		
- Qard	**3,381,215**	3,318,864
Savings deposits		
- Qard	**2,920,903**	2,859,605
Term deposits		
- Commodity Murabahah	**7,502,806**	6,555,915
- Qard*	**152,728**	57,318
	13,957,652	12,791,702

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

The maturity structure of term deposits is as follows:

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Due within six months	**6,306,058**	5,212,577
More than six months to one year	**1,016,754**	973,920
More than one year to three years	**280,211**	346,719
More than three years to five years	**52,511**	80,017
	7,655,534	6,613,233

(ii) By type of customer

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Government and statutory bodies	**22,452**	13,524
Business enterprises	**3,732,877**	3,610,567
Individuals	**5,749,721**	5,738,029
Foreign entities/individuals	**3,646,709**	2,810,701
Others	**805,893**	618,881
	13,957,652	12,791,702

21 Deposits and Placements from Banks and Other Financial Institutions

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Non-Mudharabah Fund		
Licensed bank - parent company	**2,034,464**	1,036,500
Bank Negara Malaysia	**8,972**	1,866
Other financial institutions	**11**	746,496
	2,043,447	1,784,862

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

At fair value	**31 Dec 2022 RM'000**	31 Dec 2021 RM'000
Structured liabilities		
- Tawarruq	**2,102,483**	1,188,099

Structured liabilities are measured at fair value over the life of the instruments. Structured liabilities are deposits with embedded derivatives, of which both profit paid and fair valuation on the structured liabilities are recorded as net income/expense from financial instruments designated at fair value.

23 Other Liabilities

	Note	**31 Dec 2022 RM'000**	31 Dec 2021 RM'000
At amortised cost			
Settlements		**540**	56
Amounts due to holding company		**161,528**	129,861
Profit payable		**67,368**	51,425
Deferred income		**18,899**	15,932
Marginal deposit		**35,213**	19,452
Accrued expenses		**43,522**	100,412
Lease liabilities		**23,739**	23,656
Other creditors	(a)	**123,289**	119,993
Provision on financing and credit related commitments	(b)	**33,017**	8,937
		507,115	469,724

(a) Other creditors

Included in other creditors is profit earned from inadvertent Shariah non-compliant activities. The contribution was distributed to the non-governmental organisations approved by the Shariah Committee during the financial year. No Shariah non-compliant event has been identified during the financial year.

Source and use of charity funds	**31 Dec 2022 RM'000**	31 Dec 2021 RM'000
Balance at 1 January	**1**	1
Shariah non-compliant income for the financial year [1]	**5**	4
Contribution to non-profit organisations	**(3)**	(4)
Balance at 31 December	**3**	1

[1] Income received from transactions in Nostro Accounts.

(b) Refer to Note 13(ii) for movement in provision.

24 Multi-Currency Sukuk Programme

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Multi-Currency Sukuk Programme (MCSP)	**504,771**	515,333

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

	Nominal Value RM'000	Issue Date	Maturity Date	Carrying Value	
				31 Dec 2022 RM'000	31 Dec 2021 RM'000
Issuance under MCSP					
At fair value					
4th series	500,000	2 Oct 2018	2 Oct 2023	**504,771**	515,333

Movement in MCSP

	4th series	
	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Balance at 1 January	**515,333**	523,841
Change in fair value other than from own credit risk	**(14,521)**	(12,401)
Change in fair value from own credit risk	**3,959**	3,893
Balance at 31 December	**504,771**	515,333

25 Subordinated Commodity Murabahah Financing

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
-First tranche issued on 25 June 2014	**–**	323,978
'-Second tranche issued on 30 June 2015	**–**	276,799
	–	600,777

The unsecured Subordinated Commodity Murabahah financing comprise of two tranches of Basel III compliant Tier 2 subordinated financing of USD equivalent of RM250 million each from the Bank's immediate holding company, HSBC Bank Malaysia Berhad (HBMY). The tenor for both the Subordinated Commodity Murabahah financing is 10 years from the utilisation date with profit payable quarterly in arrears. Under the Capital Adequacy Framework for Islamic Banks (Capital Components), the par value of Tranche 1 of the subordinated financing are amortised on a straight line basis, with 20% of the par value phased out each year, with effect from 2020 for regulatory capital base purposes.

The Bank had redeemed the Subordinated Commodity Murabahah financing on 19 August 2022.

26 Share Capital and Other Equity

	31 Dec 2022		31 Dec 2021	
	Number of Shares ('000)	**RM'000**	Number of Shares ('000)	RM'000
Share capital, issued and fully paid				
Ordinary shares of RM0.50 each				
At 1 January/31 December	**100,000**	**660,000**	100,000	660,000
Other equity				
Additional Tier 1 USD Wakalah Financing Facility [1]		**501,063**		–
Total share capital and other equity		**1,161,063**		660,000

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

27 Reserves

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Non-distributable		
Financial investment at FVOCI	**(9,829)**	(2,851)
Own credit reserve [1]	**(5,131)**	(2,193)
Capital contribution reserve [2]	**491**	511
Regulatory reserves [3]	**73,800**	46,800
	59,331	42,267
Distributable		
Retained profits	**1,521,961**	1,307,774
	1,581,292	1,350,041

[1] Changes in fair value relating to the Bank's own credit risk are recognised in other comprehensive income. This is arising from structured product and multi-currency sukuk program.

[2] The capital contribution reserve is maintained to record the amount relating to share options granted to employees of the Bank directly by HSBC Holdings plc.

[3] The regulatory reserve is maintained in compliance with paragraph 10.9 of BNM's policy document on Financial Reporting and Financial Reporting for Islamic Banking Institutions issued on 27 September 2019, to maintain, in aggregate, loss allowance for non-credit-impaired exposures and regulatory reserve of no less than 1.0% of total credit exposures, net of loss allowance for credit-impaired exposures.

The regulatory reserve is debited against retained profits.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Income Derived from Investment of Depositors' Funds and Others

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Income derived from investment of:		
(i) Term deposit	**457,161**	372,011
(ii) Other deposits	**227,612**	178,168
	684,773	550,179

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
(i) Income derived from investment of term deposits		
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**319,339**	295,632
- Recoveries from impaired financing	**19,846**	16,913
Financial investments at FVOCI	**24,017**	25,649
Money at call and deposit with financial institutions	**56,752**	27,540
Financial investments at amortised cost	**831**	–
	420,785	365,734
Other operating income		
Realised gain from dealing in foreign currency	**48,360**	21,505
Unrealised (loss)/gain from dealing in foreign currency	**(20,191)**	4,205
Unrealised loss from revaluation of financial assets at FVTPL	**(1)**	(1)
Realised gain from trading in derivatives	**15,684**	6,004
Unrealised loss from trading in derivatives	**(55,968)**	(12,954)
Net income/(expense) from financial liabilities designated at FVTPL	**48,492**	(4,165)
Gain on disposal of financial investments at FVOCI	**–**	1,172
Other expense [1]	**–**	(9,489)
	36,376	6,277
	457,161	372,011

[1] Included in Other expense is day 1 modification loss relating to COVID-19 relief measures for the year of RM Nil (2021: RM9,489,000).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	31 Dec 2022	31 Dec 2021
	RM'000	RM'000
(ii) Income derived from investment of other deposits		
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**177,859**	140,019
- Recoveries from impaired financing	**11,053**	8,011
Financial investments at FVOCI	**13,378**	12,148
Money at call and deposit with financial institutions	**31,608**	13,043
Financial investments at amortised cost	**463**	–
	234,361	173,221
Other operating income		
Realised gain from dealing in foreign currency	**26,935**	10,185
Unrealised (loss)/gain from dealing in foreign currency	**(11,246)**	1,992
Unrealised loss from revaluation of financial assets at FVTPL	**(1)**	–
Realised gain from trading in derivatives	**8,735**	2,844
Unrealised loss from trading in derivatives	**(31,172)**	(6,135)
Gain on disposal of financial investments at FVOCI	**–**	555
Other expense [1]	**–**	(4,494)
	(6,749)	4,947
	227,612	178,168

[1] Included in Other expense is day 1 modification loss relating to COVID-19 relief measures for the year of RM Nil (2021: RM4,494,000).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 Income Derived from Investment of Shareholder's Funds

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**59,990**	53,882
- Recoveries from impaired financing	**3,728**	3,083
Financial investments at FVOCI	**4,512**	4,675
Money at call and deposit with financial institutions	**10,661**	5,019
Financial investments at amortised cost	**156**	–
	79,047	66,659
Other operating income		
Fee commission [1]	**77,845**	79,747
Realised gain from dealing in foreign currency	**9,085**	3,919
Unrealised (loss)/gain from dealing in foreign currency	**(3,793)**	766
Realised gain from trading in derivatives	**2,946**	1,094
Unrealised loss from trading in derivatives	**(10,514)**	(2,361)
Shared-service fees from holding company	**1,150**	1,018
Gain on disposal of financial investments at FVOCI	**–**	214
Other income/(expense) [2]	**1,911**	(1,566)
	78,630	82,831
	157,677	149,490

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

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Service charges and fees	**27,766**	13,582
Credit cards	**20,806**	23,525
Credit facilities	**12,366**	10,842
Agency fee	**12,992**	21,470

[2] Included in Other expense is day 1 modification loss relating to COVID-19 relief measures for the year of RM Nil (2021: RM1,729,000).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Impairment provision

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Net increase in allowance/provision	**79,716**	272,053
Recoveries	**(58,126)**	(55,194)
Written off	**14**	27
Total charge to statement of profit or loss	**21,604**	216,886

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

(i) Financing and advances

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Net increase in allowance	**55,731**	265,303
Recoveries	**(58,126)**	(55,194)
Written off	**14**	27
Total (write-back from)/charge to statement of profit or loss	**(2,381)**	210,136

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

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Net increase/(release) in allowance/provision	**9**	(6)

(iii) Financing commitments

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Net increase in allowance/provision	**24,120**	6,654

(iv) Financial investment at FVOCI and AC

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Net (release)/increase in allowance/provision	**(144)**	102

31 Income Attributable to Depositors

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Non-Mudharabah Fund		
- Deposits from customers	**155,263**	131,751
- Deposits and placements of banks and other financial institutions	**30,116**	13,160
- Lease liabilities	**1,016**	2,196
- Others	**26,582**	25,910
	212,977	173,017

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Operating Expenses

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Personnel expenses	**37,607**	46,381
Promotion and marketing related expenses	**8,605**	6,669
Establishment related expenses	**10,631**	17,454
General administrative expenses	**30,758**	27,929
Related company expenses	**166,535**	157,340
	254,136	255,773
Personnel expenses		
Salaries, allowances and bonuses	**29,661**	33,766
Employees Provident Fund contributions	**5,445**	5,901
Share based payment	**66**	68
Other staff related costs	**2,435**	6,646
	37,607	46,381
Establishment related expenses		
Depreciation of equipment	**2,195**	2,443
Depreciation of ROU assets	**6,074**	6,553
Impairment of ROU assets	**–**	129
Information technology costs	**917**	4,126
Equipment written off	**72**	121
Utilities	**944**	1,209
Others	**429**	2,873
	10,631	17,454
General administrative expenses		
Auditors' remuneration		
- Statutory audit fees	**158**	156
- Regulatory related fees		
- Current year	**10**	10
- Overprovision for prior year	**–**	(106)
Professional fees [1]	**1,252**	2,011
Communication	**1,191**	1,245
Others	**28,147**	24,613
	30,758	27,929

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

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Fees	**475**	531
Asst Prof Dr Ziyaad Mahomed	**108**	111
Dr Aida binti Othman	**96**	92
Ustaz Aminuddin Abu Bakar	**93**	–
Dr Mohamed Ashraf bin Mohamed Iqbal	**89**	92
Dr Muhammad Syahmi Mohd Karim	**89**	92
Prof Dr Younes Soualhi	**–**	92
Dr. Nermin Klopic	**–**	30
Dr Khairul Anuar bin Ahmad	**–**	22

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Operating Expenses

		31 Dec 2022 RM'000	31 Dec 2021 RM'000
Related company charges		**166,535**	157,340
Of which by:			
(i)	Type of service		
	- Information technology related cost	**38,732**	30,232
	- Non information technology related cost	**127,803**	127,108
(ii)	Country/ territory		
	- Malaysia	**165,713**	155,810
	- Others	**822**	1,530

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Tax Expense

	31 Dec 2022	31 Dec 2021
	RM'000	RM'000
Malaysian income tax		
- Current year	**93,220**	23,826
- Prior year	**(1,802)**	(1,644)
Total current tax recognised in profit or loss	**91,418**	22,182
Deferred tax:		
Origination and reversal of temporary differences		
- Current year	**21,157**	(16,568)
Total deferred tax recognised in profit or loss	**21,157**	(16,568)
Total income tax expense	**112,575**	5,614

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

	RM'000	RM'000
Profit before tax	**353,733**	53,993
Income tax using Malaysian tax rate	**84,896**	12,958
Non-deductible expenses	**1,603**	2,034
Impact on change of tax rate [1]	**27,878**	(7,734)
Over provision in respect of prior years	**(1,802)**	(1,644)
Tax expense	**112,575**	5,614

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

34 Earnings per share

The earnings per ordinary share have been calculated based on profit for the year and 100,000,000 (2021: 100,000,000) number of ordinary shares in issue during the financial year.

35 Significant Related Party Transactions and Balances

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

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

(ii) where the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The related parties of the Bank comprise:

(i) the Bank's immediate holding bank (hereinafter referred to as parent), and ultimate holding company;

(ii) subsidiary and associated companies of the Bank's ultimate holding companies; and

(iii) key management personnel who are defined as those person having authority and responsibility for planning, directing and controlling the activities of the Bank, either directly or indirectly. Key management personnel consist of all members of the Board of Directors and certain senior management of the Bank, including their close family members.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

	31 Dec 2022			31 Dec 2021		
	Parent	**Other related companies**	**Key management personnel**	Parent	Other related companies	Key management personnel
	RM'000	**RM'000**	**RM'000**	RM'000	RM'000	RM'000
Income						
Finance income on deposits and placements with Banks and other financial institutions	**3,950**	**–**	**–**	–	–	–
Finance income from financing and advances	**–**	**–**	**–**	–	–	4
Fees and commission	**1,484**	**1,384**	**–**	724	1,190	–
Net trading income/(expense)	**56,380**	**15,667**	**–**	(140,822)	3,128	–
Other income	**1,150**	**–**	**–**	1,018	3	–
	62,964	**17,051**	**–**	(139,080)	4,321	4
Expenditure						
Profit attributable to deposits and placements from banks and other financial institutions	**40,183**	**5,960**	**14**	19,470	7,277	6
Fees and commission	**–**	**1,028**	**–**	–	765	–
Operating expenses	**157,056**	**9,479**	**–**	146,741	10,599	–
	197,239	**16,467**	**14**	166,211	18,641	6

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

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

	31 Dec 2022			31 Dec 2021		
	Parent RM'000	**Other related companies RM'000**	**Key management personnel RM'000**	Parent RM'000	Other related companies RM'000	Key management personnel RM'000
Amount due from						
Deposits and placements with banks and other financial institutions (including cash and short term funds)	**300,000**	**100,985**	**–**	–	71,777	–
Financing and advances	**–**	**–**	**36**	–	–	118
Derivative financial assets	**143,985**	**–**	**–**	75,594	–	–
Other assets	**107,386**	**–**	**–**	929	154	–
	551,371	**100,985**	**36**	76,523	71,931	118
Amount due to						
Deposits and placements from banks and other financial institutions	**2,034,464**	**711,230**	**–**	1,036,500	746,486	–
Deposits from customers	**–**	**–**	**806**	–	–	687
Derivative financial liabilities	**121,440**	**–**	**–**	31,139	–	–
Other liabilities	**189,286**	**3,954**	**–**	203,879	3,994	–
Subordinated commodity murabahah financing	**–**	**–**	**–**	600,777	–	–
	2,345,190	**715,184**	**806**	1,872,295	750,480	687

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

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

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

i) The remuneration of CEO and Directors

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

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

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

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

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

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

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

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

Other material risk taker refers to an employee who is not a member of the EXCO but falls under the Bank's material risk taker definition, and shall include:
(i) officer who can materially commit or control significant amounts of the Bank's resources or whose actions are likely to have a significant impact on its risk profile; or
(ii) officer who is among the most highly remunerated officers in the Bank.

The Bank does not have any other material risk takers as at 31 December 2022 and 31 December 2021.

Total Remuneration

Senior Management	**31 Dec 2022**		31 Dec 2021	
	Unrestricted	**Deferred**	Unrestricted	Deferred
	RM'000	**RM'000**	RM'000	RM'000
Fixed remuneration				
Cash	**3,025**	**–**	2,471	–
Variable remuneration				
Cash	**1,335**	**–**	937	–
Shares and share-linked instruments	**–**	**77**	–	56
	1,335	**77**	937	56
Total Senior Management's Remuneration	**4,360**	**77**	3,408	56

Number of officers having received a variable remuneration during the financial year: 8 (2021: 8).

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

Deferred Remuneration

Senior Management	**31 Dec 2022**	31 Dec 2021
	RM'000	RM'000
Outstanding deferred remuneration		
Cash	**68**	114
Shares and share-linked instruments	**148**	166
	216	280
Deferred remuneration paid out	**107**	151

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 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 2022 RM'000	31 Dec 2021 RM'000
Aggregate value of outstanding credit exposures to connected parties	**365,559**	669,930
As a percentage of total credit exposures	**1.4%**	2.9%
Aggregate value of outstanding credit exposures to connected parties which is non-performing or in default	**–**	–
As a percentage of total credit exposures	**–**	–

37 Capital Adequacy

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Common Equity Tier 1 (CET1) capital		
Paid-up ordinary share capital	**660,000**	660,000
Retained profits	**1,521,961**	1,307,774
Other reserves	**54,429**	40,307
Regulatory adjustments	**(95,253)**	(83,894)
Total CET1 capital	**2,141,137**	1,924,187
Tier 1 capital		
Additional Tier 1 capital	**501,063**	**–**
Total Tier 1 capital	**2,642,200**	1,924,187
Tier 2 capital		
Subordinated Commodity Murabahah financing	**–**	415,826
Impairment allowance (unimpaired portion) & regulatory reserves	**169,287**	145,252
Total Tier 2 capital	**169,287**	561,078
Capital base	**2,811,487**	2,485,265

37 Capital Adequacy (Cont'd)

Before/After deducting proposed dividend

CET1 Capital Ratio	**14.465%**	15.172%
Tier 1 Capital Ratio	**17.849%**	15.172%
Total Capital Ratio	**18.993%**	19.596%

The total capital and capital adequacy ratios have been computed based on the Standardised Approach in accordance with the Bank Negara Malaysia (BNM)'s Guidelines on Capital Adequacy Framework for Islamic Banks (CAFIB). The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

Pursuant to BNM's Guidelines on Capital Adequacy Framework for Islamic Banks (Capital Component) issued on 9 December 2020 (the Guidelines), the Bank elected to apply the transitional arrangements as specified in paragraph 39.

Under transitional arrangements, the expected credit loss (ECL) allowance measured at an amount equal to 12-month and lifetime ECL to the extent they are related to non-credit-impaired exposures (hereinafter referred to as Stage 1 and Stage 2 provisions), are allowed to be added back to CET-1, subject to a capping. The transitional arrangement commenced from financial year beginning 1 January 2020, with an add-back factor that will gradually reduce over the four-year transitional duration.

As required by the Guideline, below is the disclosure on the capital ratios with comparison of:
(i) the Capital Ratios, computed in accordance with the transitional arrangement
(ii) the Capital Ratios, had the transitional arrangement not been applied.

Before/After deducting proposed dividend

	With Transitional Arrangement (%)		Without Transitional Arrangement (%)	
	31 Dec 2022	31 Dec 2021	**31 Dec 2022**	31 Dec 2021
CET1 Capital Ratio	**14.465%**	15.172%	**14.465%**	15.085%
Tier 1 Capital Ratio	**17.849%**	15.172%	**17.849%**	15.085%
Total Capital Ratio	**18.993%**	19.596%	**18.993%**	19.509%

Breakdown of RWA in the various categories of risk weights:

	31 Dec 2022	31 Dec 2021
	RM'000	RM'000
Total RWA for credit risk	**13,542,956**	11,620,173
Total RWA for market risk	**208,767**	60,804
Total RWA for operational risk	**1,050,968**	1,001,279
	14,802,691	12,682,256

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Commitments and Contingencies

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

These commitments and contingencies are not secured over the assets of the Bank.

Principal amount	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Direct credit substitutes	128,998	17,418
Transaction-related contingent items	1,950,300	1,701,750
Short-term self-liquidating trade-related contingencies	126,579	53,786
Formal standby facilities and credit lines		
- Maturity not exceeding one year	1,670,824	1,361,894
- Maturity exceeding one year	3,847,754	3,190,748
Other unconditionally cancellable	2,938,881	2,343,942
Unutilised credit card lines	3,346,399	3,458,687
Equity related contracts		
- Less than one year	577,897	243,376
- One year to less than five years	1,198,067	592,619
Profit rate related contracts		
- Less than one year	1,233,160	235,000
- One year to less than five years	1,776,568	1,372,261
Foreign exchange related contracts		
- Less than one year	12,239,679	12,703,771
- One year to less than five years	155,272	21,146
- Over five years	158,202	–
	31,348,580	27,296,398

39 Capital commitments

	31 Dec 2022 RM'000	31 Dec 2021 RM'000
Property and equipment		
-Authorised and contracted, but not provided for	543	–

40 Equity-based compensation

The Bank participated in the following cash settled share compensation plans operated by the HSBC Group for the acquisition of HSBC Holdings plc shares.

Restricted Share Plan and Share Match Schemes

The HSBC Holdings Restricted Share Plan is intended to align the interests of executives with those of shareholders by linking executive awards to the creation of superior shareholder value. This is achieved by focusing on predetermined targets. An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. Deferred share awards generally vest over a period of three years. Vested shares may be subject to a retention requirement (restriction) post-vesting. The cost of the conditional awards is recognised through an annual charge based on the likely level of vesting of shares, apportioned over the period of service to which the award relates.

The Share Match Schemes was first introduced in Malaysia in 2014. Eligible HSBC employees will acquire HSBC Holdings ordinary shares. Shares are purchased in the market each quarter up to a maximum value of £750 or the equivalent in local currency over a period of one year. Matching awards are added at a ratio of one free share for every three purchased. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

	31 Dec 2022 Number ('000)	31 Dec 2021 Number ('000)
Balance at 1 January	**16**	21
Granted in the financial year	**8**	14
Released in the financial year	**(7)**	(8)
Cancelled in the financial year	**(2)**	(11)
Transferred out in the financial year	**(1)**	–
Balance at 31 December	**14**	16
Compensation cost recognised during the financial year	**66**	68

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan and the Share Match Schemes is £4.38 (2021: £4.08). The weighted average fair value of the HSBC share at 31 December 2022 was £4.19 (2021: £4.75). The weighted average remaining vesting period as at 31 December 2022 for shares granted during the year was 1.03 years (2021: 1.12 years).

41 Shariah Advisors

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

1) Asst. Prof. Dr. Ziyaad Mahomed

Asst Prof. Dr. Ziyaad is a South African Islamic Finance Scholar, providing Islamic finance and Shariah advisory since 1998. He is currently Lead Researcher (Shari'ah) at Centre of Excellence in Islamic Social Finance and Assistant Professor at INCEIF University and lectures Masters' and Doctoral Students in Islamic Jurisprudence and Law. He served as Associate Dean of E-Learning and Director of Executive Education for 3 years. Dr. Ziyaad holds a PhD in Islamic Finance from INCEIF, BA (Hons) Business (Finance) from Anglia Ruskin University, United Kingdom, and a Chartered Islamic Finance Professional (CIFP) holder from INCEIF. He also holds an MBA and Certificate in Islamic Law from The Management College of Southern Africa (MANCOSA) and University of Kwazulu Natal, South Africa, respectively. Dr. Ziyaad serves as Chairman and member of several Shariah Advisory Boards of Islamic banks, fintechs and takaful companies internationally.

2) Dr. Aida binti Othman

Dr. Aida is currently a Partner at Messrs. Zaid Ibrahim & Co. since 2008. She holds a PhD in Comparative Law & Middle Eastern Studies from Harvard University, a Masters of Law from University of Cambridge and a Bachelor of Laws and Bachelor of Islamic Law (Syariah) (both with First Class Honours) from International Islamic University Malaysia (IIUM). Dr. Aida is an Advocate and Solicitor at High Court of Malaya and serves as Shariah Committee member at several institutions.

3) Dr. Mohamed Ashraf bin Mohamed Iqbal

Dr. Ashraf is currently a Director of MindSpring Sdn Bhd, a consulting firm that he started in 2005. He was appointed as a Non-Executive Director for HSBC Amanah Malaysia Berhad for ten years before resigning in October 2018. Dr. Ashraf was an Independent Non-executive Director of Bank Pembangunan and Chairman of Pembangunan Leasing and Credit until he resigned in February 2021. Dr. Ashraf holds a Bachelor of Science in Mechanical Engineering, Masters in Business Administration from California State University, United States of America, and a Postgraduate Diploma in Islamic Studies from IIUM. He subsequently obtained his doctorate in Islamic Finance from INCEIF in 2016.

4) Dr. Muhammad Syahmi Mohd Karim

Dr. Syahmi is the Deputy President Operations of INCEIF University (INCEIF). He has vast experience in various capacities in banking services locally and internationally for the past 22 years. Dr. Syahmi has also served as the Deputy CEO/ Senior Consultant at ISRA Consulting. Prior to his role in INCEIF, he was the Global Lead Islamic Finance Specialist, Islamic Development Bank (IsDB) Group. Dr. Syahmi holds a PhD in Islamic Banking and Finance from Durham University, United Kingdom, Master of Science in Finance, Bachelor of Accounting (Hons) and Certificate of Islamic Law from International Islamic University Malaysia (IIUM). Dr. Syahmi is a Chartered Accountant of the Malaysian Institute of Accountants, an associate member of CPA Australia, CIMA United Kingdom and Association of Shariah Advisors in Islamic Finance (ASAS). He also serves as Shariah Committee member of several financial institutions in Malaysia.

5) Ustaz Aminuddin Abu Bakar

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