

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
31 MARCH 2017

Domiciled in Malaysia.
Registered Office :
10th Floor, North Tower
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 2017

	<i>Note</i>	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Assets			
Cash and short-term funds	10	1,636,603	2,359,591
Financial assets held-for-trading	11	492	488
Financial investments available-for-sale	12	1,749,234	1,368,574
Financing and advances	13	12,673,110	11,743,263
Derivative financial assets	15	332,120	395,748
Other assets	16	32,796	80,041
Statutory deposits with Bank Negara Malaysia	17	342,462	325,462
Equipment		6,265	7,237
Deferred tax assets		9,026	10,395
Tax recoverable		10,506	10,285
Total assets		16,792,614	16,301,084
Liabilities			
Deposits from customers	18	8,905,883	8,726,543
Deposits and placements from banks and other financial institutions	19	2,443,660	1,951,602
Bills and acceptances payable		22,022	23,632
Derivative financial liabilities	15	383,054	490,755
Other liabilities	20	1,105,536	1,185,135
Multi-Currency Sukuk Programme	21	1,755,017	1,756,001
Subordinated Commodity Murabahah Financing	22	637,189	646,265
Total liabilities		15,252,361	14,779,933
Equity			
Share capital		660,000	50,000
Reserves		880,253	1,471,151
Total equity attributable to owner of the Bank		1,540,253	1,521,151
Total liabilities and equity		16,792,614	16,301,084
Restricted investment accounts ^[1]		2,850,671	2,230,065
Total Islamic Banking asset ^[1]		19,643,285	18,531,149
Commitments and Contingencies	29	21,910,652	22,149,853

[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 2016 and the accompanying explanatory notes on pages 6 to 32 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 26 April 2017.

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 2017**

	<i>Note</i>	31 Mar 2017	31 Mar 2016
		RM'000	RM'000
Income derived from investment of depositors' funds and others	23	165,466	178,450
Income derived from investment of shareholder's funds	24	34,580	44,125
Impairment losses on financing	25	(39,140)	(47,888)
Total distributable income		160,906	174,687
Income attributable to depositors	26	(77,722)	(96,600)
Total net income		83,184	78,087
Operating expenses	27	(60,300)	(62,909)
Profit before tax		22,884	15,178
Tax expense		(5,258)	(2,090)
Profit for the financial period		17,626	13,088
Other comprehensive income/(expense)			
<i>Items that will subsequently be reclassified to profit or loss when specific conditions are met:</i>			
Own credit reserves:			
Change in fair value		246	-
Income tax effect		(59)	-
Available-for-sale reserve:			
Change in fair value		1,695	3,931
Amount transferred to profit or loss		-	(3,055)
Income tax effect		(407)	(210)
Other comprehensive income for the financial period, net of tax		1,475	666
Total comprehensive income for the financial period		19,101	13,754
Profit attributable to the owner of the Bank		17,626	13,088
Total comprehensive income attributable to the owner of the Bank		19,101	13,754
Basic earnings per RM0.50 ordinary share		17.6 sen	13.1 sen

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 2016 and the accompanying explanatory notes on pages 6 to 32 attached to the unaudited condensed interim financial statements.

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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 2017

	<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>Own Credit Reserve^[1]</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profits</i>	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017									
Balance at 1 January	50,000	610,000	50,000	(6,547)	-	403	34,000	783,295	1,521,151
Total comprehensive income for the financial period									
Profit for the financial period	-	-	-	-	-	-	-	17,626	17,626
Other comprehensive income, net of tax									
Available-for-sale reserve:									
Net change in fair value	-	-	-	1,288	187	-	-	-	1,475
<i>Total other comprehensive income</i>	-	-	-	1,288	187	-	-	-	1,475
Total comprehensive income for the financial period	-	-	-	1,288	187	-	-	17,626	19,101
Transfer relating to Companies Act 2016 ^[1]	610,000	(610,000)	-	-	-	-	-	-	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	1	-	-	1
Balance at 31 March	660,000	-	50,000	(5,259)	187	404	34,000	800,921	1,540,253

^[1] With effect from 1 January 2017, the Group has early applied the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss in paragraph 5.7.1(c), 5.7.7-5.7.9, 7.2.14 and B5.7.5-B5.7.20 of MFRS 9 Financial Instruments, without applying the other requirements of MFRS 9. The early adoption is applied prospectively.

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 2016 and the accompanying explanatory notes on pages 6 to 32 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 26 April 2017.

HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2017 (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>	<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, 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

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 2016 and the accompanying explanatory notes on pages 6 to 32 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 26 April 2017.

HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2017

	31 Mar 2017	31 Mar 2016
	RM'000	RM'000
Profit before tax	22,884	15,178
Adjustments for non-operating and non-cash items	<u>39,174</u>	<u>52,114</u>
Operating profit before working capital changes	62,058	67,292
Changes in working capital:		
Net changes in operating assets	(883,742)	368,169
Net changes in operating liabilities	511,167	(2,503,168)
Income tax paid	<u>(4,576)</u>	<u>(5,384)</u>
Net cash used in operating activities	<u>(315,093)</u>	<u>(2,073,091)</u>
Net cash (used in)/generated from investing activities	(379,198)	304,405
Net cash used in financing activities	<u>(28,697)</u>	<u>(29,200)</u>
	<u>(407,895)</u>	<u>275,205</u>
Net changes in cash and cash equivalents	(722,988)	(1,797,886)
Cash and cash equivalents at 1 January	<u>2,359,591</u>	<u>4,750,390</u>
Cash and cash equivalents at 31 March	<u>1,636,603</u>	<u>2,952,504</u>
Analysis of cash and cash equivalents		
Cash and short-term funds	<u>1,636,603</u>	<u>2,952,504</u>

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 2016 and the accompanying explanatory notes on pages 6 to 32 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 26 April 2017.

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 10th floor, North Tower, 2, Leboh Ampang, 50100 Kuala Lumpur.

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

The financial statements were approved and authorised for issue by the Board of Directors on 26 April 2017.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 31 March 2017 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 2017 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 2016. 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 2016.

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 2016.

(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 2017 are as follows:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.
- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' 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.

The amendments shall be applied retrospectively.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (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 2018

- Amendments to MFRS 140 'Classification on 'Change in Use' – Assets transferred to, or from, Investment Properties' clarify that to transfer to, or from investment properties there must be a change in use. A change in use would involve an assessment of whether a property meet, or has ceased to meet, the definition of investment property. The change must be supported by evidence that the change in use has occurred and a change in management's intention in isolation is not sufficient to support a transfer of property.

The amendments also clarify the same principle applies to assets under construction.

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

- 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.

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. With effect from 1 January 2017, the Bank has early applied this requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss without applying the other requirements of MFRS 9. The early adoption is applied prospectively from 2017 and onwards.

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' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. 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.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (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)

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

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers
- Identify the separate performance obligations
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc.), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

b. Financial year beginning on/after 1 January 2019

- MFRS 16 'Leases'

MFRS 16 'Leases' supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with profit expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

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

The audit report on the audited financial statements for the financial year ended 31 December 2016 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 2017.

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 2017.

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 2017.

8 Dividend

No interim dividend was declared nor paid during the financial period ended 31 March 2017.

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 2017	31 Dec 2016
	RM'000	RM'000
Cash and balances with banks and other financial institutions	151,603	189,591
Money at call and interbank placements maturing within one month	1,485,000	2,170,000
	<u>1,636,603</u>	<u>2,359,591</u>

11 Financial Assets Held-for-Trading

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	492	488
	<u>492</u>	<u>488</u>

12 Financial Investments Available-for-Sale

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	1,615,441	1,368,574
Negotiable instruments of deposit	109,485	-
Islamic Treasury Bill	24,308	-
	<u>1,749,234</u>	<u>1,368,574</u>

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

Maturing within one year	559,440	180,224
More than one year to three years	732,950	732,449
More than three years to five years	436,699	435,846
Over five years	20,145	20,055
	<u>1,749,234</u>	<u>1,368,574</u>

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		
31 Mar 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	85,542	-	-	-	-	-	-	85,542
Term financing:								
House financing	-	265	-	-	-	4,386,561	-	4,386,826
Hire purchase receivables	-	-	-	-	197,893	-	-	197,893
Lease receivables	-	-	-	2,377	-	-	-	2,377
Syndicated term financing	1,152,876	-	-	-	-	-	-	1,152,876
Other term financing	2,858,312	6,358	87	-	-	1,005,032	-	3,869,789
Trust receipts	857,110	-	-	-	-	-	-	857,110
Claims on customers under acceptance credits	494,457	-	-	-	-	-	-	494,457
Bills receivables	110,410	-	-	-	-	-	-	110,410
Staff financing-i	2,523	-	309	-	-	3,322	-	6,154
Credit cards-i	-	-	-	-	-	-	797,895	797,895
Revolving credit	991,544	-	-	-	-	-	-	991,544
Other financing	-	-	-	-	-	1,152	-	1,152
Gross financing and advances	6,552,774	6,623	396	2,377	197,893	5,396,067	797,895	12,954,025
Less: Allowance for impaired financing								
Collective allowances for impairment								(205,571)
Individual allowances for impairment								(75,344)
Total net financing and advances								12,673,110

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 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	97,840	-	-	-	-	-	-	97,840
Term financing:								
House financing	-	404	-	-	-	4,356,230	-	4,356,634
Hire purchase receivables	-	-	-	-	208,921	-	-	208,921
Lease receivables	-	-	-	2,738	-	-	-	2,738
Syndicated term financing	650,266	-	-	-	-	-	-	650,266
Other term financing	2,834,338	8,115	350	-	-	1,024,700	-	3,867,503
Trust receipts	462,235	-	-	-	-	-	-	462,235
Claims on customers under acceptance credits	504,375	-	-	-	-	-	-	504,375
Bills receivables	110,272	-	-	-	-	-	-	110,272
Staff financing-i	2,617	-	361	-	-	3,215	-	6,193
Credit cards-i	-	-	-	-	-	-	787,710	787,710
Revolving credit	950,161	-	-	-	-	-	-	950,161
Other financing	-	-	-	-	-	1,187	-	1,187
Gross financing and advances	5,612,104	8,519	711	2,738	208,921	5,385,332	787,710	12,006,035
Less: Allowance for impaired financing								
Collective allowances for impairment								(200,015)
Individual allowances for impairment								(62,757)
Total net financing and advances								11,743,263

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Financing and Advances (Cont'd)

(ii) By type of customer

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Domestic non-bank financial institutions	653,666	638,263
Domestic business enterprises:		
Small medium enterprises	1,998,439	1,821,064
Others	3,159,100	2,397,737
Government and statutory bodies	9,543	10,316
Individuals	5,942,785	5,901,851
Other domestic entities	1,435	1,466
Foreign entities	1,189,057	1,235,338
	<u>12,954,025</u>	<u>12,006,035</u>

(iii) By profit rate sensitivity

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Fixed rate:		
House financing	265	398
Hire purchase receivables	197,894	208,921
Other financing	3,200,290	2,784,299
Variable rate:		
BR/BFR plus	5,467,380	5,471,227
Cost-plus	4,088,196	3,541,190
	<u>12,954,025</u>	<u>12,006,035</u>

(iv) By residual contractual maturity

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Maturing within one year	5,264,842	4,356,186
More than one year to three years	626,331	654,513
More than three years to five years	1,097,908	1,111,456
Over five years	5,964,944	5,883,880
	<u>12,954,025</u>	<u>12,006,035</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Financing and Advances (Cont'd)

(v) By sector

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Agriculture, hunting, forestry & fishing	119,972	136,372
Mining and quarrying	252,430	218,194
Manufacturing	1,363,006	1,187,941
Electricity, gas and water	29,630	32,907
Construction	375,286	354,645
Real estate	870,610	821,854
Wholesale & retail trade, restaurants & hotels	911,737	816,323
Transport, storage and communication	599,114	186,721
Finance, takaful and business services	1,032,859	929,714
Household - Retail	6,581,205	6,536,695
Others	818,176	784,669
	<u>12,954,025</u>	<u>12,006,035</u>

(vi) By purpose

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Purchase of landed property:		
Residential	4,390,146	4,359,849
Non-residential	835,497	853,008
Purchase of transport vehicles	1,828	1,847
Purchase of fixed assets excluding land & building	358	366
Consumption credit	1,916,595	1,893,592
Construction	380,159	343,443
Working capital	4,869,262	3,943,120
Other purpose	560,180	610,810
	<u>12,954,025</u>	<u>12,006,035</u>

(vii) By geographical distribution

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Northern Region	1,452,090	1,405,240
Southern Region	1,551,855	1,569,412
Central Region	9,487,708	8,565,903
Eastern Region	462,372	465,480
	<u>12,954,025</u>	<u>12,006,035</u>

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 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 2017	31 Dec 2016
	RM'000	RM'000
Under SIAF/IAA arrangement	<u>2,477,623</u>	<u>1,733,132</u>
Total net financing and advances	<u>2,477,623</u>	<u>1,733,132</u>
	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Principal amount under SIAF/IAA arrangement		
Irrevocable commitments to extend credit:		
<i>Maturity not exceeding one year</i>	373,048	496,933
<i>Maturity exceeding one year</i>	33,836	-
Total commitments and contingencies	<u>406,884</u>	<u>496,933</u>
	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Total RWA for Credit Risk		
Principal amount	2,569,151	1,832,519
Risk weighted	2,569,151	1,832,519

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Financing and Advances (Cont'd)

(viii) Assets under Management (Cont'd)

The 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, 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 3(e) on financial instruments in the audited financial statements of the Bank for the financial year ended 31 December 2016.

14 Impaired Financing

(i) Movements in impaired financing and advances

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Balance at 1 January	303,526	235,279
Classified as impaired during the financial period/year	104,731	358,706
Reclassified as performing	(35,694)	(122,829)
Amount recovered	(17,260)	(49,831)
Amount written off	(32,177)	(117,799)
Balance at 31 March/December	323,126	303,526

(ii) Movements in allowance for impaired financing

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Collective allowance for impairment		
Balance at 1 January	200,015	140,264
Made during the financial period/year	43,136	211,487
Amount released	(7,155)	(58,264)
Amount written off	(30,425)	(93,472)
Balance at 31 March/December	205,571	200,015

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Individual allowance for impairment		
Balance at 1 January	62,757	68,647
Made during the financial period/year	19,347	30,041
Amount released	(9,335)	(18,115)
Amount reinstated/(written off)	2,575	(17,816)
Balance at 31 March/December	75,344	62,757

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Impaired Financing (Cont'd)

(iii) By contract

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Bai Bithaman Ajil (<i>deferred payment sale</i>)	4	5
Ijarah Thumma Al-Bai (AITAB) (<i>hire purchase</i>)	5,683	5,730
Murabahah (<i>cost-plus</i>)	132,554	127,743
Musharakah (<i>profit and loss sharing</i>)	167,041	152,729
Bai Al-Inah (<i>sell and buy back</i>)	52	217
Ujrah (<i>fee-based</i>)	17,792	17,102
	<u>323,126</u>	<u>303,526</u>

(iv) By sector

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Manufacturing	2,993	4,038
Construction	81	204
Wholesale & retail trade, restaurants & hotels	12,060	12,309
Transport, storage and communication	3,665	3,665
Finance, takaful and business services	23,150	23,346
Household - Retail	281,177	259,346
Others	-	618
	<u>323,126</u>	<u>303,526</u>

(v) By purpose

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Purchase of landed property:		
Residential	151,268	135,067
Non-residential	10,236	10,887
Purchase of transport vehicles	178	146
Purchase of fixed assets excluding land & building	358	358
Consumption credit	124,783	121,217
Construction	81	204
Working capital	36,222	35,647
	<u>323,126</u>	<u>303,526</u>

(vi) By geographical distribution

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Northern Region	47,794	47,713
Southern Region	28,973	30,606
Central Region	230,975	212,643
Eastern Region	15,384	12,564
	<u>323,126</u>	<u>303,526</u>

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:

	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 2017									
Trading derivatives:									
Foreign exchange contracts									
- Forwards	3,430,471	-	3,430,471	63,604	-	63,604	62,795	-	62,795
- Swaps	-	2,133,670	2,133,670	-	240,992	240,992	-	240,882	240,882
- Options	489,506	343,307	832,813	1,517	5,176	6,693	1,517	5,176	6,693
Profit rate related contracts									
- Swaps	200,000	4,709,971	4,909,971	67	17,572	17,639	34	13,585	13,619
- Options	-	189,444	189,444	-	3,192	3,192	-	147	147
Equity related contracts									
- Options purchased	636,031	96,630	732,661	-	-	-	58,109	-	58,109
Sub- total	4,756,008	7,473,022	12,229,030	65,188	266,932	332,120	122,455	259,790	382,245
Hedging Derivatives:									
Fair Value Hedge									
Profit rate related contracts									
- Swaps	30,000	160,000	190,000	-	-	-	66	743	809
Sub- total	30,000	160,000	190,000	-	-	-	66	743	809
Total	4,786,008	7,633,022	12,419,030	65,188	266,932	332,120	122,521	260,533	383,054

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Derivative Financial Instruments (Cont'd)

	Contract / Notional Amount			Positive Fair Value			Negative Fair Value		
	Up to 1 Year RM'000	>1 - 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	Total RM'000
31 Dec 2016									
Trading derivatives:									
Foreign exchange contracts									
- Forwards	2,582,361	-	2,582,361	111,609	-	111,609	112,797	-	112,797
- Swaps	-	2,159,793	2,159,793	-	261,215	261,215	-	264,349	264,349
- Options	9,718	345,197	354,915	1,018	4,789	5,807	1,018	4,789	5,807
Profit rate related contracts									
- Swaps	1,200,000	4,770,174	5,970,174	470	14,075	14,545	384	8,906	9,290
- Options	-	189,444	189,444	-	2,545	2,545	-	135	135
Equity related contracts									
- Options purchased	765,236	109,766	875,002	27	-	27	95,176	2,180	97,356
Sub- total	4,557,315	7,574,374	12,131,689	113,124	282,624	395,748	209,375	280,359	489,734
Hedging Derivatives:									
Fair Value Hedge									
Profit rate related contracts									
- Swaps	90,000	190,000	280,000	-	-	-	59	962	1,021
Sub- total	90,000	190,000	280,000	-	-	-	59	962	1,021
Total	4,647,315	7,764,374	12,411,689	113,124	282,624	395,748	209,434	281,321	490,755

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

	31 Mar 2017 RM'000	31 Mar 2016 RM'000
Gains/Losses on hedging instruments	166	(1,441)
Gains on the hedged items attributable to the hedged risk	262	1,457
Net gains from fair value hedges	428	16

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Other Assets

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Income receivable	19,110	12,972
Profit receivable	3,976	6,059
Prepayments	26	72
Amount due from holding company	244	45,132
Other receivables	9,440	15,806
	<u>32,796</u>	<u>80,041</u>

17 Statutory deposits with Bank Negara Malaysia

The non-profit bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 26(2)c and 26(3) of the Central Bank of Malaysia Act 2009, the amounts of which are determined at set percentages of total eligible liabilities.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deposits From Customers

(i) By type of deposit

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
At amortised cost		
Non-Mudharabah Fund		
Demand deposits		
- Wadiah	2,185,028	1,902,318
Savings deposits		
- Wadiah	1,685,507	1,627,182
Fixed return investment deposits		
- Murabahah	4,942,211	5,007,808
- Qard	20,510	129,452
Islamic repurchase agreements		
- Bai Al-Inah	72,627	59,783
	8,905,883	8,726,543

The maturity structure of term deposits is as follows:

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Due within six months	4,191,047	4,376,774
More than six months to one year	738,378	735,158
More than one year to three years	24,661	19,710
More than three years to five years	8,635	5,618
	4,962,721	5,137,260

(ii) By type of customer

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Government and statutory bodies	7,471	6,429
Business enterprises	2,179,981	2,026,165
Individuals	4,527,293	4,583,883
Others	2,191,138	2,110,066
	8,905,883	8,726,543

19 Deposits and Placements from Banks and Other Financial Institutions

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Non-Mudharabah Fund		
Licensed banks	2,407,287	1,923,186
Bank Negara Malaysia	36,373	28,416
	2,443,660	1,951,602

Included in deposits and placements from banks and other financial institutions are placements from the Bank's parent company, HSBC Bank Malaysia Berhad, of RM2.4 billion (31 Dec 2016: RM1.9 billion).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Other Liabilities

	Note	31 Mar 2017 RM'000	31 Dec 2016 RM'000
At amortised cost			
Amounts due to holding company		51,243	36,472
Profit payable			
- Structured products		3,571	4,182
- Others		51,213	61,262
Deferred income		11,625	11,286
Marginal deposit		21,960	22,761
Accrued expenses		23,316	26,235
Other creditors	(a)	75,989	53,528
		238,917	215,726
At fair value			
Structured products, at fair value			
- Wakalah with Commodity Wa'ad	(b)	866,619	969,409
		1,105,536	1,185,135

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 other operating income, as per accounting policy in Note 3(h), and respective fair value on trading liabilities is shown in Note 5(b) in the audited financial statements of the Bank for the financial year ended 31 December 2016.

(a) Other creditors and accruals

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

Source and use of charity funds

	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Source of charity funds		
Balance at 1 January	4	70
Shariah non-compliant income for the financial period/year	5	114
Use of charity funds		
Contribution to non-profit organisations	-	(93)
Tax expense on Shariah non-compliant income	-	(87)
Balance at 31March/31 December	9	4

(b) Movement in structured products

	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Balance at 1 January	969,409	1,268,657
New placement during the financial period/year	-	239,166
Redemption during the financial period/year	(141,611)	(605,818)
Fair value mark-to-market	38,821	67,404
Balance at 31March/31 December	866,619	969,409

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Multi-Currency Sukuk Programme

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	1,755,017	1,756,001

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 2017	31 Dec 2016
<u>Issuance under MCSP</u>	RM'000			RM'000	RM'000
At amortised cost					
1st series at amortised cost	500,000	28 Sept 2012	28 Sept 2017	500,000	500,000
At fair value					
2nd series	500,000	16 Oct 2014	16 Oct 2019	502,248	502,835
3rd series	750,000	27 Mar 2015	27 Mar 2020	752,769	753,166
	<u>1,250,000</u>			<u>1,255,017</u>	<u>1,256,001</u>
	<u>1,750,000</u>			<u>1,755,017</u>	<u>1,756,001</u>

Movement in MCSP

	2nd series		3rd series	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	502,835	500,641	753,166	749,182
Change in fair value other than from own credit risk	(310)	4,282	(429)	7,565
Change in fair value from own credit risk	(277)	(2,088)	32	(3,581)
Balance at 31 March/31 December	<u>502,248</u>	<u>502,835</u>	<u>752,769</u>	<u>753,166</u>
			31 Mar 2017	31 Dec 2016
			RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk			<u>(245)</u>	<u>(5,669)</u>

22 Subordinated Commodity Murabahah Financing

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	343,614	348,508
- Second tranche issued on 30 June 2015	293,575	297,757
	<u>637,189</u>	<u>646,265</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

	31 Mar 2017	31 Mar 2016
	RM'000	RM'000
Income derived from investment of:		
(i) general investment deposits	102,571	115,299
(ii) specific investment deposits	8,430	7,733
(iii) others	54,465	55,418
	165,466	178,450
 (i) Income derived from investment of general investment deposits		
<u>Finance income:</u>		
Financing and advances		
- Profit earned other than recoveries from impaired financing	84,043	87,280
- Recoveries from impaired financing	2,737	2,554
Financial investments available-for-sale	7,972	8,965
Money at call and deposit with financial institutions	5,893	18,648
	100,645	117,447
 <u>Other operating income</u>		
Realised gains from dealing in foreign currency	5,778	1,748
Unrealised (losses)/gains from dealing in foreign currency	(1,168)	653
Gains from sale of financial assets held-for-trading and other financial instruments	-	605
Unrealised (losses)/gains from revaluation of financial assets held-for-trading	(326)	61
Net profit paid for financial assets held-for-trading and other financial instruments	(4,598)	(7,083)
Realised gains from trading in derivatives	166	305
Unrealised gains from trading in derivatives	1,824	1,553
Other gains	250	10
	1,926	(2,148)
	102,571	115,299

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	31 Mar 2017 RM'000	31 Mar 2016 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	8,307	6,734
	<u>8,307</u>	<u>6,734</u>
<u>Other operating income</u>		
Fees and commission	156	296
Realised (losses)/gains from dealing in foreign currency	(33)	635
Unrealised gains from dealing in foreign currency	-	68
	<u>123</u>	<u>999</u>
	<u>8,430</u>	<u>7,733</u>
The above fees and commissions were derived from the following major contributors:		
Guarantee fees	618	158
Service charges and fees	156	137
	<u>618</u>	<u>158</u>
(iii) Income derived from investment of others		
<u>Finance income:</u>		
Financing and advances		
- Profit earned other than recoveries from impaired financing	44,627	41,950
- Recoveries from impaired financing	1,453	1,228
Financial investments available-for-sale	4,233	4,309
Money at call and deposit with financial institutions	3,129	8,963
	<u>53,442</u>	<u>56,450</u>
<u>Other operating income</u>		
Realised gains from dealing in foreign currency	3,068	840
Unrealised (losses)/gains from dealing in foreign currency	(620)	314
Gains from sale of financial assets held-for-trading and other financial instruments	-	291
Unrealised (losses)/gains from revaluation of financial assets held-for-trading	(173)	29
Net profit paid from financial assets held-for-trading and other financial instruments	(2,442)	(3,404)
Realised gains from trading in derivatives	88	146
Unrealised gains from trading in derivatives	969	747
Other gains	133	5
	<u>1,023</u>	<u>(1,032)</u>
	<u>54,465</u>	<u>55,418</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24 Income Derived from Investment of Shareholder's Funds

	31 Mar 2017 RM'000	31 Mar 2016 RM'000
<u>Finance income:</u>		
Financing and advances		
- Profit earned other than recoveries from impaired financing	15,006	12,829
- Recoveries from impaired financing	489	375
Financial investments available-for-sale	1,423	1,318
Money at call and deposit with financial institutions	1,052	2,741
	<u>17,970</u>	<u>17,263</u>
<u>Other operating income</u>		
Fees and commission	15,706	14,308
Realised gains from dealing in foreign currency	1,032	257
Unrealised (losses)/gains from dealing in foreign currency	(209)	96
Gains from sale of financial assets held-for-trading and other financial instruments	-	89
Unrealised (losses)/gains from revaluation of financial assets held-for-trading	(58)	9
Net profit paid from financial assets held-for-trading and other financial instruments	(821)	(1,041)
Realised gains from trading in derivatives	30	45
Unrealised gains from trading in derivatives	326	228
Shared-service fees from holding company	736	813
Net gains on disposal of financial assets available-for-sale	-	3,055
Net (losses)/gains on financial instruments designated at fair value through profit or losses	(200)	8,974
Other income	68	29
	<u>16,610</u>	<u>26,862</u>
	<u>34,580</u>	<u>44,125</u>
The above fees and commissions were derived from the following major contributors:		
Service charges and fees	4,764	5,647
Cards	7,838	7,872
Agency fees	2,116	1,715

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Impairment Losses on Financing

	31 Mar 2017	31 Mar 2016
	RM'000	RM'000
Impairment charges on financing:		
(a) Individual impairment		
- Made during the financial period	19,347	9,940
- Written back during the financial period	(9,335)	(8,703)
(b) Collective impairment		
- Made during the financial period	43,136	78,865
- Written back during the financial period	(7,155)	(26,091)
Impaired financing		
- Recovered during the period	(8,332)	(7,249)
- Written back during the financial period	1,479	1,126
	39,140	47,888

26 Income Attributable to Depositors

	31 Mar 2017	31 Mar 2016
	RM'000	RM'000
<u>Non-Mudharabah Fund</u>		
- Deposits from customers	44,616	53,857
- Deposits and placements of banks and other financial institutions	11,036	20,057
- Others	22,070	22,686
	77,722	96,600

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Operating Expenses

	31 Mar 2017	31 Mar 2016
	RM'000	RM'000
Personnel expenses	11,398	8,369
Promotion and marketing related expenses	2,547	3,704
Establishment related expenses	4,704	5,022
General administrative expenses	41,651	45,814
	60,300	62,909
Personnel expenses		
Salaries, allowances and bonuses	8,344	7,056
Employees Provident Fund contributions	1,446	1,252
Other staff related costs	1,608	61
	11,398	8,369
Promotion and marketing related expenses	2,547	3,704
Establishment related expenses		
Depreciation of equipment	1,124	1,350
Information technology costs	740	693
Rental of premises	1,933	2,060
Others	907	919
	4,704	5,022
General administrative expenses		
Group recharges	32,365	36,467
Others	9,286	9,347
	41,651	45,814

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Capital Adequacy

	31 Mar 2017	31 Dec 2016
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	660,000	50,000
Share premium	-	610,000
Retained profits	783,295	783,296
Other reserves	77,672	75,789
Regulatory adjustments	(40,480)	(46,978)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	1,480,487	1,472,107
Tier 2 capital		
Subordinated Commodity Murabahah financing	637,189	646,265
Collective impairment allowance (unimpaired portion) & regulatory reserves	144,912	135,261
Total Tier 2 capital	782,101	781,526
Capital base	2,262,588	2,253,633
CET1 and Tier 1 Capital ratio	11.676%	12.553%
Total Capital ratio	17.844%	19.218%

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 2017		31 Dec 2016	
	Principal	Risk-weighted	Principal	Risk-weighted
	RM'000	RM'000	RM'000	RM'000
Total RWA for credit risk	20,349,384	11,777,592	19,594,222	10,820,917
Total RWA for market risk	-	7,350	-	11,396
Total RWA for operational risk	-	894,885	-	894,490
	20,349,384	12,679,827	19,594,222	11,726,803

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.

	31 Mar 2017	31 Dec 2016
Principal amount	RM'000	RM'000
Direct credit substitutes	572,095	535,818
Transaction-related contingent items	1,130,314	1,113,122
Short-term self-liquidating trade-related contingencies	59,301	111,027
Irrevocable commitments to extend credit		
- Maturity not exceeding one year	3,243,852	3,685,008
- Maturity exceeding one year	2,030,345	2,041,247
Unutilised credit card lines	2,455,715	2,251,942
Equity related contracts		
- Less than one year	636,031	765,236
- One year to less than five years	96,630	109,766
Profit rate related contracts		
- Less than one year	230,000	1,290,000
- One year to less than five years	5,059,415	5,149,618
Foreign exchange related contracts		
- Less than one year	3,919,977	2,592,079
- One year to less than five years	2,476,977	2,504,990
	21,910,652	22,149,853

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Business Prospects

Globally, the economy is projected to improve in 2017, underpinned by an expansion in domestic demand in the advanced and emerging market economies, boosted in part by expansionary fiscal policies in selected major economies. Nonetheless, there are several downside risks to global growth that are still prevalent. The risks include potential implications from the United States (US)' trade and economic policies and the impact of higher US interest rates. There are also uncertainties over the United Kingdom and European Union (EU) negotiations and geopolitical developments in the Middle East.

On home ground, the Malaysian economy is projected to register a sustained growth of 4.3% - 4.8% in 2017 (2016: 4.2%), considering the recovery in global commodity prices.

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. Although Bank Negara Malaysia (BNM)'s foreign exchange market stabilisation measures had seen improvement in balancing the Ringgit's supply and demand, the Ringgit, which depreciated against most major and regional currencies in 2016, will continue to face hurdles from the US Dollar's strength which is backed by the US Federal Reserve (Fed)'s future rate hikes.

In addition, to ensure continuous domestic financial stability supported by healthy business activities, BNM continued to keep the Overnight Policy Rate (OPR) of 3.00% unchanged since July 2016. Headline inflation is projected to average higher in the range of 3.0% - 4.0% in 2017 (2016: 2.1%), given the prospect of fuel price adjustments, the spill over effect of the Ringgit's depreciation which increased the cost of imported goods and services, and other cost related pressures.

As for the banking sector, challenges facing the industry include moderate loans growth, competition for deposits, weak capital market activities, potential rising credit costs, escalation of costs of doing business and compliance costs. Margin compression will continue given heightened competition within the banking industry. The expansion of domestic Islamic financing continued to surpass conventional banking loans in 2016 where strong regulatory backing and industry innovation have led to the considerable growth traction in recent years. Separately, the global Sukuk market also witnessed a rebound in 2016 after three consecutive years of decline, with Malaysia continuing to be the main driver.

Despite the challenges above, the increasing commitment towards the ASEAN Economic Community (AEC) amongst its members may fuel greater intra-ASEAN trade and investments flows. Usage of Renminbi for trade settlement may see a wider acceptance by both Malaysia and China corporates. Foreign direct investment from China is expected to increase in 2017 which may cushion the negative impact of lower international trade volumes on the Malaysia economy. Inbound China investments are predominantly in infrastructure projects which lead to foreign exchange business opportunities.

For 2017, the Bank will continue to capitalise on infrastructure related opportunities, especially arising from the Belt and Road Initiative where the focus is to capture opportunities along the entire supply chain as Chinese investment into Malaysia infrastructure is expected to be a key driver of growth. The Bank will also focus on expanding our customer base and loan growth opportunities to increase market share as the Group continues to improve on its network to serve its targeted customers.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Performance Review

Profit before tax (PBT) increased by RM7.7 million or 50.1% against history due to lower net impairment losses on financing and lower operating expenses.

Total balance sheet size at 31 March 2017 stood at RM16.8 billion, RM0.5 billion higher compared against 31 December 2016 (RM16.3 billion). The bank has recorded a 7.9% (RM0.9 billion) growth in customer advances in Q1 2017. The Bank's capital and liquidity ratios continues to remain strong and well above regulatory requirements.

Impairment losses on financing decreased by RM8.7 million arising mainly from lower collective impairment provision (down RM16.8 million) partially offset by higher individual impairment provision (up RM8.8 million).

Meanwhile, operating expenses decreased mainly due to lower general administrative expenses (down RM4.2 million) and promotion and marketing related expenses (down RM1.2 million), offset by higher personnel expenses (up RM3.0 million). The Bank continues to leverage on its holding company to provide certain services under an embedded model to ensure its costs are maintained at sustainable level.