

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
31 MARCH 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 31 MARCH 2016

	<i>Note</i>	31 Mar 2016 RM'000	31 Dec 2015 RM'000
Assets			
Cash and short-term funds	10	2,952,504	4,750,390
Deposits and placements with banks and other financial institutions	11	24,000	-
Financial assets held for trading	12	4,193	10,492
Financial investments available-for-sale	13	1,401,810	1,701,243
Financing and advances	14	11,709,059	11,968,217
Derivative financial assets	16	207,167	307,299
Other assets	17	189,949	241,611
Statutory deposits with Bank Negara Malaysia	18	299,162	329,662
Equipment		9,045	10,288
Deferred tax assets		4,402	5,548
Tax recoverable		9,392	5,162
Total assets		16,810,683	19,329,912
Liabilities			
Deposits from customers	19	9,320,709	9,386,123
Deposits and placements from banks and other financial institutions	20	2,043,876	4,160,089
Bills and acceptances payable		23,867	14,904
Derivative financial liabilities	16	352,509	473,231
Other liabilities	21	1,287,225	1,475,375
Multi-Currency Sukuk Programme	22	1,755,536	1,749,823
Subordinated Commodity Murabahah Financing	23	561,916	618,461
Total liabilities		15,345,638	17,878,006
Equity			
Share capital		50,000	50,000
Reserves		1,415,045	1,401,906
Total equity attributable to owner of the Bank		1,465,045	1,451,906
Total liabilities and equity		16,810,683	19,329,912
Restricted investment accounts ^[1]		1,992,466	2,632,404
Total Islamic Banking asset ^[1]		18,803,149	21,962,316
Commitments and Contingencies	31	20,221,561	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 29 attached to the unaudited condensed interim financial statements.

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 31 MARCH 2016**

	<i>Note</i>	31 Mar 2016 RM'000	31 Mar 2015 RM'000
Income derived from investment of depositors' funds and others	24	178,450	169,409
Income derived from investment of shareholder's funds	25	46,913	34,978
Impairment losses on financing	26	<u>(47,888)</u>	<u>(28,103)</u>
Total distributable income		177,475	176,284
Income attributable to depositors	27	<u>(96,600)</u>	<u>(85,335)</u>
Total net income		80,875	90,949
Personnel expenses	28	(8,369)	(12,798)
Other overheads and expenditures	29	<u>(57,328)</u>	<u>(48,549)</u>
Profit before tax		15,178	29,602
Tax expense		<u>(2,090)</u>	<u>(6,007)</u>
Profit for the financial period		13,088	23,595
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		3,931	11,278
Amount transferred to profit or loss		(3,055)	-
Income tax effect		<u>(210)</u>	<u>(2,707)</u>
Other comprehensive income for the financial period, net of tax		<u>666</u>	<u>8,571</u>
Total comprehensive income for the financial period		13,754	32,166
Profit attributable to the owner of the Bank		13,088	23,595
Total comprehensive income attributable to the owner of the Bank		13,754	32,166
Basic earnings per RM0.50 ordinary share		<u>13.1 sen</u>	<u>23.6 sen</u>

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HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 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	-	-	-	-	-	-	13,088	13,088
Other comprehensive income, net of tax								
Available-for-sale reserve:								
Net change in fair value	-	-	-	2,988	-	-	-	2,988
Net amount transferred to profit or loss	-	-	-	(2,322)	-	-	-	(2,322)
<i>Total other comprehensive income</i>	-	-	-	666	-	-	-	666
Total comprehensive income for the financial period	-	-	-	666	-	-	13,088	13,754
Transactions with the owner (the ultimate holding company), recorded directly in equity								
Share based payment transactions		-	-	-	(615)	-	-	(615)
Balance at 31 March	50,000	610,000	50,000	5,612	443	34,000	714,990	1,465,045

^[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 STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 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	-	-	-	-	-	-	23,595	23,595
Other comprehensive income, net of tax								
Available-for-sale reserve:								
Net change in fair value	-	-	-	8,571	-	-	-	8,571
<i>Total other comprehensive income</i>	-	-	-	8,571	-	-	-	8,571
Total comprehensive income for the financial period	-	-	-	8,571	-	-	23,595	32,166
Transactions with the owner (the ultimate holding company), recorded directly in equity								
Share based payment transactions	-	-	-	-	79	-	-	79
Balance at 31 March	50,000	610,000	50,000	2,083	1,453	13,000	624,418	1,350,954

^[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 31 MARCH 2016

	31 Mar 2016	31 Mar 2015
	RM'000	RM'000
Profit before tax	15,178	29,602
Adjustments for non-operating and non-cash items	52,114	4,253
	<hr/>	<hr/>
Operating profit before working capital changes	67,292	33,855
Changes in working capital:		
Net changes in operating assets	368,169	(362,518)
Net changes in operating liabilities	(2,503,168)	44,501
Income tax paid	(5,384)	(7,083)
	<hr/>	<hr/>
Net cash used in operating activities	(2,073,091)	(291,245)
Net cash generated from investing activities	304,405	1,139,211
Net cash generated from financing activities	(29,200)	750,000
	<hr/>	<hr/>
	275,205	1,889,211
	<hr/>	<hr/>
Net changes in cash and cash equivalents	(1,797,886)	1,597,966
Cash and cash equivalents at 1 January	4,750,390	670,934
	<hr/>	<hr/>
Cash and cash equivalents at 31 March	2,952,504	2,268,900
	<hr/>	<hr/>
Analysis of cash and cash equivalents		
Cash and short-term funds	2,952,504	2,268,900
	<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 29 attached to the unaudited condensed interim financial statements.

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 27 April 2016.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 31 March 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 31 March 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 2015 are as follows:

- Annual improvement to MFRSs 2010-2012 Cycle
- Annual improvement to MFRSs 2011-2013 Cycle
- Amendments to MFRS 119 "Defined Benefits Plans: Employee Contributions"

The adoption of the above amendments, interpretations and circular did not have any material impact on the financial results 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 2016:

- 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.

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 2016

- 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.

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.

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.

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)

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 31 March 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 31 March 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 31 March 2016.

8 Dividend

No interim dividend was declared nor paid during the financial period ended 31 March 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

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Cash and balances with banks and other financial institutions	152,504	369,010
Money at call and interbank placements maturing within one month	2,800,000	4,381,380
	2,952,504	4,750,390

11 Deposits and Placements with Banks and Other Financial Institutions

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Licensed banks	24,000	-

12 Financial Assets Held for Trading

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	501	490
Unquoted securities:		
Private debt securities (including commercial paper credit)	3,692	10,002
	4,193	10,492

13 Financial Investments Available-for-Sale

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	1,302,581	1,701,243
Negotiable instruments of deposit	99,229	-
	1,401,810	1,701,243

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

Maturing within one year	270,522	171,710
More than one year to three years	910,682	1,310,874
More than three years to five years	220,606	218,659
	1,401,810	1,701,243

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 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		
31 Mar 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	85,648	-	-	-	-	-	-	85,648
Term financing:								
House financing	-	985	-	-	-	4,238,417	-	4,239,402
Hire purchase receivables	-	-	-	-	231,008	-	-	231,008
Lease receivables	-	-	-	3,769	-	-	-	3,769
Syndicated term financing	522,964	-	-	-	-	-	-	522,964
Other term financing	2,837,855	19,664	18,421	-	-	1,020,935	-	3,896,875
Trust receipts	792,021	-	-	-	-	-	-	792,021
Claims on customers under acceptance credits	777,481	-	-	-	-	-	-	777,481
Staff financing-i	3,245	-	655	-	-	3,074	-	6,974
Credit cards-i	-	-	-	-	-	-	571,686	571,686
Revolving credit	823,520	-	-	-	-	-	-	823,520
Gross financing and advances	5,842,734	20,649	19,076	3,769	231,008	5,262,426	571,686	11,951,348
Less: Allowance for impaired financing								
Collective allowances for impairment								(171,903)
Individual allowances for impairment								(70,386)
Total net financing and advances								11,709,059

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 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)

14 Financing and Advances (Cont'd)

(ii) By type of customer

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Domestic non-bank financial institutions	642,319	670,298
Domestic business enterprises:		
Small medium enterprises	2,138,806	2,004,648
Others	2,581,038	2,944,504
Government and statutory bodies	12,612	13,566
Individuals	5,483,290	5,431,238
Other domestic entities	1,545	1,568
Foreign entities	1,091,738	1,111,306
	<u>11,951,348</u>	<u>12,177,128</u>

(iii) By profit rate sensitivity

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Fixed rate:		
House financing	952	1,135
Hire purchase receivables	231,008	229,552
Other financing	2,977,171	2,840,103
Variable rate:		
BR/BFR plus	5,336,311	5,277,948
Cost-plus	3,405,906	3,828,390
	<u>11,951,348</u>	<u>12,177,128</u>

(iv) By residual contractual maturity

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Maturing within one year	4,420,338	4,532,866
More than one year to three years	730,540	642,702
More than three years to five years	1,185,344	1,490,233
Over five years	5,615,126	5,511,327
	<u>11,951,348</u>	<u>12,177,128</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances (Cont'd)

(v) By sector

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Agriculture, hunting, forestry & fishing	191,633	624,260
Mining and quarrying	167,865	206,294
Manufacturing	1,360,391	1,306,244
Electricity, gas and water	16,329	14,772
Construction	347,566	597,155
Real estate	715,850	392,934
Wholesale & retail trade, restaurants & hotels	1,112,595	1,088,766
Transport, storage and communication	154,285	166,443
Finance, takaful and business services	1,016,888	1,035,462
Household - Retail	6,121,248	6,073,723
Others	746,698	671,075
	11,951,348	12,177,128

(vi) By purpose

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Purchase of landed property:		
Residential	4,242,475	4,212,033
Non-residential	853,362	840,581
Purchase of transport vehicles	2,038	2,122
Purchase of fixed assets excluding land & building	2,097	3,706
Consumption credit	1,605,547	1,588,371
Construction	335,477	586,283
Working capital	4,445,032	4,461,645
Other purpose	465,320	482,387
	11,951,348	12,177,128

(vii) By geographical distribution

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Northern Region	1,481,229	1,448,803
Southern Region	1,635,377	1,638,669
Central Region	8,358,111	8,609,131
Eastern Region	476,631	480,525
	11,951,348	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)

14 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.

	31 Mar 2016 RM'000	31 Dec 2015 RM'000	
Under SIAF/IAA arrangement	1,834,824	1,573,615	
Under RPSIA arrangement	7,970	19,918	
Total net financing and advances	<u>1,842,794</u>	<u>1,593,533</u>	
	Credit Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Commitments and Contingencies			
Irrevocable commitments to extend credit:			
<i>Maturity not exceeding one year</i>			
- at 31 Mar 2016			
Under SIAF/IAA arrangement	149,672	29,934	29,934
Under RPSIA arrangement	-	-	-
	<u>149,672</u>	<u>29,934</u>	<u>29,934</u>
- at 31 Dec 2015			
Under SIAF/IAA arrangement	180,273	36,055	36,055
Under RPSIA arrangement	858,598	171,720	171,720
	<u>1,038,871</u>	<u>207,775</u>	<u>207,775</u>
		Principal RM'000	Risk weighted RM'000
Total RWA for Credit Risk			
- at 31 Mar 2016			
Under SIAF/IAA arrangement		1,864,758	1,864,758
Under RPSIA arrangement		7,970	7,970
		<u>1,872,728</u>	<u>1,872,728</u>
- at 31 Dec 2015			
Under SIAF/IAA arrangement		1,609,670	1,609,670
Under RPSIA arrangement		191,638	191,638
		<u>1,801,308</u>	<u>1,801,308</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 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.

15 Impaired Financing

(i) Movements in impaired financing and advances

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Balance at 1 January	235,279	162,227
Classified as impaired during the financial period/year	81,256	319,623
Reclassified as performing	(25,837)	(109,381)
Amount recovered	(11,657)	(54,894)
Amount written off	(22,580)	(82,296)
Balance at 31 March/31 December	256,461	235,279

(ii) Movements in allowance for impaired financing

	31 Mar 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	78,865	160,940
Amount released	(26,091)	(67,064)
Amount written off	(21,135)	(78,429)
Balance at 31 March/31 December	171,903	140,264

	31 Mar 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	9,940	45,829
Amount recovered	(8,703)	(27,717)
Amount written off	502	6,714
Balance at 31 March/31 December	70,386	68,647

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Impaired Financing (Cont'd)

(iii) By contract

	31 Mar 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>)	6,628	7,049
Murabahah (<i>cost-plus</i>)	109,779	102,339
Musharakah (<i>profit and loss sharing</i>)	124,637	110,720
Bai Al-Inah (<i>sell and buy back</i>)	1,908	2,776
Ujrah (<i>fee-based</i>)	13,509	12,326
	256,461	235,279

(iv) By sector

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Manufacturing	20,933	21,093
Construction	204	204
Wholesale & retail trade, restaurants & hotels	9,564	9,672
Transport, storage and communication	4,377	5,443
Finance, takaful and business services	4,864	5,527
Household - Retail	215,880	192,687
Others	639	653
	256,461	235,279

(v) By purpose

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Purchase of landed property:		
Residential	108,202	94,984
Non-residential	10,552	10,255
Purchase of transport vehicles	61	133
Purchase of fixed assets excluding land & building	358	358
Consumption credit	104,753	95,770
Construction	204	204
Working capital	32,331	33,575
	256,461	235,279

(vi) By geographical distribution

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Northern Region	56,040	54,102
Southern Region	34,393	30,267
Central Region	156,712	141,764
Eastern Region	9,316	9,146
	256,461	235,279

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts:

	Contract / Notional Amount			Positive Fair Value			Negative Fair Value		
	Up to 1 Year 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 Mar 2016									
Trading derivatives:									
Foreign exchange contracts									
- Forwards	1,387,801	-	1,387,801	32,742	-	32,742	26,946	-	26,946
- Swaps	-	1,585,602	1,585,602	-	138,835	138,835	-	141,184	141,184
- Options	9,846	337,935	347,781	-	4,356	4,356	-	4,356	4,356
Profit rate related contracts									
- Swaps	2,130,936	4,788,548	6,919,484	1,555	25,309	26,864	1,141	15,753	16,894
- Options	-	197,525		-	4,166	4,166	-	70	70
Equity related contracts									
- Options purchased	99,115	952,007	1,051,122	184	-	184	20,925	140,887	161,812
Sub- total	<u>3,627,698</u>	<u>7,861,617</u>	<u>11,291,790</u>	<u>34,481</u>	<u>172,666</u>	<u>207,147</u>	<u>49,012</u>	<u>302,250</u>	<u>351,262</u>
Hedging Derivatives:									
Fair Value Hedge									
Profit rate related contracts									
- Swaps	90,000	190,000	280,000	20	-	20	-	1,247	1,247
Sub- total	<u>90,000</u>	<u>190,000</u>	<u>280,000</u>	<u>20</u>	<u>-</u>	<u>20</u>	<u>-</u>	<u>1,247</u>	<u>1,247</u>
Total	<u>3,717,698</u>	<u>8,051,617</u>	<u>11,571,790</u>	<u>34,501</u>	<u>172,666</u>	<u>207,167</u>	<u>49,012</u>	<u>303,497</u>	<u>352,509</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 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:

	31 Mar 2016 RM'000	31 Mar 2015 RM'000
Loss on hedging instruments	(1,441)	(1,863)
Gain on the hedged items attributable to the hedged risk	<u>1,457</u>	<u>1,856</u>
	<u>16</u>	<u>(7)</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Other Assets

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Income receivable	16,514	12,037
Amount due from holding company/related companies	159,389	209,358
Other receivables, deposits and prepayments	14,046	20,216
	<u>189,949</u>	<u>241,611</u>

18 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)

19 Deposits From Customers

(i) By type of deposit

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
At amortised cost		
Non-Mudharabah Fund		
Demand deposits		
- Wadiah	1,988,303	1,857,231
Savings deposits		
- Wadiah	1,583,985	1,589,421
Fixed return investment deposits		
- Murabahah	5,680,541	5,799,059
Islamic repurchase agreements		
- Bai Al-Inah	67,880	140,412
	9,320,709	9,386,123

The maturity structure of term deposits is as follows:

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Due within six months	4,814,955	4,906,663
More than six months to one year	833,591	848,285
More than one year to three years	29,720	42,063
More than three years to five years	2,275	2,048
	5,680,541	5,799,059

(ii) By type of customer

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Government and statutory bodies	9,192	8,848
Business enterprises	2,324,895	2,379,984
Individuals	4,955,876	5,065,914
Others	2,030,746	1,931,377
	9,320,709	9,386,123

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Deposits and Placements from Banks and Other Financial Institutions

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Non-Mudharabah Fund		
Licensed banks	2,006,856	2,833,307
Bank Negara Malaysia	37,020	49,614
Other financial institutions	-	1,277,168
	2,043,876	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 RM2.0 billion (31 Dec 2015: RM2.8 billion).

21 Other Liabilities

	Note	31 Mar 2016	31 Dec 2015
		RM'000	RM'000
At amortised cost			
Amounts due to holding company/ related companies		200	89
Profit payable			
- Structured products		4,949	5,375
- Others		69,970	74,233
Other creditors and accruals	(a)	111,413	127,021
		186,532	206,718
At fair value			
Structured products, at fair value			
- Wakalah with Commodity Wa'ad	(b)	1,100,693	1,268,657
		1,287,225	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

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Source of charity funds		
Balance at 1 January	70	165
Income for the financial period/year	1	135
Use of charity funds		
Contribution to non-profit organisations	(6)	(230)
Balance at 31 March/31 December	65	70

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Other Liabilities (Cont'd)

(b) Movement in structured products

	31 Mar 2016	31 Dec 2015
	RM'000	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	(420,937)	(3,108,048)
Fair value mark-to-market	13,807	(136,078)
	1,100,693	1,268,657

22 Multi-Currency Sukuk Programme

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	1,755,536	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	
				31 Mar 2016	31 Dec 2015
	RM'000			RM'000	RM'000
<u>Issuance under MCSP</u>					
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	502,295	500,641
3rd series	750,000	27 Mar 2015	27 Mar 2020	753,241	749,182
	<u>1,250,000</u>			<u>1,255,536</u>	1,249,823
	<u>1,750,000</u>			<u>1,755,536</u>	1,749,823

Movement in MCSP

	2nd series		3rd series	
	31 Mar 2016	31 Dec 2015	31 Mar 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	5,437	1,374	9,650	(7,020)
Change in fair value from own credit risk	(3,783)	(2,587)	(5,591)	6,202
Balance at 31March/31 December	502,295	500,641	753,241	749,182

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk	(9,374)	3,615

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Subordinated Commodity Murabahah Financing

	31 Mar 2016	31 Dec 2015
	RM'000	RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	303,022	333,515
- Second tranche issued on 30 June 2015	258,894	284,946
	561,916	618,461

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.

24 Income Derived from Investment of Depositors' Funds and Others

	31 Mar 2016	31 Mar 2015
	RM'000	RM'000
Income derived from investment of:		
(i) general investment deposits	115,299	117,937
(ii) specific investment deposits	7,733	11,859
(iii) others	55,418	39,613
	178,450	169,409
	31 Mar 2016	31 Mar 2015
	RM'000	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	87,280	93,529
- Recoveries from impaired financing	2,554	2,687
Financial investments available-for-sale	8,965	19,718
Money at call and deposit with financial institutions	18,648	8,327
	117,447	124,261
<u>Other operating income</u>		
Realised gain/(loss) from dealing in foreign currency	1,748	(6,231)
Unrealised gain from dealing in foreign currency	653	6,730
Gain from sale of financial assets held-for-trading and other financial instruments	605	1,083
Unrealised gain from revaluation of financial assets held-for-trading	61	121
Net profit paid for financial assets held-for-trading and other financial instruments	(7,083)	(7,494)
Realised gain from trading in derivatives	305	853
Unrealised gain/(loss) from trading in derivatives	1,553	(1,381)
Other gain/(loss)	10	(5)
	(2,148)	(6,324)
	115,299	117,937

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	31 Mar 2016	31 Mar 2015
	RM'000	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	<u>6,734</u>	<u>7,958</u>
	<u>6,734</u>	<u>7,958</u>
<u>Other operating income</u>		
Fees and commission	296	1,755
Realised gain from dealing in foreign currency	635	11,992
Unrealised gain/(loss) from dealing in foreign currency	<u>68</u>	<u>(9,846)</u>
	<u>999</u>	<u>3,901</u>
	<u>7,733</u>	<u>11,859</u>
The above fees and commissions were derived from the following major contributors:		
Corporate advisory	-	808
Guarantee fees	158	195
Service charges and fees	<u>137</u>	<u>473</u>
	<u>137</u>	<u>1,476</u>
	<u>7,870</u>	<u>13,335</u>
(iii) Income derived from investment of others		
<u>Finance income:</u>		
Financing and advances		
- Profit earned other than recoveries from impaired financing	41,950	31,415
- Recoveries from impaired financing	1,228	901
Financial investments available-for-sale	4,309	6,623
Money at call and deposit with financial institutions	<u>8,963</u>	<u>2,797</u>
	<u>56,450</u>	<u>41,736</u>
<u>Other operating income</u>		
Realised gain/(loss) from dealing in foreign currency	840	(2,093)
Unrealised gain from dealing in foreign currency	314	2,261
Gain from sale of financial assets held-for-trading and other financial instruments	291	364
Unrealised gain from revaluation of financial assets held-for-trading	29	41
Net profit paid from financial assets held-for-trading and other financial instruments	(3,404)	(2,517)
Realised gain from trading in derivatives	146	286
Unrealised gain/(loss) from trading in derivatives	747	(463)
Other gain/(loss)	<u>5</u>	<u>(2)</u>
	<u>(1,032)</u>	<u>(2,123)</u>
	<u>55,418</u>	<u>39,613</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Income Derived from Investment of Shareholder's Funds

	31 Mar 2016	31 Mar 2015
	RM'000	RM'000
<u>Finance income:</u>		
Financing and advances		
- Profit earned other than recoveries from impaired financing	12,829	11,883
- Recoveries from impaired financing	375	341
Financial investments available-for-sale	1,318	2,505
Money at call and deposit with financial institutions	2,741	1,058
	17,263	15,787
<u>Other operating income</u>		
Fees and commission	17,096	16,789
Realised gain/(loss) from dealing in foreign currency	257	(792)
Unrealised gain from dealing in foreign currency	96	855
Gain from sale of financial assets held-for-trading and other financial instruments	89	138
Unrealised gain from revaluation of financial assets held-for-trading	9	15
Net profit paid from financial assets held-for-trading and other financial instruments	(1,041)	(952)
Realised gain from trading in derivatives	45	108
Unrealised gain/(loss) from trading in derivatives	228	(175)
Shared-service fees from holding company	813	870
Net gain on disposal of financial assets available-for-sale	3,055	-
Net gain on financial instruments designated at fair value through profit or loss	8,974	2,304
Other income	29	31
	29,650	19,191
	46,913	34,978
The above fees and commissions were derived from the following major contributors:		
Service charges and fees	5,647	5,650
Cards	7,872	7,701
Agency fees	1,715	3,148

26 Impairment Losses on Financing

	31 Mar 2016	31 Mar 2015
	RM'000	RM'000
Impairment charges on financing:		
(a) Individual impairment		
- Made during the financial period	9,940	11,795
- Written back	(8,703)	(11,477)
(b) Collective impairment		
- Made during the financial period	78,865	49,735
- Written back	(26,091)	(14,190)
Impaired financing		
- Recovered during the period	(7,249)	(8,355)
- Written off	1,126	595
	47,888	28,103

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Income Attributable to Depositors

	31 Mar 2016	31 Mar 2015
	RM'000	RM'000
<u>Non-Mudharabah Fund</u>		
- Deposits from customers	53,857	55,264
- Deposits and placements of banks and other financial institutions	20,057	14,414
- Others	22,686	12,683
<u>Mudharabah Fund</u>		
- Deposits and placements of banks and other financial institutions	-	2,974
	96,600	85,335

28 Personnel Expenses

	31 Mar 2016	31 Mar 2015
	RM'000	RM'000
Salaries, allowances and bonuses	7,056	10,525
Employees Provident Fund contributions	1,252	1,661
Other staff related costs	61	612
	8,369	12,798

29 Other Overheads and Expenditures

	31 Mar 2016	31 Mar 2015
	RM'000	RM'000
Promotion and marketing related expenses	6,492	6,428
<u>Establishment related expenses</u>		
Depreciation of equipment	1,350	1,927
Amortisation of intangible assets	-	2
Information technology costs	693	983
Rental of premises	2,060	2,016
Others	919	574
	5,022	5,502
<u>General administrative expenses</u>		
Intercompany expenses	36,467	33,276
Others	9,347	3,343
	45,814	36,619
	57,328	48,549

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Capital Adequacy

	31 Mar 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	701,902	701,902
Other reserves	91,826	91,565
Regulatory adjustments	(48,165)	(37,639)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	1,405,563	1,415,828
Tier 2 capital		
Subordinated Commodity Murabahah financing	561,916	618,461
Collective impairment allowance (unimpaired portion) & regulatory reserves	138,430	118,212
Total Tier 2 capital	700,346	736,673
Capital base	2,105,909	2,152,501
CET1 and Tier 1 Capital ratio	12.419%	11.911%
Total Capital ratio	18.606%	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:

	31 Mar 2016		31 Dec 2015	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
Total RWA for credit risk	19,853,533	10,350,191	22,406,281	10,885,513
Total RWA for market risk	-	65,174	-	104,374
Total RWA for operational risk	-	902,867	-	897,064
	19,853,533	11,318,232	22,406,281	11,886,951

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Commitments and Contingencies

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

These commitments and contingencies are not secured over the assets of the Bank.

	Principal amount RM'000	Credit equivalent amount^[1] RM'000	Risk weighted amount^[1] RM'000
31 Mar 2016			
Direct credit substitutes	702,092	702,092	286,603
Transaction-related contingent items	1,032,327	516,164	330,088
Short-term self-liquidating trade-related contingencies	138,231	27,646	25,670
Irrevocable commitments to extend credit			
- Maturity not exceeding one year	2,977,847	595,569	502,815
- Maturity exceeding one year	1,764,390	882,195	555,784
Unutilised credit card lines	1,837,359	367,472	275,604
Equity related contracts			
- Less than one year	99,115	6,196	-
- One year to less than five years	952,007	76,181	-
Profit rate related contracts			
- Less than one year	2,220,936	5,986	796
- One year to less than five years	5,176,073	183,513	25,919
Foreign exchange related contracts			
- Less than one year	1,397,647	56,369	5,339
- One year to less than five years	1,923,537	313,743	118,399
	20,221,561	3,733,126	2,127,017
31 Dec 2015			
Direct credit substitutes	622,855	622,855	320,805
Transaction-related contingent items	1,089,395	544,698	335,095
Short-term self-liquidating trade-related contingencies	172,151	34,430	31,946
Irrevocable commitments to extend credit			
- Maturity not exceeding one year	3,056,937	611,387	516,459
- Maturity exceeding one year	1,818,014	909,007	580,507
Unutilised credit card lines	1,678,518	335,704	251,778
Equity related contracts			
- Less than one year	192,724	11,732	-
- One year to less than five years	948,669	76,199	-
Profit rate related contracts			
- Less than one year	1,201,265	4,870	116
- One year to less than five years	6,645,808	203,092	18,329
Foreign exchange related contracts			
- Less than one year	2,437,315	85,703	16,631
- One year to less than five years	2,026,017	425,668	313,045
	21,889,668	3,865,345	2,384,711

^[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)

32 Performance Review

Despite recording a 10.3% growth in income derived from investment of depositors' funds and others and shareholder's funds, profit before tax (PBT) declined by RM14.4 million or 48.7% against history. Higher impairment losses on financing (up RM19.8 million), income attributable to depositors (up RM11.3 million) and operating expenses (up RM4.4 million) contributed to the decline in the PBT.

Income derived from investment of depositors' funds and others and shareholder's funds increased by RM21.0 million, mainly due to higher net gains on financial instruments fair valued through profit or loss (up RM9.7 million), higher finance income (up RM8.2 million) and net trading income (up RM4.3 million).

Impairment losses on financing increased by RM19.8 million arising mainly from higher collective impairment provision (up RM17.2 million) and lower net recoveries from impaired financing (down RM1.6 million). Income attributable to depositors and others increased on higher profit paid on sukuk (up RM7.7 million), deposits and placements from financial institutions (up RM2.7 million) and subordinated Commodity Murabahah financing (up RM2.3 million), offset by lower profit paid on customer deposits (down RM1.4 million). Meanwhile, operating expenses increased mainly on other general administrative expenses (up RM6.0 million) and intercompany expenses (up RM3.2 million), offset by lower personnel expenses (down RM4.4 million).

Balance sheet size at RM16.8 billion decreased by RM2.5 billion or 13.0%, attributed to decrease in cash and short term funds (down RM1.8 billion), financial investments available-for-sale (down RM0.3 billion) and financing and advances (down RM0.3 billion). The Bank's capital and liquidity ratios remain strong and are well above regulatory requirements.

33 Business Prospects

The Malaysian economy registered a growth of 4.5% in 4Q 2015 (3Q 2015: 4.7%), with annual growth moderated to 5.0% from the 6.0% recorded in prior year. The growth was driven mainly by private sector demand.

Private consumption expanded at 4.9% in 4Q 2015 (3Q 2015: 4.1%), supported by stable wage growth and labour market conditions whilst the private investment grew by 5.0% (3Q 2015: 5.5%) driven by capital spending in the manufacturing and services sectors. Public consumption registered a sustained growth of 3.3% (3Q 2015: 3.5%) as the higher increase in emoluments was offset by slower growth in supplies and services expenditure.

Inflation was lower at 2.6% in 4Q 2015 (3Q 2015: 3.3%) due to the lower domestic fuel prices. However, this was partly offset by the higher inflation for food and cigarettes. Despite the continuous volatility in international financial markets, profit rates in the domestic money market have remained stable with the Overnight Policy Rate (OPR) continued to be maintained at 3.25% since its last revision on 10 July 2014. The current stance of monetary policy remains accommodative and is supportive of current economic activity.

Overall, the Ringgit appreciated by 3.6% against the US dollar and other major currencies in 4Q 2015 despite uncertainties over global growth prospects and declining global energy prices. While the medium-term trend has turned more positive for the Ringgit, the currency is expected to remain vulnerable and volatile amid the ongoing shift in global capital flows.

For 2016, the Malaysian economy is expected to face continuous challenging operating environment with the projected moderate pace of expansion in domestic demand. The growth in the real Gross Domestic Product (GDP) is expected to moderate further to the range of 4.0% to 4.5% with domestic demand remaining as the key growth.

Notwithstanding that, the Malaysian financial system is expected to remain resilient. While investors may take a cautious approach in the year ahead, domestic financial system stability is expected to be maintained. The deep and well-developed domestic financial markets have continued to support orderly market conditions and sustained confidence in the financial system.

Leveraging on HSBC Group expertise, the Bank will continue to provide holistic banking service solutions to our existing and new corporate customers. In addition, the Bank will also focus on cross border inbound and outbound business opportunities within China and ASEAN countries in 2016.