

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

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
**30 SEPTEMBER 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 SEPTEMBER 2016**

	<i>Note</i>	<b>30 Sep 2016</b> RM'000	31 Dec 2015 RM'000
<b>Assets</b>			
Cash and short-term funds	10	2,440,381	4,750,390
Financial assets held-for-trading	11	1,322	10,492
Financial investments available-for-sale	12	1,328,752	1,701,243
Financing and advances	13	11,638,297	11,968,217
Derivative financial assets	15	266,653	307,299
Other assets	16	130,165	241,611
Statutory deposits with Bank Negara Malaysia	17	298,462	329,662
Equipment		7,192	10,288
Deferred tax assets		5,573	5,548
Tax recoverable		2,253	5,162
<b>Total assets</b>		<b>16,119,050</b>	<b>19,329,912</b>
<b>Liabilities</b>			
Deposits from customers	18	8,799,821	9,386,123
Deposits and placements from banks and other financial institutions	19	1,903,371	4,160,089
Bills and acceptances payable		21,907	14,904
Derivative financial liabilities	15	374,409	473,231
Other liabilities	20	1,139,319	1,475,375
Multi-Currency Sukuk Programme	21	1,758,566	1,749,823
Subordinated Commodity Murabahah Financing	22	595,771	618,461
<b>Total liabilities</b>		<b>14,593,164</b>	<b>17,878,006</b>
<b>Equity</b>			
Share capital		50,000	50,000
Reserves		1,475,886	1,401,906
<b>Total equity attributable to owner of the Bank</b>		<b>1,525,886</b>	<b>1,451,906</b>
<b>Total liabilities and equity</b>		<b>16,119,050</b>	<b>19,329,912</b>
<b>Restricted investment accounts</b> <sup>[1]</sup>		<b>2,106,187</b>	<b>2,632,404</b>
<b>Total Islamic Banking asset</b> <sup>[1]</sup>		<b>18,225,237</b>	<b>21,962,316</b>
<b>Commitments and Contingencies</b>	29	<b>22,075,917</b>	<b>21,889,668</b>

<sup>[1]</sup> 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 31 attached to the unaudited condensed interim financial statements.*

*The unaudited condensed interim financial statements were approved by the Board of Directors on 26 October 2016.*

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

**UNAUDITED CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2016**

	Note	Third Quarter		Nine Months Ended	
		30 Sep 2016 RM'000	30 Sep 2015 RM'000 (Restated)	30 Sep 2016 RM'000	30 Sep 2015 RM'000 (Restated)
Income derived from investment of depositors' funds and others	23	170,017	181,249	522,194	535,952
Income derived from investment of shareholder's funds	24	39,471	22,040	113,597	75,087
Impairment losses on financing	25	(16,211)	(21,569)	(90,511)	(43,612)
<b>Total distributable income</b>		<b>193,277</b>	181,720	<b>545,280</b>	567,427
Income attributable to depositors	26	(84,397)	(94,664)	(270,181)	(274,387)
<b>Total net income</b>		<b>108,880</b>	87,056	<b>275,099</b>	293,040
Operating expenses	27	(58,575)	(59,239)	(183,368)	(178,662)
Profit before tax		50,305	27,817	91,731	114,378
Tax expense		(12,209)	(5,001)	(20,551)	(22,009)
<b>Profit for the financial period</b>		<b>38,096</b>	22,816	<b>71,180</b>	92,369
<b>Other comprehensive income/(expense)</b>					
<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		5,592	(8,317)	11,381	4,082
Amount transferred to profit or loss		(3,798)	-	(6,853)	(232)
Income tax effect		(431)	1,996	(1,087)	(924)
Other comprehensive income for the financial period, net of tax		1,363	(6,321)	3,441	2,926
<b>Total comprehensive income for the financial period</b>		<b>39,459</b>	16,495	<b>74,621</b>	95,295
Profit attributable to the owner of the Bank		38,096	22,816	71,180	92,369
Total comprehensive income attributable to the owner of the Bank		39,459	16,495	74,621	95,295
Basic earnings per RM0.50 ordinary share		38.1 sen	22.8 sen	71.2 sen	92.4 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 SEPTEMBER 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> <sup>[1]</sup>	<i>Retained profits</i>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2016</b>								
Balance at 1 January	50,000	610,000	50,000	4,946	1,058	34,000	701,902	1,451,906
<b>Total comprehensive income for the financial period</b>								
Profit for the financial period	-	-	-	-	-	-	71,180	71,180
<b>Other comprehensive income, net of tax</b>								
Available-for-sale reserve:								
Net change in fair value	-	-	-	8,649	-	-	-	8,649
Net amount transferred to profit or loss	-	-	-	(5,208)	-	-	-	(5,208)
<i>Total other comprehensive income</i>	-	-	-	3,441	-	-	-	3,441
Total comprehensive income for the financial period	-	-	-	3,441	-	-	71,180	74,621
<b>Transactions with the owner (the ultimate holding company), recorded directly in equity</b>								
Share based payment transactions	-	-	-	-	(641)	-	-	(641)
Balance at 30 September	<b>50,000</b>	<b>610,000</b>	<b>50,000</b>	<b>8,387</b>	<b>417</b>	<b>34,000</b>	<b>773,082</b>	<b>1,525,886</b>

<sup>[1]</sup> 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 31 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 SEPTEMBER 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> <sup>[1]</sup>	<i>Retained profits</i>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
2015								
Balance at 1 January	50,000	610,000	50,000	(6,488)	1,374	13,000	600,823	1,318,709
<b>Total comprehensive income for the financial period</b>								
Profit for the financial period	-	-	-	-	-	-	92,369	92,369
<b>Other comprehensive income, net of tax</b>								
Available-for-sale reserve:								
Net change in fair value	-	-	-	2,926	-	-	-	2,926
<i>Total other comprehensive income</i>	-	-	-	2,926	-	-	-	2,926
Total comprehensive income for the financial period	-	-	-	2,926	-	-	92,369	95,295
<b>Transactions with the owner (the ultimate holding company), recorded directly in equity</b>								
Share based payment transactions	-	-	-	-	(263)	-	17	(246)
Transfer relating to regulatory reserves	-	-	-	-	-	21,000	(21,000)	-
Balance at 30 September	50,000	610,000	50,000	(3,562)	1,111	34,000	672,209	1,413,758

<sup>[1]</sup> 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 SEPTEMBER 2016**

	<b>30 Sep 2016</b>	<b>30 Sep 2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Profit before tax	<b>91,731</b>	114,378
Adjustments for non-operating and non-cash items	<b>107,970</b>	5,347
	<hr/>	<hr/>
Operating profit before working capital changes	<b>199,701</b>	119,725
Changes in working capital:		
Net changes in operating assets	<b>395,038</b>	(1,384,202)
Net changes in operating liabilities	<b>(3,198,603)</b>	1,043,705
Income tax paid	<b>(18,842)</b>	(24,792)
	<hr/>	<hr/>
<b>Net cash used in operating activities</b>	<b>(2,622,706)</b>	(245,564)
<b>Net cash generated from investing activities</b>	<b>384,938</b>	2,250,203
<b>Net cash generated from financing activities</b>	<b>(72,241)</b>	1,000,299
	<hr/>	<hr/>
	<b>312,697</b>	3,250,502
	<hr/>	<hr/>
<b>Net changes in cash and cash equivalents</b>	<b>(2,310,009)</b>	3,004,938
<b>Cash and cash equivalents at 1 January</b>	<b>4,750,390</b>	670,934
	<hr/>	<hr/>
<b>Cash and cash equivalents at 30 September</b>	<b>2,440,381</b>	3,675,872
	<hr/>	<hr/>
<b>Analysis of cash and cash equivalents</b>		
Cash and short-term funds	<b>2,440,381</b>	3,675,872
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*The unaudited condensed interim financial statements were approved by the Board of Directors on 26 October 2016.*

**HSBC AMANAH MALAYSIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**1 General Information**

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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 26 October 2016.

**2 Basis of Preparation**

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The unaudited condensed interim financial statements for the financial period ended 30 September 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 September 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.
- Amendments to MFRS 127 'Separate Financial Statements'. The amendments introduced equity accounting for separate financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### **2 Basis of Preparation (Cont'd)**

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- (i) Standards and amendments to published standards that are effective and applicable to the Bank (Cont'd)
- MFRS 101 'Presentation of Financial Statements' - Disclosure Initiative (Amendments to MFRS 101). The amendments are part of a major initiative to improve disclosure requirements in MFRS financial statements. These amendments include narrow - focus improvements in five areas as follows:
    - Materiality
    - Disaggregation and subtotals
    - Notes structure
    - Disclosure of accounting policies
    - Presentation of items in Other Comprehensive Income (OCI) arising from equity accounted investments.
  - Annual improvement to MFRSs 2012 - 2014 Cycle
    - Amendment to MFRS 5, 'Non-current assets Held for Sale and Discontinued Operations'
    - Amendment to MFRS 7, 'Financial Instruments: Disclosure - Servicing contracts'
    - Amendment to MFRS 7, 'Financial Instruments: Disclosure - Applicability of the amendments to MFRS 7 to condensed interim financial statements'
    - Amendment to MFRS 119, 'Employee Benefits'
    - Amendments to MFRS 134, 'Interim Financial Reporting'

The adoption of the new accounting standards, amendments and improvements to published standards are not expected to have impact on the financial statements of the Bank.

- (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 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.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### **2 Basis of Preparation (Cont'd)**

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

b. Financial year beginning on/after 1 January 2018 (Cont'd)

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.

- MFRS 2 'Share-based payment' with regards to classification and measurement of share-based payment transactions. The amendments provides specific guidance on effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

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.

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

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**3 Auditors' Report On Preceding Annual Financial Statements**

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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**

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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**

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

**6 Changes in Estimates**

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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 September 2016.

**7 Debt and Equity Securities**

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

**8 Dividend**

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

**9 Significant and Subsequent Events**

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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**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Cash and balances with banks and other financial institutions	<b>190,381</b>	369,010
Money at call and interbank placements maturing within one month	<b>2,250,000</b>	4,381,380
	<b>2,440,381</b>	4,750,390

**11 Financial Assets Held-for-Trading**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
<b>At fair value</b>		
Money market instruments:		
Malaysian Government Islamic bonds	<b>520</b>	490
Unquoted:		
Sukuk	<b>802</b>	10,002
	<b>1,322</b>	10,492

**12 Financial Investments Available-for-Sale**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
<b>At fair value</b>		
Money market instruments:		
Malaysian Government Islamic bonds	<b>1,328,752</b>	1,701,243

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

Maturing within one year	<b>250,765</b>	171,710
More than one year to three years	<b>754,342</b>	1,310,874
More than three years to five years	<b>302,953</b>	218,659
Over five years	<b>20,692</b>	-
	<b>1,328,752</b>	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 Sep 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	90,865	-	-	-	-	-	-	90,865
Term financing:								
House financing	-	525	-	-	-	4,324,359	-	4,324,884
Hire purchase receivables	-	-	-	-	220,445	-	-	220,445
Lease receivables	-	-	-	3,085	-	-	-	3,085
Syndicated term financing	639,729	-	-	-	-	-	-	639,729
Other term financing	2,837,267	10,540	2,793	-	-	1,022,264	-	3,872,864
Trust receipts	544,241	-	-	-	-	-	-	544,241
Claims on customers under acceptance credits	516,791	-	-	-	-	-	-	516,791
Bills receivables	95,764	-	-	-	-	-	-	95,764
Staff financing-i	2,797	-	423	-	-	3,227	-	6,447
Credit cards-i	-	-	-	-	-	-	677,864	677,864
Revolving credit	881,293	-	-	-	-	-	-	881,293
Gross financing and advances	5,608,747	11,065	3,216	3,085	220,445	5,349,850	677,864	11,874,272
Less: Allowance for impaired financing								
Collective allowances for impairment								(181,491)
Individual allowances for impairment								(54,484)
Total net financing and advances								11,638,297

**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	617,460	-	-	-	-	-	-	617,460
Bills receivables	216,510	-	-	-	-	-	-	216,510
Staff financing-i	3,468	-	775	-	-	3,266	-	7,509
Credit cards-i	-	-	-	-	-	-	569,358	569,358
Revolving credit	806,698	-	-	-	-	-	-	806,698
<b>Gross financing and advances</b>	<b>6,111,245</b>	<b>27,152</b>	<b>32,559</b>	<b>4,103</b>	<b>229,552</b>	<b>5,203,159</b>	<b>569,358</b>	<b>12,177,128</b>
Less: Allowance for impaired financing								
Collective allowances for impairment								(140,264)
Individual allowances for impairment								(68,647)
<b>Total net financing and advances</b>								<b>11,968,217</b>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**13 Financing and Advances (Cont'd)**

**(ii) By type of customer**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Domestic non-bank financial institutions	<b>629,723</b>	670,298
Domestic business enterprises:		
Small medium enterprises	<b>1,922,265</b>	2,004,648
Others	<b>2,342,104</b>	2,944,504
Government and statutory bodies	<b>11,084</b>	13,566
Individuals	<b>5,743,934</b>	5,431,238
Other domestic entities	<b>1,494</b>	1,568
Foreign entities	<b>1,223,668</b>	1,111,306
	<b><u>11,874,272</u></b>	<u>12,177,128</u>

**(iii) By profit rate sensitivity**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Fixed rate:		
House financing	<b>517</b>	1,135
Hire purchase receivables	<b>220,445</b>	229,552
Other financing	<b>2,750,821</b>	2,840,103
Variable rate:		
BR/BFR plus	<b>5,429,296</b>	5,277,948
Cost-plus	<b>3,473,193</b>	3,828,390
	<b><u>11,874,272</u></b>	<u>12,177,128</u>

**(iv) By residual contractual maturity**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Maturing within one year	<b>4,275,876</b>	4,532,866
More than one year to three years	<b>649,857</b>	642,702
More than three years to five years	<b>1,152,362</b>	1,490,233
Over five years	<b>5,796,177</b>	5,511,327
	<b><u>11,874,272</u></b>	<u>12,177,128</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**13 Financing and Advances (Cont'd)**

(v) **By sector**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Agriculture, hunting, forestry & fishing	<b>148,946</b>	624,260
Mining and quarrying	<b>188,493</b>	206,294
Manufacturing	<b>1,173,605</b>	1,306,244
Electricity, gas and water	<b>33,950</b>	14,772
Construction	<b>319,103</b>	597,155
Real estate	<b>847,169</b>	392,934
Wholesale & retail trade, restaurants & hotels	<b>940,910</b>	1,088,766
Transport, storage and communication	<b>158,434</b>	166,443
Finance, takaful and business services	<b>906,856</b>	1,035,462
Household - Retail	<b>6,382,937</b>	6,073,723
Others	<b>773,869</b>	671,075
	<b>11,874,272</b>	12,177,128

(vi) **By purpose**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Purchase of landed property:		
Residential	<b>4,328,110</b>	4,212,033
Non-residential	<b>852,541</b>	840,581
Purchase of transport vehicles	<b>1,841</b>	2,122
Purchase of fixed assets excluding land & building	<b>440</b>	3,706
Consumption credit	<b>1,769,249</b>	1,588,371
Construction	<b>315,325</b>	586,283
Working capital	<b>4,011,017</b>	4,461,645
Other purpose	<b>595,749</b>	482,387
	<b>11,874,272</b>	12,177,128

(vii) **By geographical distribution**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Northern Region	<b>1,344,854</b>	1,448,803
Southern Region	<b>1,578,638</b>	1,638,669
Central Region	<b>8,484,477</b>	8,609,131
Eastern Region	<b>466,303</b>	480,525
	<b>11,874,272</b>	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.

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Under SIAF/IAA arrangement	<b>1,551,512</b>	1,573,615
Under RPSIA arrangement	-	19,918
<b>Total net financing and advances</b>	<b>1,551,512</b>	<b>1,593,533</b>
	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
<b>Principal amount</b>		
Irrevocable commitments to extend credit: <i>Maturity not exceeding one year</i>		
Under SIAF/IAA arrangement	<b>554,675</b>	180,273
Under RPSIA arrangement	-	858,598
<b>Total commitments and contingencies</b>	<b>554,675</b>	<b>1,038,871</b>
	<b>Principal</b>	<b>Risk weighted</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Total RWA for Credit Risk</b>		
- at 30 Sep 2016		
Under SIAF/IAA arrangement	<b>1,662,447</b>	<b>1,662,447</b>
- at 31 Dec 2015		
Under SIAF/IAA arrangement	1,609,670	1,609,670
Under RPSIA arrangement	191,638	191,638
	<b>1,801,308</b>	<b>1,801,308</b>

**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 (HBMY), and the contract is based on the Mudharabah principle where HBMY 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 HBMY. Hence, the underlying assets and allowances for impairment arising thereon, if any, are recognised and accounted for by HBMY. 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 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 allowances 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 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**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Balance at 1 January	<b>235,279</b>	162,227
Classified as impaired during the financial period/year	<b>239,533</b>	319,623
Reclassified as performing	<b>(91,231)</b>	(109,381)
Amount recovered	<b>(39,198)</b>	(54,894)
Amount written off	<b>(90,587)</b>	(82,296)
Balance at 30 September/31 December	<b>253,796</b>	235,279

**(ii) Movements in allowance for impaired financing**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
<b>Collective allowance for impairment</b>		
Balance at 1 January	<b>140,264</b>	124,817
Made during the financial period/year	<b>158,873</b>	160,940
Amount released	<b>(48,876)</b>	(67,064)
Amount written off	<b>(68,770)</b>	(78,429)
Balance at 30 September/31 December	<b>181,491</b>	140,264

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
<b>Individual allowance for impairment</b>		
Balance at 1 January	<b>68,647</b>	43,821
Made during the financial period/year	<b>19,208</b>	45,829
Amount recovered	<b>(16,852)</b>	(27,717)
Amount written off	<b>(16,519)</b>	6,714
Balance at 30 September/31 December	<b>54,484</b>	68,647

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**14 Impaired Financing (Cont'd)**

**(iii) By contract**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Bai Bithaman Ajil ( <i>deferred payment sale</i> )	7	69
Ijarah Thumma Al-Bai (AITAB) ( <i>hire purchase</i> )	5,859	7,049
Murabahah ( <i>cost-plus</i> )	104,453	102,339
Musharakah ( <i>profit and loss sharing</i> )	128,377	110,720
Bai Al-Inah ( <i>sell and buy back</i> )	573	2,776
Ujrah ( <i>fee-based</i> )	14,527	12,326
	<b>253,796</b>	<b>235,279</b>

**(iv) By sector**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Manufacturing	4,056	21,093
Construction	204	204
Wholesale & retail trade, restaurants & hotels	12,414	9,672
Transport, storage and communication	3,746	5,443
Finance, takaful and business services	5,345	5,527
Household - Retail	227,404	192,687
Others	627	653
	<b>253,796</b>	<b>235,279</b>

**(v) By purpose**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Purchase of landed property:		
Residential	113,960	94,984
Non-residential	9,936	10,255
Purchase of transport vehicles	107	133
Purchase of fixed assets excluding land & building	358	358
Consumption credit	111,483	95,770
Construction	204	204
Working capital	17,748	33,575
	<b>253,796</b>	<b>235,279</b>

**(vi) By geographical distribution**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Northern Region	45,104	54,102
Southern Region	30,726	30,267
Central Region	164,351	141,764
Eastern Region	13,615	9,146
	<b>253,796</b>	<b>235,279</b>

**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>&gt;1 - 5 Years</u>	<u>Total</u>	<u>Up to 1 Year</u>	<u>&gt;1 - 5 Years</u>	<u>Total</u>	<u>Up to 1 Year</u>	<u>&gt;1 - 5 Years</u>	<u>Total</u>
<b>30 Sep 2016</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Trading derivatives:</b>									
Foreign exchange contracts									
- Forwards	2,614,117	-	2,614,117	26,893	-	26,893	29,702	-	29,702
- Swaps	-	2,053,057	2,053,057	-	191,671	191,671	-	191,971	191,971
- Options	504,132	339,554	843,686	2,309	3,083	5,392	2,309	3,083	5,392
Profit rate related contracts									
- Swaps	1,570,000	4,628,587	6,198,587	1,092	36,274	37,366	923	18,251	19,174
- Options	-	189,725	189,725	-	5,109	5,109	-	-	-
Equity related contracts									
- Options purchased	620,006	272,544	892,550	222	-	222	109,564	16,413	125,977
Sub- total	<u>5,308,255</u>	<u>7,483,467</u>	<u>12,791,722</u>	<u>30,516</u>	<u>236,137</u>	<u>266,653</u>	<u>142,498</u>	<u>229,718</u>	<u>372,216</u>
<b>Hedging Derivatives:</b>									
<b>Fair Value Hedge</b>									
Profit rate related contracts									
- Swaps	90,000	190,000	280,000	-	-	-	99	2,094	2,193
Sub- total	<u>90,000</u>	<u>190,000</u>	<u>280,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>99</u>	<u>2,094</u>	<u>2,193</u>
<b>Total</b>	<u>5,398,255</u>	<u>7,673,467</u>	<u>13,071,722</u>	<u>30,516</u>	<u>236,137</u>	<u>266,653</u>	<u>142,597</u>	<u>231,812</u>	<u>374,409</u>

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**15 Derivative Financial Instruments (Cont'd)**

31 Dec 2015	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
<b>Trading derivatives:</b>									
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>
<b>Hedging Derivatives:</b>									
<b>Fair Value Hedge</b>									
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 Sep 2016 RM'000	30 Sep 2015 RM'000
(Loss)/gain on hedging instruments	(2,250)	846
Gain/(loss) on the hedged items attributable to the hedged risk	<u>2,304</u>	<u>(881)</u>
	<u>54</u>	<u>(35)</u>

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**16 Other Assets**

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	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Income receivable	<b>16,765</b>	12,037
Amount due from holding company/related companies	<b>92,393</b>	209,358
Other receivables, deposits and prepayments	<b>21,007</b>	20,216
	<b><u>130,165</u></b>	<u>241,611</u>

**17 Statutory deposits with Bank Negara Malaysia**

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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**

	<b>30 Sep 2016</b>	31 Dec 2015
<b>At amortised cost</b>	<b>RM'000</b>	RM'000
Non-Mudharabah Fund		
Demand deposits		
- Wadiah	<b>1,813,546</b>	1,857,231
Savings deposits		
- Wadiah	<b>1,615,485</b>	1,589,421
Fixed return investment deposits		
- Murabahah	<b>5,178,438</b>	5,799,059
- Qard	<b>103,559</b>	-
Islamic repurchase agreements		
- Bai Al-Inah	<b>88,793</b>	140,412
	<b>8,799,821</b>	9,386,123

The maturity structure of term deposits is as follows:

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Due within six months	<b>4,463,387</b>	4,906,663
More than six months to one year	<b>787,978</b>	848,285
More than one year to three years	<b>26,628</b>	42,063
More than three years to five years	<b>4,004</b>	2,048
	<b>5,281,997</b>	5,799,059

**(ii) By type of customer**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Government and statutory bodies	<b>10,013</b>	8,848
Business enterprises	<b>2,149,542</b>	2,379,984
Individuals	<b>4,715,328</b>	5,065,914
Others	<b>1,924,938</b>	1,931,377
	<b>8,799,821</b>	9,386,123

**19 Deposits and Placements from Banks and Other Financial Institutions**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Non-Mudharabah Fund		
Licensed banks	<b>1,879,053</b>	2,833,307
Bank Negara Malaysia	<b>24,318</b>	49,614
Other financial institutions	<b>-</b>	1,277,168
	<b>1,903,371</b>	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 RM1.9 billion (31 Dec 2015: RM2.8 billion).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**20 Other Liabilities**

	Note	30 Sep 2016 RM'000	31 Dec 2015 RM'000
<b>At amortised cost</b>			
Settlements		-	-
Amounts due to holding company/ related companies		11,302	89
Profit payable			
- Structured products		4,127	5,375
- Others		56,327	74,233
Other creditors and accruals	(a)	106,511	127,021
		<b>178,267</b>	<b>206,718</b>
<b>At fair value</b>			
Structured products, at fair value			
- Wakalah with Commodity Wa'ad	(b)	961,052	1,268,657
		<b>1,139,319</b>	<b>1,475,375</b>

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 Sep 2016 RM'000	31 Dec 2015 RM'000
<b>Source of charity funds</b>		
Balance at 1 January	70	165
Income for the financial period/year	111	135
<b>Use of charity funds</b>		
Contribution to non-profit organisations	(93)	(230)
Tax expense on Shariah non-compliant income	(87)	-
Balance at 30 September/31 December	<b>1</b>	<b>70</b>

(b) Movement in structured products

	30 Sep 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	(587,260)	(3,108,048)
Fair value mark-to-market	40,489	(136,078)
Balance at 30 September/31 December	<b>961,052</b>	<b>1,268,657</b>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**21 Multi-Currency Sukuk Programme**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Multi-Currency Sukuk Programme (MCSP)	<b>1,758,566</b>	1,749,823

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

	<b>Nominal Value</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Carrying Value</b>	
				<b>30 Sep 2016</b>	31 Dec 2015
<u>Issuance under MCSP</u>	<b>RM'000</b>			<b>RM'000</b>	RM'000
<b>At amortised cost</b>					
1st series at amortised cost	500,000	28 Sept 2012	28 Sept 2017	<b>500,000</b>	500,000
<b>At fair value</b>					
2nd series	500,000	16 Oct 2014	16 Oct 2019	<b>503,752</b>	500,641
3rd series	750,000	27 Mar 2015	27 Mar 2020	<b>754,814</b>	749,182
	<u>1,250,000</u>			<u>1,258,566</u>	<u>1,249,823</u>
	<u>1,750,000</u>			<u>1,758,566</u>	<u>1,749,823</u>

Movement in MCSP

	<b>2nd series</b>		<b>3rd series</b>	
	<b>30 Sep 2016</b>	31 Dec 2015	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Balance at 1 January	<b>500,641</b>	501,854	<b>749,182</b>	-
New issuance during the financial period/year	-	-	-	750,000
Change in fair value other than from own credit risk	<b>9,062</b>	1,374	<b>15,559</b>	(7,020)
Change in fair value from own credit risk	<b>(5,951)</b>	(2,587)	<b>(9,927)</b>	6,202
Balance at 30 September/31 December	<u><b>503,752</b></u>	<u>500,641</u>	<u><b>754,814</b></u>	<u>749,182</u>

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
The cumulative change in fair value due to changes in own credit risk	<b>(15,878)</b>	3,615

**22 Subordinated Commodity Murabahah Financing**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	<b>321,279</b>	333,515
- Second tranche issued on 30 June 2015	<b>274,492</b>	284,946
	<u><b>595,771</b></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 (Cont'd)**

	Third Quarter		Nine Months Ended	
	30 Sep 2016 RM'000	30 Sep 2015 RM'000	30 Sep 2016 RM'000	30 Sep 2015 RM'000
The above fees and commissions were derived from the following major contributors:				
Guarantee fees	75	430	307	969
Service charges and fees	107	194	397	2,070

	Third Quarter		Nine Months Ended	
	30 Sep 2016 RM'000	30 Sep 2015 RM'000	30 Sep 2016 RM'000	30 Sep 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	43,838	42,303	126,491	105,861
- Recoveries from impaired financing	1,305	1,125	3,788	2,705
Financial investments available-for-sale	3,638	4,883	11,401	17,005
Money at call and deposit with financial institutions	5,872	8,478	20,952	17,254
	<b>54,653</b>	56,789	<b>162,632</b>	142,825

Other operating income

Realised gain from dealing in foreign currency	910	3,666	7,679	6,474
Unrealised gain/(loss) from dealing in foreign currency	1,377	(590)	(2,180)	(4,316)
Gain from sale of financial assets held-for-trading and other financial instruments	7	1,460	418	2,783
Unrealised gain from revaluation of financial assets held-for-trading	89	135	58	651
Net profit paid from financial assets held-for-trading and other financial instruments	(2,819)	(2,654)	(9,073)	(6,958)
Realised gain from trading in derivatives	132	519	800	1,436
Unrealised gain/(loss) from trading in derivatives	71	(2,881)	935	(3,595)
Other gain/(loss)	10	5	16	(7)
	<b>(223)</b>	(340)	<b>(1,347)</b>	(3,532)

	<b>54,430</b>	56,449	<b>161,285</b>	139,293
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**24 Income Derived from Investment of Shareholder's Funds**

	Third Quarter		Nine Months Ended	
	30 Sep 2016 RM'000	30 Sep 2015 RM'000 (Restated)	30 Sep 2016 RM'000	30 Sep 2015 RM'000 (Restated)
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	13,820	11,737	39,276	34,307
- Recoveries from impaired financing	411	312	1,176	873
Financial investments available-for-sale	1,149	1,355	3,540	5,659
Money at call and deposit with financial institutions	1,862	2,353	6,506	5,469
	<b>17,242</b>	15,757	<b>50,498</b>	46,308

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	Third Quarter		Nine Months Ended	
	30 Sep 2016 RM'000	30 Sep 2015 RM'000 (Restated)	30 Sep 2016 RM'000	30 Sep 2015 RM'000 (Restated)
<u>Other operating income</u>				
Fees and commission	13,068	13,587	39,656	42,884
Realised gain from dealing in foreign currency	299	727	2,384	1,724
Unrealised gain/(loss) from dealing in foreign currency	419	126	(677)	(1,197)
Gain/(loss) from sale of financial assets held-for-trading and other financial instruments	3	(249)	130	221
Unrealised gain from revaluation of financial assets held-for-trading	28	692	18	875
Net profit paid from financial assets held-for-trading and other financial instruments	(891)	(737)	(2,817)	(2,265)
Realised gain from trading in derivatives	42	73	248	398
Unrealised gain/(loss) from trading in derivatives	25	(728)	291	(981)
Shared-service fees from holding company	725	804	2,301	2,509
Net gain on disposal of financial assets available-for-sale	3,798	-	6,853	232
Net gain/(loss) on financial instruments designated at fair value through profit or loss	4,675	(8,163)	14,615	(15,811)
Other income	38	151	97	190
	<b>22,229</b>	<b>6,283</b>	<b>63,099</b>	<b>28,779</b>
	<b>39,471</b>	<b>22,040</b>	<b>113,597</b>	<b>75,087</b>

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

Service charges and fees	4,391	6,890	14,681	18,592
Cards	5,377	3,726	16,549	12,461
Agency fees	1,894	1,855	5,382	7,067

**25 Impairment Losses on Financing**

	Third Quarter		Nine Months Ended	
	30 Sep 2016 RM'000	30 Sep 2015 RM'000	30 Sep 2016 RM'000	30 Sep 2015 RM'000
Impairment charges on financing:				
(a) Individual impairment				
- Made during the financial period	1,979	20,313	19,208	34,257
- Written back	(3,087)	(1,724)	(16,852)	(18,019)
(b) Collective impairment				
- Made during the financial period	38,904	23,099	158,873	101,084
- Written back	(13,530)	(13,621)	(48,876)	(51,844)
Impaired financing				
- Recovered during the period	(8,415)	(7,319)	(24,070)	(23,969)
- Written off	360	821	2,228	2,103
	<b>16,211</b>	<b>21,569</b>	<b>90,511</b>	<b>43,612</b>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**26 Income Attributable to Depositors**

	Third Quarter		Nine Months Ended	
	30 Sep 2016 RM'000	30 Sep 2015 RM'000	30 Sep 2016 RM'000	30 Sep 2015 RM'000
<u>Non-Mudharabah Fund</u>				
- Deposits from customers	49,993	59,227	156,607	172,017
- Deposits and placements of banks and other financial institutions	12,229	13,536	46,535	39,375
- Others	22,175	21,901	67,039	54,779
<u>Mudharabah Fund</u>				
- Deposits and placements of banks and other financial institutions	-	-	-	8,216
	<b>84,397</b>	<b>94,664</b>	<b>270,181</b>	<b>274,387</b>

**27 Operating Expenses**

	Third Quarter		Nine Months Ended	
	30 Sep 2016 RM'000	30 Sep 2015 RM'000 (Restated)	30 Sep 2016 RM'000	30 Sep 2015 RM'000 (Restated)
Personnel expenses	10,515	12,633	31,112	39,036
Promotion and marketing related expenses	1,518	2,078	8,222	7,738
Establishment related expenses	4,521	5,653	14,293	16,337
General administrative expenses	42,021	38,875	129,741	115,551
	<b>58,575</b>	<b>59,239</b>	<b>183,368</b>	<b>178,662</b>
Personnel expenses				
Salaries, allowances and bonuses	8,273	9,733	24,600	30,978
Employees Provident Fund contributions	1,436	1,655	4,286	5,300
Other staff related costs	806	1,245	2,226	2,758
	<b>10,515</b>	<b>12,633</b>	<b>31,112</b>	<b>39,036</b>
Promotion and marketing related expenses	<b>1,518</b>	<b>2,078</b>	<b>8,222</b>	<b>7,738</b>
Establishment related expenses				
Depreciation of equipment	1,238	1,752	3,846	5,608
Amortisation of intangible assets	-	-	-	2
Information technology costs	788	1,124	1,933	2,556
Rental of premises	1,930	2,036	6,078	6,137
Others	565	741	2,436	2,034
	<b>4,521</b>	<b>5,653</b>	<b>14,293</b>	<b>16,337</b>
General administrative expenses				
Group recharges	33,990	31,533	103,054	98,138
Others	8,031	7,342	26,687	17,413
	<b>42,021</b>	<b>38,875</b>	<b>129,741</b>	<b>115,551</b>

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**28 Capital Adequacy**

	<b>30 Sep 2016</b>	31 Dec 2015
	<b>RM'000</b>	RM'000
<b>Tier 1 capital</b>		
Paid-up ordinary share capital	<b>50,000</b>	50,000
Share premium	<b>610,000</b>	610,000
Retained profits	<b>734,987</b>	701,902
Other reserves	<b>95,452</b>	91,565
Regulatory adjustments	<b>(60,871)</b>	(37,639)
<b>Total Common Equity Tier 1 (CET1) and Tier 1 capital</b>	<b>1,429,568</b>	1,415,828
<b>Tier 2 capital</b>		
Subordinated Commodity Murabahah financing	<b>595,771</b>	618,461
Collective impairment allowance (unimpaired portion) & regulatory reserves	<b>130,498</b>	118,212
<b>Total Tier 2 capital</b>	<b>726,269</b>	736,673
<b>Capital base</b>	<b>2,155,836</b>	2,152,501
<b>CET1 and Tier 1 Capital ratio</b>	<b>12.587%</b>	11.911%
<b>Total Capital ratio</b>	<b>18.981%</b>	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:

	<b>30 Sep 2016</b>		31 Dec 2015	
	<b>Principal RM'000</b>	<b>Risk-weighted RM'000</b>	Principal RM'000	Risk-weighted RM'000
Total RWA for credit risk	<b>19,340,359</b>	<b>10,439,836</b>	22,406,281	10,885,513
Total RWA for market risk	-	<b>11,325</b>	-	104,374
Total RWA for operational risk	-	<b>906,610</b>	-	897,064
	<b>19,340,359</b>	<b>11,357,771</b>	22,406,281	11,886,951

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**29 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.

	<b>30 Sep 2016</b>	31 Dec 2015
<b>Principal amount</b>	<b>Principal amount RM'000</b>	Principal amount RM'000
Direct credit substitutes	<b>730,154</b>	622,855
Transaction-related contingent items	<b>1,120,091</b>	1,089,395
Short-term self-liquidating trade-related contingencies	<b>157,358</b>	172,151
Irrevocable commitments to extend credit		
- Maturity not exceeding one year	<b>3,022,804</b>	3,056,937
- Maturity exceeding one year	<b>1,823,141</b>	1,818,014
Unutilised credit card lines	<b>2,150,647</b>	1,678,518
Equity related contracts		
- Less than one year	<b>620,006</b>	192,724
- One year to less than five years	<b>272,544</b>	948,669
Profit rate related contracts		
- Less than one year	<b>1,660,000</b>	1,201,265
- One year to less than five years	<b>5,008,312</b>	6,645,808
Foreign exchange related contracts		
- Less than one year	<b>3,118,249</b>	2,437,315
- One year to less than five years	<b>2,392,611</b>	2,026,017
	<b>22,075,917</b>	21,889,668

<sup>[1]</sup> 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)

### 30 Performance Review

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Profit before tax (PBT) declined by RM22.6 million or 19.8% against history due to higher impairment losses on financing (up RM46.9 million) and operating expenses (up RM4.7 million), but partially offset by higher income derived from investment of shareholder's funds, depositors' funds and others (up RM24.8 million) and lower income attributable to depositors (down RM4.2 million).

Income derived from investment of shareholder's funds increased by RM38.5 million, mainly due to higher net gains on financial instruments fair valued through profit or loss (up RM30.4 million) and higher net gains on disposal of financial assets available-for-sale (up RM6.6 million).

Impairment losses on financing increased by RM46.9 million arising mainly from higher collective impairment provision (up RM60.8 million) partially offset by lower individual impairment provision (up RM13.9 million).

The income attributable to depositors decreased due to lower profit paid on customer deposits (down RM15.4 million), partially offset by higher profit paid on sukuk (up RM7.3 million) and subordinated Commodity Murabahah financing (up RM5.0 million). Meanwhile, operating expenses increased mainly due to higher general administrative expenses (up RM14.2 million), offset by lower personnel expenses (down RM7.9 million) and establishment related expenses (down RM2.0 million).

Balance sheet size at RM16.1 billion decreased by RM3.2 billion or 16.6%, attributed to decrease in cash and short term funds (down RM2.3 billion), financial investments available-for-sale (down RM0.4 billion) and financing and advances (down RM0.3 billion). The Bank's capital and liquidity ratios remain strong and are well above regulatory requirements.

### 31 Business Prospects

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The global economy 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 results on the referendum by the British voters to exit United Kingdom from the European Union (Brexit), continued geopolitical tensions in the Middle East and threat of potential terrorist attacks.

On home ground, the Malaysian economy is also expected to face continuous challenging operating environment for the remaining 2016 with projected GDP moderating to an annual basis of 4.0% to 4.5%. Domestic demand will continue to be the main driver of growth, supported primarily by private sector spending. Overall, while domestic conditions remain resilient, uncertainties in the external environment may pose downside risks to Malaysia's growth prospects. The Ringgit, which depreciated against most major and regional currencies in Q2 2016, will continue to face volatility due to the uncertainties in the external environment, especially global crude oil prices that are expected to remain volatile due to the uncertain supply and demand conditions. However in the longer term view, the overall Malaysia economy to remain resilient and on track to expand in 2016 and 2017 with growth rate ranging between 4.5% and 5.0%.

In addition, to ensure continuous domestic financial stability supported by healthy business activities, Bank Negara Malaysia had on 13 July 2016, taken the pre-emptive step to reduce the Overnight Policy Rate (OPR) from 3.25% to 3.00%. Supported by strong capital buffers, the financial institutions will have the capacity to shoulder the adverse economic and market developments without disruptions to domestic financial intermediation.

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 continue to facilitate customers cross border investments and transactions, especially with China and ASEAN countries. HSBC's international banking network provides access to more than 90% of global GDP, trade and capital flows. The impending Regional Comprehensive Economic Partnership (RCEP), once implemented, could provide dynamic stimuli to revitalise trade and investment in Asia, unlocking the benefits that lowering trade barriers and cutting red tape can bring to businesses, especially to companies that are looking to grow and move into new markets. Locally, Malaysia is a growth market for HSBC, and we will continue to invest in our people, network and businesses whilst upholding the highest banking standards. Our balanced and diversified business model, strong liquidity and strict cost management, will continue to make us highly resilient.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**32 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 September 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 Sep 2015	
	RM'000 As restated	RM'000 As previously stated
<b>a) Operating Expenses</b>	<b>178,662</b>	<b>187,898</b>
<i>(of which the affected components are disclosed below) :</i>		
Promotion and marketing related expenses	7,738	16,974
<b>b) Income Derived from Investment of Shareholder's Funds</b>	<b>75,087</b>	<b>84,323</b>
<i>(of which the affected components are disclosed below) :</i>		
Fees and commission	42,884	52,120