

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
30 JUNE 2016

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

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

UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2016

	<i>Note</i>	30 Jun 2016 RM'000	31 Dec 2015 RM'000
Assets			
Cash and short-term funds	10	2,628,694	4,750,390
Financial assets held for trading	11	701	10,492
Financial investments available-for-sale	12	1,324,581	1,701,243
Financing and advances	13	11,557,313	11,968,217
Derivative financial assets	15	230,811	307,299
Other assets	16	47,697	241,611
Statutory deposits with Bank Negara Malaysia	17	321,962	329,662
Equipment		8,320	10,288
Deferred tax assets		5,837	5,548
Tax recoverable		9,333	5,162
Total assets		16,135,249	19,329,912
Liabilities			
Deposits from customers	18	8,835,362	9,386,123
Deposits and placements from banks and other financial institutions	19	1,805,071	4,160,089
Bills and acceptances payable		26,837	14,904
Derivative financial liabilities	15	399,204	473,231
Other liabilities	20	1,243,359	1,475,375
Multi-Currency Sukuk Programme	21	1,757,968	1,749,823
Subordinated Commodity Murabahah Financing	22	581,005	618,461
Total liabilities		14,648,806	17,878,006
Equity			
Share capital		50,000	50,000
Reserves		1,436,443	1,401,906
Total equity attributable to owner of the Bank		1,486,443	1,451,906
Total liabilities and equity		16,135,249	19,329,912
Restricted investment accounts ^[1]		1,560,664	2,632,404
Total Islamic Banking asset ^[1]		17,695,913	21,962,316
Commitments and Contingencies	30	22,013,021	21,889,668

[1] The disclosure is in accordance with the requirements of Bank Negara Malaysia's Guideline on Financial Reporting for Islamic Banking Institutions dated 5 February 2016.

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2015 and the accompanying explanatory notes on pages 6 to 34 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 20 July 2016.

HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
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**UNAUDITED CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2016**

	Note	Second Quarter		Six Months Ended	
		30 Jun 2016 RM'000	30 Jun 2015 RM'000 (Restated)	30 Jun 2016 RM'000	30 Jun 2015 RM'000 (Restated)
Income derived from investment of depositors' funds and others	23	173,727	185,294	352,177	354,703
Income derived from investment of shareholder's funds	24	30,001	21,047	74,126	53,047
Impairment (losses)/release on financing	25	(26,412)	6,060	(74,300)	(22,043)
Total distributable income		177,316	212,401	352,003	385,707
Income attributable to depositors	26	(89,184)	(94,388)	(185,784)	(179,723)
Total net income		88,132	118,013	166,219	205,984
Operating Expenses	27	(61,884)	(61,054)	(124,793)	(119,423)
Profit before tax		26,248	56,959	41,426	86,561
Tax expense		(6,252)	(11,001)	(8,342)	(17,008)
Profit for the financial period		19,996	45,958	33,084	69,553
Other comprehensive income/(expense)					
<i>Items that will subsequently be reclassified to profit or loss when specific conditions are met:</i>					
Available-for-sale reserve:					
Change in fair value		1,858	1,121	5,789	12,399
Amount transferred to profit or loss		-	(232)	(3,055)	(232)
Income tax effect		(446)	(213)	(656)	(2,920)
Other comprehensive income for the financial period, net of tax		1,412	676	2,078	9,247
Total comprehensive income for the financial period		21,408	46,634	35,162	78,800
Profit attributable to the owner of the Bank		19,996	45,958	33,084	69,553
Total comprehensive income attributable to the owner of the Bank		21,408	46,634	35,162	78,800
Basic earnings per RM0.50 ordinary share		20.0 sen	46.0 sen	33.1 sen	69.6 sen

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HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2016

	<i>Non-distributable</i>					<i>Distributable</i>		<i>Total</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Available-for-sale reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i> ^[1]	<i>Retained profits</i>	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2016								
Balance at 1 January	50,000	610,000	50,000	4,946	1,058	34,000	701,902	1,451,906
Total comprehensive income for the financial period								
Profit for the financial period	-	-	-	-	-	-	33,084	33,084
Other comprehensive income, net of tax								
Available-for-sale reserve:								
Net change in fair value	-	-	-	4,400	-	-	-	4,400
Net amount transferred to profit or loss	-	-	-	(2,322)	-	-	-	(2,322)
<i>Total other comprehensive income</i>	-	-	-	2,078	-	-	-	2,078
Total comprehensive income for the financial period	-	-	-	2,078	-	-	33,084	35,162
Transactions with the owner (the ultimate holding company), recorded directly in equity								
Share based payment transactions	-	-	-	-	(625)	-	-	(625)
Balance at 30 June	50,000	610,000	50,000	7,024	433	34,000	734,986	1,486,443

^[1] The Bank maintains a regulatory reserve to meet local regulatory requirements; the effect of this requirement is to restrict the amount of reserves that can be distributed to shareholders.

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2015 and the accompanying explanatory notes on pages 6 to 34 attached to the unaudited condensed interim financial statements.

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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2016 (Cont'd)

	<i>Non-distributable</i>					<i>Distributable</i>		<i>Total</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Available-for-sale reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i> ^[1]	<i>Retained profits</i>	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2015								
Balance at 1 January	50,000	610,000	50,000	(6,488)	1,374	13,000	600,823	1,318,709
Total comprehensive income for the financial period								
Profit for the financial period	-	-	-	-	-	-	69,553	69,553
Other comprehensive income, net of tax								
Available-for-sale reserve:								
Net change in fair value	-	-	-	9,247	-	-	-	9,247
<i>Total other comprehensive income</i>	-	-	-	9,247	-	-	-	9,247
Total comprehensive income for the financial period	-	-	-	9,247	-	-	69,553	78,800
Transactions with the owner (the ultimate holding company), recorded directly in equity								
Share based payment transactions	-	-	-	-	203	-	-	203
Transfer relating to regulatory reserves	-	-	-	-	-	6,000	(6,000)	-
Balance at 30 June	50,000	610,000	50,000	2,759	1,577	19,000	664,376	1,397,712

^[1] The Bank maintains a regulatory reserve to meet local regulatory requirements; the effect of this requirement is to restrict the amount of reserves that can be distributed to shareholders.

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HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2016

	30 Jun 2016	30 Jun 2015
	RM'000	RM'000
Profit before tax	41,426	86,561
Adjustments for non-operating and non-cash items	72,148	4,061
	<hr/>	<hr/>
Operating profit before working capital changes	113,574	90,622
Changes in working capital:		
Net changes in operating assets	594,507	(541,344)
Net changes in operating liabilities	(3,156,364)	724,737
Income tax paid	(13,458)	(17,708)
	<hr/>	<hr/>
Net cash used in operating activities	(2,461,741)	256,307
Net cash generated from investing activities	383,582	2,427,620
Net cash generated from financing activities	(43,537)	1,000,299
	<hr/>	<hr/>
	340,045	3,427,919
	<hr/>	<hr/>
Net changes in cash and cash equivalents	(2,121,696)	3,684,226
Cash and cash equivalents at 1 January	4,750,390	670,934
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	2,628,694	4,355,160
	<hr/>	<hr/>
Analysis of cash and cash equivalents		
Cash and short-term funds	2,628,694	4,355,160
	<hr/>	<hr/>

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2015 and the accompanying explanatory notes on pages 6 to 34 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 20 July 2016.

HSBC AMANAH MALAYSIA BERHAD
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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 period.

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

The immediate parent bank and ultimate holding company during the financial period are HSBC Bank Malaysia Berhad and HSBC Holdings Plc, respectively.

The financial statements were approved and authorised for issue by the Board of Directors on 20 July 2016.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 30 June 2016 have been prepared under the historical cost convention except for the following assets and liabilities which are stated at fair values: financial instruments held-for-trading, financial investments available-for-sale, derivative financial instruments and financial instruments fair valued through profit and loss.

The unaudited condensed interim financial statements for the financial period ended 30 June 2016 have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (MFRS) 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (MASB) and Bank Negara Malaysia (BNM) requirements on Shariah related disclosures.

The unaudited condensed interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2015. The explanatory notes attached in the unaudited condensed interim financial statements provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Bank since the financial year ended 31 December 2015.

All significant accounting policies and methods of computation applied in the unaudited condensed interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the year ended 31 December 2015.

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

The new accounting standards and amendments to published accounts that are effective and applicable to the Bank for the financial year beginning on 1 January 2016 are as follows:

- Amendments to MFRS 116 'Property, plant and equipment' and MFRS 138 'Intangible assets' clarify that the use of revenue-based methods to calculate the depreciation of an item of property, plant and equipment is not appropriate. This is because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
- The amendments to MFRS 138 also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption can be overcome only in the limited circumstances where the intangible asset is expressed as a measure of revenue or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The adoption of the above amendments, interpretations and circular did not have any material impact on the financial results of the Bank.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

(a) Statement of Compliance (Cont'd)

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

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

a. Financial year beginning on/after 1 January 2017:

- Amendments to MFRS 107 'Disclosure Initiative'

Disclosure Initiative introduces additional on changes in liabilities arising from financing activities.

- Amendments to MFRS 112 'Recognition on Deferred Tax Assets For Unrealised Losses'

Amendments to MFRS 112 clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

b. Financial year beginning on/after 1 January 2018

- MFRS 9 'Financial Instruments' will replace MFRS 139 'Financial Instruments: Recognition and Measurement'

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income (OCI). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and profit.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit loss model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

- MFRS 15 'Revenue from contracts with customers' replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

c. Financial year beginning on/after 1 January 2019

- MFRS 16 'Leases'

On 15 April 2016, MASB issued MFRS 16 effective for annual periods beginning on or after 1 January 2019. MFRS 16 requires recognition of operating lease commitments on balance sheet together with right of use asset.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

(a) Statement of Compliance (Cont'd)

- (ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective (Cont'd)

The initial application of the above accounting standards, amendments and interpretation are not expected to have any material financial impacts to the current and prior year's financial statement of the Bank upon its first adoption, except for MFRS 9.

MFRS 9 replaces the guidance in MFRS 139 'Financial Instruments, Recognition and Measurement' on the classification and measurement of financial assets and financial liabilities, and on hedge accounting. The Bank is currently assessing the financial impact that may arise from the adoption of MFRS 9.

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

- Trading assets and liabilities
- Financial investments
- Derivatives and hedge accounting

3 Auditors' Report On Preceding Annual Financial Statements

The audit report on the audited financial statements for the financial year ended 31 December 2015 was not subject to any qualification.

4 Seasonality or Cyclical Factors

The business operations of the Bank are not subject to material seasonal or cyclical fluctuations.

5 Unusual Items Due to Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Bank for the financial period ended 30 June 2016.

6 Changes in Estimates

The preparation of financial information requires the use of estimates. 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 those reported. Management believes that critical accounting policies where judgement is necessarily applied are those which relate to impairment allowances for financing and advances, the valuation of financial instruments and the impairment allowance of available-for-sale financial investments.

There were no material changes in estimates of amounts reported in prior financial years that have a material effect on the financial results and position of the Bank for the financial period ended 30 June 2016.

7 Debt and Equity Securities

There were no other issuances, cancellations, repurchases, resale or repayment of other debt or equity securities during the financial period ended 30 June 2016.

8 Dividend

No interim dividend was declared nor paid during the financial period ended 30 June 2016.

9 Significant and Subsequent Events

There were no material events subsequent to the date of the statement of financial position that require disclosure or adjustments to the unaudited condensed interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Cash and Short-Term Funds

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Cash and balances with banks and other financial institutions	158,694	369,010
Money at call and interbank placements maturing within one month	2,470,000	4,381,380
	2,628,694	4,750,390

11 Financial Assets Held-for-Trading

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	501	490
Unquoted:		
Sukuk	200	10,002
	701	10,492

12 Financial Investments Available-for-Sale

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	1,324,581	1,701,243

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

Maturing within one year	170,716	171,710
More than one year to three years	1,113,159	1,310,874
More than three years to five years	20,242	218,659
Over five years	20,464	-
	1,324,581	1,701,243

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Financing and Advances

(i) By type and Shariah contracts

At amortised cost	Sale-based contracts			Lease-based contracts		Equity-based contracts	Ujrah	Total
	Commodity Murabahah	Bai Bithaman Ajil	Bai Al-Inah	Ijarah	Ijarah Thumma Al-Bai	Diminishing Musharakah		
30 Jun 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	94,976	-	-	-	-	-	-	94,976
Term financing:								
House financing	-	749	-	-	-	4,287,506	-	4,288,255
Hire purchase receivables	-	-	-	-	223,536	-	-	223,536
Lease receivables	-	-	-	3,430	-	-	-	3,430
Syndicated term financing	630,625	-	-	-	-	-	-	630,625
Other term financing	2,850,647	14,516	8,656	-	-	1,020,276	-	3,894,095
Trust receipts	507,228	-	-	-	-	-	-	507,228
Claims on customers under acceptance credits	735,676	-	-	-	-	-	-	735,676
Staff financing-i	3,008	-	559	-	-	3,352	-	6,919
Credit cards-i	-	-	-	-	-	-	613,195	613,195
Revolving credit	792,244	-	-	-	-	-	-	792,244
Gross financing and advances	<u>5,614,404</u>	<u>15,265</u>	<u>9,215</u>	<u>3,430</u>	<u>223,536</u>	<u>5,311,134</u>	<u>613,195</u>	<u>11,790,179</u>
Less: Allowance for impaired financing								
Collective allowances for impairment								(178,698)
Individual allowances for impairment								<u>(54,168)</u>
Total net financing and advances								<u>11,557,313</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Financing and Advances (Cont'd)

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

	Sale-based contracts			Lease-based contracts		Equity-based contracts	Ujrah	Total
	Commodity Murabahah	Bai Bithaman Ajil	Bai Al-Inah	Ijarah	Ijarah Thumma Al-Bai	Diminishing Musharakah		
31 Dec 2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	90,400	-	-	-	-	-	-	90,400
Term financing:								
House financing	-	1,179	-	-	-	4,207,587	-	4,208,766
Hire purchase receivables	-	-	-	-	229,552	-	-	229,552
Lease receivables	-	-	-	4,103	-	-	-	4,103
Syndicated term financing	954,559	-	-	-	-	-	-	954,559
Other term financing	2,818,469	25,973	31,784	-	-	992,306	-	3,868,532
Trust receipts	603,681	-	-	-	-	-	-	603,681
Claims on customers under acceptance credits	833,970	-	-	-	-	-	-	833,970
Staff financing-i	3,468	-	775	-	-	3,266	-	7,509
Credit cards-i	-	-	-	-	-	-	569,358	569,358
Revolving credit	806,698	-	-	-	-	-	-	806,698
Gross financing and advances	6,111,245	27,152	32,559	4,103	229,552	5,203,159	569,358	12,177,128
Less: Allowance for impaired financing								
Collective allowances for impairment								(140,264)
Individual allowances for impairment								(68,647)
Total net financing and advances								11,968,217

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Financing and Advances (Cont'd)

(ii) By type of customer

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Domestic non-bank financial institutions	594,412	670,298
Domestic business enterprises:		
Small medium enterprises	1,976,453	2,004,648
Others	2,481,311	2,944,504
Government and statutory bodies	11,851	13,566
Individuals	5,611,367	5,431,238
Other domestic entities	1,516	1,568
Foreign entities	1,113,269	1,111,306
	11,790,179	12,177,128

(iii) By profit rate sensitivity

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Fixed rate:		
House financing	729	1,135
Hire purchase receivables	223,536	229,552
Other financing	2,741,614	2,840,103
Variable rate:		
BR/BFR plus	5,394,902	5,277,948
Cost-plus	3,429,398	3,828,390
	11,790,179	12,177,128

(iv) By residual contractual maturity

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Maturing within one year	4,220,434	4,532,866
More than one year to three years	693,932	642,702
More than three years to five years	1,161,327	1,490,233
Over five years	5,714,486	5,511,327
	11,790,179	12,177,128

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Financing and Advances (Cont'd)

(v) **By sector**

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Agriculture, hunting, forestry & fishing	168,711	624,260
Mining and quarrying	173,055	206,294
Manufacturing	1,266,133	1,306,244
Electricity, gas and water	27,804	14,772
Construction	350,203	597,155
Real estate	725,476	392,934
Wholesale & retail trade, restaurants & hotels	1,004,535	1,088,766
Transport, storage and communication	169,557	166,443
Finance, takaful and business services	984,500	1,035,462
Household - Retail	6,248,495	6,073,723
Others	671,710	671,075
	11,790,179	12,177,128

(vi) **By purpose**

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Purchase of landed property:		
Residential	4,291,608	4,212,033
Non-residential	851,848	840,581
Purchase of transport vehicles	1,838	2,122
Purchase of fixed assets excluding land & building	514	3,706
Consumption credit	1,674,736	1,588,371
Construction	355,989	586,283
Working capital	4,125,654	4,461,645
Other purpose	487,992	482,387
	11,790,179	12,177,128

(vii) **By geographical distribution**

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Northern Region	1,426,724	1,448,803
Southern Region	1,610,641	1,638,669
Central Region	8,282,344	8,609,131
Eastern Region	470,470	480,525
	11,790,179	12,177,128

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 and the Federal Territory of Kuala Lumpur.

The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Financing and Advances (Cont'd)

(viii) Assets under Management

The details of assets under management in respect of the Restricted Investment Account (RPSIA) and Syndicated Investment Agency Financing (SIAF)/Investment Agency Account (IAA) financing are as below. The exposures and the corresponding risk weighted amount are reported in investors' financial statements.

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Under SIAF/IAA arrangement	1,433,269	1,573,615
Under RPSIA arrangement	-	19,918
	1,433,269	1,593,533
	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Principal amount		
Irrevocable commitments to extend credit:		
<i>Maturity not exceeding one year</i>		
Under SIAF/IAA arrangement	127,395	180,273
Under RPSIA arrangement	-	858,598
	127,395	1,038,871
Total commitments and contingencies		
	Principal	Risk weighted
	RM'000	RM'000
Total RWA for Credit Risk		
- at 30 Jun 2016		
Under SIAF/IAA arrangement	1,458,748	1,458,748
- at 31 Dec 2015		
Under SIAF/IAA arrangement	1,609,670	1,609,670
Under RPSIA arrangement	191,638	191,638
	1,801,308	1,801,308

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Financing and Advances (Cont'd)

(viii) Assets under Management (Cont'd)

The Restricted Profit Sharing Investment Account (RPSIA) is with the Bank's holding company, HSBC Bank Malaysia Berhad (HBM MY), and the contract is based on the Mudharabah principle where HBM MY provides the funds, whilst the assets are managed by the Bank. The profits of the underlying assets are shared based on pre-agreed ratios, whilst risks on the financing are borne by HBM MY. Hence, the underlying assets and allowances for impairment arising thereon, if any, are recognised and accounted for by HBM MY. Effective 31 March 2015, Syndicated Investment Account for Financing/Investment Agency Account (SIAF/IAA) replaces RPSIA for new financing and advances.

The SIAF/IAA arrangement is based on the Wakalah principle where HBM MY, 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 HBM MY 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 HBM MY and the other financial institutions. Hence, the underlying assets and allowances for impairment arising thereon, if any, are proportionately recognised and accounted for by HBM MY and the other financial institutions.

The recognition and derecognition treatments of the above are in accordance to Note 3f(i) and Note 3f(iii) on financial instruments in the audited financial statements of the Bank for the financial year ended 31 December 2015.

14 Impaired Financing

(i) Movements in impaired financing and advances

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Balance at 1 January	235,279	162,227
Classified as impaired during the financial period/year	150,634	319,623
Reclassified as performing	(56,520)	(109,381)
Amount recovered	(24,894)	(54,894)
Amount written off	(66,579)	(82,296)
Balance at 30 June/31 December	237,920	235,279

(ii) Movements in allowance for impaired financing

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Collective allowance for impairment		
Balance at 1 January	140,264	124,817
Made during the financial period/year	119,969	160,940
Amount released	(35,346)	(67,064)
Amount written off	(46,189)	(78,429)
Balance at 30 June/31 December	178,698	140,264

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Individual allowance for impairment		
Balance at 1 January	68,647	43,821
Made during the financial period/year	17,229	45,829
Amount recovered	(13,765)	(27,717)
Amount written off	(17,943)	6,714
Balance at 30 June/31 December	54,168	68,647

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Impaired Financing (Cont'd)

(iii) By contract

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Bai Bithaman Ajil (<i>deferred payment sale</i>)	-	69
Ijarah Thumma Al-Bai (AITAB) (<i>hire purchase</i>)	6,149	7,049
Murabahah (<i>cost-plus</i>)	93,087	102,339
Musharakah (<i>profit and loss sharing</i>)	123,882	110,720
Bai Al-Inah (<i>sell and buy back</i>)	984	2,776
Ujrah (<i>fee-based</i>)	13,818	12,326
	237,920	235,279

(iv) By sector

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Manufacturing	2,597	21,093
Construction	204	204
Wholesale & retail trade, restaurants & hotels	15,194	9,672
Transport, storage and communication	3,952	5,443
Finance, takaful and business services	5,644	5,527
Household - Retail	209,699	192,687
Others	630	653
	237,920	235,279

(v) By purpose

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Purchase of landed property:		
Residential	105,129	94,984
Non-residential	12,894	10,255
Purchase of transport vehicles	23	133
Purchase of fixed assets excluding land & building	358	358
Consumption credit	101,778	95,770
Construction	204	204
Working capital	17,534	33,575
	237,920	235,279

(vi) By geographical distribution

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Northern Region	43,466	54,102
Southern Region	28,177	30,267
Central Region	156,056	141,764
Eastern Region	10,221	9,146
	237,920	235,279

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 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:

	<u>Contract / Notional Amount</u>			<u>Positive Fair Value</u>			<u>Negative Fair Value</u>		
	<u>Up to 1 Year</u>	<u>>1 - 5 Years</u>	<u>Total</u>	<u>Up to 1 Year</u>	<u>>1 - 5 Years</u>	<u>Total</u>	<u>Up to 1 Year</u>	<u>>1 - 5 Years</u>	<u>Total</u>
30 Jun 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trading derivatives:									
Foreign exchange contracts									
- Forwards	2,231,454	-	2,231,454	13,941	-	13,941	21,664	-	21,664
- Swaps	-	1,609,368	1,609,368	-	170,924	170,924	-	172,038	172,038
- Options	252,378	336,479	588,857	1,076	2,318	3,394	1,076	2,318	3,394
Profit rate related contracts									
- Swaps	1,965,000	4,795,995	6,760,995	1,058	36,603	37,661	775	23,776	24,551
- Options	-	198,325	198,325	-	4,782	4,782	-	-	-
Equity related contracts									
- Options purchased	472,456	539,794	1,012,250	109	-	109	104,553	71,456	176,009
Sub- total	<u>4,921,288</u>	<u>7,479,961</u>	<u>12,401,249</u>	<u>16,184</u>	<u>214,627</u>	<u>230,811</u>	<u>128,068</u>	<u>269,588</u>	<u>397,656</u>
Hedging Derivatives:									
Fair Value Hedge									
Profit rate related contracts									
- Swaps	90,000	190,000	280,000	-	-	-	29	1,519	1,548
Sub- total	<u>90,000</u>	<u>190,000</u>	<u>280,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29</u>	<u>1,519</u>	<u>1,548</u>
Total	<u>5,011,288</u>	<u>7,669,961</u>	<u>12,681,249</u>	<u>16,184</u>	<u>214,627</u>	<u>230,811</u>	<u>128,097</u>	<u>271,107</u>	<u>399,204</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Derivative Financial Instruments (Cont'd)

	Contract / Notional Amount			Positive Fair Value			Negative Fair Value		
	Up to 1 Year RM'000	>1 - 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	Total RM'000
31 Dec 2015									
Trading derivatives:									
Foreign exchange contracts									
- Forwards	2,389,269	-	2,389,269	59,414	-	59,414	54,748	-	54,748
- Swaps	-	1,676,892	1,676,892	-	228,113	228,113	-	232,103	232,103
- Options	48,046	349,125	397,171	-	4,918	4,918	-	4,918	4,918
Profit rate related contracts									
- Swaps	1,201,265	6,114,917	7,316,182	2,221	10,996	13,217	1,760	15,869	17,629
- Options	-	250,891	250,891	-	849	849	-	2,908	2,908
Equity related contracts									
- Options purchased	192,724	948,669	1,141,393	83	306	389	70,618	90,106	160,724
Sub- total	<u>3,831,304</u>	<u>9,340,494</u>	<u>13,171,798</u>	<u>61,718</u>	<u>245,182</u>	<u>306,900</u>	<u>127,126</u>	<u>345,904</u>	<u>473,030</u>
Hedging Derivatives:									
Fair Value Hedge									
Profit rate related contracts									
- Swaps	-	280,000	280,000	-	399	399	-	201	201
Sub- total	<u>-</u>	<u>280,000</u>	<u>280,000</u>	<u>-</u>	<u>399</u>	<u>399</u>	<u>-</u>	<u>201</u>	<u>201</u>
Total	<u>3,831,304</u>	<u>9,620,494</u>	<u>13,451,798</u>	<u>61,718</u>	<u>245,581</u>	<u>307,299</u>	<u>127,126</u>	<u>346,105</u>	<u>473,231</u>

Included in the net non-profit income is the net gains/(losses) arising from fair value hedges during the financial period as follows:

	30 Jun 2016 RM'000	30 Jun 2015 RM'000
Loss on hedging instruments	(1,723)	(1,450)
Gain on the hedged items attributable to the hedged risk	<u>1,744</u>	<u>1,397</u>
	<u>21</u>	<u>(53)</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Other Assets

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Income receivable	10,777	12,037
Amount due from holding company/related companies	18,732	209,358
Other receivables, deposits and prepayments	18,188	20,216
	<u>47,697</u>	<u>241,611</u>

17 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)

18 Deposits From Customers

(i) By type of deposit

	30 Jun 2016	31 Dec 2015
At amortised cost	RM'000	RM'000
Non-Mudharabah Fund		
Demand deposits		
- Wadiah	1,770,569	1,857,231
Savings deposits		
- Wadiah	1,587,116	1,589,421
Fixed return investment deposits		
- Murabahah	5,387,646	5,799,059
Islamic repurchase agreements		
- Bai Al-Inah	90,031	140,412
	8,835,362	9,386,123

The maturity structure of term deposits is as follows:

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Due within six months	4,515,976	4,906,663
More than six months to one year	840,480	848,285
More than one year to three years	28,757	42,063
More than three years to five years	2,433	2,048
	5,387,646	5,799,059

(ii) By type of customer

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Government and statutory bodies	10,371	8,848
Business enterprises	2,093,688	2,379,984
Individuals	4,812,503	5,065,914
Others	1,918,800	1,931,377
	8,835,362	9,386,123

19 Deposits and Placements from Banks and Other Financial Institutions

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Non-Mudharabah Fund		
Licensed banks	1,775,493	2,833,307
Bank Negara Malaysia	29,578	49,614
Other financial institutions	-	1,277,168
	1,805,071	4,160,089

Included in deposits and placements from banks and other financial institutions are placements from the Bank's parent company, HSBC Bank Malaysia Berhad, of RM1.8 billion (31 Dec 2015: RM2.8 billion).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Other Liabilities

	Note	30 Jun 2016 RM'000	31 Dec 2015 RM'000
At amortised cost			
Settlements		20,787	-
Amounts due to holding company/ related companies		1,493	89
Profit payable			
- Structured products		4,865	5,375
- Others		64,662	74,233
Other creditors and accruals	(a)	120,488	127,021
		212,295	206,718
At fair value			
Structured products, at fair value			
- Wakalah with Commodity Wa'ad	(b)	1,031,064	1,268,657
		1,243,359	1,475,375

Structured products are measured at fair value over the life of the instruments. Structured products are deposits with embedded derivatives, of which both profit paid and fair valuation on the structured products are recorded in net trading income, as per accounting policy in Note 3(i), and respective fair value on trading liabilities is shown in Note 5(ii) in the audited financial statements of the Bank for the financial year ended 31 December 2015.

(a) Other creditors and accruals

Included in other creditors and accruals is excess compensation balance and profit earned from inadvertent financing of Shariah non-compliant activities. The contribution was distributed to the Non-Governmental Organisations approved by the Shariah Committee during the financial period/year.

Source and use of charity funds

	30 Jun 2016 RM'000	31 Dec 2015 RM'000
Source of charity funds		
Balance at 1 January	70	165
Income for the financial period/year	39	135
Use of charity funds		
Contribution to non-profit organisations	(56)	(230)
Balance at 30 June/31 December	53	70

(b) Movement in structured products

	30 Jun 2016 RM'000	31 Dec 2015 RM'000
Balance at 1 January	1,268,657	-
Reclassified from deposits from customers	-	1,788,427
New placement during the financial period/year	239,166	2,724,356
Redemption during the financial period/year	(466,959)	(3,108,048)
Fair value mark-to-market	(9,800)	(136,078)
Balance at 30 June/31 December	1,031,064	1,268,657

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Multi-Currency Sukuk Programme

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	1,757,968	1,749,823

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

	Nominal Value	Issue Date	Maturity Date	Carrying Value	
				30 Jun 2016	31 Dec 2015
<u>Issuance under MCSP</u>	RM'000			RM'000	RM'000
At amortised cost					
1st series at amortised cost	500,000	28 Sept 2012	28 Sept 2017	500,000	500,000
At fair value					
2nd series	500,000	16 Oct 2014	16 Oct 2019	503,519	500,641
3rd series	750,000	27 Mar 2015	27 Mar 2020	754,449	749,182
	<u>1,250,000</u>			<u>1,257,968</u>	<u>1,249,823</u>
	<u>1,750,000</u>			<u>1,757,968</u>	<u>1,749,823</u>

Movement in MCSP

	2nd series		3rd series	
	30 Jun 2016	31 Dec 2015	30 Jun 2016	31 Dec 2015
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	500,641	501,854	749,182	-
New issuance during the financial period/year	-	-	-	750,000
Change in fair value other than from own credit risk	6,768	1,374	11,814	(7,020)
Change in fair value from own credit risk	(3,890)	(2,587)	(6,547)	6,202
Balance at 30 June/31 December	<u>503,519</u>	<u>500,641</u>	<u>754,449</u>	<u>749,182</u>

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk	(10,437)	3,615

22 Subordinated Commodity Murabahah Financing

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	313,316	333,515
- Second tranche issued on 30 June 2015	267,689	284,946
	<u>581,005</u>	<u>618,461</u>

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Income Derived from Investment of Depositors' Funds and Others

	Second Quarter		Six Months Ended	
	30 Jun 2016 RM'000	30 Jun 2015 RM'000	30 Jun 2016 RM'000	30 Jun 2015 RM'000
Income derived from investment of:				
(i) general investment deposits	114,544	124,682	229,843	242,619
(ii) specific investment deposits	7,746	17,381	15,479	29,240
(iii) others	51,437	43,231	106,855	82,844
	173,727	185,294	352,177	354,703
	Second Quarter		Six Months Ended	
	30 Jun 2016 RM'000	30 Jun 2015 RM'000	30 Jun 2016 RM'000	30 Jun 2015 RM'000
(i) Income derived from investment of general investment deposits				
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	90,505	92,609	177,785	186,138
- Recoveries from impaired financing	2,786	1,940	5,340	4,627
Financial investments available-for-sale	7,733	15,782	16,698	35,500
Money at call and deposit with financial institutions	13,790	17,375	32,438	25,702
	114,814	127,706	232,261	251,967
<u>Other operating income</u>				
Realised gain from dealing in foreign currency	12,812	14,456	14,560	8,225
Unrealised loss from dealing in foreign currency	(8,304)	(17,643)	(7,651)	(10,913)
Gain from sale of financial assets held-for-trading and other financial instruments	280	2,793	885	3,876
Unrealised (loss)/gain from revaluation of financial assets held-for-trading	(129)	1,390	(68)	1,511
Net profit paid for financial assets held-for-trading and other financial instruments	(6,369)	(5,112)	(13,452)	(12,606)
Realised gain from trading in derivatives	1,132	1,832	1,437	2,685
Unrealised gain/(loss) from trading in derivatives	305	(709)	1,858	(2,090)
Other gain/(loss)	3	(31)	13	(36)
	(270)	(3,024)	(2,418)	(9,348)
	114,544	124,682	229,843	242,619
	Second Quarter		Six Months Ended	
	30 Jun 2016 RM'000	30 Jun 2015 RM'000	30 Jun 2016 RM'000	30 Jun 2015 RM'000
(ii) Income derived from investment of specific investment deposits				
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	6,350	8,674	13,084	16,632
	6,350	8,674	13,084	16,632
<u>Other operating income</u>				
Fees and commission	228	662	524	2,417
Realised gain/(loss) from dealing in foreign currency	1,320	(1,767)	1,955	10,225
Unrealised (loss)/gain from dealing in foreign currency	(152)	9,812	(84)	(34)
	1,396	8,707	2,395	12,608
	7,746	17,381	15,479	29,240

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	Second Quarter		Six Months Ended	
	30 Jun 2016 RM'000	30 Jun 2015 RM'000	30 Jun 2016 RM'000	30 Jun 2015 RM'000
The above fees and commissions were derived from the following major contributors:				
Guarantee fees	74	344	232	539
Service charges and fees	153	595	290	1,876

	Second Quarter		Six Months Ended	
	30 Jun 2016 RM'000	30 Jun 2015 RM'000	30 Jun 2016 RM'000	30 Jun 2015 RM'000
(iii) Income derived from investment of others				
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	40,703	32,143	82,653	63,558
- Recoveries from impaired financing	1,255	679	2,483	1,580
Financial investments available-for-sale	3,454	5,499	7,763	12,122
Money at call and deposit with financial institutions	6,117	5,979	15,080	8,776
	51,529	44,300	107,979	86,036

Other operating income

Realised gain from dealing in foreign currency	5,929	4,901	6,769	2,808
Unrealised loss from dealing in foreign currency	(3,871)	(5,987)	(3,557)	(3,726)
Gain from sale of financial assets held-for-trading and other financial instruments	120	959	411	1,323
Unrealised (loss)/gain from revaluation of financial assets held-for-trading	(60)	475	(31)	516
Net profit paid from financial assets held-for-trading and other financial instruments	(2,850)	(1,787)	(6,254)	(4,304)
Realised gain from trading in derivatives	522	631	668	917
Unrealised gain/(loss) from trading in derivatives	117	(251)	864	(714)
Other gain/(loss)	1	(10)	6	(12)
	(92)	(1,069)	(1,124)	(3,192)

	51,437	43,231	106,855	82,844
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24 Income Derived from Investment of Shareholder's Funds

	Second Quarter		Six Months Ended	
	30 Jun 2016 RM'000	30 Jun 2015 RM'000 (Restated)	30 Jun 2016 RM'000	30 Jun 2015 RM'000 (Restated)
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	12,627	10,687	25,456	22,570
- Recoveries from impaired financing	390	220	765	561
Financial investments available-for-sale	1,073	1,799	2,391	4,304
Money at call and deposit with financial institutions	1,903	2,058	4,644	3,116
	15,993	14,764	33,256	30,551

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24 Income Derived from Investment of Shareholder's Funds (Cont'd)

	Second Quarter		Six Months Ended	
	30 Jun 2016 RM'000	30 Jun 2015 RM'000 (Restated)	30 Jun 2016 RM'000	30 Jun 2015 RM'000 (Restated)
<u>Other operating income</u>				
Fees and commission	12,280	15,486	26,588	29,297
Realised gain from dealing in foreign currency	1,828	1,789	2,085	997
Unrealised loss from dealing in foreign currency	(1,192)	(2,178)	(1,096)	(1,323)
Gain from sale of financial assets held-for-trading and other financial instruments	38	332	127	470
Unrealised (loss)/gain from revaluation of financial assets held-for-trading	(19)	168	(10)	183
Net profit paid from financial assets held-for-trading and other financial instruments	(885)	(576)	(1,926)	(1,528)
Realised gain from trading in derivatives	161	217	206	325
Unrealised gain/(loss) from trading in derivatives	38	(78)	266	(253)
Shared-service fees from holding company	763	835	1,576	1,705
Net gain on disposal of financial assets available-for-sale	-	232	3,055	232
Net gain/(loss) on financial instruments designated at fair value through profit or loss	966	(9,952)	9,940	(7,648)
Other income	30	8	59	39
	14,008	6,283	40,870	22,496
	30,001	21,047	74,126	53,047

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

Service charges and fees	4,643	6,052	10,290	11,702
Cards	6,088	4,012	11,172	8,735
Agency fees	1,773	2,064	3,488	5,212

25 Impairment Losses on Financing

	Second Quarter		Six Months Ended	
	30 Jun 2016 RM'000	30 Jun 2015 RM'000	30 Jun 2016 RM'000	30 Jun 2015 RM'000
Impairment charges on financing:				
(a) Individual impairment				
- Made during the financial period	7,289	2,149	17,229	13,944
- Written back	(5,062)	(4,818)	(13,765)	(16,295)
(b) Collective impairment				
- Made during the financial period	41,104	28,250	119,969	77,985
- Written back	(9,255)	(24,033)	(35,346)	(38,223)
Impaired financing				
- Recovered during the period	(8,406)	(8,295)	(15,655)	(16,650)
- Written off	742	687	1,868	1,282
	26,412	(6,060)	74,300	22,043

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

26 Income Attributable to Depositors

	Second Quarter		Six Months Ended	
	30 Jun 2016 RM'000	30 Jun 2015 RM'000	30 Jun 2016 RM'000	30 Jun 2015 RM'000
<u>Non-Mudharabah Fund</u>				
- Deposits from customers	52,757	57,526	106,614	112,790
- Deposits and placements of banks and other financial institutions	14,249	11,425	34,306	25,839
- Others	22,178	20,195	44,864	32,878
<u>Mudharabah Fund</u>				
- Deposits and placements of banks and other financial institutions	-	5,242	-	8,216
	89,184	94,388	185,784	179,723

27 Operating Expenses

	Second Quarter		Six Months Ended	
	30 Jun 2016 RM'000	30 Jun 2015 RM'000 (Restated)	30 Jun 2016 RM'000	30 Jun 2015 RM'000 (Restated)
Personnel expenses	12,228	13,605	20,597	26,403
Promotion and marketing related expenses	3,000	2,210	6,704	5,660
Establishment related expenses	4,750	5,182	9,772	10,684
General administrative expenses	41,906	40,057	87,720	76,676
	61,884	61,054	124,793	119,423
Personnel expenses				
Salaries, allowances and bonuses	9,271	10,720	16,327	21,245
Employees Provident Fund contributions	1,598	1,984	2,850	3,645
Other staff related costs	1,359	901	1,420	1,513
	12,228	13,605	20,597	26,403
Promotion and marketing related expenses				
	3,000	2,210	6,704	5,660
Establishment related expenses				
Depreciation of equipment	1,258	1,929	2,608	3,856
Amortisation of intangible assets	-	-	-	2
Information technology costs	452	449	1,145	1,432
Rental of premises	2,088	2,085	4,148	4,101
Others	952	719	1,871	1,293
	4,750	5,182	9,772	10,684
General administrative expenses				
Group recharges	32,597	33,329	69,064	66,605
Others	9,309	6,728	18,656	10,071
	41,906	40,057	87,720	76,676

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 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:

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Aggregate value of outstanding credit exposures to connected parties	699,112	547,758
As a percentage of total credit exposures	4.44%	3.41%
Aggregate value of outstanding credit exposures to connected parties which is non-performing or in default	-	-
As a percentage of total credit exposures	-	-

29 Capital Adequacy

	30 Jun 2016	31 Dec 2015
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	50,000	50,000
Share premium	610,000	610,000
Retained profits	734,987	701,902
Other reserves	93,675	91,565
Regulatory adjustments	(52,473)	(37,639)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	1,436,189	1,415,828
Tier 2 capital		
Subordinated Commodity Murabahah financing	581,005	618,461
Collective impairment allowance (unimpaired portion) & regulatory reserves	128,961	118,212
Total Tier 2 capital	709,966	736,673
Capital base	2,146,155	2,152,501
CET1 and Tier 1 Capital ratio	12.774%	11.911%
Total Capital ratio	19.089%	18.108%

The total capital and capital adequacy ratios have been computed based on the Standardised Approach in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB). The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

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

	30 Jun 2016		31 Dec 2015	
	Principal	Risk-weighted	Principal	Risk-weighted
	RM'000	RM'000	RM'000	RM'000
Total RWA for credit risk	19,420,808	10,316,914	22,406,281	10,885,513
Total RWA for market risk	-	25,955	-	104,374
Total RWA for operational risk	-	900,187	-	897,064
	19,420,808	11,243,056	22,406,281	11,886,951

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 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.

	30 Jun 2016	31 Dec 2015
Principal amount	Principal amount RM'000	Principal amount RM'000
Direct credit substitutes	718,104	622,855
Transaction-related contingent items	1,061,816	1,089,395
Short-term self-liquidating trade-related contingencies	152,195	172,151
Irrevocable commitments to extend credit		
- Maturity not exceeding one year	3,552,218	3,056,937
- Maturity exceeding one year	1,810,152	1,818,014
Unutilised credit card lines	2,037,287	1,678,518
Equity related contracts		
- Less than one year	472,456	192,724
- One year to less than five years	539,794	948,669
Profit rate related contracts		
- Less than one year	2,055,000	1,201,265
- One year to less than five years	5,184,320	6,645,808
Foreign exchange related contracts		
- Less than one year	2,483,832	2,437,315
- One year to less than five years	1,945,847	2,026,017
	22,013,021	21,889,668

^[1] The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per BNM guidelines. The credit conversion factors and risk weighting rules were based on Basel II Capital Adequacy Framework for Islamic Banks (CAFIB).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 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.

30 Jun 2016	Non-trading book						Trading book RM'000	Total RM'000	Effective profit rate %
	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			
ASSETS									
Cash and short-term funds	2,536,740	-	-	-	-	91,954	-	2,628,694	3.24
Financial assets held-for-trading	-	-	-	-	-	-	701	701	6.07
Financial investments available-for-sale	-	-	170,716	1,133,401	20,464	-	-	1,324,581	3.59
Financing and advances									
- performing	2,673,182	7,608,679	251,913	880,682	137,803	-	-	11,552,259	5.29
- impaired ^[1]	-	-	-	-	-	183,752	-	183,752	-
- collective allowance	-	-	-	-	-	(178,698)	-	(178,698)	-
Derivative financial assets	-	-	-	-	-	-	230,811	230,811	-
Other assets	-	-	-	-	-	47,697	-	47,697	-
Total Financial Assets	5,209,922	7,608,679	422,629	2,014,083	158,267	144,705	231,512	15,789,797	
Deposits from customers	5,027,574	1,638,505	1,448,620	31,190	-	689,473	-	8,835,362	2.53
Deposits and placements from banks and other financial institutions	546,327	-	1,203,301	29,975	-	25,468	-	1,805,071	2.73
Bills and acceptances payable	-	-	-	-	-	26,837	-	26,837	-
Multi-Currency Sukuk Programme	-	-	-	1,757,968	-	-	-	1,757,968	4.05
Subordinated Commodity Murabahah Financing	-	-	-	-	581,005	-	-	581,005	2.73
Derivative financial liabilities	-	-	29	1,519	-	-	397,656	399,204	-
Other liabilities	-	-	-	-	-	1,215,960	-	1,215,960	3.25
Total Financial Liabilities	5,573,901	1,638,505	2,651,950	1,820,652	581,005	1,957,738	397,656	14,621,407	
Total profit sensitivity gap	(363,979)	5,970,174	(2,229,321)	193,431	(422,738)	(1,813,033)	(166,144)	1,168,390	

^[1] This is arrived at after deducting individual impairment allowance from impaired financing.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Profit rate risk (Cont'd)

31 Dec 2015	← Non-trading book →						Trading book RM'000	Total RM'000	Effective profit rate %
	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			
ASSETS									
Cash and short-term funds	4,662,526	-	-	-	-	87,864	-	4,750,390	3.29
Financial assets held-for-trading	-	-	-	-	-	-	10,492	10,492	3.29
Financial investments available-for-sale	-	-	171,710	1,529,533	-	-	-	1,701,243	3.54
Financing and advances									
- performing	2,942,903	7,598,180	430,346	936,844	33,576	-	-	11,941,849	5.26
- impaired ^[1]	-	-	-	-	-	166,632	-	166,632	-
- collective allowance	-	-	-	-	-	(140,264)	-	(140,264)	-
Derivative financial assets	-	-	-	399	-	-	306,900	307,299	-
Other assets	-	-	-	-	-	241,611	-	241,611	-
Total Financial Assets	7,605,429	7,598,180	602,056	2,466,776	33,576	355,843	317,392	18,979,252	
LIABILITIES AND EQUITY									
Deposits from customers	5,182,972	1,977,410	1,405,652	44,111	-	775,978	-	9,386,123	2.60
Deposits and placements from banks and other financial institutions	820,779	735,392	1,679,300	879,219	-	45,399	-	4,160,089	2.20
Bills and acceptances payable	-	-	-	-	-	14,904	-	14,904	-
Multi-Currency Sukuk Programme	-	-	-	1,749,823	-	-	-	1,749,823	4.00
Derivative financial liabilities	-	-	-	201	-	-	473,030	473,231	-
Subordinated Commodity Murabahah Financing	-	-	-	-	618,461	-	-	618,461	2.45
Other Liabilities	-	-	-	-	-	1,445,212	-	1,445,212	2.90
Total Financial Liabilities	6,003,751	2,712,802	3,084,952	2,673,354	618,461	2,281,493	473,030	17,847,843	
Total profit sensitivity gap	1,601,678	4,885,378	(2,482,896)	(206,578)	(584,885)	(1,925,650)	(155,638)	1,131,409	

^[1] This is arrived at after deducting individual impairment allowance from impaired financing.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Contractual maturity / behavioural profile

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.

30 Jun 2016	Non-trading book						Trading book	Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	1 - 5 years	Over 5 years	Non-specific maturity		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS								
Cash and short-term funds	2,628,694	-	-	-	-	-	-	2,628,694
Financial assets held-for-trading	-	-	-	-	-	-	701	701
Financial investments available-for-sale	-	-	170,716	1,133,401	20,464	-	-	1,324,581
Financing and advances	1,999,520	1,724,483	462,907	1,824,269	5,546,134	-	-	11,557,313
Derivative financial assets	-	-	-	-	-	-	230,811	230,811
Others	19,906	-	826	8,382	395	363,640	-	393,149
Total Assets	4,648,120	1,724,483	634,449	2,966,052	5,566,993	363,640	231,512	16,135,249
LIABILITIES AND EQUITY								
Deposits from customers	5,717,047	1,638,505	1,448,620	31,190	-	-	-	8,835,362
Deposits and placements from banks and other financial institutions	571,796	-	1,203,300	29,975	-	-	-	1,805,071
Bills and acceptances payable	26,837	-	-	-	-	-	-	26,837
Multi-Currency Sukuk Programme	-	-	-	1,757,968	-	-	-	1,757,968
Subordinated Commodity Murabahah Financing	-	-	-	-	581,005	-	-	581,005
Derivative financial liabilities	-	-	29	1,519	-	-	397,656	399,204
Others	36,999	12,499	20,829	21,472	119	120,377	1,031,064	1,243,359
Total Liabilities	6,352,679	1,651,004	2,672,778	1,842,124	581,124	120,377	1,428,720	14,648,806
Equity	-	-	-	-	-	1,486,443	-	1,486,443
Total Liabilities and Equity	6,352,679	1,651,004	2,672,778	1,842,124	581,124	1,606,820	1,428,720	16,135,249
Net maturity mismatches	(1,704,559)	73,479	(2,038,329)	1,123,928	4,985,869	(1,243,180)	(1,197,208)	0
Off balance sheet liabilities	8,396,505	1,031,106	4,529,862	8,051,796	3,752	-	-	22,013,021

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Contractual maturity / behavioural profile (Cont'd)

31 Dec 2015	←		Non-trading book				→		Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years	Over 5 years RM'000	Non-specific maturity RM'000	Trading book RM'000		
ASSETS									
Cash and short-term funds	4,750,390	-	-	-	-	-	-	-	4,750,390
Financial assets held-for-trading	-	-	-	-	-	-	10,492	-	10,492
Financial investments available-for-sale	-	-	171,710	1,529,533	-	-	-	-	1,701,243
Financing and advances	1,888,585	1,639,415	954,754	2,103,147	5,382,316	-	-	-	11,968,217
Derivative financial assets	-	-	-	399	-	-	306,900	-	307,299
Others	210,500	-	834	10,053	8	370,876	-	-	592,271
Total Assets	6,849,475	1,639,415	1,127,298	3,643,132	5,382,324	370,876	317,392	-	19,329,912
LIABILITIES AND EQUITY									
Deposits from customers	5,958,950	1,977,410	1,405,652	44,111	-	-	-	-	9,386,123
Deposits and placements from banks and other financial institutions	866,178	735,392	1,679,300	879,219	-	-	-	-	4,160,089
Bills and acceptances payable	14,904	-	-	-	-	-	-	-	14,904
Multi-Currency Sukuk Programme	-	-	-	1,749,823	-	-	-	-	1,749,823
Subordinated Commodity Murabahah Financing	-	-	-	-	618,461	-	-	-	618,461
Derivative financial liabilities	-	-	-	201	-	-	473,030	-	473,231
Others	21,454	13,047	20,332	24,577	145	127,163	-	-	206,718
Total Liabilities	6,861,486	2,725,849	3,105,284	2,697,931	618,606	127,163	473,030	-	16,609,349
Equity	-	-	-	-	-	1,451,906	-	-	1,451,906
Total Liabilities and Equity	6,861,486	2,725,849	3,105,284	2,697,931	618,606	1,579,069	473,030	-	18,061,255
Net maturity mismatches	(12,011)	(1,086,434)	(1,977,986)	945,201	4,763,718	(1,208,193)	(155,638)	-	1,268,657
Off balance sheet liabilities	8,097,118	857,436	2,907,306	10,025,117	2,691	-	-	-	21,889,668

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Performance Review

Profit before tax (PBT) declined by RM45.1 million or 52.1% against history due to higher impairment losses on financing (up RM52.3 million), income attributable to depositors (up RM6.1 million) and operating expenses (up RM5.4 million), but partially offset by higher income derived from investment of shareholder's funds (up RM21.1 million).

Income derived from investment of shareholder's funds increased by RM21.1 million, mainly due to higher net gains on financial instruments fair valued through profit or loss (up RM17.6 million) and higher net gains on disposal of financial assets available-for-sale (up RM2.8 million).

Impairment losses on financing increased by RM52.3 million arising mainly from higher collective impairment provision (up RM44.9 million), higher individual impairment provision (up RM5.8 million) and lower net recoveries from impaired financing (down RM1.6 million).

The income attributable to depositors and others increased due to higher profit paid on sukuk (up RM7.6 million) and subordinated Commodity Murabahah financing (up RM4.4 million), offset by lower profit paid on customer deposits (down RM6.2 million). Meanwhile, operating expenses increased mainly due to higher general administrative expenses (up RM8.6 million) and intercompany expenses (up RM2.5 million), offset by lower personnel expenses (down RM5.8 million).

Balance sheet size at RM16.1 billion decreased by RM3.2 billion or 16.5%, attributed to decrease in cash and short term funds (down RM2.1 billion), financial investments available-for-sale (down RM0.4 billion) and financing and advances (down RM0.4 billion). The Bank's capital and liquidity ratios remain strong and are well above regulatory requirements.

34 Business Prospects

The global economy, including Asia, is expected to grow more moderately, across major advanced and emerging markets economies and will continue to be susceptible to downside risks including possible effects from the recent results on the referendum by the British voters to exit United Kingdom from the European Union.

For the second half of 2016, the Malaysian economy is expected to face continuous challenging operating environment with the projected expansion moderation in domestic demand too, although overall domestic economy to remain on track to expand in 2016 and 2017. In view of the uncertainties in the global environment could affect Malaysia's growth prospect, Bank Negara Malaysia had on 13 July 2016 took the pre-emptive initiative to reduce the Overnight Policy Rate (OPR) from 3.25% to 3.00%.

Notwithstanding that, the Malaysian financial system is expected to remain resilient. More challenging business conditions and rising costs will likely weigh on the revenue and advances performance in the period ahead, requiring higher vigilance. While investors may take a cautious approach in the second half of 2016, domestic financial system stability is expected to be maintained. The deep and well-developed domestic financial markets with ample liquidity have continued to support orderly market conditions and sustained confidence in the financial system.

Given uncertain global economic outlook, the Group will work with customers to provide banking solutions to minimise the impact of market volatility on their respective businesses. We will also facilitate customers cross border investments and transactions, especially with China and ASEAN countries.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Comparative Figures

Restatement of Comparative Figures

The presentation and classification of items in the financial statements are consistent with the previous financial period except those listed below. Comparatives for net fee commission income, other operating expenses and income from islamic banking operations were restated to conform to the current financial period's presentation. There was no significant impact to the financial performance and ratios in relation to the financial period ended 30 June 2016. The Bank's prior period profit and loss and retained earning brought forward are not affected by these reclassifications.

Statement of Profit or Loss and Other Comprehensive Income

	30 Jun 2015	
	RM'000 As restated	RM'000 As previously stated
a) Operating Expenses	93,020	99,129
<i>(of which the affected components are disclosed below) :</i>		
Promotion and marketing related expenses	5,660	11,769
b) Income Derived from Investment of Shareholder's Funds	53,047	59,156
<i>(of which the affected components are disclosed below) :</i>		
Fees and commission	29,297	35,406