HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

FINANCIAL STATEMENTS – 31 DECEMBER 2016

Domiciled in Malaysia.
Registered Office:
10th Floor, North Tower,
2, Leboh Ampang,
50100 Kuala Lumpur

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

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(Company No. 127776-V)
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BOARD OF DIRECTORS

Peter Wong Tung Shun
Non-Independent Executive Director *(re-appointed on 5 February 2017)*

Mukhtar Malik Hussain
Non-Independent Executive Director/Chief Executive Officer

Lee Choo Hock
Independent Non-Executive Director

Tan Kar Leng @ Chen Kar Leng
Independent Non-Executive Director

Tan Sri Dato' Tan Boon Seng @ Krishnan
Independent Non-Executive Director

Choo Yoo Kwan @ Choo Yee Kwan
Independent Non-Executive Director *(appointed on 11 February 2017)*

Datuk Shireen Ann Zaharah Muhiudeen
Independent Director *(resigned on 2 February 2016)*

CORPORATE GOVERNANCE DISCLOSURES

The Bank is committed to high standards of corporate governance. As a financial institution, the Bank is subject to and complies with Bank Negara Malaysia policy document on 'Corporate Governance'.

The statement of corporate governance practices set out on pages 2 to 14 and information incorporated by reference constitutes the Corporate Governance Disclosures of HSBC Bank Malaysia Berhad (the Bank).

Directors

The Directors serving as at the date of this report are set out below.

Peter Wong Tung Shun, 66
Non-Independent Executive Director
Appointed to the Board and as Chairman: 5 February 2010
Re-appointed as Non-Independent Executive Director: 5 February 2017

Mr Wong holds a Bachelor's degree in Computer Science, MBA in Marketing and Finance and MSc in Computer Science from Indiana University in the United States. He joined HSBC in 2005, as Group General Manager, HSBC Holdings plc and Executive Director, The Hongkong and Shanghai Banking Corporation Limited, before assuming the position of Chief Executive for Asia-Pacific in February 2010. He became Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited in May 2013.

Mr Wong is currently the Deputy Chairman and Chief Executive of The Hongkong and Shanghai Banking Corporation Limited. He is a Group Managing Director and a member of the Group Management Board of HSBC Holdings plc. In addition, he is the Chairman and Non-Executive Director of HSBC Bank (China) Company Limited, Non-Executive Director of Hang Seng Bank Limited and an Independent Non-Executive Director of Cathay Pacific Airways Limited. Mr. Wong is also the Vice Chairman and Non-Executive Director of Bank of Communications Co., Limited

Mukhtar Malik Hussain, 57
Non-Independent Executive Director/Chief Executive Officer
Appointed to the Board and as Chief Executive Officer: 15 December 2009

Mr Mukhtar is a member of the Nominations Committee of the Bank.

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

In 2003, Mr Mukhtar assumed the position of Chief Executive Officer, Corporate and Investment Banking. He then headed back to London as the Co-Head of Global Banking in 2006. He was the Global Head of Principal Investments in London from 2006 to 2008. Between 2008 to 2009, he was the Deputy Chairman HSBC Bank Middle East Limited and Global Chief Executive Officer of HSBC Amanah. He was also the Chief Executive Officer, Global Banking and Markets for Middle East and North Africa before assuming his current role as the Chief Executive Officer of the Bank in 2009.

Mr Mukhtar is also a Non-Executive Director of HSBC Amanah Malaysia Berhad (HBMS), a HSBC Group General Manager and member of the Executive Committee of HSBC Asia Pacific.

Lee Choo Hock, 64
Independent Non-Executive Director
Appointed to the Board: 5 December 2013

Chairman of Audit Committee

Mr Lee is a member of the Nominations Committee and Connected Party Transactions Committee of the Bank.

He is a member of the Institute of Chartered Accountants in England and Wales as well as the Malaysian Institute of Accountants. He began his career with Miller, Brener & Co., London, a professional accounting firm in 1975 and joined Maybank in 1982. Having worked with Maybank for 27 years, Mr Lee has built a successful career as a professional accountant. He served various management positions during his tenure with Malayan Banking Berhad until he retired in 2008 and last position was as the Executive Vice President, Head of Accounting Services and Treasury Back Office Operations. He has also served as a Director of a number of subsidiaries of Malayan Banking Berhad.

In addition to his current role, Mr Lee also sits on the Board of Kossan Rubber Industries Berhad, Yayasan Kossan and HSBC Amanah Malaysia Berhad.

Tan Kar Leng @ Chen Kar Leng, 73
Independent Non-Executive Director
Appointed to the Board: 2 April 2014

Chairman of Nominations and Remuneration Committee (appointed on 13 February 2017)

Ms Chen serves as a member of the Risk Committee, Nominations Committee and Connected Party Transactions Committee of the Bank.

As a graduate from the University of Singapore (now the National University), she was called to the Malaysian Bar in January 1968 and Brunei Bar in May 1996. She has been appointed a partner of Skrine, Kuala Lumpur since January 1974 and Head of its Corporate Division on 31 December 2009. After her retirement, she has been retained as a consultant of the firm.

In addition to her current role, Ms Chen also sits on the Board of Eastern & Oriental Berhad and The Tun Dr Lim Chong Eu Foundation. She is also a member of the Advocates & Solicitors Disciplinary Board appointed by the Chief Justice of Malaya.

Tan Sri Dato' Tan Boon Seng @ Krishnan, 65
Independent Non-Executive Director
Appointed to the Board: 2 April 2014

Chairman of Nominations Committee (until 13 February 2017)
Chairman of Risk Committee

Tan Sri Dato' Krishnan Tan is a member of the Audit Committee and Connected Party Transactions Committee of the Bank.

He qualified as a Certified Public Accountant in 1978 after graduating with a Bachelor of Economics (Honours) degree from University of Malaya in 1975, and holds a Master's degree in Business Administration from Golden Gate University, San Francisco, USA.

Tan Sri Dato' Krishnan Tan is currently the Deputy Non-Executive Chairman of IJM Corporation Berhad and serves as a Director of IJM Plantations Berhad, and Grupo Concesionario del Oeste S.A., Argentina. He joined IJM as a Financial Controller in 1983 and was appointed Group Managing Director in 1997 and served in this position until 2010. He held the position of Executive Deputy Chairman of IJM Corporation Berhad from 2011 to 2013.

In addition to his current role, Tan Sri Dato' Krishnan sits on the Board of Malaysia Airlines Berhad, Malaysia Aviation Group Berhad, Malaysia Property Incorporated and Malaysian Community & Education Foundation and a member of the Olympic Council Trust Management Committee.

Choo Yoo Kwan @ Choo Yee Kwan, 64
Independent Non-Executive Director
Appointed to the Board: 11 February 2016

Mr Choo serves as a member of the Audit Committee, Risk Committee and Nominations Committee of the Bank.

Mr Choo has honours degrees in economics and law from University of Malaya and University of London respectively, and is a Barrister-at-Law (of Lincoln's Inn) following his call to the Bar of England and Wales in 1984.

Mr Choo retired in July 2014 after having served the banking and risk management industry for 38 years. His last post was as Country Chief Risk Officer for OCBC Bank (Malaysia) Berhad (OCBC), having first joined the OCBC Group in December 2007.

Prior to joining OCBC, he was the Chief Risk Officer for Maybank Group and Group Chief Risk Officer for Alliance Bank Malaysia Berhad. During his 14 years career at Maybank Group, he had served as Division Head for Credit Control; International Banking; Corporate Remedial Management; and Group Risk Management. He also served on the Corporate Debt Restructuring Committee set up under Bank Negara Malaysia. Before starting his career with Maybank, he had worked for the National Westminster Bank plc of the United Kingdom in the areas of Global Specialised Industries; and Group Credit Control.

Mr Choo had served on the Education Committee of Asian Institute of Chartered Bankers for 14 years, (between 2000 and 2014); and was re-appointed to Education Committee in June 2016. He was appointed as a member of the University Malaya Medical Centre Ethics Committee for 2 years (from 2014 to 2015). He is currently a Teaching Fellow in the Asian Banking School.

BOARD RESPONSIBILITY AND OVERSIGHT

Board of Directors

The objectives of the management structures within the bank, headed by the Board of Directors and led by the Chairman, are to deliver sustainable value to shareholders. The Board sets the strategy and risk appetite for the Bank and approves capital and operating plans presented by management for the achievement of the strategic objectives it has set.

The Board meets regularly and Directors receive information between meetings about the activities of committees and developments in the Bank's business. All Directors have full and timely access to all relevant information and may take independent professional advice if necessary.

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

On 11 February 2016, Mr Choo Yoo Kwan @ Choo Yee Kwan was appointed as an Independent Director of the Bank. He was also appointed as a member of the Audit Committee, Risk Committee and Nominations Committee.

On 5 February 2017, Mr Peter Wong Tung Shun, the Non-Independent Chairman, has been re-appointed as Non-Independent Executive Director of the Bank. In the interim until the appointment of a new Independent Chairman, the Board meetings will be chaired by an Independent Director of the Bank.

Datuk Shireen Ann Zaharah Muhiudeen has resigned as an Independent Director of the Bank on 2 February 2016.

All Directors, including those appointed by the Board to fill a casual vacancy, are subject to annual re-election at the Bank's Annual General Meeting.

Non-executive Directors are not HSBC employees and do not participate in the daily business management of the Bank. They bring an external perspective, constructively challenge and help develop proposals on strategy, scrutinise the performance of management in meeting agreed goals and objectives, and monitor the risk profile and reporting of performance of the Bank. The Board has determined that each non-executive Director is independent in character and judgement, and there are no relationships or circumstances likely to affect the judgement of the independent non-executive Directors. The Board has also determined the minimum time commitment expected of non-executive directors to be about 30 days per annum and with appointment in not more than 5 public listed companies. Time devoted to the Bank could be considerably more, particularly if serving on Board committees.

CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

Board Meetings

Seven (7) Board meetings were held in 2016. The table below show each Director's attendance at meetings of all Board and Committee meetings during 2016. All Directors have complied with the Bank Negara Malaysia requirements that Directors must attend at least 75% of Board meetings held in the financial year.

2016	Board	Audit Committee	Risk Committee	Nominations Committee
Total number of meetings held	7	4	5	6
Chairman/Non-Independent Executive Director:				
Peter Wong Tung Shun[1]	6/7	-	-	-
Non-Independent Executive Director/Chief Executive Officer:				
Mukhtar Malik Hussain	7/7	-	-	6/6
Independent Non-executive Directors:				
Lee Choo Hock	7/7	4/4	-	6/6
Tan Kar Leng @ Chen Kar Leng	7/7	-	5/5	6/6
Tan Sri Dato' Tan Boon Seng @ Krishnan	7/7	4/4	5/5	6/6
Choo Yoo Kwan @ Choo Yee Kwan[2]	7/7	4/4	5/5	5/5

[1]Re-appointed as Non-Independent Executive Director with effect from 5 February 2017.
[2]Appointed on 11 February 2016

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board of Directors (Cont'd)

Directors' Emoluments

Details of the emoluments of the Directors of the bank for 2016, disclosed in accordance with the Companies Act, 1965, are shown in Note 35(b) to the financial statements.

Training and Development

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

Training and development is provided for Directors. Executive Directors develop and refresh their skills and knowledge through day-to-day interactions and briefings with senior management of the Bank's businesses and functions. Non-Executive Directors have access to internal training and development resources and personalised training is provided where necessary. The Nominations Committee, with support from the Company Secretary, regularly reviews the training and development of each Director.

The table below shows a summary of training and development undertaken by each Director during 2016.

	Training Areas				
	Regulatory updates	**Corporate Governance**	**Financial industry developments**	**Financial Crime Risk**	**Briefings on Board committees related topics**
Chairman/Non-Independent Executive Director					
Peter Wong Tung Shun[1]	√	√	√	√	√
Non-Independent Executive Director/Chief Executive Officer					
Mukhtar Malik Hussain	√	√	√	√	√
Independent Non-executive Directors					
Lee Choo Hock	√	√	√	√	√
Tan Kar Leng @ Chen Kar Leng	√	√	√	√	√
Tan Sri Dato' Tan Boon Seng @ Krishnan	√	√	√	√	√
Choo Yoo Kwan @ Choo Yee Kwan	√	√	√	√	√

[1]Re-appointed as Non-Independent Executive Director with effect from 5 February 2017

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees

The Board has established a number of committees, the membership of which comprise independent non-executive Directors who have the skills, knowledge and experience relevant to the responsibilities of the committee. The Board and each Board committee have terms of reference to document their responsibilities and governance procedures. The details of the Board Charter comprising the Board committees' terms of reference are available at http://www.about.hsbc.com.my/hsbc-in-malaysia/management-team.

The key roles of the Board committees are described in the paragraph below. The Chairman of each Board committee reports to each subsequent Board meeting when presenting the meeting minutes of the relevant committee.

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

1. Audit Committee

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

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

The current members of the Audit Committee, all being independent non-executive Directors, are:

- Lee Choo Hock (Chairman)
- Choo Yoo Kwan @ Choo Yee Kwan
- Tan Sri Dato' Tan Boon Seng @ Krishnan

During 2016, the Audit Committee held 4 meetings. Attendance is set out in the table on page 6.

2. Risk Committee

The Risk Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on high level risk related matters and risk governance.

The Risk Committee meets regularly with the bank's senior financial, risk, internal audit and compliance management to consider, *inter alia*, risk reports and the effectiveness of compliance. The Board and the Risk Committee oversee the maintenance and development of a strong risk management framework by continually monitoring the risk environment, top and emerging risks facing the Bank and mitigation actions planned and taken. The Risk Committee recommends the approval of the Bank's risk appetite statement to the Board and monitors performance against the key performance/risk indicators included within the statement. The Risk Committee monitors the risk profiles for all of the risk categories within the Bank's business.

The current members of the Risk Committee, all being independent non-executive Directors, are:

- Tan Sri Dato' Tan Boon Seng @ Krishnan (Chairman)
- Choo Yoo Kwan @ Choo Yee Kwan
- Tan Kar Leng @ Chen Kar Leng

During 2016, the Risk Committee held 5 meetings. Attendance is set out in the table on page 6.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

3. Nominations Committee

The Nominations Committee has the responsibility for leading the process for Board appointments and for identifying and nominating, for the approval of the Board, candidates for appointment to the Board and for the Chief Executive Officer.

The Nominations Committee considers plans for orderly succession to the Board and the appropriate balance of skills, knowledge and experience on the Board. The Nominations Committee assists the Board in the evaluation of the Board's own effectiveness and that of its committees annually. The findings of the performance evaluation and the implementation of actions arising from the performance evaluation are reported to the Board during 2016.

The members of the Nominations Committee are, being a majority of independent non-executive Directors, are:
- Tan Sri Dato' Tan Boon Seng @ Krishnan (Chairman)
- Choo Yoo Kwan @ Choo Yee Kwan
- Lee Choo Hock
- Mukhtar Malik Hussain
- Tan Kar Leng @ Chen Kar Leng

During 2016, the Nominations Committee held 6 meetings. Attendance is set out in the table on page 6.

On 13 February 2017, the Board approved the setting up of a combined Nominations and Remuneration Committee and delegated the non-executive responsibility for identifying and nominating candidates for appointment by the Board and for supporting the Board in overseeing the operation of the Bank's remuneration system and reviewing the remuneration of Directors on the Board.

The members of the Nominations and Remuneration Committee, all being independent non-executive Directors, are:
- Tan Kar Leng @ Chen Kar Leng (Chairman)
- Choo Yoo Kwan @ Choo Yee Kwan
- Lee Choo Hock
- Tan Sri Dato' Tan Boon Seng @ Krishnan

Delegations By the Board

Connected Party Transactions Committee

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

The current members of the Connected Party Transaction Committee are:
- Lee Choo Hock,
- Tan Kar Leng @ Chen Kar Leng,
- Tan Sri Dato' Tan Boon Seng @ Krishnan,
- Chief Risk Officer; and
- Head of Wholesale Credit and Risk

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

Board Committees (Cont'd)

Delegations By the Board (Cont'd)

Executive Committee

The Executive Committee consists of key senior management members meets regularly and operates as a general management committee under the direct authority of the Board, exercising all of the powers, authorities and discretions of the Board in so far as they concern the management and day-to-day running of the bank, in accordance with such policies and directions as the Board may from time to time determine. The Bank's Chief Executive Officer, Mukhtar Malik Hussain, chairs the Executive Committee.

Regular Risk Management Meetings (RMM) of the Executive Committee, chaired by the Chief Risk Officer, Malaysia, are held to establish, maintain and periodically review the policy and guidelines for the management of risk within the bank.

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

(i) Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible for the efficient management of the Bank's balance sheet and the prudent management of risks.

(ii) Risk Management Meeting

The Risk Management Meeting is responsible for the oversight of the risk framework.

(iii) IT Steering Committee

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

(iv) People Committee

The People Committee is established as a principle human resource forum to drive People Plan i.e. build capability, talent, succession and leaders. The Committees oversees the development and delivery of key people initiative or programmes, and resolve any critical people risks or issues.

Conflicts of Interest and Indemnification of Directors

The Bank's Articles of Association give the Board authority to approve Directors' conflicts and potential conflicts of interest. The Board has adopted a policy and procedures for the approval of Directors' conflicts or potential conflicts of interest. The Board's powers to authorise conflicts are operating effectively and the procedures are being followed.

A review of situational conflicts which have been authorised, including the terms of authorisation, is undertaken by the Board annually.

The Articles of Association provide that Directors are entitled to be indemnified out of the assets of the Bank against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions. Such indemnity provisions have been in place but have not been utilised by the Directors. All Directors have the benefit of directors' and officers' liability insurance.

MANAGEMENT REPORTS

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

- Minutes of the Board Committees
- Annual Operating Plan
- Business Progress Report
- Capital Contingency Funding Plan
- Credit Advances Reports
- Credit Transactions and Exposures to Connected Parties
- Financial Crime Compliance: Anti-Money Laundering and Counter Terrorist Financing Reports
- Financial Performance Report
- Internal Capital Adequacy Assessment Process
- Market Risk Limits
- Operational Risk Report
- People Plan
- Regulatory Compliance Report
- Risk Appetite Statement
- Risk Management Reports
- Scenario Stress Testing Results

INTERNAL CONTROL FRAMEWORK

The Directors are responsible for reviewing the effectiveness of risk management and internal control systems and for determining the nature and extent of the principal risks the Group and the Bank is willing to take in achieving its strategic objectives. To meet this requirement, procedures have been designed for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for ensuring the reliability and usefulness of financial information used within the business or for publication.

These procedures can only provide reasonable but not absolute assurance against material mis-statement, errors, losses or fraud. Key risk management and internal control procedures include the following:

- **HSBC Group standards**
  HSBC Global Standards Manual (GSM) brings together the common standards and principles used in the conduct of all businesses, whatever its location or nature. The GSM overlays all other manuals throughout HSBC Group and is a fundamental component of the HSBC Group's risk management structure. It establishes the high level standards and policies by which, and within which, all members of the HSBC Group conduct their businesses. The GSM is mandatory and applies to, and must be observed by, all businesses within the HSBC Group, regardless of the nature or location of their activities.

- **Delegation of authority within limits set by the Board**
  Authority to manage the day to day running of the Group and the Bank is delegated within limits set by the Board to the Chief Executive who has responsibility for overseeing the establishment and maintenance of systems of control appropriate to the business and who has the authority to delegate such duties and responsibilities as he sees fit. Appointments to certain senior positions within the Group and the Bank require the approval of the Board of Directors.

- **Risk identification and monitoring**
  Systems and procedures are in place to identify, control and report on the major risks facing the Group and the Bank as set out below:
  – wholesale credit risk;
  – retail credit risk;
  – financial crime compliance risk
  – capital management risk;
  – liquidity risk management risks;
  – market risk;
  – financial management risk;
  – strategic risk;
  – sustainability risk; and
  – operational risk (including accounting, tax, legal, regulatory compliance, financial crime, compliance, fiduciary, political, physical, internal, external, contingency, information security systems, operations, project and people risks.)

  Exposure to these risks is monitored by Board Risk Committee, Asset, Liability and Capital Management Committee, Executive Committee and RMM of the Executive Committee which is chaired by Chief Risk Officer. The RMM also monitors the Group and the Bank's operational risk profile and the effective implementation of the Group and the Bank's operational risk management framework.

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

INTERNAL CONTROL FRAMEWORK (Cont'd)

- **Changes in market conditions/practices (Cont'd)**
  During 2016, attention was focused on:
  - financial crime compliance risk;
  - affiliate risk;
  - macroeconomic and geopolitical risk;
  - macro prudential/regulatory risk
  - people risk;
  - security risk (Information and physical security)

- **Strategic plans**
  Periodic strategic plans are prepared for Businesses and Functions within the framework of the HSBC Group's strategy. The Group and the Bank also prepares and adopts an Annual Operating Plan, which is informed by detailed analysis of risk appetite, describing the types and quantum of risk that we are prepared to take in executing our strategy and sets out the key business initiatives and the likely financial effects of those initiatives.

- **Financial reporting**
  The Group and the Bank's financial reporting process for preparing the financial statements is in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards, the requirements of the Companies Act, 1965 in Malaysia and guidelines issued by Bank Negara Malaysia, and, supported by a chart of accounts with detailed instructions and guidance on reporting requirements, issued by Global Finance to the Group and the Bank in advance of each reporting period end. The submission of financial information from the Group and the Bank is subject to certification by the responsible financial officer, and analytical review procedures at the Group and the Bank.

- **Responsibility for risk management**
  Management of global businesses and global functions are primarily accountable for measuring, monitoring, mitigating and managing their risks and controls. Processes are in place to ensure weaknesses are escalated to senior management and addressed, supported by our three lines of defence model.

- **IT operations**
  Centralised functional control is exercised over all IT development and operations. Common systems are employed for similar business processes wherever practicable.

- **Function management**
  Group-set policies, procedures and standards to control the principal risks detailed under 'Risk identification and monitoring' will be followed, unless those contravene the local regulations. In cases where the two do not contravene, the stricter one will be adopted. Limits of authorities to enter into credit and market risk exposures are delegated to line management of the Group and the Bank. The concurrence of the appropriate Global Risks is required, for credit proposals with specified higher risk characteristics. Credit and market risks are measured and reported at Bank level and aggregated for risk concentration analysis on a Groupwide basis.

- **Internal audit**
  The establishment and maintenance of appropriate systems of risk management and internal control is primarily the responsibility of business management. The Global Internal Audit function, provides independent and objective assurance in respect of the adequacy of the design and operating effectiveness of the framework of risk management, control and governance processes, focusing on the areas of greatest risk to HSBC using a risk-based approach.

INTERNAL CONTROL FRAMEWORK (Cont'd)

- **Internal audit (Cont'd)**

  Executive committee is responsible for ensuring that recommendations made by the Global Internal Audit function are implemented within an appropriate and agreed timetable. Confirmation to this effect must be provided to Global Internal Audit.

  During the year, the Risk Committee and the Audit Committee have kept under review the effectiveness of this system of internal control and have reported regularly to the Board. In carrying out their reviews, the Audit Committee and Risk Committee receive regular business and operational risk assessments; regular reports from the heads of key risk functions, which cover all internal controls, both financial and non-financial; internal audit reports; external audit reports; prudential reviews; and regulatory reports.

  The Risk Committee monitors the status of principal risks and considers whether the mitigating actions put in place are appropriate. In addition, when unexpected losses have arisen or when incidents have occurred which indicate gaps in the control framework or in adherence to HSBC policies, the Risk Committee and the Audit Committee review special reports, prepared at the instigation of management, which analyse the cause of the issue, the lessons learned and the actions proposed by management to address the issue.

REMUNERATION POLICY

The remuneration policy for the HSBC Group is aiming to reward success, not failure, and to be properly aligned with the risk management framework and risk outcomes. In order to ensure alignment between remuneration and business strategy, individual remuneration is determined through assessment of performance, delivered against both annual and long-term objectives summarised in performance scorecards, as well as adherence to HSBC Values of being 'open, connected and dependable' and acting with 'courageous integrity'. Altogether, performance is judged not only on what is achieved over the short and long term, but also on how it is achieved, as the latter contributes to the sustainability of the organisation. The financial and non-financial measures incorporated in the annual and long-term scorecards are carefully considered to ensure alignment with the long-term strategy of the HSBC Group.

The Group and the Bank has fully adopted the remuneration policy of HSBC Holdings plc. Please refer to the HSBC remuneration practices and governance at http://www.hsbc.com/about-hsbc/corporate-governance for more details of the governance structure and the remuneration strategy of the HSBC Group.

In recognition to the local regulations, the materiality of definition needs to be taken into consideration in ensuring a robust corporate governance framework has been duly applied for the Group and the Bank. Further reviews will be conducted to ensure continued adherence to the underlying principles of the local regulations.

RATING BY EXTERNAL RATING AGENCIES

Details of the Bank's ratings are as follows:

Rating Agency	Date	Rating Classification	Ratings Received
RAM Ratings Services Berhad	June 2016	• Long term	AAA
		• Short term	P1
		• Subordinated liabilities	AA1
		• Outlook	Stable
Moody's Investors Service	Jan 2017	• Foreign currency long term deposits	A3 (Stable)
		• Local currency long term deposits	A1 (Negative)
		• Foreign currency short term deposits	P-2
		• Local currency short term deposits	P-1

Details of the ratings of the Bank's wholly owned subsidiary, HSBC Amanah Malaysia Berhad are as follows:

Rating Agency	Date	Rating Classification	Ratings Received
RAM Ratings Services Berhad	June 2016	• Long term	AAA
		• Short term	P1
		• Multi-currency Sukuk Programme	AAA
		• Outlook	Stable

DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of HSBC Bank Malaysia Berhad (the Bank) and its subsidiaries (the Group) for the financial year ended 31 December 2016.

Principal Activities

The principal activities of the Group are banking and related financial services, which also include Islamic banking operations. Details of the subsidiaries are as disclosed in Note 14 to the financial statements.

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

Results

	Group	Bank
	RM'000	RM'000
Profit for the financial year attributable to the owner of the Bank		
Profit before income tax expense	**1,323,216**	**1,221,592**
Income tax expense	**(324,967)**	**(304,736)**
Profit after income tax expense	**998,249**	**916,856**

Dividends

Since the end of the previous financial year, the Bank paid an interim dividend for the financial year ended 2016 of RM0.87 per ordinary share amounting to RM200 million. The dividend was paid on 6 October 2016.

The directors now recommend a final dividend of RM0.87 per ordinary share amounting to RM200 million in respect of the current financial year. This dividend will be recognised in the subsequent financial year upon approval by the owner of the Bank.

Reserves and Provisions

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

Other statutory information

Before the financial statements of the Group and of the Bank were finalised, the Directors took reasonable steps to ascertain that:

i) all known bad debts have been written off and adequate provision made for doubtful debts, and
ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.

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

i) that would render the amount written off for bad debts, or the amount of provision for doubtful debts, in the financial statements of the Group and of the Bank inadequate to any substantial extent,
ii) that would render the value attributed to the assets in the financial statements of the Group and of the Bank misleading, or
iii) which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate, or
iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Bank misleading.

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

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

ii) any contingent liability in respect of the Group or of the Bank that has arisen since the end of the financial year other than in the ordinary course of business.

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

In the opinion of the Directors, the financial performance of the Group and of the Bank for the financial year ended 31 December 2016 has not been substantially affected by any item, transaction, or event of a material and unusual nature, nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Significant and Subsequent Events

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

2016 Business Strategy

The global economy remained soft in 2016. Issues faced by major regions varied with Europe coping with migration and UK-Brexit related issues, Middle East and North Africa region suffering from geopolitical risks and China facing an economic slowdown. This is heightened by the uncertainty related to potential policy changes, post completion of the US presidential election. Amidst the lackluster backdrop, the Malaysian economy registered a moderate growth of 4.2% in 2016 (2015: 5.0%). Malaysia's growth was supported by private sector demand, and additional support from net exports.

The HSBC Bank Malaysia Berhad (the Bank) and its subsidiaries (Group or HSBC Malaysia) continued to demonstrate resilience and maintain a respectable performance in 2016 despite having to operate in an increasingly regulated banking landscape with expectation to always observe the highest global standards in all business transactions and processes. The Group remained strong in both its liquidity and capital position. This financial strength is recognised by external parties including RAM Ratings Services Berhad, which has reaffirmed the Bank and its wholly owned subsidiary, HSBC Amanah Malaysia Berhad's long term and short term ratings of AAA and P1 ratings respectively, reflecting the Group's robust asset quality and strong financial standing. The Group also continued to maintain its market leadership position in various segments, evident by the numerous awards that the Group won in 2016.

On the retail business, Retail Banking and Wealth Management (RBWM) focused on growing emerging affluent population, enhancing wealth management business, acquiring new-to-bank card customers and strengthening the financial crime compliance control. Premier proposition continued to be supported through various customer acquisition campaigns, new offering of wealth products and customer engagement framework, with additional investment spent to support development plan for relationship managers. Amidst increased competition, new cards issued grew year-on-year, driven by targeted acquisition campaigns and nationwide spent campaigns, including new Premier Travel Card. Card balance transfer process has been streamlined to support foreign currency businesses, via newly launched New Worldwide and In-house Transfer program.

2016 was a year where Malaysia experienced capital outflows (similar to other emerging markets) in response to global economic developments including US normalising its interest rate. During the year, especially towards 4Q2016, Ringgit weakened and bond yield increased, resulting in Bank Negara Malaysia introducing new controls on foreign exchange transactions to increase liquidity and depth of the onshore foreign exchange market. Global Banking & Markets (GBM) has worked closely with our corporate customers (both importers and exporters) to manage their exposure accordingly. EvolveFX, a dealing platform for foreign exchange sales and trading, was rolled out for better efficiency in capturing automated forex flows. GBM also took advantage of its debt capital market capabilities to secure key deals, enhance cross border connectivity, capture key growth opportunities in ASEAN and drive Renminbi (RMB) usage among our customers. In addition, HSBC Security Services (HSS) has once again asserted its market leadership position as leading custodian and fund administrator by securing its position as Best Sub-Custodian (9th consecutive year) and No.1 Sub Custodian (8th consecutive year).

Commercial Banking (CMB) focused on growing International Subsidiary Banking (ISB) by leveraging on our network and regional connectivity to identify customers whose parent banks with HSBC overseas focusing on Malaysia, China and other key ASEAN Trade Partners. Growth was achieved in the top tier corporate customers segment, consisting of large local conglomerates, inbound ISB and upper business banking clientele.

Performance Review 2016

2016 was a challenging year where the management's focus was on the control agenda. The Group demonstrated its resilience by maintaining a respectable financial performance with a profit before tax of RM1,323 million for the financial year ended 31 December 2016, a decrease of 11% or RM157 million compared to previous year.

The lower profit was mainly attributable to lower operating income by RM162 million. Net interest income was lower than previous year by RM59 million as a result of a leaner customer advances portfolio size and intense market competition. The downward revision of overnight policy rate (OPR) in July 2016 from 3.25% to 3.00% also impacted the net interest income. On non-interest income, the Group recorded lower net fee income from credit card and lead arranger related income year-on-year. The net trading income also decreased by 17.7%, mainly arising from revaluation loss on trading books as yield increased due to the weaker MYR against USD, particularly towards the fourth quarter of 2016.

The net loan/financing impairment charge for the financial year ended 31 December 2016 was marginally lower than previous year, mainly due to lower allowance made on net collective impairment in tandem with the reduction in customer advances portfolio.

The Group continued to place high importance on the need to manage its operating expenses to ensure the resources are invested in a sustainable manner. In 2016, the Group maintained its overall costs base. Savings recorded across personnel expenses, promotion and marketing related expenses as well as establishment related expenses. Investments in compliance related costs increased in 2016, reflecting our commitment to invest in people and systems to detect, deter and protect the Group and the Bank against financial crime.

Total balance sheet size at 31 December 2016 stood at RM85.4 billion, RM4.4 billion lower compared against 31 December 2015 (RM89.8 billion). The Group's capital and liquidity ratios continues to remain strong and well above regulatory requirements.

Outlook for 2017

Malaysia's real Gross Domestic Product (GDP) grew by 4.2% in 2016. Domestic demand and foreign direct investment in various infrastructure projects will be the key drivers of growth. Private consumption should moderate in 2017 after the implementation of the Goods and Services Tax (GST) in April 2015. The still low unemployment rate at a circa of 3.5% will support household spending.

Malaysia's oil sector and economy is expected to be boosted by the recent agreed Organisation of Petroleum Exporting Countries (OPEC) output cuts which would stabilise the demand-supply of the oil market. However, the country will remain vulnerable to external development such as slowdown in China, which is Malaysia's largest trading partner.

Inflation rate is projected to rise moderately in 2017 to 2.3%. To ensure healthy business activities, Bank Negara Malaysia (BNM) had on 13 July 2016, taken the pre-emptive step to reduce the OPR from 3.25% to 3.00%. This was kept unchanged during the January 2017 monetary policy meeting. Supported by strong capital buffers, the financial institutions will have the capacity to shoulder any adverse market development.

Ringgit continues to be driven by shifts in investor sentiments and the rebalancing activity of portfolio investors. Foreign exchange volatility will continue to be a major issue for emerging markets given the change in USD interest rate cycle, concern over further slowdown in China and uncertainties in the outlook for commodities market. The offshore value of Ringgit dropped to its lowest level in over a decade during November 2016, following Donald Trump's victory in the US presidential elections. BNM implemented new controls for foreign exchange transactions in December 2016 to promote onshore foreign exchange for Ringgit by offshore investors.

In the bond market, there was lower trading as investors traded cautiously amidst continued uncertainties over the timing of US interest rate normalisation, resulting in lower liquidity ratios across all bond segments. As foreign holdings of bonds remain high, trading activities are expected to continue in 2017 with domestic bond yields staying attractive after recent spike in yields.

Overall, while domestic conditions remain resilient, uncertainties in the external environment may pose downside risks to Malaysia's growth prospects. External events will continue to weigh heavily on investor sentiments and volatility in the domestic financial markets. These include increased uncertainty over policy adjustments and growth in the major economies, volatile commodity prices and uncertainties over the timing and developments in the United Kingdom (UK) post the European Union (EU) referendum. Domestic financial stability is nonetheless expected to be maintained.

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.

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 RMB 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 volume on the Malaysia economy. Inbound China investments are predominantly in infrastructure projects which lead to foreign exchange business opportunities. Hence, the Group and the Bank will continue to capitalise on infrastructure related opportunities, especially arising from 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.

For 2017, the Group focus will be on expanding customers base and loan growth opportunities to increase market share. There are also opportunities for RBWM wealth management from diversification of client portfolio and rollovers of maturing structured investments in 2017.

Outlook for 2017 (Cont'd)

Corporate social responsibility is also a key focus area which the Group continues to put high emphasis on. During the year, the Group continued to invest in the long term future of the community in which we operate by focusing on education, environmental and community development initiatives because we believe they provide the fundamental building blocks to driving economic development, helping to create thriving communities. The Group endeavours to continue to contribute towards changing people's lives and the environment they live in for the better, and encourages active participation from our colleagues in all corporate sustainability initiatives. Being sustainable means building our business for the long term by living up to these responsibilities, and bringing us to HSBC's vision in becoming the world's leading international bank.

Awards won during the financial year

HSBC Bank Malaysia

1. **No.1 Sub Custodian –** Global Investor ISF 2016 Sub-Custody Survey (8th consecutive year)
2. **Best Sub-Custodian –** The Asset Triple A: Asset Servicing Awards 2016 (9th consecutive year)
3. **Best Fund Administrator** – Retail Funds (Malaysia) - The Asset Triple A Asset Servicing Awards 2016
4. **Best Foreign Bank in Malaysia** – FinanceAsia Platinum Awards
5. **Best Foreign Bank in Malaysia** – FinanceAsia Country Awards for Achievement 2016 (6th consecutive year)
6. **Best Consumer Digital Bank in Malaysia –** Global Finance 2016
7. **Best Local Currency Cash Management Bank** – Asiamoney Cash Management Poll 2016
8. **Best Bond House (Global)** – The Asset Triple A Country Awards 2016
9. **Best Bank Capital Bond –** Maybank's US$500m Basel III compliant Tier 2 bonds, HSBC acted as Joint bookrunners & lead managers, The Asset Triple A Country Awards 2016
10. **Best Country Deal (Malaysia) –** Maybank's US$500m Basel III compliant bond, HSBC acted as Joint book runners, Finance Asia Achievement awards 2016
11. **Best Recruitment Evaluation Technique (Gold),** Human Resources, Asia Recruitment Awards 2016
12. **Best Employee Referral Programme (Gold),** Human Resources, Asia Recruitment Awards 2016
13. **Best Recruitment Innovation (Silver),** Human Resources, Asia Recruitment Awards 2016
14. **Best In-House Recruitment Team (Bronze),** Human Resources, Asia Recruitment Awards 2016
15. **Project Finance Deal of the Year/Best power deal, Malaysia -** Jimah East Power 8.98 billion ringgit project financing, The Asset Triple A Asia Infrastructure Awards 2016
16. **Best Oil and Gas Deal, Malaysia -** Petronas USD5 billion trust certificates and global medium-term notes, The Asset Triple A Asia Infrastructure Awards 2016

Awards won during the financial year (Cont'd)

HSBC Amanah Malaysia

1. **Best Local Currency Sukuk** - Cagamas 500 million ringgit Murabahah Sukuk, HSBC acted as one of the Shariah advisers**,** The Asset Triple A Islamic Finance Awards 2016

2. **Best Project Finance Deal -** Jimah East Power 8.98 billion ringgit Murabahah Sukuk, HSBC acted as one of the Joint Lead Arranger, Shariah adviser and Joint Bookrunner and Lead Manager, The Asset Triple A Islamic Finance Awards 2016

3. **Best Loan Syndication -** SapuraKencana TMC US$2.1 billion equivalent syndicated Murabahah term financing facility, HSBC has acted as one of the mandated Lead Arrangers, The Asset Triple A Islamic Finance Awards 2016

4. **Best Sovereign Sukuk -** Government of Malaysia US$1.5 billion 10-year and 30-year Wakalah and Murabahah Sukuk, HSBC acted as one of the Joint Bookrunners and Joint Shariah advisers, The Asset Triple A Islamic Finance Awards 2016

5. **Best Sukuk -** Government of Malaysia US$1.5 billion 10-year and 30-year Wakalah and Murabahah Sukuk, HSBC acted as one of the Joint Bookrunners and Joint Shariah advisers, The Asset Triple A Islamic Finance Awards 2016

6. **Best Quasi-Sovereign Sukuk** - Petronas - US$1.25 billion Wakalah Sukuk, HSBC acted as one of the passive Joint Bookrunners, The Asset Triple A Islamic Finance Awards 2016

7. **Best Deal - China**, Country Garden Real Estate 115 million ringgit Sukuk, HSBC acted as one of the Joint Lead Managers, The Asset Triple A Islamic Finance Awards 2016

8. **Best Deal - Malaysia**, Government of Malaysia US$1.5 billion 10-year and 30-year Wakalah and Murabahah Sukuk, HSBC acted as one of the Joint Bookrunners and Joint Shariah advisers, The Asset Triple A Islamic Finance Awards 2016

9. **Innovation in Islamic Finance -** Government of Malaysia US$1.5 billion 10-year and 30-year Wakalah and Murabahah Sukuk, HSBC acted as one of the Joint Bookrunners and Joint Shariah advisers, Euromoney Awards for Innovation in Islamic Finance 2016

10. **Best Foreign Currency Bond Deal of the Year 2016 in Southeast Asia –** TNB Global Ventures Capital's US$750 million Sukuk Wakalah, HSBC acted as Joint Lead Managers and Joint Bookrunners, 10th Alpha Southeast Asia Deal & Solution Awards 2016

11. **Best Sovereign Bond Deal of the Year 2016 in Southeast Asia –** Republic of Malaysia's US$1.5 billion Global Islamic Sukuk, HSBC acted as Joint Lead Managers and Joint Bookrunners, 10th Alpha Southeast Asia Deal & Solution Awards 2016

Directors and their Interests in Shares

The names of the Directors of the Bank in office since the date of the last report and at the date of this report are:

- Peter Wong Tung Shun
- Mukhtar Malik Hussain
- Lee Choo Hock
- Tan Kar Leng @ Chen Kar Leng
- Tan Sri Dato' Tan Boon Seng @ Krishnan
- Choo Yoo Kwan @ Choo Yee Kwan

In accordance with Article 78 of the Articles of Association, all Directors shall retire from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The interests and deemed interests in the shares and options over shares of the Bank and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Bank) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of Shares			
	Balance at 1.1.2016	Bought	Sold	Balance at 31.12.2016
HSBC Holdings plc				
Ordinary shares of USD0.50				
Peter Wong Tung Shun [1]	1,556,622	634,736	(185,034)	2,006,324
Mukhtar Malik Hussain	1,219,379	90,287	(69,090)	1,240,576

	Number of Shares			
	Shares held at 1.1.2016	Shares issued during the year [2]	Shares vested during the year	Shares held at 31.12.2016
HSBC Holdings plc				
HSBC Share Plan				
Peter Wong Tung Shun	1,222,917	369,600	(276,801)	1,315,716
Mukhtar Malik Hussain	341,647	156,626	(99,736)	398,537

[1] *Including the interest of spouse, UBS AG (as a chargor) and HSBC Nominees (Hong Kong) Limited*
[2] *Includes scrip dividends*

None of the other Directors holding office at 31 December 2016 had any interest in the ordinary shares and options over shares of the Bank and of its related corporations during the financial year.

Directors' Benefits

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full-time employee of the Bank or of related corporations) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements to which the Bank is a party during and at the end of the financial year which had the objective of enabling the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate, except for:

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

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

Ultimate Holding Company

The Directors regard The Hongkong and Shanghai Banking Corporation Limited, a company incorporated in Hong Kong and HSBC Holdings plc, a company incorporated in England, as the immediate and ultimate holding companies of the Bank respectively.

Auditors

The financial statements for the financial year ended 31 December 2016 have been audited by PricewaterhouseCoopers (PwC). A resolution to re-appoint PwC as auditor of the Group and the Bank will be proposed at the forthcoming Annual General Meeting.

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

……………………………………………………

MUKHTAR MALIK HUSSAIN
Director

Kuala Lumpur, Malaysia
13 February 2017

DIRECTORS' STATEMENT

In the opinion of the Directors:

I, Mukhtar Malik Hussain a director of HSBC Bank Malaysia Berhad, do hereby state on behalf of the Directors that, in our opinion, the financial statements set out on pages 32 to 154 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2016 and of their financial performance and cash flows of the Group and of the Bank for the financial year then ended.

Signed at Kuala Lumpur, Malaysia this 13 February 2017.

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

……………………………………………
MUKHTAR MALIK HUSSAIN
Director

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

STATUTORY DECLARATION

I, Saw Say Pin, being the officer primarily responsible for the financial management of HSBC Bank Malaysia Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 32 to 154 are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the above named.

in Kuala Lumpur, Malaysia on 13 February 2017.

....
SAW SAY PIN

BEFORE ME:

…………………………………………….
Signature of Commissioner for Oaths

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HSBC BANK MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 127776-V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of HSBC Bank Malaysia Berhad ("the Bank") and its subsidiaries ("the Group") give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

What we have audited

We have audited the financial statements of the Group and of the Bank, which comprise the statements of financial position as at 31 December 2016 of the Group and of the Bank, the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 32 to 154.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the directors for the financial statements

The directors of the Bank are responsible for the preparation of the financial statements of the Group and of the Bank that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Bank that are free from material misstatement, whether due to fraud or error.

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(c) Our auditor' reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER MATTERS

This report is made solely to the members of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS	SOO HOO KHOON YEAN
(No. AF: 1146)	2682/10/17(J)
Chartered Accountants	Chartered Accountant

Kuala Lumpur
13 February 2017

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AT 31 DECEMBER 2016

		Group		*Bank*	
		31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Assets					
Cash and short-term funds	*6*	**16,804,114**	18,251,909	**14,999,888**	14,318,083
Securities purchased under resale agreements		**6,162,230**	6,553,754	**6,162,230**	6,553,754
Deposits and placements with banks and other financial institutions	*7*	**1,861,400**	-	**3,875,486**	2,635,204
Financial assets held-for-trading	*8*	**2,266,452**	1,497,358	**2,265,964**	1,486,866
Financial investments available-for-sale	*9*	**6,558,044**	7,013,509	**5,189,470**	5,312,266
Loans, advances and financing	*10*	**46,894,834**	51,222,193	**35,151,571**	39,253,976
Derivative financial assets	*39*	**2,988,954**	3,317,190	**3,089,446**	3,488,229
Other assets	*12*	**261,639**	280,200	**267,107**	258,731
Statutory deposits with Bank Negara Malaysia	*13*	**1,118,360**	1,174,110	**792,898**	844,448
Investments in subsidiary companies	*14*	-	-	**660,021**	660,021
Property and equipment	*16*	**364,324**	341,386	**357,087**	331,098
Intangible assets	*17*	**58,731**	64,702	**58,731**	64,702
Tax recoverable		**57,235**	26,012	**46,950**	20,850
Deferred tax assets	*18*	**28,258**	85,001	**17,863**	79,453
Total assets		**85,424,575**	89,827,324	**72,934,712**	75,307,681
Liabilities					
Deposits from customers	*19*	**60,837,098**	63,420,810	**52,110,576**	54,034,687
Deposits and placements from banks and other financial institutions	*20*	**6,571,193**	7,962,366	**6,542,777**	6,635,605
Bills and acceptances payable		**326,305**	337,218	**302,673**	322,314
Derivative financial liabilities	*39*	**3,127,028**	3,433,760	**3,132,513**	3,438,867
Other liabilities	*21*	**2,428,762**	3,401,386	**1,329,136**	2,146,153
Provision for taxation		-	52,100	-	52,100
Multi-Currency Sukuk Programme	*22*	**1,756,001**	1,749,823	-	-
Subordinated liabilities	*23*	**1,648,824**	1,621,340	**1,648,824**	1,621,340
Total liabilities		**76,695,211**	81,978,803	**65,066,499**	68,251,066
Equity					
Share capital	*24*	**114,500**	114,500	**114,500**	114,500
Reserves	*25*	**8,614,864**	7,734,021	**7,753,713**	6,942,115
Total equity attributable to owner of the Bank		**8,729,364**	7,848,521	**7,868,213**	7,056,615
Total liabilities and equity		**85,424,575**	89,827,324	**72,934,712**	75,307,681
Commitments and Contingencies	*38*	**173,191,009**	167,309,408	**166,087,429**	164,768,749

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

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

		Group		Bank	
		31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	Note	**RM'000**	RM'000	**RM'000**	RM'000
Interest income	*26*	**2,316,096**	2,501,491	**2,389,638**	2,569,985
Interest expense	*26*	**(860,168)**	(987,008)	**(860,168)**	(987,008)
Net interest income	*26*	**1,455,928**	1,514,483	**1,529,470**	1,582,977
Fee and commission income	*27*	**456,799**	486,177	**456,829**	486,207
Fee and commission expense	*27*	**(78,967)**	(77,221)	**(78,967)**	(77,222)
Net fee and commission income	*27*	**377,832**	408,956	**377,862**	408,985
Net trading income	*28*	**506,262**	615,017	**555,987**	629,203
Income from Islamic banking operations	*29*	**592,122**	545,533	**-**	-
Other operating income	*30*	**51,957**	61,983	**180,332**	185,250
Operating income before impairment losses		**2,984,101**	3,145,972	**2,643,651**	2,806,415
Loans/financing impairment charges and other credit risk provisions	*31*	**(168,504)**	(169,735)	**(31,639)**	(87,248)
Net operating income		**2,815,597**	2,976,237	**2,612,012**	2,719,167
Other operating expenses	*32*	**(1,492,381)**	(1,495,784)	**(1,390,420)**	(1,391,875)
Profit before tax		**1,323,216**	1,480,453	**1,221,592**	1,327,292
Tax expense	*33*	**(324,967)**	(376,938)	**(304,736)**	(345,839)
Profit for the financial year		**998,249**	1,103,515	**916,856**	981,453
Other comprehensive income/(expense)					
Items that will subsequently be reclassified to profit or loss when specific conditions are met					
Revaluation reserve:					
Surplus on revaluation properties		**35,006**	12,789	**35,006**	12,789
Deferred tax adjustment on revaluation reserve		**(3,657)**	(1,458)	**(3,657)**	(1,458)
Available-for-sale reserve:					
Change in fair value		**124,791**	72,115	**133,059**	56,839
Amount transferred to profit or loss		**(42,438)**	(33,242)	**(35,584)**	(33,010)
Income tax effect		**(19,765)**	(9,329)	**(23,394)**	(5,719)
Other comprehensive income for the financial year, net of income tax		**93,937**	40,875	**105,430**	29,441
Total comprehensive income for the financial year		**1,092,186**	1,144,390	**1,022,286**	1,010,894
Profit attributable to the owner of the Bank		**998,249**	1,103,515	**916,856**	981,453
Total comprehensive income attributable to the owner of the Bank		**1,092,186**	1,144,390	**1,022,286**	1,010,894
Basic earnings per RM0.50 ordinary share	*34*	**435.9 sen**	481.9 sen	**400.4 sen**	428.6 sen

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

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Group (RM'000)	*Share capital*	*Share premium*	*Statutory reserve*	*Revaluation reserve*	*Capital redemption reserve*	*Available-for-sale reserve*	*Capital contribution reserve*	*Regulatory reserve* [1]	*Retained profit*	*Total equity*
2016										
Balance at 1 January	**114,500**	**741,375**	**164,500**	**186,962**	**190,000**	**18,569**	**95,953**	**284,000**	**6,052,662**	**7,848,521**
Total comprehensive income for the financial year										
Profit for the financial year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**998,249**	**998,249**
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profit upon realisation of depreciation	**-**	**-**	**-**	**(2,082)**	**-**	**-**	**-**	**-**	**2,082**	**-**
Surplus on revaluation of properties	**-**	**-**	**-**	**35,006**	**-**	**-**	**-**	**-**	**-**	**35,006**
Deferred tax adjustment on revaluation reserve	**-**	**-**	**-**	**(3,657)**	**-**	**-**	**-**	**-**	**-**	**(3,657)**
Available-for-sale reserve:										
Net change in fair value	**-**	**-**	**-**	**-**	**-**	**94,841**	**-**	**-**	**-**	**94,841**
Net amount transferred to profit or loss	**-**	**-**	**-**	**-**	**-**	**(32,253)**	**-**	**-**	**-**	**(32,253)**
Total other comprehensive income	**-**	**-**	**-**	***29,267***	**-**	***62,588***	**-**	**-**	***2,082***	***93,937***
Total comprehensive income for the financial year	**-**	**-**	**-**	**29,267**	**-**	**62,588**	**-**	**-**	**1,000,331**	**1,092,186**
Transactions with the owner, recorded directly in equity										
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**-**	**(12,112)**	**-**	**769**	**(11,343)**
Dividends paid to owner - 2016 interim	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(200,000)**	**(200,000)**
Balance at 31 December	**114,500**	**741,375**	**164,500**	**216,229**	**190,000**	**81,157**	**83,841**	**284,000**	**6,853,762**	**8,729,364**

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

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

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (Cont'd)

Group (RM'000)	*Share capital*	*Share premium*	*Statutory reserve*	*Revaluation reserve*	*Capital redemption reserve*	*Available-for-sale reserve*	*Capital contribution reserve*	*Regulatory reserve* [1]	*Retained profit*	*Total equity*
2015										
Balance at 1 January	114,500	741,375	164,500	177,624	190,000	(10,975)	97,757	180,000	5,352,273	7,007,054
Total comprehensive income for the financial year										
Profit for the financial year	-	-	-	-	-	-	-	-	1,103,515	1,103,515
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profit upon realisation of depreciation	-	-	-	(1,993)	-	-	-	-	1,993	-
Surplus on revaluation of properties	-	-	-	12,789	-	-	-	-	-	12,789
Deferred tax adjustment on revaluation reserve	-	-	-	(1,458)	-	-	-	-	-	(1,458)
Available-for-sale reserve:										
Net change in fair value	-	-	-	-	-	54,808	-	-	-	54,808
Net amount transferred to profit or loss on disposal	-	-	-	-	-	(25,264)	-	-	-	(25,264)
Total other comprehensive income	-	-	-	*9,338*	-	*29,544*	-	-	*1,993*	*40,875*
Total comprehensive income for the financial year	-	-	-	9,338	-	29,544	-	-	1,105,508	1,144,390
Transfer relating to regulatory reserves	-	-	-	-	-	-	-	104,000	(104,000)	-
Transactions with the owner, recorded directly in equity										
Share based payment transactions	-	-	-	-	-	-	(1,804)	-	(1,119)	(2,923)
Dividends paid to owner - 2014 final	-	-	-	-	-	-	-	-	(300,000)	(300,000)
Balance at 31 December	114,500	741,375	164,500	186,962	190,000	18,569	95,953	284,000	6,052,662	7,848,521

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

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

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (Cont'd)

Bank (RM'000)	*Non-distributable*								*Distributable*	
	Share capital	*Share premium*	*Statutory reserve*	*Revaluation reserve*	*Capital redemption reserve*	*Available-for-sale reserve*	*Capital contribution reserve*	*Regulatory reserve* [1]	*Retained profit*	*Total equity*
2016										
Balance at 1 January	**114,500**	**741,375**	**114,500**	**186,962**	**190,000**	**13,623**	**94,895**	**250,000**	**5,350,760**	**7,056,615**
Total comprehensive income for the financial year										
Profit for the financial year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**916,856**	**916,856**
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profit upon realisation of depreciation	**-**	**-**	**-**	**(2,082)**	**-**	**-**	**-**	**-**	**2,082**	**-**
Surplus on revaluation of properties	**-**	**-**	**-**	**35,006**	**-**	**-**	**-**	**-**	**-**	**35,006**
Deferred tax adjustment on revaluation reserve	**-**	**-**	**-**	**(3,657)**	**-**	**-**	**-**	**-**	**-**	**(3,657)**
Available-for-sale reserve:										
Net change in fair value	**-**	**-**	**-**	**-**	**-**	**101,125**	**-**	**-**	**-**	**101,125**
Net amount transferred to profit or loss	**-**	**-**	**-**	**-**	**-**	**(27,044)**	**-**	**-**	**-**	**(27,044)**
Total other comprehensive income	**-**	**-**	**-**	***29,267***	**-**	***74,081***	**-**	**-**	***2,082***	***105,430***
Total comprehensive income for the financial year	**-**	**-**	**-**	**29,267**	**-**	**74,081**	**-**	**-**	**918,938**	**1,022,286**
Transactions with the owner, recorded directly in equity										
Share based payment transactions	**-**	**-**	**-**	**-**	**-**	**-**	**(11,457)**	**-**	**769**	**(10,688)**
Dividends paid to owner - 2016 interim	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(200,000)**	**(200,000)**
Balance at 31 December	**114,500**	**741,375**	**114,500**	**216,229**	**190,000**	**87,704**	**83,438**	**250,000**	**6,070,467**	**7,868,213**

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

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

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (Cont'd)

Bank (RM'000)	*Non-distributable*								*Distributable*	
	Share capital	*Share premium*	*Statutory reserve*	*Revaluation reserve*	*Capital redemption reserve*	*Available-for-sale reserve*	*Capital contribution reserve*	*Regulatory reserve* [1]	*Retained profit*	*Total equity*
2015										
Balance at 1 January	114,500	741,375	114,500	177,624	190,000	(4,487)	96,383	167,000	4,751,450	6,348,345
Total comprehensive income for the financial year										
Profit for the financial year	-	-	-	-	-	-	-	-	981,453	981,453
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profit upon realisation of depreciation	-	-	-	(1,993)	-	-	-	-	1,993	-
Surplus on revaluation of properties	-	-	-	12,789	-	-	-	-	-	12,789
Deferred tax adjustment on revaluation reserve	-	-	-	(1,458)	-	-	-	-	-	(1,458)
Available-for-sale reserve:										
Net change in fair value	-	-	-	-	-	43,198	-	-	-	43,198
Net amount transferred to profit or loss on disposal	-	-	-	-	-	(25,088)	-	-	-	(25,088)
Total other comprehensive income	-	-	-	*9,338*	-	*18,110*	-	-	*1,993*	*29,441*
Total comprehensive income for the financial year	-	-	-	9,338	-	18,110	-	-	983,446	1,010,894
Transfer relating to regulatory reserves	-	-	-	-	-	-	-	83,000	(83,000)	-
Transactions with the owner, recorded directly in equity										
Share based payment transactions	-	-	-	-	-	-	(1,488)	-	(1,136)	(2,624)
Dividends paid to owner - 2014 final	-	-	-	-	-	-	-	-	(300,000)	(300,000)
Balance at 31 December	114,500	741,375	114,500	186,962	190,000	13,623	94,895	250,000	5,350,760	7,056,615

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

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

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Group	
	31 Dec 2016 RM'000	31 Dec 2015 RM'000
Cash Flows from Operating Activities		
Profit before income tax expense	**1,323,216**	1,480,453
Adjustments for :		
Property and equipment written off	**5**	31
Intangible assets written off	**1,569**	3,087
Depreciation of property and equipment	**27,034**	33,626
Amortisation of intangible assets	**22,703**	26,517
Net gains on disposal of property and equipment	**(84)**	(78)
Net upwards revaluation on property	**(73)**	(22)
Unrealised losses/(gains) on financial instruments at fair value through profit or loss	**6,178**	(2,031)
Share-based payment transactions	**9,885**	(17,157)
Dividend income	**(1,450)**	(1,450)
Unrealised losses/(gains) on revaluation of financial assets held-for-trading	**24,720**	(18,523)
Unrealised losses on revaluation of subordinated liabilities	**27,484**	95,659
Unrealised losses on revaluation of derivatives	**9,830**	4,153
Unrealised losses/(gains) from dealing in foreign currency	**120,805**	(163,357)
Allowance for impairment losses on loans and financing	**261,299**	272,115
Operating profit before changes in operating assets and liabilities	**1,833,121**	1,713,023
(Increase)/Decrease in operating assets		
Securities purchased under resale agreements	**391,524**	(4,288,147)
Deposits and placements with banks and other financial institutions	**(1,861,400)**	2,936,713
Financial assets held-for-trading	**(793,814)**	1,468,247
Loans, advances and financing	**4,066,060**	(6,060,746)
Derivative financial assets	**197,601**	(1,358,285)
Other assets	**(14,478)**	286,889
Statutory deposits with Bank Negara Malaysia	**55,750**	304,950
Increase/(Decrease) in operating liabilities		
Deposits from customers	**(2,583,712)**	2,112,577
Deposits and placements from banks and other financial institutions	**(1,391,173)**	(316,593)
Bills and acceptances payable	**(10,913)**	(89,128)
Derivative financial liabilities	**(306,732)**	1,827,385
Other liabilities	**(862,481)**	1,434,229
Net cash used in operating activities	**(1,280,647)**	(28,886)
Income tax paid	**(375,055)**	(330,275)
Net cash used in operating activities	**(1,655,702)**	(359,161)
Cash Flows from Investing Activities		
Purchase of financial investment available for sale	**(7,123,354)**	(21,621,047)
Proceeds from disposal/redemption of financial investment available-for-sale	**7,694,210**	31,845,846
Purchase of property and equipment	**(15,206)**	(10,774)
Purchase of intangible assets	**(18,301)**	(32,703)
Proceeds from disposal of property and equipment	**392**	122
Dividends received	**1,450**	1,450
Net cash generated from investing activities	**539,191**	10,182,894

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

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (Cont'd)

	Group	
	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Cash Flows from Financing Activities		
Proceeds from subordinated liabilities	**-**	250,299
Interest paid on subordinated liabilities	**(61,906)**	(56,357)
Proceeds from Multi-Currency Sukuk Programme	**-**	750,000
Profits paid on Multi-Currency Sukuk Programme	**(69,378)**	(54,823)
Dividends paid	**(200,000)**	(300,000)
Net cash (used in)/generated from financing activities	**(331,284)**	589,119
Net (decrease)/increase in Cash and Cash Equivalents	**(1,447,795)**	10,412,852
Cash and Cash Equivalents at beginning of the financial year	**18,251,909**	7,839,057
Cash and Cash Equivalents at end of the financial year	**16,804,114**	18,251,909
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**16,804,114**	18,251,909
Cash and cash equivalents comprise the following:		
Cash and short-term funds	**16,804,114**	18,251,909
Adjustment for cash collateral	**(1,079,045)**	(1,706,436)
Cash and cash equivalents	**15,725,069**	16,545,473

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

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (Cont'd)

	Bank	
	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Cash Flows from Operating Activities		
Profit before income tax expense	**1,221,592**	1,327,292
Adjustments for :		
Property and equipment written off	**5**	31
Intangible assets written off	**1,569**	3,087
Depreciation of property and equipment	**22,005**	26,520
Amortisation of intangible assets	**22,703**	26,515
Net gains on disposal of property and equipment	**(84)**	(78)
Net upwards revaluation on property	**(73)**	(22)
Share-based payment transactions	**10,474**	16,792
Dividend income	**(1,450)**	(1,450)
Unrealised losses/(gains) on revaluation of financial assets held-for-trading	**24,720**	(18,523)
Unrealised losses on revaluation of subordinated liabilities	**27,484**	95,659
Unrealised losses on revaluation of derivatives	**16,802**	12,416
Unrealised losses/(gains) from dealing in foreign currency	**67,407**	(199,072)
Allowance for impairment losses on loans and financing	**92,569**	157,399
Operating profit before changes in operating assets and liabilities	**1,505,723**	1,446,566
Decrease/(Increase) in operating assets		
Securities purchased under resale agreements	**391,524**	(4,288,147)
Deposits and placements with banks and other financial institutions	**(1,240,282)**	2,145,418
Financial assets held-for-trading	**(803,818)**	1,458,684
Loans, advances and financing	**4,009,836**	(4,658,351)
Derivative financial assets	**314,574**	(1,470,170)
Other assets	**(35,026)**	231,027
Statutory deposits with Bank Negara Malaysia	**51,550**	155,550
Increase/(Decrease) in operating liabilities		
Deposits from customers	**(1,924,111)**	3,702,614
Deposits and placements from banks and other financial institutions	**(92,828)**	(1,623,711)
Bills and acceptances payable	**(19,641)**	(78,323)
Derivative financial liabilities	**(306,354)**	1,804,565
Other liabilities	**(776,273)**	108,726
Net cash generated from/(used in) operating activities	**1,074,874**	(1,065,552)
Income tax paid	**(348,396)**	(301,473)
Net cash generated from/(used in) operating activities	**726,478**	(1,367,025)
Cash Flows from Investing Activities		
Purchase of financial investment available-for-sale	**(6,471,859)**	(20,032,760)
Proceeds from disposal/redemption of financial investment available-for-sale	**6,718,779**	27,786,691
Purchase of property and equipment	**(13,228)**	(9,550)
Purchase of intangible assets	**(18,301)**	(32,703)
Proceeds from disposal of property and equipment	**392**	78
Dividend received	**1,450**	1,450
Net cash generated from investing activities	**217,233**	7,713,206

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

STATEMENTS OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (Cont'd)

	Bank	
	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Cash Flows from Financing Activities		
Proceeds from subordinated liabilities	-	250,299
Interest paid on subordinated liabilities	**(61,906)**	(56,357)
Dividends paid	**(200,000)**	(300,000)
Net cash used in financing activities	**(261,906)**	(106,058)
Net increase in Cash and Cash Equivalents	**681,805**	6,240,123
Cash and Cash Equivalents at beginning of the financial year	**14,318,083**	8,077,960
Cash and Cash Equivalents at end of the financial year	**14,999,888**	14,318,083
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**14,999,888**	14,318,083
Cash and cash equivalents comprise the following:		
Cash and short-term funds	**14,999,888**	14,318,083
Adjustment for cash collateral	**(1,429,045)**	(1,706,436)
Cash and cash Equivalents	**13,570,843**	12,611,647

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

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

HSBC Bank Malaysia Berhad is principally engaged in the provision of banking and other related financial services. The subsidiaries of the Bank are principally engaged in the businesses of Islamic Banking and nominee services. Islamic Banking operations refer generally to the acceptance of deposits and granting of financing under the principles of Shariah.

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

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

The immediate parent bank and the ultimate holding company during the financial year are The Hongkong and Shanghai Banking Corporation Limited (HBAP) and HSBC Holdings plc, respectively.

The financial statements were approved and authorised for issue by the Board of Directors on 13 February 2017.

2 Basis of Preparation

(a) Statement of compliance

The financial statements of the Group and the Bank have been prepared in accordance with the Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The financial statements incorporate those activities relating to Islamic Banking which have been undertaken by the Bank's Islamic subsidiary.

(i) <u>Standards and amendments to published standards that are effective</u>

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

- Amendments to MFRS 127 'Separate Financial Statements'. The amendments introduced equity accounting for separate financial statements.

- MFRS 101 'Presentation of Financial Statements' - Disclosure Initiative (Amendments to MFRS 101). The amendments are part of a major initiative to improve disclosure requirements in MFRS financial statements. These amendments include narrow - focus improvements in five areas as follows:
  - Materiality
  - Disaggregation and subtotals
  - Notes structure
  - Disclosure of accounting policies
  - Presentation of items in Other Comprehensive Income (OCI) arising from equity accounted investments.

- Amendments to MFRS 11 'Joint arrangements'. The amendments introduced accounting for acquisition of interest in joint operations.

- Amendments to MFRS 10, 12 & 128 'Investment entities'. The amendments introduced application of consolidation exception.

- Annual improvement to MFRSs 2012 - 2014 Cycle
  - Amendment to MFRS 5, 'Non-current assets Held for Sale and Discontinued Operations'
  - Amendment to MFRS 7, 'Financial Instruments: Disclosure - Servicing contracts'
  - Amendment to MFRS 7, 'Financial Instruments: Disclosure - Applicability of the amendments to MFRS 7 to condensed interim financial statements'
  - Amendment to MFRS 119, 'Employee Benefits'
  - Amendments to MFRS 134, 'Interim Financial Reporting'

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

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

The adoption of the new accounting standards, amendments and improvements to published standards did not have a material impact on the financial statements of the Group and the Bank on the current period or any prior period and is not likely to affect the future periods.

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

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

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

- Amendments to MFRS 107 'Statement of Cash Flows - Disclosure Initiative'

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

- Amendments to MFRS 112 'Recognition of Deferred Tax Assets for Unrealised Losess'

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

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

  The amendments shall be applied retrospectively.

b. 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.

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

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

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

- 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 interest.

  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 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.

  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.

2 Basis of Preparation (Cont'd)

(a) Statement of compliance (Cont'd)

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

c. 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 interest 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 Group and the Bank upon their 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 Group is currently assessing the financial impact that may arise from the adoption of MFRS 9.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

Management believes that the Group and the Bank's critical accounting policies where judgment is necessarily applied are those which relate to impairment of loans, advances and financing and the valuation of financial instruments (see Note 5). There are no other significant areas of estimation uncertainty and critical judgments in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed above.

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

3 Significant Accounting Policies

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

(a) Basis of Consolidation

The Group financial statements include the financial statements of the Bank and its subsidiaries made up to 31 Dec 2016.

(i) Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date the control ceases.

The Group controls and consequently consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group and the Bank also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Investments in subsidiaries are measured in the Bank's statement of financial position at cost less any impairment losses, unless the investment is held for sale or distribution. The cost of investments includes transaction cost.

(ii) Business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

For each business combination, the Group elects whether it measures the non-controlling interests in the acquirer either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Transaction costs, other than that related to the issuance of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 139 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

(iii) Acquisitions of non-controlling interests

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against the Group reserves.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(a) Basis of Consolidation(Cont'd)

(iv) Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the consolidated statement of financial position. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that the control is lost. Subsequently, it is accounted for as equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(v) Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decision about the activities that significantly affect the arrangement's returns.

The Group adopted MFRS 11, Joint Arrangements. Joint arrangements are classified and accounted for as follows:

- A joint arrangement is classified as "joint operation" when the Group or the Bank has the rights to the assets and obligations for the liabilities relating to an arrangement. The Group and the Bank account for each of its share of the assets, liabilities and transactions, including the share of those held or incurred jointly with the other investors, in relation to the joint operation.
- A joint arrangement is classified as a "joint venture" when the Group has rights only to the net assets of the arrangements. The Group accounts for its interest in the joint venture using the equity method as described in MFRS 128.

(vi) Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Bank, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Bank. Non-controlling interests in the results of the Group is presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of the profit or loss and other comprehensive income for the financial year between the non-controlling interests and owners of the Bank.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interests to have a deficit balance.

(vii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity-accounted joint ventures are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(b) Foreign Currencies

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

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

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

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

(c) Interest income and expense/Islamic financing income and expense

Interest income and expense/Islamic financing income and expense for all financial instruments of the Group and the Bank, except those classified as held-for-trading are recognised in "interest income" and "interest expense" and "Income from Islamic Banking Operation" in the statement of profit or loss and other comprehensive income using the effective interest/profit rate method. The effective interest/profit rate method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or expense/Islamic financing income or expense over the relevant period.

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

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

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

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

Interest/Financing income and expense of the Group and the Bank presented in the statement of profit and loss and other comprehensive income include:

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

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

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

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

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are rendered.

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

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest income and expense.

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

- all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value through profit or loss, including liabilities under investment contracts;
- all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities designated at fair value through profit or loss; and
- interest income, interest expense and dividend income in respect of:
  - financial assets and financial liabilities designated at fair value through profit or loss; and
  - derivatives managed in conjunction with the above,

except for interest arising from debt securities issued by the group and derivatives managed in conjunction with those debt securities, which is recognised in 'Interest income and expense/Islamic financing income and expense (Note 3(c)).

(e) Income tax

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

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

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

3 Significant Accounting Policies (Cont'd)

(e) Income tax (Cont'd)

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

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

(f) Financial instruments

(i) Initial recognition and measurement

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

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

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Group and the Bank categorise financial assets as follows:

- loans, advances and financing (Note 3(k))
- financial investments
  - held to maturity (Note 3(j)(i)),
  - available-for-sale (Note 3(j)(ii)),
- trading assets (Note 3(i))

The Group and the Bank classify their financial liabilities, other than financial guarantees, as measured at amortised cost or trading liabilities (See Notes 3(i), 3(q), 3(s)).

(iii) Derecognition of financial assets and liabilities

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

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

(f) Financial instruments (Cont'd)

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

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is currently a legally enforceable right to offset the recognised amounts and the Group and the Bank intend to settle on a net basis, or realise the asset and settle the liability simultaneously.

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

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest/profit method of any difference between the initial amounts recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Group and the Bank recognise a trading gain or loss on inception of the financial instrument, being the difference between the transaction price and the fair value. When unobservable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value from the transaction price as indicated by the valuation model is not recognised immediately in the profit or loss. Instead, it is recognised over the life of the transaction on an appropriate basis, when the inputs become observable, the transaction matures or is closed out, or when the Group and the Bank enter into an offsetting transaction.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value are measured in accordance with the Group and the Bank's valuation methodologies, which are described in Notes 5(b)(ii).

(g) Cash and cash equivalents

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

(h) Sale and repurchase agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price (repos), they remain on the balance sheet and a liability is recorded for the consideration received.

Securities purchased under commitments to re-sell (reverse repos) are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid.

Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest/profit income and recognised in net interest income over the life of the agreement.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(i) Trading assets and trading liabilities

Treasury bills, loans, advances and financing to and from customers, placings with and by banks, debt securities, structured deposits, equity securities, debt securities in issue, certain deposits and short positions in securities which have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking are classified as held-for-trading. Financial assets or financial liabilities are recognised on trade date, when the Group and the Bank enter into contractual arrangements with counterparties to purchase or sell the financial instruments, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs taken to the profit or loss. Subsequently, the fair values are remeasured and gains and losses from changes therein are recognised in the profit or loss within 'Net trading income (Note 3(d))'.

In order to conform with the BNM presentation of the balance sheet to present financial instruments by types rather than by measurement, trading liabilities are not disclosed as a separate item on the face of the balance sheet. They are included into the respective types of financial liabilities instrument categories.

Structured investment/Islamic structured placement is classified as trading liabilities as they are initiated by trading desk for trading and not for funding purpose and the market risk of the embedded derivative is actively managed as part of the trading portfolio.

(j) Financial investments

Treasury bills, debt securities and equity securities intended to be held on a continuing basis, other than those designated at fair value, are classified as available-for-sale or held-to-maturity. They are recognised on trade date when the Group and the Bank enter into contractual arrangements to purchase those instruments, and are normally derecognised when either the securities are sold or redeemed.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group and the Bank positively intends and is able to hold until maturity. These investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest/profit rate method, less any impairment losses.

(ii) Available-for-sale

Available-for-sale financial assets are initially measured at fair value plus direct and incremental transaction costs. Available-for-sale financial assets are recognised on the trade date when the group enters into contractual arrangements to purchase those instruments, and are normally derecognised when either the securities are sold or redeemed. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income in 'Available-for-sale reserve – change in fair value' until they are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the profit or loss as 'Disposal of financial investments available-for-sale'.

Interest/financing income is recognised on available-for-sale debt securities using the effective interest/profit rate method, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of dated investment securities are included in the calculation of their effective interest/profit rates. Dividends are recognised in the profit or loss when the right to receive payment has been established.

Available-for-sale financial assets are assessed at each balance sheet date for objective evidence of impairment. Impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset and can be reliably estimated.

3 Significant Accounting Policies (Cont'd)

(j) Financial investments (Cont'd)

(ii) Available-for-sale (Cont'd)

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the profit or loss, is removed from other comprehensive income and recognised in the profit or loss.

Impairment losses for available-for-sale debt securities are recognised within 'Loan/Financing impairment charges and other credit risk provisions' in the profit or loss and impairment losses for available-for-sale equity securities are recognised within 'Gains/losses from financial investments' in the profit or loss.

- *Available-for-sale debt securities*
  In assessing objective evidence of impairment at the reporting date, the Group and the Bank consider all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in the recovery of future cash flows. These events may include a significant financial difficulty of the issuer, a breach of contract such as a default, bankruptcy or other financial reorganisation, or the disappearance of an active market for the debt security because of financial difficulties relating to the issuer.

  These types of specific event and other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment of a debt security.

- *Available-for-sale equity securities*
  Objective evidence of impairment for available-for sale equity securities may include specific information about the issuer as detailed above, but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the cost of the equity securities may not be recovered.

  A significant or prolonged decline in the fair value of the equity below its cost is objective evidence of impairment. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. In assessing whether it is prolonged, the decline is evaluated against the continuous period in which the fair value of the asset has been below its original cost at initial recognition.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- *Available-for-sale debt security*
  A subsequent decline in the fair value of the instrument is recognised in the profit or loss when there is objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss to the extent of the increase in fair value.

- *Available-for-sale equity security*
  All subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised directly in other comprehensive income. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the profit or loss, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost less cumulative impairment to date of the equity security. Impairment losses recognised on the equity security are not reversed through the profit or loss.

(k) Loans, advances and financing

Loans, advances and financing to customers and placing with banks include financing and advances that originated from the Group and the Bank, which are not classified as either held-for-trading or designated at fair value. They are recognised when cash is advanced to borrowers and derecognised when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest/profit rate method, less any reduction from impairment or uncollectibility.

For financing under the Syndicated Investment Account for Financing/Investment Agency Account (SIAF/IAA) or Restricted Profit Sharing Investment Account (RPSIA) arrangements, the Group and Bank recognise the financing to the extent that the financing qualify for derecognition by HBMS. Refer to accounting policy Note 3(f)(iii) on derecognition of financial assets.

(l) Impairment of loans, advances and financing

Losses for impaired loans, advances and financing are recognised when there is objective evidence that impairment of a loan/financing or portfolio of loans/financing has occurred or when principal or interest/profit or both are past due for more than ninety (90) days, whichever is sooner. Impairment allowances are calculated on individual loans/financing and on groups of loans/financing assessed collectively. Impairment losses are recorded as charges to the profit or loss. The carrying amount of impaired loans/financing on the balance sheet is reduced through the use of impairment allowance accounts. Losses which may arise from future events are not recognised.

The Group and Bank's allowance for impaired loans/financing are in conformity with MFRS 139.

(i) Individually assessed loans, advances and financing

The factors considered in determining whether a loan/financing is individually significant for the purposes of assessing impairment include the size of the loan, the number of loans in the portfolio, and the importance of the individual loan relationship, and how this is managed.

Loans/financing that are determined to be individually significant will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective methodology.

Loans/financing considered as individually significant are typically to corporate and commercial customers, are for larger amounts, and are managed on an individual basis. Retail lending portfolios are generally assessed for impairment on a collective basis as the portfolios generally consist of large pools of homogeneous loans/financing.

For all loans/financing that are considered individually significant, the Group and Bank assess on a case-by-case basis at each balance sheet date to identify whether objective evidence of impairment exists based on the following criteria:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days;
- the probability that the borrower will enter bankruptcy or other financial realisation;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest/profit or fees, where the concession is not insignificant; and
- there has been deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

(l) Impairment of loans, advances and financing (Cont'd)

(i) Individually assessed loans, advances and financing (Cont'd)

For those loans/financing where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- the Group/Bank's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the Group and the Bank and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the borrower to obtain, and make payments in, the currency of the loan/financing if not denominated in local currency; and
- when available, the secondary market price of the debt.

The realisable value of security is determined based on the most recently updated market value at the time when the impairment assessment is performed. The value is not adjusted for expected future changes in market prices, though adjustments are made to reflect local conditions such as forced sale discounts.

Impairment losses are calculated by discounting the expected future cash flows of a loan/financing, which includes expected future receipts of contractual interest/profit, at the loan/financing's original effective interest/profit rate or an approximation there of, and comparing the resultant present value with the loan/financing's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

(ii) Collectively assessed loans, advances and financing

Impairment is assessed collectively to cover losses which have been incurred but have not yet been identified on loans/financing subject to individual assessment or for homogeneous groups of loans, advances and financing that are not considered individually significant, generally retail lending portfolios.

Individually assessed loans/financing for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for a collective impairment assessments. These credit risk characteristics may include country of origination, type of business involved, type of products offered, security obtained or other relevant factors. This assessment captures impairment losses that the Group and the Bank has incurred as a result of events occurring before the balance sheet date, which the Group and the Bank is not able to identify on an individual loan/financing basis, and that can be reliably estimated. When information becomes available which identifies losses on individual loans/financing within the group, those loans/financing are removed from the group and assessed individually.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan/financing; and
- management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

3 Significant Accounting Policies (Cont'd)

(l) Impairment of loans, advances and financing (Cont'd)

(ii) Collectively assessed loans, advances and financing (Cont'd)

The period between a loss occurring and its identification is estimated by local management for each identified portfolio based on economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. The estimated period between a loss occurring and its identification may vary over time as these factors change.

Homogeneous groups of loans, advances and financing

Statistical methods are used to determine impairment losses for homogeneous groups of loans, advances and financing not considered individually significant. Losses in these groups of loans/financing are recorded individually when individual loans/financing are removed from the group and written off. Two methods that are used to calculate collective allowances are:

- When appropriate empirical information is available, the Group and the Bank uses roll-rate methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of loans/financing that will eventually be written off as a result of the events occurring before the balance sheet. Individual loans/financing are grouped using ranges past due days, and statistical analysis are made of the likelihood that loans/financing in each range will progress through the various stages of delinquency, and become irrecoverable. Additionally, individual loans/financing are segmented based on their credit characteristics as described above. Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss. The estimated loss is the difference between the present value of expected future cash flows, discounted at the original effective interest rate of the portfolio, and the carrying amount of the portfolio.

- When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll rate methodology, the Group and the Bank adopt a basic formulaic approach based on historical loss rate experience, or a discounted cash flow model. When a basic formulaic approach is undertaken, the period between losses occurring and its identification is explicitly estimated by local management, and is typically between six and twelve months.

The inherent loss within each portfolio is assessed on the basis of statistical models using historical data observations, which are updated periodically to reflect recent portfolio and economic trends. When the most recent trends in portfolio risk factors arising from changes in economic, regulatory or behavioural conditions are not fully reflected in the statistical models, they are taken into account by adjusting the impairment allowances derived from the statistical models to reflect these changes as at the balance sheet date.

These additional portfolio risk factors may include recent loan/financing portfolio growth and product mix, unemployment rates, bankruptcy trends, geographic concentrations, loan/financing product features (such as the ability of borrowers to repay adjustable-rate loans/financing where reset interest/profit rates give rise to increases in interest/profit charges), economic conditions such as national and local trends in housing markets and interest/profit rates, portfolio seasoning, account management policies and practices, current levels of write-offs, adjustments to the period of time between loss identification and write-off, changes in laws and regulations and other items which can affect customer payment patterns on outstanding loans, such as natural disasters. These risk factors, where relevant, are taken into account when calculating the appropriate level of impairment allowances by adjusting the impairment allowances derived solely from historical loss experience.

Roll rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

(l) Impairment of loans, advances and financing (Cont'd)

(iii) Write-off of loans, advances and financing

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

(iv) Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan/financing impairment allowance account accordingly. The write-back is recognised in the profit or loss.

(v) Renegotiated loans/financing

Loans/financing subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up to date loans/financing, once a minimum number of 12 monthly payments have been received. Loans/financing subject to collective impairment assessment whose terms have been renegotiated are segregated from other parts of the loan/financing portfolio for the purposes of collective impairment assessment, to reflect their risk profile.

Loans/financing subject to individual impairment assessment, whose terms have been renegotiated remain as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future contractual payments, and there are no other indicators of impairment. The renegotiated Loans/Financing will only be reclassified as unimpaired when restructured payment is received and observed for a minimum period of 12 months.

A loan/financing that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan/financing is substantially a different financial instrument. Any new loans that arise following derecognition events will continue to be disclosed as renegotiated loans and are assessed for impairment as above.

(m) Property and equipment

(i) Land and buildings

Land and buildings held for own use, comprising freehold land and buildings, and leasehold land and buildings are carried at their revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses.

Revaluation are performed annually by independent professional qualified valuers, on a market basis, to ensure that the net carrying amount does not differ materially from the fair value. Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each financial year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from revaluation reserve to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset.

3 Significant Accounting Policies (Cont'd)

(m) Property and equipment (Cont'd)

(i) Land and buildings (Cont'd)

The gains or losses on disposal of land and buildings is determined by comparing the proceeds from disposal with the carrying amount of the land and buildings and is recognised net within "other operating income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

Freehold land is not depreciated. Depreciation of all other land and buildings is calculated to write off the cost of the assets on a straight line basis over the estimated useful lives of the assets concerned as follows:

Leasehold land	Over the lease term
Buildings on freehold land	50 years
Buildings on leasehold land	Over the lease term
Improvements on freehold building	10 years
Improvements on leasehold building	The shorter of 10 years and the lease term

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

The fair value are within level 2 of the fair value hierarchy. The fair value have been derived using the sales comparison approach.

(ii) Equipment

Equipment, fixtures and fittings and motor vehicles are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis to write off the assets over their useful lives as follows:

Office equipment, fixtures and fittings	5 to 10 years
Computer equipment	3 to 7 years
Motor vehicles	5 years

Additions to other equipment costing RM1,000 and under are fully depreciated in the year of purchase. For those assets costing more than RM1,000, depreciation is provided at the above rates.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(n) Operating leases

Leases, where the Group or the Bank does not assume substantially all the risks and rewards of ownership, are classified as operating leases. When the Group and the Bank are the lessees, the leased assets are not recognised in the statement of financial position of the Group or the Bank. Rentals payable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'Establishment related expenses'.

(o) Intangible Assets

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

Amortisation of intangible assets is calculated to write off the cost of the intangible assets on a straight line basis over the estimated useful lives of 3 to 5 years. Intangible assets are subject to impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

(p) Bills and Acceptances Payable

Bills and acceptances payable represent the Group and the Bank's own bills and acceptances rediscounted and outstanding in the market.

(q) Debt securities issued, subordinated liabilities, multi-currency sukuk and deposits by customers and banks

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

Subordinated liabilities and the multi-currency sukuk of the Group and the Bank are measured at amortised cost using the effective interest/profit rate method, except for the portions which are fair value hedged, which are adjusted for the fair value gains or losses attributable to the hedged risks. Interest expense/profits payable on subordinated liabilities and multi-currency sukuk of the Group and the Bank are recognised on an accrual basis.

(r) Provisions

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

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security and contingent liabilities related to legal proceedings or regulatory matters, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group and the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

(s) Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

Fee income recognised on financial guarantee contracts are amortised to profit or loss using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in the profit or loss upon discharge of the guarantee.

(t) Derivative financial instruments and hedge accounting

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are initially recognised, and are subsequently remeasured, at fair value. Fair values of exchange traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models. Derivative assets and liabilities arising from different transactions are only offset for accounting purposes if the offsetting criteria are met.

Derivatives may be embedded in other financial instruments, for example, a convertible bond with an embedded conversion option. Embedded derivatives are treated as separate derivatives (bifurcated) when their economic characteristics and risks are not clearly and closely related to those of the host non-derivative contract; the terms of the embedded derivative would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes therein recognised in the profit or loss.

Derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the statement of profit or loss and other comprehensive income. When derivatives are designated as hedges, the Group and the Bank classify them as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments (fair value hedges) or (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedges). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Significant Accounting Policies (Cont'd)

(t) Derivative financial instruments and hedge accounting (Cont'd)

(i) Hedge accounting

At the inception of a hedging relationship, the Group and the Bank document the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Group and the Bank require documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest/Profit on designated qualifying hedges is included in 'Net interest income'.

- ***Fair value hedge***

  Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the profit or loss, along with changes in the fair value of the hedged assets or liabilities attributable to the hedged risk. If a hedge relationship no longer meets the criteria for hedge accounting, the hedge accounting is discontinued: the cumulative adjustment to the carrying amount of the hedged item is amortised to profit and loss on a recalculated effective interest/profit rate over the residual period to maturity, unless the hedged item has been derecognised, in which case, it is recognised in the profit or loss immediately.

- ***Cash flow hedge***

  The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the profit or loss within 'Net Trading Income'.

  The accumulated gains and losses recognised in other comprehensive income are reclassified to the profit or loss in the same periods in which the hedged item affects the profit or loss. In hedges of forecast transactions that result in recognition of a non-financial asset or a non-financial liability, previous gains and losses recognised in other comprehensive income are removed from equity and included in the initial measurement of the asset or liability.

  When a hedge relationship is discontinued, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity until the forecast transaction is eventually recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the profit or loss.

(u) Financial instruments designated at fair value

Financial instruments, other than those held for trading, are classified in this category if they meet the criteria set out below and are so designated irrevocably by management on initial recognition. The Group and the Bank may designate financial instruments at fair value when the designation:

- eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial instruments, or recognising the gains and losses different bases from related positions. Under this criterion, the main class of financial instruments designated by the Group and the Bank are:

  Long-term debt issues - the interest/profit payable on certain fixed-rate long-term debt securities issued has been matched with the interest/profit on 'receive fixed/pay variable' interest/profit swaps as part of a documented interest/profit rate risk management strategy. An accounting mismatch would arise if the debt securities issued were accounted for at amortised cost, because the related derivatives are measured at fair value with changes in the fair value recognised in the profit or loss. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt will also be recognised in the profit or loss;

(u) Financial instruments designated at fair value (Cont'd)

- applies to a groups of financial instruments are managed and their performance evaluated, on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that groups of financial instruments is reported to management on that basis. The Group and the Bank has documented risk management and investment strategies designed to manage and monitor market risk of those assets on net basis, after considering non-linked liabilities. Fair value measurement is also consistent with the regulatory reporting requirements under the appropriate regulations for these insurance operations; and

- relates to financial instruments containing one or more non-closely related embedded derivatives.

Designated financial assets are recognised at fair value when the Group and the Bank enter into contracts with counterparties, which is generally on trade date, and are normally derecognised when sold. Subsequent changes in fair values are recognised in the profit or loss in 'Net gain/(loss) from financial instruments fair value through profit and loss'.

(v) Employee benefits

(i) Short term employee benefits

Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

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

(ii) Defined contribution plan

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

(w) Share based payments

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

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

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

3 Significant Accounting Policies (Cont'd)

(w) Share based payments (Cont'd)

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

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

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

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

(x) Earnings per share

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management

a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks (includes foreign exchange, interest/profit rate and basis risk)
- operational risks

This note presents information about the Group and the Bank's exposure to each of the above risks, the Group and the Bank's objectives, policies and processes for measuring and managing risk, and the Group and the Bank's management of capital.

Risk management framework

The Group and the Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of reliable and up-to-date administrative and information systems. The Group and the Bank regularly review its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Training, individual responsibility and accountability, together with a disciplined, conservative and constructive culture of control, lie at the heart of the Group and the Bank's management of risk.

The Executive Committee and Board Risk Committee (constituted by Non-Executive Directors), appointed by the Board of Directors, formulate risk management policy, monitor risk and regularly review the effectiveness of the Group and the Bank's risk management policies.

The Board Risk Committee is entrusted with the responsibility to oversee Senior Management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning. A separate internal Risk Management Meeting made up of EXCO members (in line with the HSBC Group's Enterprise Risk Management Framework) are responsible to oversee and ensure that risk issues across all businesses are appropriately managed, and that adequate controls exist. Additionally, the Group and the Bank also has an internal Operational Risk and Governance Working Group to oversee and manage operational risk and ensure that adequate controls are maintained over operational processes.

b) Credit risk management

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its payment obligations under a contract. It arises principally from cash and deposit placements, direct lending, trade finance, capital market transactions, foreign exchange derivatives and holdings of investment debt securities. The Group and the Bank has dedicated standards, policies and procedures to control and monitor all such risks.

A Credit and Risk Management structure under the Chief Risk Officer, who reports to the Chief Executive Officer, is in place to ensure a more coordinated management of credit risk and a more independent evaluation of credit proposals. The Chief Risk Officer, who also has strong oversight of credit, market, operational and sustainability risk, has a functional reporting line to the HSBC Asia Pacific Regional Chief Risk Officer.

The Group and the Bank have established a credit process involving credit policies, procedures and lending guidelines which are regularly updated and credit approval authorities delegated from the Board of Directors to the Chief Risk Officer who in turn will delegate the credit approval authorities to the credit risk executives. Excesses or deterioration in credit risk grade are monitored on a regular and ongoing basis and at the periodic, normally annual, review of the facility. The objective is to build and maintain risk assets of acceptable quality where risk and return are commensurate. Reports are produced for the Risk Management Meeting, Executive Committee, Board Risk Committee and the Board, covering:

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

- well defined credit risk appetite on business with growth, maintain and shrink sectors.
- risk concentrations and exposures by industry (main sectors exposures) and portfolio/business.
- single counterparty exposure limit.
- portfolio management exposures by Customer Risk Rating (asset quality by CRR);
- large impaired accounts and impairment allowances;
- early risk identification 'Worry & Watch" List trend and Top 10 Distressed names; and
- rescheduled and restructured loan/financing.

The Group and the Bank have systems in place to control and monitor the exposure at the customer and counterparty level. A regional Credit Review and Risk Identification (CRRI) team undertakes regular thematic reviews based on a representative sample of accounts to assess the level and trend of portfolio credit risk, integrity of risk rating, quality of credit risk assessment and the approval process as well as quality of credit risk management and control activities. Where risk ratings are considered to be inappropriate, CRRI will discuss with the management and their subsequent recommendations for revised grades must then be assigned to the facilities concerned.

In addition, the regional CRRI team undertakes periodic sampling to assess the quality of credit assessment, integrity of customer risk ratings, quality of management controls, adherence to policy and procedures and use of appropriate approval authority. Furthermore, credit risk surveillance is also undertaken by a local Risk Identification team to identity potential high risk accounts for remedial or mitigating actions to be taken at an early stage.

The Group and Bank's exposure to credit risk is shown in Note 4(b)(xi).

(i) Impairment assessment

Individually impaired loans/financing and securities are loans/financing, advances and investment debt securities for which the Group and the Bank determine that there is objective evidence of impairment and they do not expect to collect all principal and interest/profit due according to the contractual terms of the loan/financing/investment security. These loans/financing are graded CRR 9-10 in the Group's internal credit risk rating system. Refer Note 4 (b)(xi) for further information on the Group's internal credit risk grading system.

When impairment losses occur, the Group and the Bank reduce the carrying amount of loans/financing and advances through the use of an allowance account. When impairment of available-for-sale financial assets occurs, the carrying amount of the asset is reduced directly. For further details, see Note 3(j)(ii) and Note 3(l). Impairment allowances may be assessed and created either for individually significant accounts or, on a collective basis, for groups of individually significant accounts for which no evidence of impairment has been individually identified or for high-volume groups of homogeneous loans/financing that are not considered individually significant. It is the Group and the Bank's policy that allowances for impaired loans/financing are created promptly and consistently. Management regularly evaluates the adequacy of the established allowances for impaired loans/financing by conducting a detailed review of the loan/financing portfolio, comparing performance and delinquency statistics with historical trends and assessing the impact of current economic conditions.

(ii) Past due but not impaired loans/financing and investment debt securities

Past due but not impaired loans/financing and investment debt securities are those for which contractual interest/profit or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Group and the Bank.

Examples of exposures past due but not impaired include overdue loans/financing fully secured by cash collateral; mortgages that are individually assessed for impairment, and that are in arrears less than 90 days, but where the value of collateral is sufficient to repay both the principal debt and potential interest; and short-term trade facilities past due for technical reasons such as delays in documentation, but where there is no concern over the creditworthiness of the counterparty.

b) Credit risk management (Cont'd)

(iii) Loans/financing with renegotiated terms

Loans/financing with renegotiated terms are loans/financing that have been restructured due to deterioration in the borrower's financial position and where the Group and the Bank have made concessions it would not otherwise consider. Once the loan/financing is restructured it remains in this category independent of satisfactory performance after restructuring.

(iv) Write-off of loans, advances and financing

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

In line with HSBC Global policy, lending/financing is made on the basis of the customer's capacity to repay, as opposed to placing primary reliance on credit risk mitigation. Depending on the customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is nevertheless a key aspect of effective risk management and in the Group and Bank, takes many forms, the most common method of which is to take collateral. The principal collateral types employed by the Group and the Bank are as follows:

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

(v) Collateral held as security

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

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for impaired loans, advances and financing for the Group and the Bank as at 31 Dec 2016 are 68.9% (2015: 70.9%) and 72.5% (2015: 77.9%) respectively, The financial effect of collateral held for other remaining on-balance sheet financial assets is not significant.

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

b) Credit risk management (Cont'd)

(vi) Concentration of credit risk

The Group and the Bank monitor concentration of credit risk by sector and geographical location. The analysis of concentration of credit risk from loans, advances and financing to customers is shown in Note 10(v) and 10(vii). The analysis of concentration of credit risk from the Group's and the Bank's financial assets is shown in Note 4 (b)(xii).

(vii) Financial assets held-for-trading

The Group and Bank hold financial assets held-for-trading of RM2,266 million (2015: RM1,497 million) and RM2,266 million (2015: RM1,487 million) respectively. An analysis of the credit quality of the maximum credit exposure, based on the rating agency Standard & Poor's, is as disclosed in Note 8 to the financial statements.

(viii) Derivatives

The International Swaps and Derivatives Association (ISDA) Master Agreement is the Group's preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of OTC products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or another pre-agreed termination event occurs. It is common, and the Group's preferred practice, for the parties to execute a Credit Support Annex (CSA) in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions.

(ix) Offsetting financial assets and liabilities

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(ix) Offsetting financial assets and liabilities (Cont'd)

	(i)	(ii)	(iii) = (i) + (ii)	(iv)a	(iv)b	(v) = (iii) - (iv)
				Gross amounts not offset in the statement of financial position		
Description	**Gross amounts of recognised assets RM'000**	**Gross amounts offset in the statement of financial position RM'000**	**Net amount of assets presented in the statement of financial position RM'000**	**Financial instruments RM'000**	**Cash collateral received RM'000**	**Net amount RM'000**
2016						
Group						
Securities purchased under resale agreements	**6,162,230**	**-**	**6,162,230**	**6,162,230**	**-**	**-**
Derivative financial assets	**2,988,954**	**-**	**2,988,954**	**-**	**1,079,045**	**1,909,909**
Derivative financial liabilities	**3,127,028**	**-**	**3,127,028**	**-**	**999,109**	**2,127,919**
Bank						
Securities purchased under resale agreements	**6,162,230**	**-**	**6,162,230**	**6,162,230**	**-**	**-**
Derivative financial assets	**3,089,446**	**-**	**3,089,446**	**-**	**1,079,045**	**2,010,401**
Derivative financial liabilities	**3,132,513**	**-**	**3,132,513**	**-**	**999,109**	**2,133,404**
2015						
Group						
Securities purchased under resale agreements	6,553,754	-	6,553,754	6,553,754	-	-
Derivative financial assets	3,317,190	-	3,317,190	-	1,360,929	1,956,261
Derivative financial liabilities	3,433,760	-	3,433,760	-	1,361,932	2,071,828
Bank						
Securities purchased under resale agreements	6,553,754	-	6,553,754	6,553,754	-	-
Derivative financial assets	3,488,229	-	3,488,229	-	1,360,929	2,127,300
Derivative financial liabilities	3,438,867	-	3,438,867	-	1,361,932	2,076,935

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk

Group	31 Dec 2016 Loans, advances and financing to customers RM'000	Placement with banks [1] RM'000	Other financial assets [2] RM'000
Carrying amount	**46,894,834**	**24,827,744**	**11,830,663**
Assets at amortised cost			
Individually impaired:			
Gross amount	**1,026,953**	**-**	**-**
Allowance for impairment	**(230,040)**	**-**	**-**
Carrying amount	**796,913**	**-**	**-**
Past due but not impaired:			
Carrying amount	**2,965,446**	**-**	**-**
Past due comprises:			
up to 29 days	**2,191,550**	**-**	**-**
30 - 59 days	**558,037**	**-**	**-**
60 - 89 days	**215,859**	**-**	**-**
	2,965,446	**-**	**-**
Neither past due nor impaired:			
Strong	**23,789,769**	**24,827,744**	**-**
Medium-good	**10,356,530**	**-**	**-**
Medium-satisfactory	**8,626,386**	**-**	**-**
Substandard	**829,355**	**-**	**-**
Carrying amount	**43,602,040**	**24,827,744**	**-**
of which includes accounts with renegotiated terms	***168,722***	**-**	**-**
Collective allowance for impairment	**(469,565)**	**-**	**-**
Carrying amount-amortised cost	**46,894,834**	**24,827,744**	**-**
Other financial assets			
Neither past due nor impaired:			
Strong	**-**	**-**	**10,552,584**
Medium-good	**-**	**-**	**1,132,762**
Medium-satisfactory	**-**	**-**	**123,886**
Sub-standard	**-**	**-**	**21,431**
Carrying amount[3]	**-**	**-**	**11,830,663**
Carrying amount-fair value	**-**	**-**	**11,830,663**

In addition to the above, the Group had entered into lending commitments and contingencies of RM53,073.2 million. The Group had also issued financial guarantee contracts for which the maximum amount payable by the Group, assuming all guarantees are called on, is RM12,124.3 million.

[1] Consists of cash and short term funds, deposits and placements with banks and other financial institutions and securities purchased under resale agreements.

[2] Consists of derivative financial assets, financial assets held-for-trading, financial investments available-for-sale, and other financial assets. Financial investments available-for-sale excludes equity securities.

[3] No available-for-sale accounts were renegotiated during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk (Cont'd)

Group	31 Dec 2015 Loans, advances and financing to customers RM'000	Placement with banks [1] RM'000	Other financial assets [2] RM'000
Carrying amount	51,222,193	24,805,663	12,027,758
Assets at amortised cost			
Individually impaired:			
Gross amount	941,081	-	-
Allowance for impairment	(230,297)	-	-
Carrying amount	710,784	-	-
Past due but not impaired:			
Carrying amount	3,257,179	-	-
Past due comprises:			
up to 29 days	2,372,793	-	-
30 - 59 days	670,812	-	-
60 - 89 days	213,574	-	-
	3,257,179	-	-
Neither past due nor impaired:			
Strong	27,264,553	24,792,742	-
Medium-good	11,171,262	12,921	-
Medium-satisfactory	8,601,963	-	-
Substandard	660,686	-	-
Carrying amount	47,698,464	24,805,663	-
of which includes accounts with renegotiated terms	*168,507*	-	-
Collective allowance for impairment	(444,234)	-	-
Carrying amount-amortised cost	51,222,193	24,805,663	-
Other financial assets			
Neither past due nor impaired:			
Strong	-	-	11,179,525
Medium-good	-	-	645,113
Medium-satisfactory	-	-	199,385
Sub-standard	-	-	3,735
Carrying amount[3]	-	-	12,027,758
Carrying amount-fair value	-	-	12,027,758

In addition to the above, the Group had entered into lending commitments and contingencies of RM50,075.7 million. The Group had also issued financial guarantee contracts for which the maximum amount payable by the Group, assuming all guarantees are called on, is RM12,712.2 million.

[1] Consists of cash and short term funds, deposits and placements with banks and other financial institutions and securities purchased under resale agreements.

[2] Consists of derivative financial assets, financial assets held-for-trading, financial investments available-for-sale, and other financial assets. Financial investments available-for-sale excludes equity securities.

[3] No available-for-sale accounts were renegotiated during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk (Cont'd)

Bank	31 Dec 2016 Loans, advances and financing to customers RM'000	Placement with banks [1] RM'000	Other financial assets [2] RM'000
Carrying amount	**35,151,571**	**25,037,604**	**10,531,089**
Assets at amortised cost			
Individually impaired:			
Gross amount	**723,427**	**-**	**-**
Allowance for impairment	**(167,283)**	**-**	**-**
Carrying amount	**556,144**	**-**	**-**
Past due but not impaired:			
Carrying amount	**2,130,805**	**-**	**-**
Past due comprises:			
up to 29 days	**1,584,053**	**-**	**-**
30 - 59 days	**400,596**	**-**	**-**
60 - 89 days	**146,156**	**-**	**-**
	2,130,805	**-**	**-**
Neither past due nor individually impaired:			
Strong	**18,112,493**	**25,037,604**	**-**
Medium-good	**7,854,669**	**-**	**-**
Medium-satisfactory	**6,294,525**	**-**	**-**
Substandard	**472,485**	**-**	**-**
Carrying amount	**32,734,172**	**25,037,604**	**-**
of which includes accounts with renegotiated terms	***128,738***	**-**	**-**
Collective allowance for impairment	**(269,550)**	**-**	**-**
Carrying amount-amortised cost	**35,151,571**	**25,037,604**	**-**
Other financial assets			
Neither past due nor impaired:			
Strong	**-**	**-**	**9,514,141**
Medium-good	**-**	**-**	**887,749**
Medium-satisfactory	**-**	**-**	**107,768**
Sub-standard	**-**	**-**	**21,431**
Carrying amount[3]	**-**	**-**	**10,531,089**
Carrying amount-fair value	**-**	**-**	**10,531,089**

In addition to the above, the Bank had entered into lending commitments and contingencies of RM43,335.2 million. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM10,364.4 million.

[1] Consists of cash and short term funds, deposits and placements with banks and other financial institutions and securities purchased under resale agreements.

[2] Consists of derivative financial assets, financial assets held-for-trading, financial investments available-for-sale, and other financial assets. Financial investments available-for-sale excludes equity securities.

[3] No available-for-sale accounts were renegotiated during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk (Cont'd)

Bank	Loans, advances and financing to customers RM'000	Placement with banks [1] RM'000	Other financial assets [2] RM'000
	31 Dec 2015		
Carrying amount	39,253,976	23,507,041	10,454,809
Assets at amortised cost			
Individually impaired:			
Gross amount	705,802	-	-
Allowance for impairment	(161,650)	-	-
Carrying amount	544,152	-	-
Past due but not impaired:			
Carrying amount	2,480,422	-	-
Past due comprises:			
up to 29 days	1,839,712	-	-
30 - 59 days	491,713	-	-
60 - 89 days	148,997	-	-
	2,480,422	-	-
Neither past due nor individually impaired:			
Strong	21,062,416	23,494,120	-
Medium-good	9,115,113	12,921	-
Medium-satisfactory	5,781,046	-	-
Substandard	574,797	-	-
Carrying amount	36,533,372	23,507,041	-
of which includes accounts with renegotiated terms	*137,928*	-	-
Collective allowance for impairment	(303,970)	-	-
Carrying amount-amortised cost	39,253,976	23,507,041	-
Other financial assets			
Neither past due nor impaired:			
Strong	-	-	9,849,804
Medium-good	-	-	413,510
Medium-satisfactory	-	-	187,858
Sub-standard	-	-	3,637
Carrying amount[3]	-	-	10,454,809
Carrying amount-fair value	-	-	10,454,809

In addition to the above, the Bank had entered into lending commitments and contingencies of RM41,660.9 million. The Bank had also issued financial guarantee contracts for which the maximum amount payable by the Bank, assuming all guarantees are called on, is RM10,827.8 million.

[1] Consists of cash and short term funds, deposits and placements with banks and other financial institutions and securities purchased under resale agreements.

[2] Consists of derivative financial assets, financial assets held-for-trading, financial investments available-for-sale, and other financial assets. Financial investments available-for-sale excludes equity securities.

[3] No available-for-sale accounts were renegotiated during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xi) Exposure to credit risk (Cont'd)

The five credit quality classifications set out and defined below describe the credit quality of HSBC’s lending, debt securities portfolios and derivatives. These five classifications each encompass a range of more granular, internal credit rating grades assigned to corporate and retail lending business, as well as the external ratings attributed by external agencies to debt securities. There is no direct correlation between the internal and external ratings at granular level, except to the extent each falls within a single quality classification.

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

Credit quality of the Group's corporate lending/derivative financial assets/ securities purchased under resale agreements/ deposits and placements with banks and other financial institutions	Internal Credit Rating
Strong	CRR1 - CRR2
Good	CRR3
Satisfactory	CRR4 - CRR5
Sub-standard	CRR6 - CRR8
Impaired	CRR9 - CRR10

Credit quality of the Group's retail lending	Internal Credit Rating
Strong	EL1 -EL2
Medium-good	EL3
Medium-satisfactory	EL4 - EL5
Sub-standard	EL6 - EL8
Impaired	EL9 - EL10

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xii) Concentration by sector and by location [1]

Group	31 Dec 2016 Placement with banks [2] RM'000	31 Dec 2016 Other financial assets [3] RM'000	31 Dec 2015 Placement with banks [2] RM'000	31 Dec 2015 Other financial assets [3] RM'000
Carrying amount	**24,827,744**	**11,830,663**	24,805,663	12,027,758
By Sector				
Agricultural, hunting, forestry and fishing	-	**2,375**	-	15,016
Mining and quarrying	-	**4,601**	-	2,291
Manufacturing	-	**244,872**	-	229,229
Electricity, gas and water	-	**30,429**	-	10,192
Construction	-	**11,645**	-	28,326
Real estate	-	**42,806**	-	55,359
Wholesale & retail trade, restaurants & hotels	-	**144,547**	-	154,714
Transport, storage and communication	-	**23,961**	-	45,946
Finance, insurance and business services	**24,827,744**	**2,865,158**	24,805,663	2,793,306
Household-retail	-	**2,365**	-	1,938
Central banks and government related	-	**7,993,814**	-	8,283,104
Others	-	**464,090**	-	408,337
	24,827,744	**11,830,663**	24,805,663	12,027,758
By geographical location				
Within Malaysia	**23,114,016**	**10,303,405**	23,276,669	11,077,592
Outside Malaysia	**1,713,728**	**1,527,258**	1,528,994	950,166
	24,827,744	**11,830,663**	24,805,663	12,027,758

[1] Concentration by sector and location for loans, advances and financing to customers is disclosed under Note 10(v) and 10(vii) to the financial statements.

[2] Consists of cash and short term funds, deposits and placements with banks and other financial institutions and securities purchased under resale agreements.

[3] Consists of derivative financial assets, financial assets held-for-trading, financial investments available-for-sale, and other financial assets. Financial investments available-for-sale excludes equity securities.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit Risk Management (Cont'd)

(xii) Concentration by sector and by location [1] (Cont'd)

Bank	**31 Dec 2016** Placement with banks [2] RM'000	**31 Dec 2016** Other financial assets [3] RM'000	31 Dec 2015 Placement with banks [2] RM'000	31 Dec 2015 Other financial assets [3] RM'000
Carrying amount	**25,037,604**	**10,531,089**	23,507,041	10,454,809
By Sector				
Agricultural, hunting, forestry and fishing	-	**2,294**	-	15,016
Mining and quarrying	-	**4,475**	-	2,291
Manufacturing	-	**232,251**	-	213,957
Electricity, gas and water	-	**30,429**	-	10,192
Construction	-	**11,644**	-	18,305
Real estate	-	**40,114**	-	51,889
Wholesale & retail trade, restaurants & hotels	-	**144,468**	-	154,691
Transport, storage and communication	-	**23,665**	-	45,848
Finance, insurance and business services	**25,037,604**	**3,092,480**	23,507,041	3,040,470
Household-retail	-	**2,365**	-	1,938
Central banks and government related	-	**6,624,752**	-	6,581,371
Others	-	**322,152**	-	318,841
	25,037,604	**10,531,089**	23,507,041	10,454,809
By geographical location				
Within Malaysia	**23,405,534**	**9,248,682**	22,235,127	9,717,543
Outside Malaysia	**1,632,070**	**1,282,407**	1,271,914	737,266
	25,037,604	**10,531,089**	23,507,041	10,454,809

[1] Concentration by sector and location for loans, advances and financing to customers is disclosed under Note 10(v) and 10(vii) to the financial statements.

[2] Consists of cash and short term funds, deposits and placements with banks and other financial institutions and securities purchased under resale agreements.

[3] Consists of derivative financial assets, financial assets held-for-trading, financial investments available-for-sale, and other financial assets. Financial investments available-for-sale excludes equity securities.

c) Liquidity and funding risk management

Liquidity risk is the risk that the Group and the Bank do not have sufficient financial resources to meet their obligations when they fall due, or will have to do it at excessive cost. This risk can arise from mismatches in the timing of cash flows. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

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

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

The management of liquidity and funding is primarily carried out in accordance with the BNM's Liquidity Coverage Ratio Framework; and practices and limits set by Asset, Liability and Capital Management (ALCO) and regional Head Office. These limits vary to take account of the depth and liquidity of the local market in which the Group and the Bank operates. The Group and the Bank maintain strong liquidity positions and manage the liquidity profile of the assets, liabilities and commitments to ensure that cash flows are appropriately balanced and all obligations are met when due.

The Group and the Bank's liquidity and funding management process include:

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

On 1 January 2016, the HSBC Group implemented a new liquidity and funding risk framework (LFRF). It uses the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) regulatory framework as a foundation, but adds extra metrics, limits and overlays to address the risks that we consider are not adequately reflected by the regulatory framework.

The LFRF is delivered using the following key aspects:

- standalone management of liquidity and funding by operating entity;
- operating entity classification by inherent liquidity risk (ILR) categorisation;
- minimum LCR requirement depending on ILR categorisation;
- minimum NSFR requirement depending on ILR categorisation;
- legal entity depositor concentration limit;

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

- three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from banks,
- deposits from non-bank financial institutions and securities issued;
- annual individual liquidity adequacy assessment by principal operating entity;
- minimum LCR requirement by currency;
- intraday liquidity; and
- forward-looking funding assessments.

The new internal LFRF and the risk tolerance limits were approved by the Board on the basis of recommendations made by the Group Risk Committee.

Please refer to Note 41 on disclosure on Liquidity Risk.

d) Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest/profit rates and basis risk, credit spreads and equity prices, will reduce the Group and the Bank's income or the value of our portfolios.

The objective of the Group and the Bank's market risk management is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the HSBC Group's status as one of the world's largest banking and financial services organisation.

There were no significant changes to our policies and practices for the management of market risk in 2016.

The Group and the Bank separate exposures to market risk into either trading or non-trading portfolios. Trading portfolios comprise positions arising from market making, proprietary position taking and other marked-to-market positions so designated. Non-trading portfolios primarily arise from the interest/profit rate management of the Group and the Bank's retail and commercial banking assets and liabilities, and financial investments designated as available-for-sale.

The management of market risk is principally undertaken using risk limit mandates approved by HSBC's Regional Wholesale and Global Market Risk Management (WMR), an independent unit which develops HSBC Group's market risk management policies and measurement techniques. Market risks which arise on each product are transferred to the Global Markets. The aim is to ensure that all market risks are consolidated within operations which have the necessary skills, tools, management and governance to manage such risks professionally. Limits are set for portfolios, products and risk types, with market liquidity being the principal factor in determining the level of limits set. The Group and the Bank have an independent product control function that is responsible for measuring market risk exposures in accordance with the policies defined by WMR. Positions are monitored daily and excesses against the prescribed limits are reported immediately to local Senior Management and WMR. The nature of the hedging and risk mitigation strategies corresponds to the market instruments available. These strategies range from the use of traditional market instruments, such as interest rate swaps/profit rate swaps, to more sophisticated hedging strategies to address a combination of risk factors arising at portfolio level.

Market risk in the trading portfolio is monitored and controlled at both portfolio and position levels using a complementary set of techniques such as sensitivity analysis and value at risk, together with stress testing and concentration limits. Other controls to contain trading portfolio market risk at an acceptable level include rigorous new product approval procedures and a list of permissible instruments to be traded.

(i) Value at risk (VAR)

VAR is a technique that estimates the potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VAR is integrated into market risk management and is calculated for all trading positions regardless of how the group capitalises those exposures. Where there is no approved internal model, the group uses the appropriate local rules to capitalise exposures. The VAR models used by the Group and the Bank are predominantly based on historical simulation.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

(i) Value at risk (VAR) (Cont'd)
These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates.

The models also incorporate the effect of option features on the underlying exposures. The historical simulation models used by the Group and the Bank incorporate the following features:

- historical market rates and prices are calculated with reference to foreign exchange rates and commodity prices, interest rates, equity prices and the associated volatilities;
- potential market movements utilised for VAR are calculated with reference to data from the past two years; and
- VAR measures are calculated to a 99 per cent confidence level and use a one-day holding period.

The nature of the VAR models means that an increase in observed market volatility will lead to an increase in VAR without any changes in the underlying positions. The Group and the Bank routinely validates the accuracy of its VAR models by back-testing the actual daily profit and loss results, adjusted to remove non-modelled items such as fees and commissions, against the corresponding VAR numbers. Statistically, the Group and the Bank would expect to see losses in excess of VAR only 1 per cent of the time over a one-year period. The actual number of excesses over this period can therefore be used to gauge how well the models are performing.

A summary of the VAR position of the Bank and its fully owned subsidiary, HSBC Amanah Malaysia Berhad's trading portfolios at the reporting date is as follows:

HSBC Bank Malaysia Bhd (RM'000)	**At 31 Dec 2016**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**695**	**470**	**2,297**	**66**
Interest rate risk	**5,906**	**6,637**	**11,208**	**3,360**
Credit spread risk	**218**	**168**	**1,121**	**38**
Overall	**5,547**	**6,426**	**11,777**	**3,027**
	At 31 Dec 2015	Average	Maximum	Minimum
Foreign currency risk	313	567	1,833	105
Interest rate risk	4,552	4,889	10,846	1,773
Credit spread risk	111	165	574	48
Overall	4,102	4,694	10,332	1,636

HSBC Amanah Malaysia Berhad (RM'000)	**At 31 Dec 2016**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**61**	**44**	**248**	**8**
Profit rate risk	**294**	**487**	**673**	**401**
Credit spread risk	**-**	**2**	**8**	**-**
Overall	**311**	**491**	**685**	**35**
	At 31 Dec 2015	Average	Maximum	Minimum
Foreign currency risk	299	50	321	8
Profit rate risk	387	235	408	36
Credit spread risk	8	-	16	-
Overall	436	242	459	37

d) Market risk management (Cont'd)

(i) Value at risk (VAR) (Cont'd)

Although a valuable guide to risk, VAR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a 1-day holding period assumes that all positions can be liquidated or the risks offset during that period. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1-day holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99 per cent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence;
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures; and
- VAR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

The Group and the Bank recognise these limitations by augmenting its VAR limits with other position and sensitivity limit structures. Stress tests are produced on a monthly basis based on the HSBC Group's stress-testing parameters, and on a half-yearly basis based on Bank Negara Malaysia's parameters to determine the impact of changes in interest/profit rates, exchange rates and other main economic indicators on the Group and the Bank's profitability, capital adequacy and liquidity. The stress-testing provides the Board Risk Committee with an assessment of the financial impact of identified extreme events on the market risk exposures of the Group and the Bank.

Sensitivity measures are used to monitor the market risk positions within each risk type, for example, the present value of a basis point movement in interest/profit rates, for interest/profit rate risk. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

Derivative financial instruments (principally interest/profit rate swaps) are used for hedging purposes in the management of asset and liability portfolios and structured positions. This enables the Group and the Bank to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of the assets and liabilities.

(ii) Exposure to interest/profit rate risk – non trading portfolios

Market risk in non-trading portfolios arises principally from mismatches between the future yields on assets and their funding cost as a result of interest/profit rate changes. This market risk is transferred to Global Markets, taking into account both the contractual and behavioural characteristics of each product to enable the risk to be managed effectively. Behavioural assumptions for products with no contractual maturity are normally based on a two-year historical trend. These assumptions are important as they reflect the underlying interest/profit rate risk of the products and hence are subject to scrutiny from ALCO, the regional WMR. The net exposure is monitored against the limits granted by regional WMR for the respective portfolios and, depending on the view on future market movement, economically hedged with the use of financial instruments within agreed limits.

Interest/profit rate risk in the banking book or Rate of Return risk in the Banking book (IRR/RORBB) is defined as the exposure of the non-trading products of the Group and the Bank to interest/profit rates. Non-trading portfolios are subject to prospective interest/profit rate movements which could reduce future net interest/finance income. Non-trading portfolios include positions that arise from the interest/profit rate management of the Group and the Bank's retail and commercial banking assets and liabilities, and financial investments designated as available for sale. IRR/RORBB arises principally from mismatches between future yields on assets and their funding costs, as a result of interest/profit rate changes. Analysis of this risk is complicated by having to make assumptions within certain product areas such as the incidence of loan prepayments, and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

(ii) Exposure to interest/profit rate risk – non trading portfolios (Cont'd)

The Group and the Bank manage market risk in non-trading portfolios by monitoring the sensitivity of projected net interest/finance income under varying interest/profit rate scenarios (simulation modeling). For simulation modeling, a combination of standard scenarios and non-standard scenarios relevant to the local market are used.

The standard scenarios monitored monthly include a 100 basis points parallel fall or rise in interest/profit rates and a 25 basis points fall or rise in interest/profit rates at the beginning of each quarter for the next 12 months.

The scenarios assume no management action. Hence, they do not incorporate actions that would be taken by the business units to mitigate the impact of the interest/profit rate risk. In reality, the business units would proactively seek to change the interest/profit rate profile to minimise losses and to optimise net revenues. Other simplifying assumptions are made, including that all positions run to maturity.

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

(iii) Sensitivity of projected Net Interest/Finance Income

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

	Group (RM'000)			
	31-Dec-16		31-Dec-15	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**120,794**	**(175,006)**	274,428	(274,913)
USD	**2,181**	**(14,385)**	88,970	(77,975)
Others	**761**	**(14,172)**	3,980	(2,428)
	123,736	**(203,563)**	367,378	(355,316)

	Bank (RM'000)			
	31-Dec-16		31-Dec-15	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**143,505**	**(187,496)**	229,336	(229,856)
USD	**6,948**	**(16,589)**	80,009	(71,097)
Others	**1,243**	**(14,046)**	173	506
	151,696	**(218,131)**	309,518	(300,447)

The increase or decline in economic value for upward and downward rate shocks for measuring interest rate risk/rate of return risk in the banking book are as follows:

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

	Group (RM'000)			
	31-Dec-16		31-Dec-15	
Basis point parallel shift in yield curve	***+200bps***	***-200bps***	*+200bps*	*-200bps*
RM	**173,566**	**(224,962)**	302,393	(345,592)
USD	**(4,449)**	**(13,505)**	99,357	(95,037)
Others	**90,104**	**(54,032)**	43,199	(30,239)
	259,221	**(292,499)**	444,949	(470,868)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

(iii) Sensitivity of projected Net Interest/Finance Income (Cont'd)

Change in projected economic value of equity arising from a shift in profit rates of (Cont'd):

	Bank (RM'000)			
	31-Dec-16		31-Dec-15	
Basis point parallel shift in yield curve	***+200bps***	***-200bps***	*+200bps*	*-200bps*
RM	**352,701**	**(426,058)**	341,272	(384,471)
USD	**26,575**	**(37,268)**	120,957	(103,677)
Others	**87,260**	**(53,182)**	34,559	(25,919)
	466,536	**(516,508)**	496,788	(514,067)

(iv) Sensitivity of reported reserves in "other comprehensive income" to interest/profit rate movements

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

	Group (RM'000)			
	31-Dec-16		31-Dec-15	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(104,004)**	**104,004**	(129,935)	129,935
USD	**(11,996)**	**11,996**	(1,296)	1,296
	(116,000)	**116,000**	(131,231)	131,231

	Bank (RM'000)			
	31-Dec-16		31-Dec-15	
Basis point parallel shift in yield curve	***+100bps***	***-100bps***	*+100bps*	*-100bps*
RM	**(76,958)**	**76,958**	(99,586)	99,586
USD	**(11,996)**	**11,996**	(1,296)	1,296
	(88,954)	**88,954**	(100,882)	100,882

(v) Foreign exchange risk

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

	Group (RM'000)			
	31-Dec-16		31-Dec-15	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after income tax expense	**(376)**	**376**	899	(899)

	Bank (RM'000)			
	31-Dec-16		31-Dec-15	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after income tax expense	**(347)**	**347**	795	(795)

Change in foreign exchange rate has no impact to other comprehensive income as at the reporting date (2015: NIL).

d) Market risk management (Cont'd)

(v) Foreign exchange risk (Cont'd)

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

(vi) Specific issuer risk

Specific issuer (credit spread) risk arises from a change in the value of debt instruments due to a perceived change in the credit quality of the issuer or underlying assets. As well as VAR and stress testing, the Group and the Bank manages the exposure to credit spread movements within the trading portfolios through the use of limits referenced to the sensitivity of the present value of a basis point movement in credit spreads.

(vii) Equity risk

Equity risk arises from the holding of open positions, either long or short, in equities or equity based instruments, which create exposure to a change in the market price of the equities or underlying equity instruments. All equity derivative trades in the Group and the Bank are traded on a back-to-back basis with HSBC group offices and therefore have no open exposure.

e) Operational risk management

The Group Operational Risk function and the operational risk management framework (ORMF) assist business management in discharging their responsibilities. The ORMF defines minimum standards and processes, and the governance structure for operational risk and internal control across the Group and the Bank.

(i) Three lines of defence

The Three Lines of Defence model is used to delineate management accountabilities and responsibilities over risk management and the control environment, thereby creating a robust control environment to manage inherent risks.

The model underpins our approach to strong risk management by defining responsibilities, encouraging collaboration and enabling efficient coordination of risk and control activities.

The three lines consists of:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them and ensuring that the right controls and assessments are in pace to mitigate these risks.
- The second line of defence sets the policy and guidelines for managing the risks and provides advice, guidance and challenge to the first line of defence on effective risk management.
- The third line of defence is Internal Audit which helps the Board and Executive Committee to protect the assets, reputation and sustainability of the Group and the Bank.

Activity to strengthen our operational risk culture and to better embed the use of our ORMF continued in 2016. In particular, we continued to streamline our operational risk management processes, procedures and tool sets to provide more forward-looking risk insights and more effective operation of the ORMF.

Articulating our risk appetite for material operational risks helps business understand the level of risk our organisation is willing to accept. Monitoring operational risk exposure against risk appetite on a regular basis and implementing our risk acceptance process drives risk awareness in a more forward-looking manner. It assists management in determining whether further action is required.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

e) Operational risk management (Cont'd)

(ii) Other featured operational risks

- *Challenges to achieving the Group and the Bank's strategy in a downturn*: businesses and countries have prioritised strategy and annual operating plans to reflect current economic conditions amid increased geo-political risk. Performance against plan is monitored through a number of means including the use of risk consideration and performance reporting at all relevant management committees.

- *Internal and external fraud risks:* the threat of fraud perpetrated by or against our customers, especially in retail and commercial banking, may increase during adverse economic conditions. We have increased monitoring, root cause analysis and review of internal controls to enhance our defences against external attacks and reduce the level of loss in these areas. In addition, HSBC Group Security and Fraud Risk is working closely with the global businesses to continually assess these threats as they evolve and adapt our controls to mitigate them. The Group and the Bank is also exposed to potential criminal activities and has invested heavily in improving its customer due diligence and transaction monitoring and screening controls.

- *Third party risks:* the Group and the Bank has procedures in place to conduct due diligence and monitor the performance of third party suppliers and service providers in so far as they may affect the Group and the Bank's ability service its customers.

- *Regulatory and financial crime compliance:* the Group and the Bank's ability to respond to increasing demands or changes in regulatory and financial crime compliance requirements in the markets in which we operate remains a critical focus for the Bank. A Global Standards programme is being rolled out to ensure implementation of critical regulatory and financial crime compliance requirements. Various conduct and values initiatives have also been initiated to ensure that exposures to mis-selling or market conduct abuses are minimised.

- *Level of change creating operational complexity*: operational stresses may occur during periods of growth as well as during volatile periods in a market downturn. The Operational Risk function engages with business management in business transformation initiatives to ensure the resilience of the internal control environment. This may involve thematic reviews of new initiatives and analysis of loss or indicator trends, as well as participation and discussion of issues or concerns at relevant governance or management committees.

- *Information security*: the security of our information and technology infrastructure is crucial for maintaining our banking applications and processes while protecting our customers and the HSBC brand. A failure of our defences against such attacks could result in financial loss, loss of customer data and other sensitive information which could undermine both our reputation and our ability to retain the trust of our customers.

- *People Risk*: attracting and retaining staff with appropriate skills and expertise across the markets in which we operate remains a challenge. Significant investment is made in training and management development initiatives to equip our staff for the business changes we face and for the implementation of global standards.

In operationalising the operational risk management framework, the Group and the Bank operates a control-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by the Internal Audit function, and by monitoring external operational risk events, which ensures that the Group and the Bank stay in line with best practice and takes account of lessons learned from publicised operational failures within the financial services industry.

e) Operational risk management (Cont'd)

(ii) Other featured operational risks (Cont'd)

The Group and the Bank adhere to the HSBC Operational Risk Management Framework. This is a set of tools, processes and activities owned by the independent Operational Risk function and used by global business and global functions to support the management of operational risk across the bank. The framework outlines how HSBC manages operational risk by identifying, assessing, monitoring, controlling and mitigating its material risks, rectifying operational risk vulnerabilities and implementing any additional procedures required for compliance with local statutory requirements. The framework covers the following:

- operational risk management responsibility is assigned at Senior Management level within the business operation;
- information systems are used to record the identification and assessment of operational risks and generate appropriate, regular management reporting;
- operational risks are identified by assessments covering operational risks facing each business and risk inherent in processes, activities and products. Risk assessment incorporates a regular review of identified risks to monitor significant changes;
- operational risk loss data is collected and reported to Senior Management. Aggregate operational risk losses are recorded and details of incidents above a materiality threshold are reported to the Risk Management Committee, the Board Risk Committee and Audit Committee, as well as Regional Head of Operational Risk Management Asia Pacific; and
- risk mitigation, including insurance, is considered where this is cost-effective.

The Group and the Bank maintain and test contingency facilities to support operations in the event of disasters. Additional reviews and tests are conducted in the event that the Group and the Bank are affected by a business disruption event to incorporate lessons learned in the operational recovery from those circumstances.

f) Capital management

Our approach to capital management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which we operate.

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

Our capital management process is articulated in our annual capital plan which is approved by the Board. The plan is drawn up with the objective of maintaining both an appropriate amount of capital and an optimal mix between the different components of capital.

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

The Bank is primarily the provider of capital to its subsidiaries and these investments are substantially funded by the Bank's own capital issuance and profit retention. As part of its capital management process, the Bank seeks to maintain a prudent balance between the composition of its capital and that of its investment in subsidiaries.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

f) Capital management (Cont'd)

(i) Externally imposed capital requirements

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

- Tier 1 capital is divided into Common Equity Tier 1 (CET1) Capital and Additional Tier 1 Capital. CET1 Capital includes ordinary share capital, share premium, capital redemption reserves, retained earnings, statutory reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. The Group and the Bank do not have any Additional Tier 1 Capital as at 31 December 2016.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances (excluding collective impairment allowances attributable to loans/financing classified as impaired), regulatory reserve, and the element of the fair value reserve relating to revaluation of property.

(ii) Basel III

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

With effect from 1 January 2016, banking institutions are also required to maintain capital buffers above the minimum capital adequacy ratios. The capital buffer requirements comprise Capital Conservation Buffer (CCB) of 2.5%, which is to be phased-in from 2016 to 2019, and the Countercyclical Capital Buffer (CCyB) ranging between 0% to 2.5%. CCB is intended to build up capital buffers by individual banking institutions during normal times that can be drawn down during stress periods while CCyB is intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive.

In addition, the Group and the Bank are also required to set further buffers to reflect risks not included in the regulatory capital calculation, arising from internal assessment of risks and the results of stress tests.

5 Use of estimates and judgments

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

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

a) Impairment of loans, advances and financing

The Group and the Bank's accounting policy for losses arising from the impairment of customer loans, advances and financing is described in Note 3(l) to the financial statements. Loan/financing impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the reporting date.

5 Use of estimates and judgments (Cont'd)

a) Impairment of loans, advances and financing (Cont'd)

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

b) Fair value of financial instruments carried at fair value

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

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

	Group			
	Level 1	**Level 2**	**Level 3**	**Total**
2016	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial Assets Held-for-Trading (Note 8)	**1,932,130**	**334,322**	**-**	**2,266,452**
Financial Investments Available-for-Sale (Note 9)	**5,975,899**	**414,586**	**167,559**	**6,558,044**
Derivative financial assets (Note 39)	**1,225**	**2,961,125**	**26,604**	**2,988,954**
	7,909,254	**3,710,033**	**194,163**	**11,813,450**
Trading liabilities[1]	**6,818**	**3,402,593**	**692,379**	**4,101,790**
Derivative financial liabilities (Note 39)	**1,775**	**3,111,193**	**14,060**	**3,127,028**
	8,593	**6,513,786**	**706,439**	**7,228,818**
2015				
Financial Assets Held-for-Trading (Note 8)	1,374,391	122,967	-	1,497,358
Financial Investments Available-for-Sale[2] (Note 9)	6,881,644	114,957	-	6,996,601
Derivative financial assets (Note 39)	3,049	3,270,504	43,637	3,317,190
	8,259,084	3,508,428	43,637	11,811,149
Trading liabilities[1]	63,560	3,947,629	851,737	4,862,926
Derivative financial liabilities (Note 39)	2,493	3,415,097	16,170	3,433,760
	66,053	7,362,726	867,907	8,296,686

[1] *Trading liabilities consist of structured investments, Islamic structured products, negotiable instruments of deposits classified as trading, net short position in securities and settlement accounts classified as held for trading. Structured investments and negotiable instruments of deposits form part of the balance disclosed under Note 19 (Deposits from customers) while Islamic structured products, net short position in securities form part of the balance disclosed under Note 21 (Other Liabilities).*

[2] *Excludes equity securities which are carried at cost due to the lack of quoted prices in an active market or /and the fair values of the investments cannot be reliably measured.*

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgments (Cont'd)

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

	Bank			
	Level 1	**Level 2**	**Level 3**	**Total**
2016	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Financial Assets Held-for-Trading (Note 8)	**1,931,642**	**334,322**	**-**	**2,265,964**
Financial Investments Available-for-Sale (Note 9)	**4,607,325**	**414,586**	**167,559**	**5,189,470**
Derivative financial assets (Note 39)	**1,221**	**3,061,621**	**26,604**	**3,089,446**
	6,540,188	**3,810,529**	**194,163**	**10,544,880**
Trading liabilities[3]	**6,818**	**2,433,184**	**692,379**	**3,132,381**
Derivative financial liabilities (Note 39)	**1,771**	**3,116,682**	**14,060**	**3,132,513**
	8,589	**5,549,866**	**706,439**	**6,264,894**
2015				
Financial Assets Held-for-Trading (Note 8)	1,363,899	122,967	-	1,486,866
Financial Investments Available-for-Sale[4] (Note 9)	5,180,401	114,957	-	5,295,358
Derivative financial assets (Note 39)	3,049	3,435,856	49,324	3,488,229
	6,547,349	3,673,780	49,324	10,270,453
Trading liabilities[3]	63,560	2,770,469	760,239	3,594,268
Derivative financial liabilities (Note 39)	2,392	3,420,305	16,170	3,438,867
	65,952	6,190,774	776,409	7,033,135

[3] *Trading liabilities consist of structured investments, negotiable instruments of deposits classified as trading, net short position in securities and settlement accounts classified as held for trading. Structured investments and negotiable instruments of deposits form part of the balance disclosed under Note 19 (Deposits from customers) while short position in securities form part of the balance disclosed under Note 21 (Other Liabilities).*

[4] *Excludes equity securities which are carried at cost due to the lack of quoted prices in an active market or /and the fair values of the investments cannot be reliably measured.*

(i) Control framework

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

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Group and the Bank will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgments (Cont'd)

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

(i) Control framework(Cont'd)

For fair values determined using valuation models, the control framework may include, as applicable, development or validation by independent support functions of (i) the logic within valuation models; (ii) the inputs to those models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an on-going basis.

To this end, ultimate responsibility for the determination of fair values lies within the Finance function, which reports functionally to the HSBC Group Finance Director. Finance establishes the accounting policies and procedures governing valuation, and is responsible for ensuring that these comply with all relevant accounting standards.

(ii) Determination of fair value

Fair values are determined according to the following hierarchy:

- Level 1 – Valuation technique using quoted market price

  Financial instruments with quoted prices for identical instruments in active markets that the Group and the Bank can access at the measurement date.

- Level 2 – Valuation technique using observable inputs

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

- Level 3 – Valuation technique with significant unobservable inputs

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgments (Cont'd)

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

(iii) Valuation techniques

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

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

Structured notes issued and certain other hybrid instrument liabilities are included within trading liabilities and are measured at fair value. The credit spread applied to these instruments is derived from the spreads at which the Group and the Bank issue structured notes.

Gains and losses arising from changes in the credit spread of liabilities issued by the Group and the Bank reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount.

Changes in fair value are generally subject to a profit and loss analysis process. This process disaggregates changes in fair value into three high level categories; (i) portfolio changes, such as new transactions or maturing transactions, (ii) market movements, such as changes in foreign exchange rates or equity prices, and (iii) other, such as changes in fair value adjustments, discussed below.

(iv) Fair value adjustments

Fair value adjustments are adopted when the Group and the Bank determines that there are additional factors that would be considered relevant by a market participant that are not incorporated within the valuation model. The Group and the Bank classify fair value adjustments as either 'risk-related' or 'model-related'. The majority of these adjustments are related to Global Banking and Markets.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement such as when models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound.

- **Risk-related adjustments**

(i) Bid-offer

MFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer cost would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of, or unwinding the position.

5 Use of estimates and judgments (Cont'd)

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

(iv) Fair value adjustments (Cont'd)

- **Risk-related adjustments (Cont'd)**

(ii) Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, there exists a range of possible values that the financial instrument or market parameter may assume and an adjustment may be necessary to reflect the likelihood that in estimating the fair value of the financial instrument, market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the HSBC's Group valuation model.

(iii) Credit valuation adjustment (CVA)

The CVA is an adjustment to the valuation of over-the-counter (OTC) derivative contracts to reflect within fair value the possibility that the counterparty may default and the Group and the Bank may not receive the full market value of the transactions. Further detail is provided below.

(iv) Debit valuation adjustment(DVA)

The DVA is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the Group and the Bank may default, and that the Group and the Bank may not pay full market value of the transactions.

(v) Funding fair value adjustment (FFVA)

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. This includes the uncollateralised component of collateralised derivatives in addition to derivatives that are fully uncollateralised. The expected future funding exposure is calculated by a simulation methodology, where available and is adjusted for events that may terminate the exposure such as the default of the group or the counterparty. The FFVA and DVA are calculated independently.

- **Model-related adjustments**

(i) Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all material market characteristics. Additionally, markets evolve, and models that were adequate in the past may require development to capture all material market characteristics in current market conditions. In these circumstances, model limitation adjustments are adopted. As model development progresses, model limitations are addressed within the valuation models and a model limitation adjustment is no longer needed.

(ii) Inception profit (Day 1 profit or loss reserves)

Inception profit adjustments are adopted where the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

5 Use of estimates and judgments (Cont'd)

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

(iv) Fair value adjustments (Cont'd)

- **Credit valuation adjustment/debit valuation adjustment methodology**

  The Group and the Bank calculate a separate CVA and DVA, for each counterparty to which the Group and the Bank have exposure.

  The Group and the Bank calculate the CVA by applying the probability of default (PD) of the counterparty, conditional on the non-default of the Group and Bank, to the expected positive exposure of the Group and the Bank to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Group and the Bank calculate the DVA by applying the PD of the Group and the Bank, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to Group and the Bank, and multiplying the result by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

  For most products, the Group and the Bank use a simulation methodology to calculate the expected positive exposure to a counterparty. This incorporates a range of potential exposures across the portfolio of transactions with the counterparty over the life of the portfolio. The simulation methodology includes credit mitigants such as counterparty netting agreements and collateral agreements with the counterparty.

  The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk arises when the underlying value of the derivative prior to any CVA is positively correlated to the PD by the counterparty. When there is significant wrong-way risk, a trade-specific approach is applied to reflect this risk,in the valuation.

  With the exception of certain central clearing parties, the Group and the Bank include all third-party counterparties in the CVA and DVA calculations and do not net these adjustments across the Group and the Bank's entities. The Group and the Bank review and refine the CVA and DVA methodologies on an ongoing basis.

- **Valuation of uncollateralised derivatives**

  In line with evolving industry practice, FFVA reflects the funding of uncollateralised derivative exposure at rates other than overnight indexed swap rate (OIS). As at 31 December 2016, the FFVA was +RM13.8 million for the Group (2015: +RM10.8 million) and +RM18.8 million for the Bank (2015: +RM15.7 million), which has a one-off impact on trading revenue. This is an area in which a full industry consensus has not yet emerged. The Group will continue to monitor industry evolution and refine the calculation methodology as necessary.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgments (Cont'd)

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

(v) Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

The following table provides a reconciliation of the movement between opening and closing balances of Level 3 financial instruments, measured at fair value using a valuation technique with significant unobservable inputs:

	2016			2015		
	Derivative financial assets	**Derivative financial liabilities**	**Trading Liabilities**	Derivative financial assets	Derivative financial liabilities	Trading Liabilities
Group (RM'000)						
Balance at 1 January	**43,637**	**16,170**	**851,738**	30,985	16,025	1,065,035
Total gains or losses in profit or loss	**(3,090)[1]**	**5,927[1]**	**18,561[1]**	26,581[2]	21,445[1]	42,239[1]
Issues	**-**	**-**	**-**	-	-	105,525
Settlements	**-**	**-**	**(79,396)**	-	(4)	(332,534)
Transfer out of Level 3	**(13,943)**	**(8,037)**	**(98,524)**	(13,929)	(21,296)	(28,528)
Balance at 31 December	**26,604**	**14,060**	**692,379**	43,637	16,170	851,737

	2016			2015		
	Derivative financial assets	**Derivative financial liabilities**	**Trading Liabilities**	Derivative financial assets	Derivative financial liabilities	Trading Liabilities
Bank (RM'000)						
Balance at 1 January	**49,325**	**16,170**	**760,239**	35,568	18,587	772,654
Total gains or losses in profit or loss	**(2,670)[1]**	**5,927[1]**	**19,185[1]**	48,966[2]	18,883[1]	60,421[1]
Issues	**-**	**-**	**-**	-	-	20,000
Settlements	**-**	**-**	**(67,250)**	-	(4)	(92,836)
Transfer out of Level 3	**(20,051)**	**(8,037)**	**(19,795)**	(35,210)	(21,296)	-
Balance at 31 December	**26,604**	**14,060**	**692,379**	49,324	16,170	760,239

[1] Denotes losses in the Profit or Loss
[2] Denotes gains in the Profit or Loss

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

For derivative financial assets/liabilities, transfers out of level 3 were due to the maturity of the derivatives or as a result of early termination.

For trading liabilities, transfers into level 3 were due to new deals with unobservable volatilities. Transfers out of level 3 resulted from maturity or early termination of the instruments.

For trading liabilities, realised and unrealised gains and losses are presented in profit or loss under 'Net trading income'.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgments (Cont'd)

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

(v) Reconciliation of fair value measurements in Level 3 of the fair value hierarchy (Cont'd)

Total gains or losses included in profit or loss for the financial year in the above tables are presented in the statements of comprehensive income as follows:

2016 **Group (RM'000)**	**Derivative financial assets**	**Derivative financial liabilities**	**Trading liabilities**
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	**(3,149)**[1]	**1,774** [1]	**83,583** [1]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	**59**[2]	**4,153**[1]	**(65,022)**[2]
2015 Group (RM'000)			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	(12,724)[1]	(2,858) [2]	60,211 [1]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	39,305[2]	24,303[1]	(17,973)[2]
2016 **Bank (RM'000)**			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	**(3,149)** [1]	**1,774** [1]	**17,479** [1]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	**479**[2]	**4,153**[1]	**1,706**[1]
2015 Bank (RM'000)			
Total gains or losses included in profit or loss for the financial year ended:			
-Net trading income	(12,725) [1]	(5,419) [2]	53,928 [1]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the financial year			
-Net trading income	61,690[2]	24,302[1]	6,493[1]

[1] Denotes losses in the Profit or Loss
[2] Denotes gains in the Profit or Loss

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgments (Cont'd)

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

(vi) Quantitative information about significant unobservable inputs in Level 3 valuations

Level 3 fair values are estimated using unobservable inputs for the financial assets and liabilities. The following table shows the valuation techniques used in the determination of fair values within Level 3 at Group basis for the current year, as well as the key unobservable inputs used in the valuation models.

Type of Financial Instrument	Valuation Technique	Key unobservable inputs	Range of estimates for unobservable input
Foreign currency options based derivative financial assets/liabilities	Option model	Volatility of foreign currency rates	**2016 : 5.81% - 14.50%** 2015 : 4.91% - 19.88%
Trading liabilities	Option model	Foreign currency volatility	**2016 : 2.87% - 18.67%** 2015 : 4.91% - 20.47%
		Long term equity volatility	**2016 : 12.85% - 24.25%** 2015 : 12.18% - 30.96%
		Equity/Equity Index Correlation	**2016 : 0.48-0.80** 2015 : 0.69

(vii) Key unobservable inputs to Level 3 financial instruments

- **Volatility**

Volatility is a measure of the anticipated future variability of a market price. Volatility tends to increase in stressed market conditions, and decrease in calmer market conditions. Volatility is an important input in the pricing of options. In general, the higher the volatility, the more expensive the option will be. This reflects both the higher probability of an increased return from the option, and the potentially higher costs that the Group and the Bank may incur in hedging the risks associated with the option. If option prices become more expensive, this will increase the value of the Group and the Bank's long option positions (i.e. the positions in which the Group and the Bank have purchased options), while the Group and the Bank's short option positions (i.e. the positions in which the Group and the Bank have sold options) will suffer losses.

Volatility varies by underlying reference market price, and by strike and maturity of the option. Volatility also varies over time. Certain volatilities, typically those of a longer-dated nature, are unobservable. The unobservable volatility is then estimated from observable data. For example, longer-dated volatilities may be extrapolated from shorter-dated volatilities.

The range of unobservable volatilities quoted in the table reflects the wide variation in volatility inputs by reference to market price. For example, foreign exchange volatilities for a pegged currency may be very low, whereas for non-managed currencies the foreign exchange volatility may be higher. As a further example, volatilities for deep-in-the money or deep-out-of-the-money equity options may be significantly higher than at-the-money options. For any single unobservable volatility, the uncertainty in the volatility determination is significantly less than the range quoted above.

5 Use of estimates and judgments (Cont'd)

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

(vii) Key unobservable inputs to Level 3 financial instruments (Cont'd)

- *Interest rate/cross currency basis*
  Cross currency basis rates represent the difference in interest rates between different currencies. Cross currency basis rates are used to revalue cross currency swaps and may not be observable in more illiquid markets.

(ix) Sensitivity of fair values to reasonably possible alternative assumptions

As discussed above, the fair values of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values to reasonably possible alternative assumptions:

	2016 Effect on profit or loss		2015 Effect on profit or loss	
	Favourable changes	**Unfavourable changes**	Favourable changes	Unfavourable changes
Group (RM'000)				
Derivative financial assets	**1,996**	**(1,996)**	1,967	(1,967)
Derivative financial liabilities	**901**	**(901)**	457	(457)
Trading liabilities	**130**	**(130)**	337	(337)
	3,027	**(3,027)**	2,761	(2,761)

Favourable and unfavourable changes are determined on the sensitivity analysis. The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data. When the available data is not amenable to statistical analysis, the quantification of uncertainty is judgmental, but remains guided by the 95% confidence interval.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Cash and Short Term Funds

	Group		*Bank*	
	31 Dec 2016 RM'000	31 Dec 2015 RM'000	**31 Dec 2016 RM'000**	31 Dec 2015 RM'000
Cash and balances with banks and other financial institutions	**1,121,507**	1,576,991	**931,916**	1,207,981
Money at call and interbank placements maturing within one month	**15,682,607**	16,674,918	**14,067,972**	13,110,102
	16,804,114	18,251,909	**14,999,888**	14,318,083

Included in cash and short term funds of the Group and the Bank are cash collateral pledged on derivative contracts subject to an enforceable master netting arrangement amounting to RM1,079.0 million (31 December 2015: RM1,356.4 million) and RM1,429.0 million (31 December 2015: RM1,706.4 million) respectively.

7 Deposits and Placements with Banks and Other Financial Institutions

	Group		*Bank*	
	31 Dec 2016 RM'000	31 Dec 2015 RM'000	**31 Dec 2016 RM'000**	31 Dec 2015 RM'000
Licensed banks	**425,000**	**-**	**2,439,086**	2,635,204
Bank Negara Malaysia	**1,436,400**	-	**1,436,400**	-
	1,861,400	-	**3,875,486**	2,635,204

Included in Deposits and Placements with Banks and Other Financial Institutions of the Bank are placements with the Bank's wholly owned subsidiary, HSBC Amanah Malaysia Berhad (HBMS) of RM2,014.1 million (31 December 2015: RM2,635.2 million).

8 Financial Assets Held-for-Trading

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
At fair value	**RM'000**	RM'000	**RM'000**	RM'000
Money market instruments:				
Malaysian Government treasury bills	**128,792**	4,662	**128,792**	4,662
Islamic treasury bills	**29,620**	-	**29,620**	-
Bank Negara Malaysia bills and notes	**147,681**	32,459	**147,681**	32,459
Malaysian Government securities	**1,601,737**	1,160,876	**1,601,737**	1,160,876
Malaysian Government Islamic bonds	**249,154**	194,887	**248,666**	194,397
Islamic fixed rate bonds	**8,895**	8,951	**8,895**	8,951
Cagamas bonds and notes	**2,452**	2,422	**2,452**	2,422
	2,168,331	1,404,257	**2,167,843**	1,403,767
Unquoted:				
Corporate bonds and Sukuk	**98,121**	93,101	**98,121**	83,099
	2,266,452	1,497,358	**2,265,964**	1,486,866

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

8 Financial Assets Held-for-Trading (Cont'd)

Credit quality of financial assets held-for-trading based on the ratings of Standard & Poor's on the counterparties.

	Rating	Group		Bank	
		31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
		RM'000	RM'000	**RM'000**	RM'000
Money market instruments:					
Malaysian Government treasury bills	*A+ to A-*	**128,792**	4,662	**128,792**	4,662
Islamic treasury bills	*A+ to A-*	**29,620**	-	**29,620**	-
Bank Negara Malaysia bills and notes	*A+ to A-*	**147,681**	32,459	**147,681**	32,459
Malaysian Government securities	*A+ to A-*	**1,601,737**	1,160,876	**1,601,737**	1,160,876
Malaysian Government Islamic bonds	*A+ to A-*	**249,154**	194,887	**248,666**	194,397
Islamic fixed rate bonds	*A+ to A-*	**8,895**	8,951	**8,895**	8,951
Cagamas bonds and notes	- [1]	**2,452**	2,422	**2,452**	2,422
Unquoted:					
Corporate bonds	- [1]	**95,607**	91,401	**95,607**	81,399
(including commercial paper)	A+ to A-	**2,514**	50	**2,514**	50
	BBB+ to BBB-	**-**	1,650	-	1,650
		2,266,452	1,497,358	**2,265,964**	1,486,866

[1] Rated separately by another rating agency.

All the financial assets held-for-trading as disclosed above are not pledged to any counterparties.

9 Financial Investments Available-for-Sale

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
At fair value	**RM'000**	RM'000	**RM'000**	RM'000
Money market instruments:				
Malaysian Government securities	**2,666,063**	2,684,851	**2,666,063**	2,684,851
Malaysian Government Islamic bonds	**2,133,363**	3,695,010	**764,789**	1,993,767
Islamic fixed rate Sukuk	**504,449**	501,409	**504,449**	501,409
Cagamas bonds and notes	**414,397**	114,860	**414,397**	114,860
US treasury bond	**671,742**	-	**671,742**	-
	6,390,014	6,996,130	**5,021,440**	5,294,887
Unquoted:				
Shares	**167,559**	16,908	**167,559**	16,908
Corporate bonds	**471**	471	**471**	471
	168,030	17,379	**168,030**	17,379
	6,558,044	7,013,509	**5,189,470**	5,312,266

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

9 Financial Investments Available-for-Sale (Cont'd)

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

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Maturing within one year	**895,867**	608,040	**715,643**	436,330
More than one year to three years	**2,808,372**	3,677,058	**2,075,923**	2,366,184
More than three years to five years	**1,744,117**	1,797,261	**1,308,271**	1,578,602
Over five years	**941,658**	913,771	**921,603**	913,771
	6,390,014	6,996,130	**5,021,440**	5,294,887

10 Loans, Advances and Financing

(i) By type

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
At amortised cost	**RM'000**	RM'000	**RM'000**	RM'000
Overdrafts/cash line	**1,224,214**	1,147,624	**1,126,374**	1,057,224
Term loans/financing:				
Housing loans/financing	**19,496,554**	19,167,843	**15,139,920**	14,959,077
Syndicated term loans/financing	**2,409,157**	2,666,343	**1,758,891**	1,711,784
Factoring receivables	**224,757**	272,248	**224,757**	272,248
Hire purchase receivables	**208,921**	229,552	-	-
Lease receivables	**2,738**	4,103	-	-
Other term loans/financing[1]	**10,504,112**	12,503,574	**6,635,422**	8,635,042
Bills receivable	**1,100,284**	3,738,396	**990,012**	3,521,886
Trust receipts	**2,104,186**	1,681,763	**1,641,951**	1,078,082
Claims on customers under acceptance credits	**1,869,112**	2,698,255	**1,364,737**	2,080,795
Staff loans/financing	**135,101**	164,549	**128,908**	157,040
Credit/charge cards	**3,154,850**	2,827,815	**2,367,140**	2,258,457
Revolving credit	**5,152,622**	4,789,157	**4,202,461**	3,982,459
Other loans/financing	**7,831**	5,502	**7,831**	5,502
Gross loans, advances and financing	**47,594,439**	51,896,724	**35,588,404**	39,719,596
Less: Allowance for impaired loans, advances and financing				
- Collectively assessed	**(469,565)**	(444,234)	**(269,550)**	(303,970)
- Individually assessed	**(230,040)**	(230,297)	**(167,283)**	(161,650)
Total net loans, advances and financing	**46,894,834**	51,222,193	**35,151,571**	39,253,976

[1] Included in the loans, advances and financing of the Bank at 31 December 2016 are financing which are disclosed as "Asset under Management" in the financial statements of HBMS. These details are as follows:

	Bank	
	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Under SIAF/IAA arrangement	**832,087**	1,130,134
Under RPSIA arrangement	**-**	19,918
	832,087	1,150,052

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Loans, Advances and Financing (Cont'd)

(i) By type (Cont'd)

The RPSIA is with the Bank's fully owned subsidiary, HBMS, and the contract is based on the Mudharabah principle where the Bank provides the funds, whilst the assets are managed by HBMS. The profits of the underlying assets are shared based on pre-agreed ratios, whilst risks on the financing are borne by the Bank. Hence, the underlying assets and allowances for impairment arising thereon, if any, are recognised and accounted for by the Bank. Effective 31 March 2015, SIAF/IAA replaces RPSIA for new advances and financing.

SIAF/IAA arrangement is with the Bank's wholly owned subsidiary, HBMS, and the contract is based on the Wakalah principle where the Bank, solely or together with other financial institutions provide the funds, whilst the assets are managed by HBMS (as the Wakeel or agent). However, in the arrangement, the profits of the underlying assets are recognised by the Bank propotionately in relation to the funding it provides in the syndication arrangement . At the same time, risks on the financing are also proportionately borne by the Bank. Hence, the underlying assets and allowances for impairment arising thereon, if any, are proportionately recognised and accounted for by the Bank.

The recognition and derecognition treatments of the above are in accordance to Note 3(f) on financial instruments.

(ii) By type of customer

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Domestic non-bank financial institutions	**638,263**	694,721	**-**	24,423
Domestic business enterprises:				
Small medium enterprises	**7,130,268**	8,223,786	**5,309,204**	6,219,138
Others	**12,872,728**	14,469,283	**10,474,991**	11,524,779
Government and statutory bodies	**10,316**	13,566	**-**	-
Individuals	**22,589,526**	22,308,675	**16,687,675**	16,877,437
Other domestic entities	**6,305**	7,374	**4,839**	5,806
Foreign entities	**4,347,033**	6,179,319	**3,111,695**	5,068,013
	47,594,439	51,896,724	**35,588,404**	39,719,596

(iii) By residual contractual maturity

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Maturity within one year	**18,127,142**	21,355,694	**13,770,956**	16,822,828
More than one year to three years	**3,515,403**	3,319,943	**2,860,890**	2,677,241
More than three years to five years	**2,475,446**	3,891,796	**1,363,990**	2,401,563
More than five years	**23,476,448**	23,329,291	**17,592,568**	17,817,964
	47,594,439	51,896,724	**35,588,404**	39,719,596

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Loans, Advances and Financing (Cont'd)

(iv) By interest/profit rate sensitivity

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Fixed rate:				
Housing loans/financing	**1,341**	2,252	**943**	1,117
Hire purchase receivables	**208,921**	229,552	**-**	-
Other fixed rate loans/financing	**9,628,558**	12,318,223	**6,844,259**	9,478,120
Variable rate:				
BR/BLR/BFR plus	**24,077,415**	24,212,548	**18,606,188**	18,934,600
Cost-plus	**13,678,204**	15,134,149	**10,137,014**	11,305,759
	47,594,439	51,896,724	**35,588,404**	39,719,596

(v) By sector

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Agricultural, hunting, forestry and fishing	**1,176,579**	1,720,576	**1,040,207**	1,096,316
Mining and quarrying	**384,706**	479,285	**166,512**	272,991
Manufacturing	**6,351,035**	7,521,846	**5,163,094**	6,215,602
Electricity, gas and water	**48,252**	22,666	**15,345**	7,894
Construction	**2,468,451**	2,729,566	**2,113,806**	2,132,411
Real estate	**3,098,856**	2,837,599	**2,277,002**	2,444,665
Wholesale & retail trade and restaurants & hotels	**3,760,487**	4,272,413	**2,944,164**	3,183,647
Transport, storage and communication	**373,579**	273,544	**186,858**	107,101
Finance, insurance and business services	**2,479,650**	3,004,155	**1,549,936**	1,968,693
Household-retail	**26,017,506**	25,630,503	**19,480,811**	19,556,780
Others	**1,435,338**	3,404,571	**650,669**	2,733,496
	47,594,439	51,896,724	**35,588,404**	39,719,596

(vi) By purpose

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Purchase of property:				
Residential	**19,586,996**	19,271,634	**15,227,147**	15,059,601
Non residential	**1,669,618**	1,744,138	**816,610**	903,557
Purchase of securities	**5,831**	6,862	**5,831**	6,862
Purchase of transport vehicles	**30,798**	35,792	**28,951**	33,670
Purchase of fixed assets excluding land & building	**4,068**	9,104	**3,702**	5,398
Consumption credit	**5,851,404**	5,723,729	**3,957,812**	4,135,358
Construction	**1,943,074**	2,169,570	**1,599,631**	1,583,287
Working capital	**17,567,239**	20,059,671	**13,624,119**	15,598,026
Other purpose	**935,411**	2,876,224	**324,601**	2,393,837
	47,594,439	51,896,724	**35,588,404**	39,719,596

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Loans, Advances and Financing (Cont'd)

(vii) By geographical distribution

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Northern Region	**6,651,438**	7,152,739	**5,246,198**	5,703,936
Southern Region	**6,692,390**	7,065,940	**5,122,978**	5,427,271
Central Region	**31,441,394**	34,509,511	**22,875,491**	25,900,380
Eastern Region	**2,809,217**	3,168,534	**2,343,737**	2,688,009
	47,594,439	51,896,724	**35,588,404**	39,719,596

Concentration by location for loans, advances and financing is based on the location of the borrower.

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 state 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.

11 Impaired Loans, Advances and Financing

(i) Movements in impaired loans, advances and financing

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Balance at 1 January	**941,081**	688,245	**705,802**	526,018
Classified as impaired during the financial year	**1,113,363**	1,181,396	**754,657**	861,773
Reclassified as performing	**(503,968)**	(452,339)	**(381,139)**	(342,958)
Amount recovered	**(290,068)**	(240,611)	**(240,237)**	(185,717)
Amount written off	**(233,455)**	(235,610)	**(115,656)**	(153,314)
Balance at 31 December	**1,026,953**	941,081	**723,427**	705,802

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Impaired Loans, Advances and Financing (Cont'd)

(ii) Movements in allowances for impaired loans, advances and financing

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
Collective allowance for impairment	**RM'000**	RM'000	**RM'000**	RM'000
Balance at 1 January	**444,234**	388,060	**303,970**	263,243
Made during the financial year	**402,500**	409,646	**191,013**	248,706
Amount released	**(186,755)**	(170,108)	**(128,491)**	(103,044)
Amount written off	**(190,414)**	(183,364)	**(96,942)**	(104,935)
Balance at 31 December	**469,565**	444,234	**269,550**	303,970

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
Individual allowance for impairment	**RM'000**	RM'000	**RM'000**	RM'000
Balance at 1 January	**230,297**	234,520	**161,650**	190,699
Made during the financial year	**110,361**	115,782	**80,320**	69,953
Amount released	**(80,987)**	(93,421)	**(62,872)**	(65,704)
Amount written off	**(29,631)**	(26,584)	**(11,815)**	(33,298)
Balance at 31 December	**230,040**	230,297	**167,283**	161,650

(iii) By sector

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Agricultural, hunting, forestry and fishing	**63,410**	125,667	**63,410**	125,667
Manufacturing	**58,611**	44,890	**54,573**	23,797
Construction	**52,877**	44,467	**52,673**	44,263
Real estate	**1,548**	700	**1,548**	700
Wholesale & retail trade, restaurants & hotels	**44,973**	58,603	**32,664**	48,931
Transport, storage and communication	**3,950**	8,668	**285**	3,225
Finance, insurance and business services	**25,796**	5,531	**2,450**	4
Household-retail	**774,858**	651,902	**515,512**	459,215
Others	**930**	653	**312**	-
	1,026,953	941,081	**723,427**	705,802

(iv) By purpose

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Purchase of property:				
Residential	**480,942**	402,093	**345,875**	307,109
Non residential	**20,968**	22,768	**10,081**	12,513
Purchase of transport vehicles	**552**	688	**406**	555
Purchase of fixed assets excluding land & building	**358**	358	**-**	-
Consumption credit	**283,385**	237,962	**162,168**	142,192
Construction	**52,766**	44,782	**52,562**	44,578
Working capital	**187,954**	232,430	**152,307**	198,855
Other purpose	**28**	-	**28**	**-**
	1,026,953	941,081	**723,427**	705,802

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Impaired Loans, Advances and Financing (Cont'd)

(v) By geographical distribution

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Northern Region	**183,825**	168,686	**136,112**	114,584
Southern Region	**100,367**	107,824	**69,761**	77,557
Central Region	**580,344**	464,794	**367,701**	323,030
Eastern Region	**162,417**	199,777	**149,853**	190,631
	1,026,953	941,081	**723,427**	705,802

12 Other Assets

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Settlements	**7,097**	38,819	**7,097**	38,819
Interest/profit receivable	**112,285**	94,452	**103,218**	93,111
Income receivable	**31,209**	49,816	**25,150**	34,002
Deposits and prepayments	**3,136**	2,711	**3,064**	1,799
Amount due from subsidiary company	**-**	-	**36,472**	88
Other receivables	**107,912**	94,402	**92,106**	90,912
	261,639	280,200	**267,107**	258,731

13 Statutory Deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia (BNM) 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.

14 Investments in Subsidiary Companies

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Unquoted shares, at cost - in Malaysia	**-**	-	**660,021**	660,021

The subsidiary companies of the Bank are as follows:

Name	*Percentage of equity held*	
	31 Dec 2016	31 Dec 2015
HSBC (Kuala Lumpur) Nominees Sdn Bhd	**100%**	100%
HSBC Nominees (Tempatan) Sdn Bhd	**100%**	100%
HSBC Nominees (Asing) Sdn Bhd	**100%**	100%
HSBC Amanah Malaysia Berhad	**100%**	100%

All income and expenditure arising from the activities of subsidiaries which are nominee companies were recognised in the Bank's results.

15 Investment in a Joint Venture

HSBC Bank Malaysia Berhad is a joint venture partner in House Network Sdn Bhd (HOUSe). HOUSe's principal activity is the management of the shared Automated Teller Machine network amongst its member banks. The other three joint venture partners of HOUSe are Standard Chartered Bank Malaysia Berhad, United Overseas Bank Malaysia Berhad and OCBC Bank Malaysia Berhad, each holding RM1 paid up ordinary share. As the joint arrangement is immaterial, no further disclosure is made in this financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Property and equipment

2016	*Group* Freehold land	Short term leasehold land	Long term leasehold land	Buildings on freehold land	Buildings on short term leasehold land	Buildings on long term leasehold land	Office equipment, fixtures and fittings	Computer equipment	Motor vehicles	Work in progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation											
Balance at 1 January	121,568	16,767	5,174	122,382	11,163	3,526	242,312	119,428	3,108	-	645,428
Additions	-	-	-	-	-	-	9,382	3,970	1,203	651	15,206
Disposals	-	-	-	-	-	-	(435)	(2,134)	(1,091)	-	(3,660)
Written off	-	-	-	-	-	-	(1,096)	(120)	-	-	(1,216)
Adjustments for revaluation	24,972	16,563	1,876	(18,822)	3,987	2,224	-	-	-	-	30,800
Balance at 31 December	146,540	33,330	7,050	103,560	15,150	5,750	250,163	121,144	3,220	651	686,558
Representing items at:											
Cost	-	-	-	-	-	-	250,163	121,144	3,220	651	375,178
Valuation - 2016	146,540	33,330	7,050	103,560	15,150	5,750	-	-	-	-	311,380
	146,540	33,330	7,050	103,560	15,150	5,750	250,163	121,144	3,220	651	686,558
Accumulated depreciation											
Balance at 1 January	-	-	-	-	-	-	204,990	97,237	1,815	-	304,042
Charge for the financial year	-	511	136	3,221	318	93	13,773	8,432	550	-	27,034
Disposals	-	-	-	-	-	-	(432)	(2,050)	(870)	-	(3,352)
Written off	-	-	-	-	-	-	(1,091)	(120)	-	-	(1,211)
Adjustments for revaluation	-	(511)	(136)	(3,221)	(318)	(93)	-	-	-	-	(4,279)
Balance at 31 December	-	-	-	-	-	-	217,240	103,499	1,495	-	322,234
Net book value at 31 December	146,540	33,330	7,050	103,560	15,150	5,750	32,923	17,645	1,725	651	364,324
Carrying amounts that would have been recognised if land and building were stated at cost	5,203	1,001	1,222	47,758	6,331	2,200	32,923	17,645	1,725	651	116,659

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Property and equipment (Cont'd)

	Group										
2015	*Freehold land*	*Short term leasehold land*	*Long term leasehold land*	*Buildings on freehold land*	*Buildings on short term leasehold land*	*Buildings on long term leasehold land*	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Work in progress*	*Total*
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation											
Balance at 1 January	113,088	16,717	5,074	122,362	11,163	3,526	238,372	115,346	3,192	-	628,840
Additions	-	-	-	-	-	-	6,151	4,324	299	-	10,774
Disposals	-	-	-	-	-	-	(12)	(175)	(383)	-	(570)
Written off	-	-	-	-	-	-	(2,199)	(67)	-	-	(2,266)
Adjustments for revaluation	8,480	50	100	20	-	-	-	-	-	-	8,650
Balance at 31 December	121,568	16,767	5,174	122,382	11,163	3,526	242,312	119,428	3,108	-	645,428
Representing items at:											
Cost	-	-	-	-	-	-	242,312	119,428	3,108	-	364,848
Valuation - 2015	121,568	16,767	5,174	122,382	11,163	3,526	-	-	-	-	280,580
	121,568	16,767	5,174	122,382	11,163	3,526	242,312	119,428	3,108	-	645,428
Accumulated depreciation											
Balance at 1 January	-	-	-	-	-	-	188,547	87,220	1,571	-	277,338
Charge for the financial year	-	493	130	3,138	309	91	18,623	10,259	583	-	33,626
Disposals	-	-	-	-	-	-	(12)	(175)	(339)	-	(526)
Written off	-	-	-	-	-	-	(2,168)	(67)	-	-	(2,235)
Adjustments for revaluation	-	(493)	(130)	(3,138)	(309)	(91)	-	-	-	-	(4,161)
Balance at 31 December	-	-	-	-	-	-	204,990	97,237	1,815	-	304,042
Net book value at 31 December	121,568	16,767	5,174	122,382	11,163	3,526	37,322	22,191	1,293	-	341,386
Carrying amounts that would have been recognised if land and building were stated at cost	5,203	1,035	1,257	50,162	6,665	2,275	37,322	22,191	1,293	-	127,403

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Property and equipment (Cont'd)

	Bank										
2016	*Freehold land*	*Short term leasehold land*	*Long term leasehold land*	*Buildings on freehold land*	*Buildings on short term leasehold land*	*Buildings on long term leasehold land*	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Work in progress*	*Total*
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cost or valuation											
Balance at 1 January	**121,568**	**16,767**	**5,174**	**122,382**	**11,163**	**3,526**	**207,243**	**101,002**	**2,809**	**-**	**591,634**
Additions	**-**	**-**	**-**	**-**	**-**	**-**	**7,407**	**3,967**	**1,203**	**651**	**13,228**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(435)**	**(1,984)**	**(1,091)**	**-**	**(3,510)**
Written off	**-**	**-**	**-**	**-**	**-**	**-**	**(1,096)**	**(120)**	**-**	**-**	**(1,216)**
Adjustments for revaluation	**24,972**	**16,563**	**1,876**	**(18,822)**	**3,987**	**2,224**	**-**	**-**	**-**	**-**	**30,800**
Balance at 31 December	**146,540**	**33,330**	**7,050**	**103,560**	**15,150**	**5,750**	**213,119**	**102,865**	**2,921**	**651**	**630,936**
Representing items at:											
Cost	**-**	**-**	**-**	**-**	**-**	**-**	**213,119**	**102,865**	**2,921**	**651**	**319,556**
Valuation - 2016	**146,540**	**33,330**	**7,050**	**103,560**	**15,150**	**5,750**	**-**	**-**	**-**	**-**	**311,380**
	146,540	**33,330**	**7,050**	**103,560**	**15,150**	**5,750**	**213,119**	**102,865**	**2,921**	**651**	**630,936**
Accumulated depreciation											
Balance at 1 January	**-**	**-**	**-**	**-**	**-**	**-**	**174,983**	**83,798**	**1,755**	**-**	**260,536**
Charge for the financial year	**-**	**511**	**136**	**3,221**	**318**	**93**	**10,690**	**6,546**	**490**	**-**	**22,005**
Disposals	**-**	**-**	**-**	**-**	**-**	**-**	**(432)**	**(1,900)**	**(870)**	**-**	**(3,202)**
Written off	**-**	**-**	**-**	**-**	**-**	**-**	**(1,091)**	**(120)**	**-**	**-**	**(1,211)**
Adjustments for revaluation	**-**	**(511)**	**(136)**	**(3,221)**	**(318)**	**(93)**	**-**	**-**	**-**	**-**	**(4,279)**
Balance at 31 December	**-**	**-**	**-**	**-**	**-**	**-**	**184,150**	**88,324**	**1,375**	**-**	**273,849**
Net book value at 31 December	**146,540**	**33,330**	**7,050**	**103,560**	**15,150**	**5,750**	**28,969**	**14,541**	**1,546**	**651**	**357,087**
Carrying amounts that would have been recognised if land and building were stated at cost	**5,203**	**1,001**	**1,222**	**47,758**	**6,331**	**2,200**	**28,969**	**14,541**	**1,546**	**651**	**109,422**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Property and equipment (Cont'd)

	Bank										
2015	*Freehold land*	*Short term leasehold land*	*Long term leasehold land*	*Buildings on freehold land*	*Buildings on short term leasehold land*	*Buildings on long term leasehold land*	*Office equipment, fixtures and fittings*	*Computer equipment*	*Motor vehicles*	*Work in progress*	*Total*
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost or valuation											
Balance at 1 January	113,088	16,717	5,074	122,362	11,163	3,526	203,434	97,714	2,971	-	576,049
Additions	-	-	-	-	-	-	6,020	3,530	-	-	9,550
Disposals	-	-	-	-	-	-	(12)	(175)	(162)	-	(349)
Written off	-	-	-	-	-	-	(2,199)	(67)	-	-	(2,266)
Adjustments for revaluation	8,480	50	100	20	-	-	-	-	-	-	8,650
Balance at 31 December	121,568	16,767	5,174	122,382	11,163	3,526	207,243	101,002	2,809	-	591,634
Representing items at:											
Cost	-	-	-	-	-	-	207,243	101,002	2,809	-	311,054
Valuation - 2015	121,568	16,767	5,174	122,382	11,163	3,526	-	-	-	-	280,580
	121,568	16,767	5,174	122,382	11,163	3,526	207,243	101,002	2,809	-	591,634
Accumulated depreciation											
Balance at 1 January	-	-	-	-	-	-	163,466	75,893	1,402	-	240,761
Charge for the financial year	-	493	130	3,138	309	91	13,697	8,147	515	-	26,520
Disposals	-	-	-	-	-	-	(12)	(175)	(162)	-	(349)
Written off	-	-	-	-	-	-	(2,168)	(67)	-	-	(2,235)
Adjustments for revaluation	-	(493)	(130)	(3,138)	(309)	(91)	-	-	-	-	(4,161)
Balance at 31 December	-	-	-	-	-	-	174,983	83,798	1,755	-	260,536
Net book value at 31 December	121,568	16,767	5,174	122,382	11,163	3,526	32,260	17,204	1,054	-	331,098
Carrying amounts that would have been recognised if land and building were stated at cost	5,203	1,035	1,257	50,162	6,665	2,275	32,260	17,204	1,054	-	117,115

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Intangible Assets

Computer software	***Group***	***Bank***
2016	**RM'000**	**RM'000**
Cost		
Balance at 1 January	**256,627**	**251,574**
Additions	**18,301**	**18,301**
Written off	**(11,761)**	**(11,761)**
Balance at 31 December	**263,167**	**258,114**
Accumulated depreciation		
Balance at 1 January	**191,925**	**186,872**
Charge for the financial year	**22,703**	**22,703**
Written off	**(10,192)**	**(10,192)**
At 31 December	**204,436**	**199,383**
Accumulated depreciation	***199,269***	***194,216***
Accumulated impairment loss	***5,167***	***5,167***
Net book value at 31 December	**58,731**	**58,731**
2015	RM'000	RM'000
Cost		
Balance at 1 January	244,651	239,558
Additions	32,703	32,703
Written off	(20,727)	(20,687)
Balance at 31 December	256,627	251,574
Accumulated depreciation		
Balance at 1 January	183,048	177,957
Charge for the financial year	26,517	26,515
Written off	(17,640)	(17,600)
At 31 December	191,925	186,872
Accumulated depreciation	*186,758*	*181,705*
Accumulated impairment loss	*5,167*	*5,167*
Net book value at 31 December	64,702	64,702

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

	Group		*Bank*	
	31 Dec 2016 RM'000	31 Dec 2015 RM'000	**31 Dec 2016 RM'000**	31 Dec 2015 RM'000
Deferred tax assets	**103,283**	135,795	**92,239**	128,214
Deferred tax liabilities	**(75,025)**	(50,794)	**(74,376)**	(48,761)
	28,258	85,001	**17,863**	79,453

Deferred tax liabilities and assets are offset above where there is a legally enforceable right to offset current tax assets against current tax liabilities.

	Group		*Bank*	
	31 Dec 2016 RM'000	31 Dec 2015 RM'000	**31 Dec 2016 RM'000**	31 Dec 2015 RM'000
Deferred tax assets:				
- settled more than 12 months	**29,233**	5,386	**24,193**	2,586
- settled within 12 months	**74,050**	130,409	**68,046**	125,628
Deferred tax liabilities:				
- settled more than 12 months	**(67,257)**	(46,043)	**(66,959)**	(44,313)
- settled within 12 months	**(7,768)**	(4,751)	**(7,417)**	(4,448)
	28,258	85,001	**17,863**	79,453

The recognised deferred tax assets and liabilities (before offsetting) are as follows:

	Group		*Bank*	
	31 Dec 2016 RM'000	31 Dec 2015 RM'000	**31 Dec 2016 RM'000**	31 Dec 2015 RM'000
Property and equipment				
Capital allowances	**(14,323)**	(14,902)	**(13,674)**	(14,453)
Revaluation	**(33,006)**	(30,007)	**(33,006)**	(30,007)
Available-for-sale reserve	**(25,629)**	(5,863)	**(27,696)**	(4,301)
Provision for accrued expenses	**76,842**	134,933	**70,380**	127,476
Deferred income	**24,308**	-	**21,859**	-
Others temporary differences	**-**	862	**-**	738
Lease receivables	**66**	(22)	**-**	-
	28,258	85,001	**17,863**	79,453

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deferred Tax Assets (Cont'd)

Movement in temporary differences during the financial year

	Group						
	Balance at 1 Jan 2015	*Recognised in profit or loss*	*Recognised in other comprehensive income*	***Balance at 31 Dec 2015 / 1 Jan 2016***	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***Balance at 31 Dec 2016***
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Available-for-sale reserve	3,466	-	(3,466)	**-**	**-**	**2,067**	**2,067**
Provision for accrued expenses	117,268	17,665	-	**134,933**	**(58,091)**	**-**	**76,842**
Deferred income	-	-	-	**-**	**24,308**	**-**	**24,308**
Lease receivables	-	-	-	**-**	**66**	**-**	**66**
Other temporary differences	2,074	(1,212)	-	**862**	**(862)**	**-**	**-**
Deferred Tax Assets	122,808	16,453	(3,466)	**135,795**	**(34,579)**	**2,067**	**103,283**
Property and equipment							
- capital allowances	(21,942)	7,040	-	**(14,902)**	**579**	**-**	**(14,323)**
- revaluation	(29,177)	629	(1,459)	**(30,007)**	**657**	**(3,657)**	**(33,007)**
Lease receivables	(36)	14	-	**(22)**	**22**	**-**	**-**
Available-for-sale reserve	-	-	(5,863)	**(5,863)**	**-**	**(21,832)**	**(27,695)**
Deferred Tax Liabilities	(51,155)	7,683	(7,322)	**(50,794)**	**1,258**	**(25,489)**	**(75,025)**
Net Deferred Tax Assets	71,653	24,136	(10,788)	**85,001**	**(33,321)**	**(23,422)**	**28,258**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deferred Tax Assets (Cont'd)

Movement in temporary differences during the financial year (Cont'd)

	Bank						
	Balance at 1 Jan 2015	*Recognised in profit or loss*	*Recognised in other comprehensive income*	***Balance at 31 Dec 2015 / 1 Jan 2016***	***Recognised in profit or loss***	***Recognised in other comprehensive income***	***Balance at 31 Dec 2016***
	RM'000	RM'000	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Available-for-sale reserve	1,417	-	(1,417)	**-**	**-**	**-**	**-**
Provision for accrued expenses	110,274	17,202	-	**127,476**	**(57,096)**	**-**	**70,380**
Deferred income	-	-	-	**-**	**21,859**	**-**	**21,859**
Other temporary differences	2,051	(1,313)	-	**738**	**(738)**	**-**	**-**
Deferred Tax Assets	113,742	15,889	(1,417)	**128,214**	**(35,975)**	**-**	**92,239**
Property and equipment							
- capital allowances	(20,669)	6,216	-	**(14,453)**	**779**	**-**	**(13,674)**
- revaluation	(29,177)	629	(1,459)	**(30,007)**	**657**	**(3,657)**	**(33,007)**
Available-for-sale reserve	-	-	(4,301)	**(4,301)**	**-**	**(23,394)**	**(27,695)**
Deferred Tax Liabilities	(49,846)	6,845	(5,760)	**(48,761)**	**1,436**	**(27,051)**	**(74,376)**
Net Deferred Tax Assets	63,896	22,734	(7,177)	**79,453**	**(34,539)**	**(27,051)**	**17,863**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Deposits from Customers

(i) By type of deposit	Group		Bank	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
At amortised cost				
Demand deposits	**19,695,534**	20,391,898	**17,793,237**	18,534,667
Savings deposits	**13,182,399**	13,232,616	**11,555,217**	11,643,195
Fixed/Investment deposits	**24,355,592**	25,627,793	**19,218,332**	19,828,734
Repurchase agreements	**59,783**	140,412	**-**	-
Wholesale money market deposits	**418,226**	497,383	**418,226**	497,383
Negotiable instruments of deposit	**641,776**	759,821	**641,776**	759,821
	58,353,310	60,649,923	**49,626,788**	51,263,800
At fair value				
Structured investments	**2,483,788**	2,770,887	**2,483,788**	2,770,887
	60,837,098	63,420,810	**52,110,576**	54,034,687

Structured investments and negotiable instruments of deposits (included as customer deposits) are measured at fair value over the life of the instruments. Structured investments are deposits with embedded derivatives, of which both interest paid and fair valuation on the structured investments are recorded in net trading income, as per the accounting policy in Note 3(i), and respective fair value on trading liabilities is shown in Note 5(b).

The maturity structure of fixed/investment deposits and negotiable instruments of deposit is as follows:

	Group		Bank	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Due within six months	**19,400,668**	20,002,882	**15,023,894**	15,096,219
More than six months to one year	**5,155,699**	5,241,926	**4,420,541**	4,393,641
More than one year to three years	**327,056**	1,088,277	**307,346**	1,046,214
More than three years to five years	**113,945**	54,529	**108,327**	52,481
	24,997,368	26,387,614	**19,860,108**	20,588,555

(ii) By type of customer	Group		Bank	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Government and statutory bodies	**26,145**	40,167	**19,716**	31,319
Business enterprises	**20,114,260**	22,005,082	**18,088,116**	19,625,098
Individuals	**27,629,617**	28,564,864	**23,045,734**	23,498,950
Others	**13,067,076**	12,810,697	**10,957,010**	10,879,320
	60,837,098	63,420,810	**52,110,576**	54,034,687

20 Deposits and Placements from Banks and Other Financial Institutions

	Group		Bank	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Licensed banks	**774,180**	1,139,449	**774,180**	1,139,470
Bank Negara Malaysia	**63,486**	49,614	**35,070**	-
Other financial institutions	**5,733,527**	6,773,303	**5,733,527**	5,496,135
	6,571,193	7,962,366	**6,542,777**	6,635,605

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Other Liabilities

	Group		Bank	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
At amortised cost				
Settlements	**71,943**	191,926	**71,943**	191,926
Interest/profit payable	**252,014**	266,260	**190,475**	197,348
Deferred income	**102,972**	106,144	**91,686**	94,768
Marginal deposit	**74,396**	84,320	**51,635**	65,863
Amount due to subsidiary company	**-**	-	**45,132**	209,358
Accrued expenses	**363,332**	609,563	**337,097**	579,214
Other creditors	**594,696**	874,516	**541,168**	807,676
	1,459,353	2,132,729	**1,329,136**	2,146,153
At fair value				
Islamic structured products [1]	**969,409**	1,268,657	**-**	-
	2,428,762	3,401,386	**1,329,136**	2,146,153

[1] Islamic structured products are measured at fair value over the life of the instruments. Islamic structured products are deposits with embedded derivatives, of which both profit paid and fair valuation on the Islamic 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(b).

22 Multi-Currency Sukuk Programme

	Group	
	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	**1,756,001**	1,749,823

HSBC Amanah Malaysia Berhad, a subsidiary of the Bank, issued the following series of 5-year Sukuk under its RM3 billion MCSP:

Issuance under MCSP	Nominal Value (RM'000)	Issue Date	Maturity Date	Carrying Value (RM'000) 31 Dec 2016	Carrying Value (RM'000) 31 Dec 2015
At amortised cost					
1st series at amortised cost	500,000	28 Sep 2012	28 Sep 2017	**500,000**	500,000
At fair value					
2nd series	500,000	16 Oct 2014	16 Oct 2019	**502,835**	500,641
3rd series	750,000	27 Mar 2015	27 Mar 2020	**753,166**	749,182
	1,250,000			**1,256,001**	1,249,823
Total	1,750,000			**1,756,001**	1,749,823

Movement in MCSP	2nd series		3rd series	
	31 Dec 2016	31 Dec 2015	**31 Dec 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 year	**-**	-	**-**	750,000
Change in fair value other than from own credit risk	**4,282**	1,374	**7,565**	(7,020)
Change in fair value from own credit risk	**(2,088)**	(2,587)	**(3,581)**	6,202
Balance at 31 December	**502,835**	500,641	**753,166**	749,182

	Group	
	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk	**(5,669)**	3,615

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Subordinated Liabilities

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Subordinated Liabilities	**1,648,824**	1,621,340	**1,648,824**	1,621,340
(i) Subordinated liabilities, at par	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Fair value changes arising from fair value hedge	**2,559**	2,879	**2,559**	2,879
	1,002,559	1,002,879	**1,002,559**	1,002,879

(a) 4.35% coupon rate for RM500 million due 2022 callable with a 100 bp step up coupon in 2017
(b) 5.05% coupon rate for RM500 million due 2027 callable with a 100 bp step up coupon in 2022

The unsecured subordinated liabilities qualify as a component of Tier 2 capital of the Bank. Under the Capital Adequacy Framework (Capital Components), the par value of the subordinated liabilities are amortised on a straight line basis, with 10% of the par value phased out each year, with effect from 2013 for regulatory capital base purposes.

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
(ii) Subordinated term loan				
- First tranche issued on 25 June 2014	**348,508**	333,515	**348,508**	333,515
- Second tranche issued on 30 June 2015	**297,757**	284,946	**297,757**	284,946
	646,265	618,461	**646,265**	618,461

The subordinated term loans comprised two tranches of Basel III compliant Tier 2 subordinated loans of USD equivalent of RM250 million each from the Bank's immediate holding company, HBAP. The tenor for both the subordinated term loans is 10 years from the utilisation date with interest payable quarterly in arrears.

The subordinated term loans constitute direct, unsecured and subordinated obligations of the Bank. The Bank further invested a similar amount into HBMS.

24 Share Capital

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Authorised				
1 billion ordinary shares of RM0.50 each	**500,000**	500,000	**500,000**	500,000
1 billion preference shares of RM0.50 each	**500,000**	500,000	**500,000**	500,000
	1,000,000	1,000,000	**1,000,000**	1,000,000
Issued and Fully Paid				
229 million ordinary shares of RM0.50 each				
At 1 January/31 December	**114,500**	114,500	**114,500**	114,500

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Reserves

	Group		Bank	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Share premium	**741,375**	741,375	**741,375**	741,375
Statutory reserve	**164,500**	164,500	**114,500**	114,500
Revaluation reserve	**216,229**	186,962	**216,229**	186,962
Capital redemption reserve	**190,000**	190,000	**190,000**	190,000
Available-for-sale reserve	**81,157**	18,569	**87,704**	13,623
Capital contribution reserve	**83,841**	95,953	**83,438**	94,895
Regulatory reserve	**284,000**	284,000	**250,000**	250,000
Retained profits (exclude proposed dividends)	**6,853,762**	6,052,662	**6,070,467**	5,350,760
	8,614,864	7,734,021	**7,753,713**	6,942,115

The statutory reserve is maintained in compliance with Section 12 of the Financial Services Act 2013 (FSA) for the Bank and Section 12 of the Islamic Financial Services Act 2013 (IFSA) for its Islamic subsidiary respectively, and is not distributable as cash dividends.

The capital redemption reserve is maintained in compliance with Section 61 of the Companies Act, 1965 arising from the full redemption of RM190 million cumulative redeemable preference shares.

The capital contribution reserve is maintained to record the amount relating to share options granted to employees of the Group and the Bank directly by HSBC Holding Plc.

The regulatory reserve is maintained in compliance with paragraph 13 of BNM's policy document on Classification and Impairment Provisions for Loans/ Financing and subsequent circular issued on 4 February 2014, to maintain, in aggregate, collective impairment allowance and regulatory reserve of no less than 1.2% of gross loans, advances, and financing, net of individual impairment allowance. The regulatory reserve is debited against retained profit.

The Malaysian Finance Act 2007 introduced the single tier tax system with effect from 1 January 2008. Under this system, tax on a company's profits is a final tax and dividends are tax exempt in the hands of shareholders.

26 Net Interest Income

	Group		Bank	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	**1,603,814**	1,656,735	**1,603,814**	1,656,735
- Interest income recognised from impaired loans	**41,784**	39,104	**41,784**	39,104
Money at call and deposit placements with financial institutions	**467,287**	493,598	**540,829**	562,092
Financial investments available-for-sale	**203,211**	312,054	**203,211**	312,054
	2,316,096	2,501,491	**2,389,638**	2,569,985
Interest expense				
Deposits and placements of banks and other financial institutions	**(40,671)**	(115,172)	**(40,671)**	(115,172)
Deposits from customers	**(746,317)**	(804,365)	**(746,317)**	(804,365)
Subordinated liabilities	**(61,966)**	(56,357)	**(61,966)**	(56,357)
Others	**(11,214)**	(11,114)	**(11,214)**	(11,114)
	(860,168)	(987,008)	**(860,168)**	(987,008)
Net interest income	**1,455,928**	1,514,483	**1,529,470**	1,582,977

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Net Fee and Commission Income

	Group		Bank	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Fee and commission income				
Credit cards	**149,349**	162,851	**149,349**	162,851
Service charges	**138,471**	162,556	**138,471**	162,556
Credit facilities	**57,155**	59,798	**57,155**	59,798
Agency	**75,925**	62,694	**75,925**	62,694
Others	**35,899**	38,278	**35,929**	38,308
	456,799	486,177	**456,829**	486,207
Fee and commission expense				
Credit cards	**(53,924)**	(48,221)	**(53,924)**	(48,221)
Interbank and clearing	**(1,611)**	(1,403)	**(1,611)**	(1,403)
Brokerage	**(1,780)**	(2,323)	**(1,780)**	(2,323)
Intergroup	**(8,998)**	(12,679)	**(8,998)**	(12,679)
Debit cards	**(3,649)**	(4,263)	**(3,649)**	(4,263)
Cash management	**(3,199)**	(3,553)	**(3,199)**	(3,553)
Others	**(5,806)**	(4,779)	**(5,806)**	(4,780)
	(78,967)	(77,221)	**(78,967)**	(77,222)
Net fee and commission income	**377,832**	408,956	**377,862**	408,985

28 Net Trading Income

	Group		Bank	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Realised gains on financial assets/liabilities held-for-trading and other financial instruments	**66,718**	116,682	**66,718**	116,682
Net interest expense from financial assets held-for-trading	**(6,500)**	(23,815)	**(6,500)**	(23,815)
Net unrealised (losses)/gains on revaluation of financial assets held-for-trading	**(24,720)**	18,523	**(24,720)**	18,523
Net realised gains arising from dealing in foreign currency	**548,658**	292,482	**547,424**	282,172
Net unrealised (losses)/gains from dealing in foreign currency	**(120,805)**	163,357	**(67,407)**	199,072
Net realised gains arising from dealing in derivatives	**55,590**	51,768	**60,123**	48,812
Net unrealised losses on revaluation of derivatives	**(9,830)**	(4,153)	**(16,802)**	(12,416)
(Losses)/gains arising from fair value hedges	**(2,849)**	173	**(2,849)**	173
	506,262	615,017	**555,987**	629,203

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 Income from Islamic Banking operations

	Group	
	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Income derived from investment of depositor funds and others	**735,992**	732,672
Income derived from investment of shareholders funds [1]	**133,736**	119,876
Income attributable to the depositors	**(277,606)**	(307,015)
	592,122	545,533
[1] Included in income derived from investment of shareholders funds of the Group at 31 December are net gains/(losses) on financial instruments designated at fair value through profit or loss.	**4,187**	(1,839)

30 Other Operating Income

	Group		Bank	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Disposal of financial investments available-for-sale	**25,701**	28,228	**25,701**	28,228
Dividend income from financial investments available-for-sale				
- Unquoted in Malaysia	**1,450**	1,450	**1,450**	1,450
Rental income	**6,345**	6,569	**6,345**	6,569
Net gains on disposal of property and equipment	**84**	78	**84**	78
Net upwards revaluation on property	**73**	22	**73**	22
Income recharges from subsidiary	**-**	-	**128,375**	123,267
Other operating income	**18,304**	25,636	**18,304**	25,636
	51,957	61,983	**180,332**	185,250

31 Loans/Financing Impairment Charges and other Credit Risk Provisions

	Group		Bank	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Impairment charges on loans and financing:				
(a) Individual allowance for impairment				
Made during the financial year	**110,361**	115,782	**80,320**	69,953
Released during the financial year	**(80,987)**	(93,421)	**(62,872)**	(65,704)
(b) Collective allowance for impairment				
Made during the financial year	**402,500**	409,646	**191,013**	248,706
Released during the financial year	**(186,755)**	(170,108)	**(128,491)**	(103,044)
Impaired loans and financing				
Recovered during the financial year	**(92,795)**	(102,380)	**(60,930)**	(70,151)
Written off	**16,299**	10,086	**12,718**	7,358
Impairment charges on other credit related items				
Made during the financial year	**49**	130	**49**	130
Released during the financial year	**(168)**	-	**(168)**	-
	168,504	169,735	**31,639**	87,248

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Other Operating Expenses

	Group		Bank	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Personnel expenses	**710,426**	732,360	**669,379**	685,226
Promotion and marketing related expenses	**60,476**	67,444	**50,276**	56,806
Establishment related expenses	**153,143**	164,778	**134,137**	143,885
General administrative expenses	**568,336**	531,202	**536,628**	505,958
	1,492,381	1,495,784	**1,390,420**	1,391,875
Personnel expenses				
Salaries, allowances and bonuses	**542,241**	551,613	**509,758**	513,902
Employees Provident Fund contributions	**89,868**	90,595	**84,213**	84,129
Others	**78,317**	90,152	**75,408**	87,195
	710,426	732,360	**669,379**	685,226
Promotion and marketing related expenses	**60,476**	67,444	**50,276**	56,806
Establishment related expenses				
Depreciation of property and equipment	**27,034**	33,626	**22,005**	26,520
Amortisation of intangible assets	**22,703**	26,517	**22,703**	26,515
Intangible assets written off	**1,569**	3,087	**1,569**	3,087
Information technology costs	**20,733**	17,159	**18,064**	14,248
Hire of equipment	**9,385**	9,525	**9,380**	9,525
Rental of premises	**38,334**	43,758	**30,412**	35,595
Property and equipment written off	**5**	31	**5**	31
General repairs and maintenance	**11,885**	8,658	**11,885**	8,658
Utilities	**15,667**	15,592	**13,770**	13,712
Others	**5,828**	6,825	**4,344**	5,994
	153,143	164,778	**134,137**	143,885
General administrative expenses				
Group recharges	**376,075**	373,351	**374,867**	372,364
Auditors' remuneration				
Statutory audit fees	**425**	425	**325**	325
Audit related fees	**491**	451	**293**	293
Other services	**52**	509	**44**	440
Professional fees	**24,422**	12,236	**22,674**	9,402
Communication	**20,437**	20,800	**19,207**	19,453
Others	**146,434**	123,430	**119,218**	103,681
	568,336	531,202	**536,628**	505,958

Included in professional fees are fees paid to the Shariah Committee members of HBMS:

	Group		Bank	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Shariah Committee members	**404**	399	**-**	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Tax expense

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Malaysian income tax				
- Current year	**295,875**	394,952	**274,025**	362,120
- Prior years	**(4,230)**	6,122	**(3,829)**	6,453
Total current tax recognised in profit or loss	**291,645**	401,074	**270,196**	368,573
Deferred tax				
Origination and reversal of temporary differences				
- Current year	**33,322**	(24,136)	**34,540**	(22,734)
Total Tax expense	**324,967**	376,938	**304,736**	345,839

A numerical reconciliation between the tax expense and the accounting profit multiplied by the applicable tax rate is as follows:

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Profit before income tax	**1,323,216**	1,480,453	**1,221,592**	1,327,292
Income tax using Malaysian tax rates	**317,572**	370,113	**293,182**	331,823
Non-deductible expenses	**18,826**	9,475	**15,730**	7,926
Tax exempt income	**(7,202)**	(8,772)	**(348)**	(363)
(Overprovision)/Underprovision in respect of prior years	**(4,229)**	6,122	**(3,828)**	6,453
Tax expense	**324,967**	376,938	**304,736**	345,839

The corporate tax rate will be reduced to 24% with effect Year of Assessment (YA) 2016 (25% for YA 2015). Consequently, deferred tax assets and liabilities are measured using these tax rates.

34 Earnings per Share

The earnings per ordinary share have been calculated based on profit for the financial year and 229,000,000 (2015: 229,000,000) ordinary shares of RM0.50 each in issue during the financial year.

35 Significant Related Party Transactions and Balances

For the purpose of these financial statements, parties are considered to be related to the Group if :

i. the Group or the Bank has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial or operational decisions, or vice versa, or

ii. where the Group or the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The related parties of the Group and the Bank comprise:

i. the Bank's immediate holding bank and ultimate holding company (hereinafter collectively referred to as parent);

ii. the Bank's subsidiaries;

iii. associated companies of the Bank's ultimate holding company;

iv. key management personnel who are defined as those person having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank. Key management personnel include all members of the Board of Directors of HSBC Bank Malaysia Berhad and its subsidiaries (including close family members). Transactions, arrangements and agreements are entered into by the Group and the Bank with companies that may be controlled/jointly controlled by the Key Management Personnel of the Group and the Bank and their close family members.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Significant Related Party Transactions and Balances

(a) The significant transactions and outstanding balances of the Group and the Bank with its related parties are as follows:

	Group					
	2016			2015		
	Parent	***Other related companies***	***Key management personnel***	*Parent*	*Other related companies*	*Key management personnel*
	RM'000	**RM'000**	**RM'000**	RM'000	RM'000	RM'000
Income						
Interest/finance income on deposits and placements with banks and other financial institutions	**152**	**861**	**-**	884	436	-
Interest/finance income on loans, advances and financing	**-**	**-**	**195**	-	-	309
Fees and commission	**7,245**	**34,214**	**-**	19,397	34,446	-
Other income	**4,905**	**11,833**	**-**	3,568	16,850	-
	12,302	**46,908**	**195**	23,849	51,732	309
Expenditure						
Interest/finance expense on deposits and placements from banks and other financial institutions	**37,800**	**7,060**	**-**	27,117	17,468	-
Interest/finance expense on deposits from customers	**-**	**-**	**515**	-	-	546
Fees and commission	**3,077**	**6,220**	**-**	5,199	7,680	-
Operating expenses	**227,702**	**148,373**	**-**	239,850	133,501	-
	268,579	**161,653**	**515**	272,166	158,649	546
Amount due from						
Deposits and placements with banks and other financial institutions	**961,869**	**510,694**	**-**	1,088,235	540,364	-
Loans, advances and financing	**-**	**-**	**10,611**	-	-	15,807
Derivative financial assets	**132,547**	**437,629**	**-**	258,514	405,321	-
Other assets	**1,413**	**12,613**	**-**	1,462	22,695	-
	1,095,829	**960,936**	**10,611**	1,348,211	968,380	15,807
Amount due to						
Deposit and placements from banks and other financial institutions	**2,797,944**	**1,537,958**	**-**	3,928,833	2,006,380	-
Deposit from customers	**-**	**-**	**26,782**	-	-	22,840
Derivative financial liabilities	**1,111,842**	**87,955**	**-**	1,363,385	134,116	-
Other liabilities	**21,465**	**72,892**	**-**	266,400	91,567	-
	3,931,251	**1,698,805**	**26,782**	5,558,618	2,232,063	22,840

All transactions of the Group and Bank and its related parties are made in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Significant Related Party Transactions and Balances (Cont'd)

	Bank			
	2016			
	Parent	***Subsidiary bank***	***Other related companies***	***Key management personnel***
	RM'000	**RM'000**	**RM'000**	**RM'000**
Income				
Interest/finance income on deposits and placements with Banks and other financial institutions	**152**	**73,542**	**861**	**-**
Interest/finance income on loans, advances and financing	**-**	**-**	**-**	**192**
Fees and commission	**7,245**	**30**	**28,593**	**-**
Other income	**4,905**	**128,375**	**11,828**	**-**
	12,302	**201,947**	**41,282**	**192**
Expenditure				
Interest/finance expense on deposits and placements from Banks and other financial institutions	**37,800**	**-**	**4,035**	**-**
Interest/finance expense on deposits from customers	**-**	**-**	**-**	**511**
Fees and commission	**3,077**	**-**	**5,935**	**-**
Operating expenses	**227,702**	**3,023**	**144,142**	**-**
	268,579	**3,023**	**154,112**	**511**
Amount due from				
Deposits and placements with banks and other financial institutions	**961,869**	**2,569,451**	**431,141**	**-**
Loans, advances and financing	**-**	**-**	**-**	**7,722**
Derivative financial assets	**132,547**	**477,434**	**437,625**	**-**
Other assets	**1,413**	**40,377**	**12,613**	**-**
	1,095,829	**3,087,262**	**881,379**	**7,722**
Amount due to				
Deposit and placements from banks and other financial institutions	**2,797,944**	**-**	**1,478,867**	**-**
Deposit from customers	**-**	**-**	**-**	**25,759**
Derivative financial liabilities	**1,111,842**	**18,806**	**87,953**	**-**
Other liabilities	**21,465**	**45,132**	**71,518**	**-**
	3,931,251	**63,938**	**1,638,338**	**25,759**

All transactions of the Group and Bank and its related parties are made in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Significant Related Party Transactions and Balances (Cont'd)

	Bank			
	2015			
	Parent RM'000	*Subsidiary bank* RM'000	*Other related companies* RM'000	*Key management personnel* RM'000
Income				
Interest/finance income on deposits and placements with Banks and other financial institutions	884	68,494	436	-
Interest/finance income on loans, advances and financing	-	-	-	126
Fees and commission	19,397	30	22,826	-
Other income	3,568	123,267	16,845	-
	23,849	191,791	40,107	126
Expenditure				
Interest/finance expense on deposits and placements from Banks and other financial institutions	27,117	-	6,516	-
Interest/finance expense on deposits from customers	-	-	-	544
Fees and commission	5,199	1	7,480	-
Operating expenses	239,850	3,297	129,217	-
	272,166	3,298	143,213	544
Amount due from				
Deposits and placements with banks and other financial institutions	1,088,235	3,451,768	260,159	-
Loans, advances and financing	-	-	-	8,481
Derivative financial assets	258,514	461,565	403,968	-
Other assets	1,462	10,784	21,653	-
	1,348,211	3,924,117	685,780	8,481
Amount due to				
Deposit and placements from banks and other financial institutions	3,928,833	-	647,487	-
Deposit from customers	-	-	-	21,927
Derivative financial liabilities	1,363,385	16,773	134,115	-
Other liabilities	266,400	209,358	89,242	-
	5,558,618	226,131	870,844	21,927

All transactions of the Group and Bank and its related parties are made in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Significant Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation

The key management personnel compensation are as follow:

	Group		*Bank*	
	31 Dec 2016 RM'000	31 Dec 2015 RM'000	**31 Dec 2016 RM'000**	31 Dec 2015 RM'000
Directors of the Bank and its subsidiaries:				
- Fees	**1,050**	1,165	**580**	650
- Remuneration	**2,973**	6,029	**2,973**	4,246
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	**4,815**	1,929	**4,815**	1,198
Total short-term employee benefits	**8,838**	9,123	**8,368**	6,094
- Share-based payments	**2,792**	6,744	**2,792**	5,922
	11,630	15,867	**11,160**	12,016
Other key management personnel:				
- Short-term employee benefits	**19,410**	16,796	**18,475**	16,796
- Share-based payments	**3,809**	4,331	**3,809**	4,331
	23,219	21,127	**22,284**	21,127
Total key management personnel compensation	**34,849**	36,994	**33,444**	33,143

35 Significant Related Party Transactions and Balances (Cont'd)

(b) Directors/CEO' Remuneration

The remuneration of the members of the Board of Directors/CEO of HSBC Bank Malaysia Berhad and its subsidiaries, charged to the statements of profit or loss and other comprehensive income during the financial year are as follows:

2016

Group (RM'000)	Salaries and bonuses	Other short term employee benefits	Benefits-in kind	Fees	Total
Executive Directors of the Bank					
Mukhtar Malik Hussain (CEO)	2,973	4,556	259	-	7,788
Non Executive Directors of the Bank and subsidiary					
Adil Ahmad	-	-	-	98	98
Albert Quah Chei Jin [1]	-	-	-	38	38
Azlan bin Abdullah	-	-	-	101	101
Choo Yoo Kwan @ Choo Yee Kwan [2]	-	-	-	132	132
Datuk Shireen Ann Zaharah Muhiudeen [3]	-	-	-	11	11
Lee Choo Hock	-	-	-	210	210
Mohamed Ashraf bin Mohamed Iqbal	-	-	-	106	106
Mohamed Ross bin Mohd Din [4]	-	-	-	34	34
Seow Yoo Lin [5]	-	-	-	24	24
Tan Kar Leng @ Chen Kar Leng	-	-	-	133	133
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	163	163
	2,973	4,556	259	1,050	8,838
CEO of the subsidiary					
Arsalaan Ahmed [6]	205	106	4	-	315

[1] Appointed on 5 September 2016
[2] Appointed on 11 February 2016
[3] Resigned on 2 February 2016
[4] Retired on 13 April 2016
[5] Resigned on 14 March 2016
[6] Appointed on 17 October 2016

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Significant Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation (Cont'd)

2015

Group (RM'000)	Salaries and bonuses	Other short term employee benefits	Benefits-in kind	Fees	Total
Executive Directors of the Bank					
Mukhtar Malik Hussain (CEO)	4,246	810	388	-	5,444
Executive Director of subsidiary					
Mohamed Rafe bin Mohamed Haneef [1]	1,783	579	152	-	2,514
Non Executive Directors of the Bank and subsidiary					
Adil Ahmad	-	-	-	88	88
Azlan bin Abdullah	-	-	-	99	99
Ching Yew Chye @ Chng Yew Chye [2]	-	-	-	123	123
Datuk Shireen Ann Zaharah Muhiudeen	-	-	-	116	116
Lee Choo Hock	-	-	-	135	135
Mohamed Ashraf bin Mohamed Iqbal	-	-	-	102	102
Mohamed Ross bin Mohd Din	-	-	-	113	113
Seow Yoo Lin	-	-	-	113	113
Tan Kar Leng @ Chen Kar Leng	-	-	-	127	127
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	149	149
	6,029	1,389	540	1,165	9,123

[1] Resigned on 31 December 2015

[2] Resigned on 30 October 2015

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Significant Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation (Cont'd)

2016

Bank (RM'000)	**Salaries and bonuses**	**Other short term employee benefits**	**Benefits-in kind**	**Fees**	**Total**
Executive Directors of the Bank					
Mukhtar Malik Hussain (CEO)	**2,973**	**4,556**	**259**	**-**	**7,788**
Non Executive Directors of the Bank					
Choo Yoo Kwan @ Choo Yee Kwan [1]	**-**	**-**	**-**	**132**	**132**
Datuk Shireen Ann Zaharah Muhiudeen [2]	**-**	**-**	**-**	**11**	**11**
Lee Choo Hock	**-**	**-**	**-**	**141**	**141**
Tan Kar Leng @ Chen Kar Leng	**-**	**-**	**-**	**133**	**133**
Tan Sri Dato' Tan Boon Seng @ Krishnan	**-**	**-**	**-**	**163**	**163**
	2,973	**4,556**	**259**	**580**	**8,368**

2015

Bank (RM'000)	Salaries and bonuses	Other short term employee benefits	Benefits-in kind	Fees	Total
Executive Directors of the Bank					
Mukhtar Malik Hussain (CEO)	4,246	810	388	-	5,444
Non Executive Directors of the Bank					
Ching Yew Chye @ Chng Yew Chye [3]	-	-	-	123	123
Datuk Shireen Ann Zaharah Muhiudeen	-	-	-	116	116
Lee Choo Hock	-	-	-	135	135
Tan Kar Leng @ Chen Kar Leng	-	-	-	127	127
Tan Sri Dato' Tan Boon Seng @ Krishnan	-	-	-	149	149
	4,246	810	388	650	6,094

[1] Appointed on 11 February 2016
[2] Resigned on 2 February 2016
[3] Resigned on 30 October 2015

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Significant Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation (Cont'd)

Group
Total value of remuneration awards for the financial year

	31 Dec 2016		31 Dec 2015	
	Unrestricted RM'000	**Deferred RM'000**	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
Cash	**13,374**	**-**	10,454	-
Shares and share-linked instruments	**151**	-	3,040	-
	13,525	**-**	13,494	**-**
Variable remuneration				
Cash	**6,078**	**2,720**	5,550	2,711
Shares and share-linked instruments	**2,675**	**3,287**	3,534	5,066
	8,753	**6,007**	9,084	7,777
	22,278	**6,007**	22,578	7,777

Number of officers having received a variable remuneration during the financial year: 13 (2015: 12)

	31 Dec 2016		31 Dec 2015	
	Number	**Amount RM'000**	Number	Amount RM'000
Outstanding deferred remuneration				
Cash	**5**	**4,833**	5	4,385
Shares and share-linked instruments	**10**	**19,435**	10	17,780
		24,268		22,165
Deferred remuneration paid out	**10**	**4,930**	10	7,373

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Significant Related Party Transactions and Balances (Cont'd)

(b) Key management personnel compensation (Cont'd)

Bank

Total value of remuneration awards for the financial year

	31 Dec 2016		31 Dec 2015	
	Unrestricted RM'000	**Deferred RM'000**	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
Cash	**12,883**	**-**	9,084	-
Shares and share-linked instruments	**151**	**-**	3,040	-
	13,034	**-**	12,124	-
Variable remuneration				
Cash	**5,918**	**2,720**	5,434	2,711
Shares and share-linked instruments	**2,675**	**3,287**	3,534	5,066
	8,593	**6,007**	8,968	7,777
	21,627	**6,007**	21,092	7,777

Number of officers having received a variable remuneration during the financial year: 11 (2015: 11)

	31 Dec 2016		31 Dec 2015	
	Number	**Amount RM'000**	Number	Amount RM'000
Outstanding deferred remuneration				
Cash	**5**	**4,833**	4	4,109
Shares and share-linked instruments	**10**	**19,435**	9	17,072
		24,268		21,181
Deferred remuneration paid out	**10**	**4,930**	9	6,908

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Credit exposure to connected parties

	Group		Bank	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Aggregate value of outstanding credit exposures to connected parties	**5,029,677**	5,179,948	**4,192,783**	4,632,190
As a percentage of total credit exposures	**6.9%**	6.7%	**7.3%**	7.5%
Aggregate value of total outstanding credit exposures to connected parties which is impaired or in default	**-**	-	**-**	-
As a percentage of total credit exposures	**-**	-	**-**	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Capital Adequacy

	Group	
	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	**114,500**	114,500
Share premium	**741,375**	741,375
Retained profits (including proposed dividend)	**6,853,762**	6,052,662
Other reserves	**1,078,361**	975,854
Regulatory adjustments	**(804,852)**	(721,699)
Total Common Equity Tier 1 (CET 1) and Tier 1 capital	**7,983,146**	7,162,692
Tier 2 capital		
Subordinated liabilities	**600,000**	700,000
Subordinated term loan	**646,265**	618,461
Collective impairment allowance (unimpaired portion) & regulatory reserves	**583,984**	613,313
Regulatory adjustments	**112,156**	97,636
Total Tier 2 capital	**1,942,405**	2,029,410
Capital base	**9,925,551**	9,192,102
Inclusive of proposed dividend		
CET 1 and Tier 1 Capital ratio	**14.344%**	12.099%
Total Capital ratio	**17.834%**	15.527%
Net of proposed dividend		
CET 1 and Tier 1 Capital ratio	**13.985%**	12.099%
Total Capital ratio	**17.475%**	15.527%

The total capital and capital adequacy ratios of the Group have been computed based on Standardised Approach in accordance with the Capital Adequacy Framework (Capital Components).

For HBMS a wholly owned subsidiary of the Bank, the total capital and capital adequacy ratios have been computed in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB). HBMS has adopted Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

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

	Group			
	31 Dec 2016		31 Dec 2015	
	Principal	**Risk-weighted**	Principal	Risk-weighted
	RM'000	**RM'000**	RM'000	RM'000
Total RWA for credit risk	**100,868,068** [1]	**48,857,558** [1]	106,377,180 [1]	51,974,803 [1]
Total RWA for market risk	**-**	**1,004,081**	-	1,376,626
Total RWA for operational risk	**-**	**5,793,257**	-	5,848,312
	100,868,068	**55,654,896**	106,377,180	59,199,741

[1] The principal and risk weighted amount for credit risk relating to the SIAF/IAA/RPSIA (refer Note 10(i) for more details) are as follows:

	Group	
	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Under SIAF/IAA arrangement	**931,474**	1,166,189
Under RPSIA arrangement	**-**	191,638
	931,474	1,357,827

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Capital Adequacy (Cont'd)

	Bank	
	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	**114,500**	114,500
Share premium	**741,375**	741,375
Retained profits (including proposed dividend)	**6,070,467**	5,350,760
Other reserves	**1,002,572**	884,289
Regulatory adjustments	**(1,153,887)**	(948,068)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	**6,775,027**	6,142,856
Tier 2 capital		
Subordinated liabilities	**600,000**	700,000
Subordinated term loan	**646,265**	618,461
Collective impairment allowance (unimpaired portion) & regulatory reserves	**448,723**	495,101
Regulatory adjustments	**(798,117)**	(916,838)
Total Tier 2 capital	**896,871**	896,724
Capital base	**7,671,898**	7,039,580
Inclusive of proposed dividend		
CET 1 and Tier 1 Capital ratio	**15.083%**	12.659%
Total Capital ratio	**17.079%**	14.507%
Net of proposed dividend		
CET 1 and Tier 1 Capital ratio	**14.638%**	12.659%
Total Capital ratio	**16.634%**	14.507%

The total capital and capital adequacy ratios have been computed based on Standardised Approach in accordance with the Capital Adequacy Framework (Capital Components).

Breakdown of gross RWA in the various categories of risk-weights:

	Bank			
	31 Dec 2016		31 Dec 2015	
	Principal	**Risk-weighted**	Principal	Risk-weighted
	RM'000	**RM'000**	RM'000	RM'000
Total RWA for credit risk	**84,583,629** [1]	**38,698,597** [1]	88,419,583 [1]	41,979,027 [1]
Total RWA for market risk	**-**	**992,685**	-	1,272,252
Total RWA for operational risk	**-**	**5,227,510**	-	5,272,799
	84,583,629	**44,918,792**	88,419,583	48,524,078

[1] The principal and risk weighted amount for credit risk relating to the SIAF/IAA/RPSIA (refer Note 10(i) for more details) are as follows:

	Bank	
	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Under SIAF/IAA arrangement	**931,474**	1,166,189
Under RPSIA arrangement	**-**	191,638
	931,474	1,357,827

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Commitments and Contingencies

The table below shows the contracts or underlying principal amounts, 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 Group and of the Bank.

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
Principal amount	**RM'000**	RM'000	**RM'000**	RM'000
Direct credit substitutes	**2,540,306**	2,384,512	**2,004,489**	1,761,656
Transaction-related contingent items	**9,087,444**	8,872,513	**7,974,454**	7,783,118
Short-term self-liquidating trade-related contingencies	**496,518**	1,455,152	**385,490**	1,283,000
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	**18,304,774**	16,054,397	**14,619,766**	13,020,561
- Maturity exceeding one year	**12,855,434**	12,663,457	**10,814,187**	10,845,443
Unutilised credit card lines	**9,788,741**	8,645,649	**7,536,799**	6,967,131
Foreign exchange related contracts:				
- Less than one year	**54,971,901**	49,565,637	**55,011,906**	50,882,189
- Over one year to less than five years	**11,415,043**	12,445,384	**11,415,044**	12,445,384
- Over five years	**1,806,757**	3,219,454	**1,806,757**	3,219,453
Interest/profit rate related contracts:				
- Less than one year	**11,487,221**	10,102,027	**11,577,221**	11,267,026
- Over one year to less than five years	**34,218,507**	34,908,531	**35,847,951**	37,159,700
- Over five years	**3,057,912**	3,587,992	**3,057,912**	3,587,992
Gold and other precious metals contracts:				
- Less than one year	**10,905**	3,341	**10,905**	3,341
Equity related contracts:				
- Less than one year	**2,339,593**	286,480	**3,104,829**	479,203
- Over one year to less than five years	**809,953**	3,114,882	**919,719**	4,063,552
	173,191,009	167,309,408	**166,087,429**	164,768,749

of which the amount related to SIAF/IAA/RPSIA arrangement (refer Note 10(i) for more detail) are as below:

Irrevocable commitments to extend credit:				
Maturity not exceeding one year				
- SIAF/IAA arrangement	**496,933**	180,273	**496,933**	180,273
- RPSIA arrangement	**-**	858,598	**-**	858,598
	496,933	1,038,871	**496,933**	1,038,871

39 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

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

Group	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
	Up to 1 Year	> 1 - 5 Years	> 5 Years	Total	Up to 1 Year	> 1 - 5 Years	> 5 Years	Total	Up to 1 Year	> 1 - 5 Years	> 5 Years	Total
At 31 Dec 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trading derivatives:												
Foreign exchange contracts												
- Forwards	45,321,748	816,497	-	46,138,245	925,268	27,097	-	952,365	719,265	18,986	-	738,251
- Swaps	8,985,879	10,425,948	1,806,757	21,218,584	782,840	691,078	350,891	1,824,809	518,246	1,010,652	211,712	1,740,610
- Options	664,274	172,598	-	836,872	27,388	1,807	-	29,195	7,297	3,066	-	10,363
Interest/profit rate related contracts												
- Options	361,548	428,684	-	790,232	4,951	4,114	-	9,065	1,999	662	-	2,661
- Swaps	11,035,673	31,974,719	2,637,912	45,648,304	20,583	128,076	19,577	168,236	9,221	129,049	36,052	174,322
Equity related contracts												
- Options	2,339,593	809,953	-	3,149,546	27	2	-	29	442,143	10,120	-	452,263
Precious metal contracts												
- Options	10,905	-	-	10,905	24	-	-	24	101	-	-	101
Sub- total	68,719,620	44,628,399	4,444,669	117,792,688	1,761,081	852,174	370,468	2,983,723	1,698,272	1,172,535	247,764	3,118,571
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	90,000	1,815,104	420,000	2,325,104	-	5,231	-	5,231	-	5,894	2,563	8,457
Sub- total	90,000	1,815,104	420,000	2,325,104	-	5,231	-	5,231	-	5,894	2,563	8,457
Total	68,809,620	46,443,503	4,864,669	120,117,792	1,761,081	857,405	370,468	2,988,954	1,698,272	1,178,429	250,327	3,127,028

39 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (Cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (Cont'd):

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
Group	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**
At 31 Dec 2015	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trading derivatives:												
Foreign exchange contracts												
- Forwards	46,610,644	577,746	-	47,188,390	1,153,334	42,829	-	1,196,163	929,907	2,126	-	932,033
- Swaps	2,596,721	11,607,215	3,219,454	17,423,390	317,988	1,260,260	332,485	1,910,733	383,219	1,186,173	252,989	1,822,381
- Options	358,272	260,423	-	618,695	24,855	19,850	-	44,705	203	2,425	-	2,628
Interest/profit rate related contracts												
- Future	21,465	-	-	21,465	85	-	-	85	184	-	-	184
- Options	47,302	645,805	96,250	789,357	95	11,255	292	11,642	1,575	140	-	1,715
- Swaps	10,033,260	32,627,726	2,965,893	45,626,879	8,047	104,032	31,556	143,635	7,626	111,577	42,480	161,683
Equity related contracts												
- Options	286,480	3,114,882	-	3,401,362	84	324	-	408	88,844	421,417	-	510,261
Precious metal contracts												
- Options	3,341	-	-	3,341	-	-	-	-	15	-	-	15
Sub- total	59,957,485	48,833,797	6,281,597	115,072,879	1,504,488	1,438,550	364,333	3,307,371	1,411,573	1,723,858	295,469	3,430,900
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	-	1,635,000	525,849	2,160,849	-	7,331	2,488	9,819	-	1,007	1,853	2,860
Sub- total	-	1,635,000	525,849	2,160,849	-	7,331	2,488	9,819	-	1,007	1,853	2,860
Total	59,957,485	50,468,797	6,807,446	117,233,728	1,504,488	1,445,881	366,821	3,317,190	1,411,573	1,724,865	297,322	3,433,760

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (Cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (Cont'd):

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
Bank	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**
At 31 Dec 2016	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trading derivatives:												
Foreign exchange contracts												
- Forwards	45,361,753	816,497	-	46,178,250	924,445	27,097	-	951,542	717,254	18,986	-	736,240
- Swaps	8,985,879	10,425,948	1,806,757	21,218,584	782,840	694,212	350,891	1,827,943	518,246	1,010,652	211,712	1,740,610
- Options	664,274	172,599	-	836,873	27,388	1,807	-	29,195	7,297	3,066	-	10,363
Interest rate related contracts												
- Options	361,548	618,128	-	979,676	4,951	4,248	-	9,199	1,999	3,206	-	5,205
- Swaps	11,215,673	33,604,719	2,637,912	47,458,304	20,556	128,794	19,577	168,927	9,221	133,974	36,052	179,247
Equity related contracts												
- Options	3,104,829	919,719	-	4,024,548	95,203	2,182	-	97,385	442,170	10,120	-	452,290
Precious metal contracts												
- Options	10,905	-	-	10,905	24	-	-	24	101	-	-	101
Sub- total	69,704,861	46,557,610	4,444,669	120,707,140	1,855,407	858,340	370,468	3,084,215	1,696,288	1,180,004	247,764	3,124,056
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	-	1,625,104	420,000	2,045,104	-	5,231	-	5,231	-	5,894	2,563	8,457
Sub- total	-	1,625,104	420,000	2,045,104	-	5,231	-	5,231	-	5,894	2,563	8,457
Total	69,704,861	48,182,714	4,864,669	122,752,244	1,855,407	863,571	370,468	3,089,446	1,696,288	1,185,898	250,327	3,132,513

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (Cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (Cont'd):

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
Bank	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**	**Up to 1 Year**	**> 1 - 5 Years**	**> 5 Years**	**Total**
At 31 Dec 2015	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trading derivatives:												
Foreign exchange contracts												
- Forwards	47,888,895	577,746	-	48,466,641	1,149,258	42,829	-	1,192,087	930,497	2,126	-	932,623
- Swaps	2,596,721	11,607,215	3,219,453	17,423,389	317,988	1,264,250	332,485	1,914,723	383,219	1,186,173	252,989	1,822,381
- Options	396,573	260,423	-	656,996	25,852	18,854	-	44,706	1,200	1,429	-	2,629
Interest rate related contracts												
- Future	21,465	-	-	21,465	85	-	-	85	184	-	-	184
- Options	47,302	896,696	96,250	1,040,248	95	14,163	292	14,550	1,575	989	-	2,564
- Swaps	11,198,259	34,628,004	2,965,893	48,792,156	9,709	109,862	31,556	151,127	9,749	112,732	42,480	164,961
Equity related contracts												
- Options	479,203	4,063,552	-	4,542,755	70,702	90,430	-	161,132	88,927	421,723	-	510,650
Precious metal contracts												
- Options	3,341	-	-	3,341	-	-	-	-	15	-	-	15
Sub- total	62,631,759	52,033,636	6,281,596	120,946,991	1,573,689	1,540,388	364,333	3,478,410	1,415,366	1,725,172	295,469	3,436,007
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	-	1,635,000	525,849	2,160,849	-	7,331	2,488	9,819	-	1,007	1,853	2,860
Sub- total	-	1,635,000	525,849	2,160,849	-	7,331	2,488	9,819	-	1,007	1,853	2,860
Total	62,631,759	53,668,636	6,807,445	123,107,840	1,573,689	1,547,719	366,821	3,488,229	1,415,366	1,726,179	297,322	3,438,867

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
Included in the net non-profit income is the net gains/(losses) arising from fair value hedges during the financial year as follows:	**RM'000**	RM'000	**RM'000**	RM'000
Loss on hedging instruments	**(13,052)**	(5,477)	**(13,052)**	(5,477)
Gain on the hedged items attributable to the hedged risk	**10,203**	5,650	**10,203**	5,650
	(2,849)	173	**(2,849)**	173

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Interest/ Profit Rate Risk

The Group and the Bank are exposed to various risks associated with the effects of fluctuation in the prevailing level of market interest/profit rates on its financial position and cash flows. The following tables summarise the Group and the Bank's exposure to interest/profit rate risk. The assets and liabilities at carrying amount are allocated to time bands by reference to the earlier of the next contractual repricing dates and maturity dates.

	Non-trading book								Effective
Group **31 Dec 2016**	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest/profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**interest/ profit rate %**
ASSETS									
Cash and short term funds	**16,474,343**	**-**	**-**	**-**	**-**	**329,771**	**-**	**16,804,114**	**2.47**
Securities purchased under resale agreements	**2,292,939**	**3,869,291**	**-**	**-**	**-**	**-**	**-**	**6,162,230**	**3.08**
Deposits and placements with banks and other financial institutions	**-**	**1,826,400**	**35,000**	**-**	**-**	**-**	**-**	**1,861,400**	**2.54**
Financial assets held-for-trading	**-**	**-**	**-**	**-**	**-**	**-**	**2,266,452**	**2,266,452**	**3.15**
Financial investments available-for-sale	**-**	**524,259**	**371,608**	**4,552,489**	**942,129**	**167,559**	**-**	**6,558,044**	**3.42**
Loans, advances and financing									
- performing	**13,115,559**	**31,316,363**	**787,816**	**1,073,227**	**274,521**	**-**	**-**	**46,567,486**	**4.77**
- impaired [1]	**-**	**-**	**-**	**-**	**-**	**796,913**	**-**	**796,913**	**-**
- collective allowance	**-**	**-**	**-**	**-**	**-**	**(469,565)**	**-**	**(469,565)**	**-**
Derivative financial assets	**-**	**-**	**-**	**5,231**	**-**	**-**	**2,983,723**	**2,988,954**	**-**
Other assets	**-**	**-**	**-**	**-**	**-**	**184,772**	**-**	**184,772**	**-**
Total Financial Assets	**31,882,841**	**37,536,313**	**1,194,424**	**5,630,947**	**1,216,650**	**1,009,450**	**5,250,175**	**83,720,800**	
LIABILITIES AND EQUITY									
Deposits from customers	**31,349,045**	**7,002,951**	**7,866,780**	**180,802**	**-**	**11,311,956**	**3,125,564**	**60,837,098**	**1.92**
Deposits and placements from banks and other financial institutions	**5,864,211**	**31,752**	**347**	**246,730**	**403,740**	**24,413**	**-**	**6,571,193**	**1.32**
Bills and acceptances payable	**-**	**-**	**-**	**-**	**-**	**326,305**	**-**	**326,305**	**-**
Multi-Currency Sukuk Programme	**-**	**-**	**500,000**	**1,256,001**	**-**	**-**	**-**	**1,756,001**	**3.95**
Subordinated liabilities	**-**	**-**	**500,000**	**2,559**	**1,146,265**	**-**	**-**	**1,648,824**	**3.58**
Derivative financial liabilities	**-**	**-**	**-**	**5,894**	**2,563**	**-**	**3,118,571**	**3,127,028**	**-**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**442,284**	**969,409**	**1,411,693**	**3.07**
Total Financial Liabilities	**37,213,256**	**7,034,703**	**8,867,127**	**1,691,986**	**1,552,568**	**12,104,958**	**7,213,544**	**75,678,142**	
Total interest/profit sensitivity gap	**(5,330,415)**	**30,501,610**	**(7,672,703)**	**3,938,961**	**(335,918)**	**(11,095,508)**	**(1,963,369)**	**8,042,658**	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Interest/ Profit Rate Risk (Cont'd)

Group 31 Dec 2015	Non-trading book **Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest/profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective interest/ profit rate %**
ASSETS									
Cash and short term funds	17,751,869	-	-	-	-	500,040	-	18,251,909	2.77
Securities purchased under resale agreements	5,220,332	1,333,422	-	-	-	-	-	6,553,754	3.23
Financial assets held-for-trading	-	-	-	-	-	-	1,497,358	1,497,358	3.61
Financial investments available-for-sale	-	25,005	583,035	5,474,319	914,242	16,908	-	7,013,509	3.54
Loans, advances and financing									
- performing	15,014,022	33,102,212	1,473,674	1,271,039	94,696	-	-	50,955,643	4.74
- impaired [1]	-	-	-	-	-	710,784	-	710,784	-
- collective allowance	-	-	-	-	-	(444,234)	-	(444,234)	-
Derivative financial assets	-	-	-	7,331	2,488	-	3,307,371	3,317,190	-
Other assets	-	-	-	-	-	216,609	-	216,609	-
Total Financial Assets	37,986,223	34,460,639	2,056,709	6,752,689	1,011,426	1,000,107	4,804,729	88,072,522	
LIABILITIES AND EQUITY									
Deposits from customers	31,406,808	6,651,750	8,233,177	389,347	-	13,209,020	3,530,708	63,420,810	2.06
Deposits and placements from banks and other financial institutions	4,328,885	435,352	979,676	1,786,684	386,370	45,399	-	7,962,366	1.62
Bills and acceptances payable	-	-	-	-	-	337,218	-	337,218	-
Multi-Currency Sukuk Programme	-	-	-	1,749,823	-	-	-	1,749,823	4.00
Subordinated liabilities	-	-	-	502,879	1,118,461	-	-	1,621,340	3.56
Derivative financial liabilities	-	-	-	1,007	1,853	-	3,430,900	3,433,760	-
Other liabilities	-	-	-	-	-	826,781	1,268,657	2,095,438	2.90
Total Financial Liabilities	35,735,693	7,087,102	9,212,853	4,429,740	1,506,684	14,418,418	8,230,265	80,620,755	
Total interest/profit sensitivity gap	2,250,530	27,373,537	(7,156,144)	2,322,949	(495,258)	(13,418,311)	(3,425,536)	7,451,767	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Interest/ Profit Rate Risk (Cont'd)

Bank 31 Dec 2016	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
ASSETS									
Cash and short term funds	**14,778,050**	**-**	**-**	**-**	**-**	**221,838**	**-**	**14,999,888**	**2.35**
Securities purchased under resale agreements	**2,292,939**	**3,869,291**	**-**	**-**	**-**	**-**	**-**	**6,162,230**	**3.08**
Deposits and placements with banks and other financial institutions	**-**	**1,913,230**	**1,283,600**	**32,391**	**646,265**	**-**	**-**	**3,875,486**	**2.54**
Financial assets held-for-trading	**-**	**-**	**-**	**-**	**-**	**-**	**2,265,964**	**2,265,964**	**3.15**
Financial investments available-for-sale	**-**	**524,259**	**191,384**	**3,384,194**	**922,074**	**167,559**	**-**	**5,189,470**	**3.40**
Loans, advances and financing									
- performing	**10,290,853**	**23,619,330**	**642,435**	**259,360**	**52,999**	**-**	**-**	**34,864,977**	**4.60**
- impaired [1]	**-**	**-**	**-**	**-**	**-**	**556,144**	**-**	**556,144**	**-**
- collective allowance	**-**	**-**	**-**	**-**	**-**	**(269,550)**	**-**	**(269,550)**	**-**
Derivative financial assets	**-**	**-**	**-**	**5,231**	**-**	**-**	**3,084,215**	**3,089,446**	**-**
Other assets	**-**	**-**	**-**	**-**	**-**	**153,768**	**-**	**153,768**	**-**
Total Financial Assets	**27,361,842**	**29,926,110**	**2,117,419**	**3,681,176**	**1,621,338**	**829,759**	**5,350,179**	**70,887,823**	
LIABILITIES AND EQUITY									
Deposits from customers	**26,241,963**	**5,235,614**	**6,641,020**	**148,231**	**-**	**10,718,184**	**3,125,564**	**52,110,576**	**1.82**
Deposits and placements from banks and other financial institutions	**5,860,208**	**31,752**	**347**	**246,730**	**403,740**	**-**	**-**	**6,542,777**	**0.76**
Bills and acceptances payable	**-**	**-**	**-**	**-**	**-**	**302,673**	**-**	**302,673**	**-**
Subordinated liabilities	**-**	**-**	**500,000**	**2,559**	**1,146,265**	**-**	**-**	**1,648,824**	**3.87**
Derivative financial liabilities	**-**	**-**	**-**	**5,894**	**2,563**	**-**	**3,124,056**	**3,132,513**	**-**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**293,168**	**-**	**293,168**	**-**
Total Financial Liabilities	**32,102,171**	**5,267,366**	**7,141,367**	**403,414**	**1,552,568**	**11,314,025**	**6,249,620**	**64,030,531**	
Total interest sensitivity gap	**(4,740,329)**	**24,658,744**	**(5,023,948)**	**3,277,762**	**68,770**	**(10,484,266)**	**(899,441)**	**6,857,292**	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Interest/ Profit Rate Risk (Cont'd)

Bank 31 Dec 2015	Non-trading book **Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-interest sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective interest rate %**
ASSETS									
Cash and short term funds	13,905,908	-	-	-	-	412,175	-	14,318,083	2.67
Securities purchased under resale agreements	5,220,332	1,333,422	-	-	-	-	-	6,553,754	3.23
Deposits and placements with banks and other financial institutions	-	306,092	1,679,300	31,352	618,460	-	-	2,635,204	2.90
Financial assets held-for-trading	-	-	-	-	-	-	1,486,866	1,486,866	3.62
Financial investments available-for-sale	-	25,006	411,324	3,944,786	914,242	16,908	-	5,312,266	3.54
Loans, advances and financing									
- performing	12,071,119	25,504,032	1,043,328	334,195	61,120	-	-	39,013,794	4.58
- impaired [1]	-	-	-	-	-	544,152	-	544,152	-
- collective allowance	-	-	-	-	-	(303,970)	-	(303,970)	-
Derivative financial assets	-	-	-	7,331	2,488	-	3,478,410	3,488,229	-
Other assets	-	-	-	-	-	184,356	-	184,356	-
Total Financial Assets	31,197,359	27,168,552	3,133,952	4,317,664	1,596,310	853,621	4,965,276	73,232,734	
LIABILITIES AND EQUITY									
Deposits from customers	26,223,835	4,674,340	6,827,525	345,237	-	12,433,042	3,530,708	54,034,687	1.95
Deposits and placements from banks and other financial institutions	4,324,691	6,052	979,676	938,816	386,370	-	-	6,635,605	1.39
Bills and acceptances payable	-	-	-	-	-	322,314	-	322,314	-
Subordinated liabilities	-	-	-	502,879	1,118,461	-	-	1,621,340	3.89
Derivative financial liabilities	-	-	-	1,007	1,853	-	3,436,007	3,438,867	-
Other liabilities	-	-	-	-	-	661,011	-	661,011	-
Total Financial Liabilities	30,548,526	4,680,392	7,807,201	1,787,939	1,506,684	13,416,367	6,966,715	66,713,824	
Total interest sensitivity gap	648,833	22,488,160	(4,673,249)	2,529,725	89,626	(12,562,746)	(2,001,439)	6,518,910	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Liquidity Risk

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

Group 31 Dec 2016	Non-trading book: Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Trading book RM'000	Total RM'000
ASSETS								
Cash and short term funds	16,804,114	-	-	-	-	-	-	16,804,114
Securities purchased under resale agreements	2,292,939	3,869,291	-	-	-	-	-	6,162,230
Deposits and placements with banks and other financial institutions	-	1,826,400	35,000	-	-	-	-	1,861,400
Financial assets held-for-trading	-	-	-	-	-	-	2,266,452	2,266,452
Financial investments available-for-sale	-	524,259	371,608	4,552,489	942,129	167,559	-	6,558,044
Loans, advances and financing	10,100,130	5,485,901	2,284,779	5,853,218	23,170,806	-	-	46,894,834
Derivative financial assets	-	-	-	5,231	-	-	2,983,723	2,988,954
Others	22,970	12,305	7,349	50,002	18,761	1,769,078	8,082	1,888,547
Total Assets	29,220,153	11,718,156	2,698,736	10,460,940	24,131,696	1,936,637	5,258,257	85,424,575
LIABILITIES AND EQUITY								
Deposits from customers	42,661,001	7,002,951	7,866,780	180,802	-	-	3,125,564	60,837,098
Deposits and placements from banks and other financial institutions	5,864,211	31,752	347	246,730	403,740	24,413	-	6,571,193
Bills and acceptances payable	326,305	-	-	-	-	-	-	326,305
Multi-Currency Sukuk Programme	-	-	500,000	1,256,001	-	-	-	1,756,001
Subordinated liabilities	-	-	500,000	2,559	1,146,265	-	-	1,648,824
Derivative financial liabilities	-	-	-	5,894	2,563	-	3,118,571	3,127,028
Others	92,281	60,683	106,656	21,751	7,531	1,136,538	1,003,322	2,428,762
Total Liabilities	48,943,798	7,095,386	8,973,783	1,713,737	1,560,099	1,160,951	7,247,457	76,695,211
Equity	-	-	-	-	-	8,729,364	-	8,729,364
Total Liabilities and Equity	48,943,798	7,095,386	8,973,783	1,713,737	1,560,099	9,890,315	7,247,457	85,424,575
Net maturity mismatches	(19,723,645)	4,622,770	(6,275,047)	8,747,203	22,571,597	(7,953,678)	(1,989,200)	-
Off-balance sheet liabilities	57,343,591	19,279,244	40,796,933	49,888,715	5,882,526	-	-	173,191,009

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Liquidity Risk (Cont'd)

	Non-trading book							
Group 31 Dec 2015	**Up to 1 month RM'000**	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-specific maturity RM'000**	**Trading book RM'000**	**Total RM'000**
ASSETS								
Cash and short term funds	18,251,909	-	-	-	-	-	-	18,251,909
Securities purchased under resale agreements	5,220,332	1,333,422	-	-	-	-	-	6,553,754
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-
Financial assets held-for-trading	-	-	-	-	-	-	1,497,358	1,497,358
Financial investments available-for-sale	-	25,005	583,035	5,474,319	914,242	16,908	-	7,013,509
Loans, advances and financing	10,994,769	6,925,771	3,182,552	7,082,117	23,036,984	-	-	51,222,193
Derivative financial assets	-	-	-	7,331	2,488	-	3,307,371	3,317,190
Others	12,289	1,704	4,275	55,364	19,756	1,838,667	39,356	1,971,411
Total Assets	34,479,299	8,285,902	3,769,862	12,619,131	23,973,470	1,855,575	4,844,085	89,827,324
LIABILITIES AND EQUITY								
Deposits from customers	44,615,828	6,651,750	8,233,177	389,347	-	-	3,530,708	63,420,810
Deposits and placements from banks and other financial institutions	4,328,885	435,352	979,676	1,786,684	386,370	45,399	-	7,962,366
Bills and acceptances payable	337,218	-	-	-	-	-	-	337,218
Multi-Currency Sukuk Programme	-	-	-	1,749,823	-	-	-	1,749,823
Subordinated liabilities	-	-	-	502,879	1,118,461	-	-	1,621,340
Derivative financial liabilities	-	-	-	1,007	1,853	-	3,430,900	3,433,760
Others	166,472	57,947	91,064	47,700	6,436	1,672,625	1,411,242	3,453,486
Total Liabilities	49,448,403	7,145,049	9,303,917	4,477,440	1,513,120	1,718,024	8,372,850	81,978,803
Equity	-	-	-	-	-	7,848,521	-	7,848,521
Total Liabilities and Equity	49,448,403	7,145,049	9,303,917	4,477,440	1,513,120	9,566,545	8,372,850	89,827,324
Net maturity mismatches	(14,969,104)	1,140,853	(5,534,055)	8,141,691	22,460,350	(7,710,970)	(3,528,765)	-
Off-balance sheet liabilities	59,067,539	19,150,380	28,595,102	53,345,605	7,150,782	-	-	167,309,408

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Liquidity Risk (Cont'd)

Bank 31 Dec 2016	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Trading book RM'000	Total RM'000
ASSETS								
Cash and short term funds	14,999,888	-	-	-	-	-	-	14,999,888
Securities purchased under resale agreements	2,292,939	3,869,291	-	-	-	-	-	6,162,230
Deposits and placements with banks and other financial institutions	-	1,913,230	1,283,600	32,391	646,265	-	-	3,875,486
Financial assets held-for-trading	-	-	-	-	-	-	2,265,964	2,265,964
Financial investments available-for-sale	-	524,259	191,384	3,384,194	922,074	167,559	-	5,189,470
Loans, advances and financing	7,939,639	3,745,410	1,869,206	4,146,696	17,450,620	-	-	35,151,571
Derivative financial assets	-	-	-	5,231	-	-	3,084,215	3,089,446
Others	59,357	12,338	7,344	41,183	18,570	2,053,783	8,082	2,200,657
Total Assets	25,291,823	10,064,528	3,351,534	7,609,695	19,037,529	2,221,342	5,358,261	72,934,712
LIABILITIES AND EQUITY								
Deposits from customers	36,960,147	5,235,614	6,641,020	148,231	-	-	3,125,564	52,110,576
Deposits and placements from banks and other financial institutions	5,860,208	31,752	347	246,730	403,740	-	-	6,542,777
Bills and acceptances payable	302,673	-	-	-	-	-	-	302,673
Subordinated liabilities	-	-	500,000	2,559	1,146,265	-	-	1,648,824
Derivative financial liabilities	-	-	-	5,894	2,563	-	3,124,056	3,132,513
Others	123,829	48,432	84,707	7,599	7,532	1,023,124	33,913	1,329,136
Total Liabilities	43,246,857	5,315,798	7,226,074	411,013	1,560,100	1,023,124	6,283,533	65,066,499
Equity	-	-	-	-	-	7,868,213	-	7,868,213
Total Liabilities and Equity	43,246,857	5,315,798	7,226,074	411,013	1,560,100	8,891,337	6,283,533	72,934,712
Net maturity mismatches	(17,955,034)	4,748,730	(3,874,540)	7,198,682	17,477,429	(6,669,995)	(925,272)	-
Off-balance sheet liabilities	50,208,593	18,341,859	40,425,517	51,238,878	5,872,582	-	-	166,087,429

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Liquidity Risk (Cont'd)

Bank 31 Dec 2015	← **Non-trading book**					→		
	Up to 1 month RM'000	**>1 - 3 months RM'000**	**>3 - 12 months RM'000**	**1 - 5 years RM'000**	**Over 5 years RM'000**	**Non-specific maturity RM'000**	**Trading book RM'000**	**Total RM'000**
ASSETS								
Cash and short term funds	14,318,083	-	-	-	-	-	-	14,318,083
Securities purchased under resale agreements	5,220,332	1,333,422	-	-	-	-	-	6,553,754
Deposits and placements with banks and other financial institutions	-	306,092	1,679,300	31,352	618,460	-	-	2,635,204
Financial assets held-for-trading	-	-	-	-	-	-	1,486,866	1,486,866
Financial investments available-for-sale	-	25,006	411,324	3,944,786	914,242	16,908	-	5,312,266
Loans, advances and financing	9,106,186	5,286,356	2,227,797	4,978,970	17,654,667	-	-	39,253,976
Derivative financial assets	-	-	-	7,331	2,488	-	3,478,410	3,488,229
Others	16,659	2,501	7,760	45,321	19,894	2,127,812	39,356	2,259,303
Total Assets	28,661,260	6,953,377	4,326,181	9,007,760	19,209,751	2,144,720	5,004,632	75,307,681
LIABILITIES AND EQUITY								
Deposits from customers	38,656,877	4,674,340	6,827,525	345,237	-	-	3,530,708	54,034,687
Deposits and placements from banks and other financial institutions	4,324,691	6,052	979,676	938,816	386,370	-	-	6,635,605
Bills and acceptances payable	322,314	-	-	-	-	-	-	322,314
Subordinated liabilities	-	-	-	502,879	1,118,461	-	-	1,621,340
Derivative financial liabilities	-	-	-	1,007	1,853	-	3,436,007	3,438,867
Others	359,887	45,698	75,051	23,133	6,436	1,545,463	142,585	2,198,253
Total Liabilities	43,663,769	4,726,090	7,882,252	1,811,072	1,513,120	1,545,463	7,109,300	68,251,066
Equity	-	-	-	-	-	7,056,615	-	7,056,615
Total Liabilities and Equity	43,663,769	4,726,090	7,882,252	1,811,072	1,513,120	8,602,078	7,109,300	75,307,681
Net maturity mismatches	(15,002,509)	2,227,287	(3,556,071)	7,196,688	17,696,631	(6,457,358)	(2,104,668)	-
Off-balance sheet liabilities	53,764,775	19,127,241	28,587,824	56,140,820	7,148,090	-	-	164,768,749

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Liquidity Risk (Cont'd)

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

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

i) Cash flows payable by the Group under financial liabilities by remaining contractual maturities

Group (RM'000)	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years	Total
At 31 Dec 2016						
Non-derivative liabilities						
Deposits from customers	**32,937,738**	**17,356,905**	**10,465,099**	**4,180,797**	**-**	**64,940,539**
Deposits and placements of banks and other financial institutions	**-**	**5,936,081**	**25,540**	**257,716**	**434,424**	**6,653,761**
Bills and acceptances payable	**326,305**	**-**	**-**	**-**	**-**	**326,305**
Other liabilities	**170,492**	**135,391**	**1,016,108**	**1,229,063**	**107,495**	**2,658,549**
Multi Currency Sukuk Programme	**-**	**19,761**	**531,679**	**1,344,921**	**-**	**1,896,361**
Subordinated liabilities	**-**	**4,881**	**548,912**	**182,411**	**1,229,454**	**1,965,658**
Loans and other credit-related commitments	**34,322,352**	**1,242,388**	**5,242,627**	**141,582**	**-**	**40,948,949**
Financial guarantees and similiar contracts	**2,314,251**	**2,597,674**	**2,890,856**	**3,303,630**	**1,017,857**	**12,124,268**
	70,071,138	**27,293,081**	**20,720,821**	**10,640,120**	**2,789,230**	**131,514,390**
Derivative liabilities						
Gross settled derivatives						
- Inflow	**-**	**(2,064,725)**	**(4,572,028)**	**(5,811,973)**	**(504,954)**	**(12,953,680)**
- Outflow	**-**	**2,633,214**	**5,621,176**	**6,836,929**	**620,636**	**15,711,955**
Net settled derivatives	**-**	**25,514**	**80,957**	**92,278**	**(45,169)**	**153,580**

Group (RM'000)	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years	Total
At 31 Dec 2015						
Non-derivative liabilities						
Deposits from customers	33,764,925	18,068,854	8,520,035	6,232,228	41,125	66,627,167
Deposits and placements of banks and other financial institutions	-	4,833,494	1,017,597	1,916,253	440,075	8,207,419
Bills and acceptances payable	337,218	-	-	-	-	337,218
Other liabilities	262,245	295,655	197,064	1,999,961	305,035	3,059,960
Multi Currency Sukuk Programme	-	19,870	41,247	1,896,361	-	1,957,478
Subordinated liabilities	-	4,037	59,617	676,264	1,235,408	1,975,326
Loans and other credit-related commitments	31,257,073	578,338	5,325,316	202,776	-	37,363,503
Financial guarantees and similiar contracts	5,145,093	1,725,055	2,824,659	2,674,033	343,336	12,712,176
	70,766,554	25,525,303	17,985,535	15,597,876	2,364,979	132,240,247
Derivative liabilities						
Gross settled derivatives						
- Inflow	-	(17,653,594)	(6,324,978)	(5,525,786)	(936,703)	(30,441,061)
- Outflow	-	18,511,401	6,767,987	7,060,599	1,250,875	33,590,862
Net settled derivatives	-	12,140	62,986	86,707	10,478	172,311

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Liquidity Risk (Cont'd)

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

Bank (RM'000)	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years	Total
At 31 Dec 2016						
Non-derivative liabilities						
Deposits from customers	**29,348,454**	**13,428,979**	**9,227,812**	**4,152,328**	**-**	**56,157,573**
Deposits and placements of banks and other financial institutions	**-**	**5,903,155**	**349**	**254,231**	**434,424**	**6,592,159**
Bills and acceptances payable	**302,673**	**-**	**-**	**-**	**-**	**302,673**
Other liabilities	**100,626**	**104,720**	**55,824**	**8,057**	**23,942**	**293,169**
Subordinated liabilities	**-**	**4,881**	**548,912**	**182,411**	**1,229,454**	**1,965,658**
Loans and other credit-related commitments	**27,224,759**	**918,829**	**4,688,717**	**138,447**	**-**	**32,970,752**
Financial guarantees and similiar contracts	**2,203,015**	**1,872,836**	**2,362,952**	**2,917,717**	**1,007,913**	**10,364,433**
	59,179,527	**22,233,400**	**16,884,566**	**7,653,191**	**2,695,733**	**108,646,417**
Derivative liabilities						
Gross settled derivatives						
- Inflow	**-**	**(2,143,810)**	**(4,558,008)**	**(5,811,973)**	**(504,954)**	**(13,018,745)**
- Outflow	**-**	**2,711,746**	**5,605,784**	**6,839,474**	**620,636**	**15,777,640**
Net settled derivatives	**-**	**18,669**	**42,175**	**110,594**	**(45,169)**	**126,269**

Bank (RM'000)	On Demand	Due within 3 months	Due between 3 months to 12 months	Due between 1 and 5 years	Due after 5 years	Total
At 31 Dec 2015						
Non-derivative liabilities						
Deposits from customers	30,177,861	13,685,869	7,080,120	6,182,383	41,125	57,167,358
Deposits and placements of banks and other financial institutions	-	4,345,792	989,889	991,015	440,075	6,766,771
Bills and acceptances payable	322,314	-	-	-	-	322,314
Other liabilities	223,789	105,624	113,948	9,473	208,177	661,011
Subordinated liabilities	-	4,037	59,617	676,264	1,235,408	1,975,326
Loans and other credit-related commitments	25,326,522	445,229	4,862,797	198,587	-	30,833,135
Financial guarantees and similiar contracts	4,429,984	1,669,739	2,113,809	2,273,597	340,645	10,827,774
	60,480,470	20,256,290	15,220,180	10,331,319	2,265,430	108,553,689
Derivative liabilities						
Gross settled derivatives						
- Inflow	-	(18,771,321)	(6,324,978)	(5,525,786)	(936,703)	(31,558,788)
- Outflow	-	19,633,831	6,775,091	7,097,022	1,250,875	34,756,819
Net settled derivatives	-	12,957	64,998	87,578	10,478	176,011

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

42 Repurchase and Reverse Repurchase Transactions and Collateral Pledged/Accepted

In the normal course of business, the Group and the Bank sell assets to raise liabilities and accept assets for resale. Assets sold and received are mainly via repurchase agreements and reverse repurchase agreements. Collateral is accepted and pledged on derivative contracts, mainly in the form of cash.

	Group		*Bank*	
	31 Dec 2016	31 Dec 2015	**31 Dec 2016**	31 Dec 2015
	RM'000	RM'000	**RM'000**	RM'000
Carrying amount of assets and collateral pledged				
- Sold under repurchase agreements	**59,783**	140,412	**-**	-
- Collateral pledged on derivative contracts (ISDA[1])	**1,079,045**	1,360,929	**1,079,045**	1,360,929
Fair value of assets and collateral accepted				
- Securities bought under reverse repurchase agreement	**6,162,230**	6,553,754	**6,162,230**	6,553,754
- Securities sold under regulated short selling	**6,817**	63,560	**6,817**	63,560
- Collateral accepted on derivative contracts (ISDA[1])	**999,109**	1,361,932	**999,109**	1,361,932

[1] *ISDA: International Swaps and Derivatives Association*

43 Fair Values of Financial Assets and Liabilities not measured at fair value

The fair value of each financial asset and liabilities presented in the statements of financial position of the Group and the Bank approximates the carrying amount as at reporting date, except for the following:

	Group			
	31 Dec 2016 Carrying amount RM'000	**31 Dec 2016 Fair Value RM'000**	31 Dec 2015 Carrying amount RM'000	31 Dec 2015 Fair Value RM'000
Financial Assets				
Loans, advances and financing	**46,894,834**	**47,025,359**	51,222,193	51,033,678
Financial Liabilities				
Deposits from customers	**60,837,098**	**60,825,364**	63,420,810	63,452,790
Deposits and placements from banks and other financial institutions	**6,571,193**	**6,569,349**	7,962,366	7,960,847
Multi-Currency Sukuk Programme	**1,756,001**	**1,754,751**	1,749,823	1,747,423
Subordinated liabilities	**1,648,824**	**1,764,564**	1,621,340	1,634,590

43 Fair Values of Financial Assets and Liabilities not measured at fair value (Cont'd)

The fair value of each financial asset and liabilities presented in the statements of financial position of the Group and the Bank approximates the carrying amount as at reporting date, except for the following (Cont'd):

	Bank			
	31 Dec 2016 Carrying amount RM'000	**31 Dec 2016 Fair Value RM'000**	31 Dec 2015 Carrying amount RM'000	31 Dec 2015 Fair Value RM'000
Financial Assets				
Loans, advances and financing	**35,151,571**	**35,275,633**	39,253,976	39,050,959
Financial Liabilities				
Deposits from customers	**52,110,576**	**52,102,383**	54,034,687	54,066,524
Deposits and placements from banks and other financial institutions	**6,542,777**	**6,540,990**	6,635,605	6,634,784
Subordinated liabilities	**1,648,824**	**1,764,564**	1,621,340	1,634,590

The methods and assumptions used in estimating the fair values of financial instruments other than those already mentioned in Note 3(g) are as follows:

- **Cash and short term funds**
- **Securities purchased under resale agreements**
- **Deposits and placements with banks and other financial institutions**
- **Obligations on securities sold under repurchase agreements**
- **Bills and acceptances payable**

The carrying amounts approximate fair values due to their relatively short-term nature or reprice to current market rates frequently.

(i) Loans, advances and financing

For personal and commercial loans and financing which mature or reprice after six months, fair value is principally estimated by discounting anticipated cash flows (including interest/profit at contractual rates). Performing loans/financing are grouped to the extent possible, into homogenous pools segregated by maturity within each pool. In general, cash flows are discounted using current market rates for instruments with similar maturity, repricing and credit risk characteristics. The fair value of a loan reflects loan impairments at the balance sheet date. For impaired loans/financing, the fair value is the carrying value of the loans/financing, net of individual impairment allowance. Collective impairment allowance is deducted from the fair value of loans, advances and financing.

(ii) Deposits from customers
Deposits and placements from banks and other financial institutions

Deposits, placements and obligations which mature or reprice after six months are grouped by residual maturity. Fair value is estimated using discounted cash flows, applying either market rates, where applicable, or current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

(iii) Subordinated liabilities
Multi-Currency Sukuk Programme

The fair value of subordinated liabilities and the Multi-Currency Sukuk Programme issued at cost were estimated based on discounted cash flows using rates currently offered for debt instruments of similar remaining maturities and credit grading.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

43 Fair Values of Financial Assets and Liabilities not measured at fair value (Cont'd)

The following tables sets out the fair values of the financial assets and financial liabilities not measured at fair value but for which fair value is derived, and analyses them by the level in the fair value hierarchy into which each fair value measurement is

			Group		
31 December 2016					**Total**
				Total	**carrying**
RM'000	**Level 1**	**Level 2**	**Level 3**	**fair values**	**amount**
Financial Assets					
Loans, advances and financing	**-**	**-**	**47,025,359**	**47,025,359**	**46,894,834**
Financial Liabilities					
Deposits from customers	**-**	**60,825,364**	**-**	**60,825,364**	**60,837,098**
Deposits and placements from banks and other financial institutions	**-**	**6,569,349**	**-**	**6,569,349**	**6,571,193**
Multi-Currency Sukuk Programme	**-**	**1,754,751**	**-**	**1,754,751**	**1,756,001**
Subordinated liabilities	**-**	**1,764,564**	**-**	**1,764,564**	**1,648,824**

			Group		
31 December 2015					**Total**
				Total	**carrying**
RM'000	**Level 1**	**Level 2**	**Level 3**	**fair values**	**amount**
Financial Assets					
Loans, advances and financing	-	-	51,033,678	51,033,678	51,222,193
Financial Liabilities					
Deposits from customers	-	63,452,790	-	63,452,790	63,420,810
Deposits and placements from banks and other financial institutions	-	7,960,847	-	7,960,847	7,962,366
Multi-Currency Sukuk Programme	-	1,747,423	-	1,747,423	1,749,823
Subordinated liabilities	-	1,634,590	-	1,634,590	1,621,340

			Bank		
31 December 2016					**Total**
				Total	**carrying**
RM'000	**Level 1**	**Level 2**	**Level 3**	**fair values**	**amount**
Financial Assets					
Loans, advances and financing	**-**	**-**	**35,275,633**	**35,275,633**	**35,151,571**
Financial Liabilities					
Deposits from customers	**-**	**52,102,383**	**-**	**52,102,383**	**52,110,576**
Deposits and placements from banks and other financial institutions	**-**	**6,540,990**	**-**	**6,540,990**	**6,542,777**
Subordinated liabilities	**-**	**1,764,564**	**-**	**1,764,564**	**1,648,824**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

43 Fair Values of Financial Assets and Liabilities not measured at fair value (Cont'd)

	Bank				
31 December 2015 **RM'000**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
Financial Assets					
Loans, advances and financing	-	-	39,050,959	39,050,959	39,253,976
Financial Liabilities					
Deposits from customers	-	54,066,524	-	54,066,524	54,034,687
Deposits and placements from banks and other financial institutions	-	6,634,784	-	6,634,784	6,635,605
Subordinated liabilities	-	1,634,590	-	1,634,590	1,621,340

44 Lease Commitments

The Group and the Bank have lease commitments in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the non-cancellable long term commitments net of sub-leases (if any) are as follows:

	Group		*Bank*	
	31 Dec 2016 RM'000	31 Dec 2015 RM'000	**31 Dec 2016 RM'000**	31 Dec 2015 RM'000
Less than one year	**36,267**	35,384	**29,316**	28,529
Between one and three years	**19,636**	14,917	**16,900**	9,332
Between three and five years	**2,502**	69	**2,500**	52
	58,405	50,370	**48,716**	37,913

45 Capital Commitments

	Group		*Bank*	
	31 Dec 2016 RM'000	31 Dec 2015 RM'000	**31 Dec 2016 RM'000**	31 Dec 2015 RM'000
Capital expenditure commitments:				
Property and equipment				
- Authorised and contracted, but not provided for	**1,711**	1,068	**1,711**	1,068
- Authorised but not contracted for	**2,950**	2,123	**2,950**	1,473
	4,661	3,191	**4,661**	2,541

46 Equity-based Compensation

The Group and the Bank participated in the following equity settled share compensation plans operated by the HSBC Group for the acquisition of HSBC Holdings plc shares.

a. *Savings-Related Share Option Schemes*

The Savings-Related Share Option Schemes aims to align the interests of all employees with the creation of shareholder value. under which eligible HSBC employees are granted options to acquire HSBC Holdings ordinary shares. Employees may make monthly contributions up to £250 (or its equivalent in RM) over a period of one, three or five years with the option to use the savings to acquire shares. Alternatively the employee may elect to have the savings repaid in cash. The last grant of options under this plan was in 2012. The options are exercisable within three months following the first anniversary of the commencement of a one-year savings contract or within six months following either the third or the fifth anniversary of the commencement of three-year or five-year savings contracts, respectively. The exercise price is set at a 20% discount to the market value immediately preceding the date of invitation. The cost of the awards is amortised over the vesting period.

Movements in the number of share options held by employees are as follows:

Group

	2016		2015	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Balance at 1 January	**116**	**4.55**	467	4.26
Granted in the financial year	**3**	**4.31**	6	4.46
Exercised in the financial year	**(38)**	**4.55**	(294)	4.25
Lapsed in the financial year	**(15)**	**4.82**	(63)	3.81
Balance at 31 December	**66**	**4.48**	116	4.55
Options vested at 31 December	**38**		294	

	2016	2015
	RM'000	RM'000
Compensation cost recognised during the financial year	**(537)**	310

Bank

	2016		2015	
	Number ('000)	**Weighted average exercise price (£)**	Number ('000)	Weighted average exercise price (£)
Balance at 1 January	**116**	**4.55**	461	4.26
Granted in the financial year	**3**	**4.31**	6	4.46
Exercised in the financial year	**(38)**	**4.55**	(289)	4.25
Lapsed in the financial year	**(15)**	**4.83**	(62)	3.80
Balance at 31 December	**66**	**4.48**	116	4.55
Options vested at 31 December	**38**		289	

	2016	2015
	RM'000	RM'000
Compensation cost recognised during the financial year	**(524)**	313

The weighted average remaining contractual life for the share options is 1.13 years (2015: 1.30 years).

46 Equity-based Compensation (Cont'd)

b. *Restricted Share Plan and Share Match Schemes*

The HSBC Holdings Restricted Share Plan is intended to align the interests of executives with those of shareholders by linking executive awards to the creation of superior shareholder value. This is achieved by focusing on predetermined targets. An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. Deferred share awards generally vest over a period of three years. Vested shares may be subject to a retention requirement (restriction) post-vesting. The cost of the conditional awards is recognised through an annual charge based on the likely level of vesting of shares, apportioned over the period of service to which the award relates.

The Share Match Schemes was first introduced in Malaysia in 2014. Eligible HSBC employees will acquire HSBC Holdings ordinary shares. Shares are purchased in the market each quarter up to a maximum value of £750 or the equivalent in local currency over a period of one year. Matching awards are added at a ratio of one free share for every three purchased. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

	Group		*Bank*	
	2016 Number ('000)	2015 Number ('000)	**2016 Number ('000)**	2015 Number ('000)
Balance at 1 January	**831**	810	**807**	785
Additions during the financial year	**533**	520	**530**	494
Released in the financial year	**(455)**	(499)	**(434)**	(472)
Balance at 31 December	**909**	831	**903**	807
	2016 RM'000	2015 RM'000	**2016 RM'000**	2015 RM'000
Compensation cost recognised during the financial year	**10,423**	16,847	**10,999**	16,479

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan and the Share Match Schemes is £4.12 (2015: £5.27). The weighted average fair value of the HSBC share at 31 December 2016 for the share granted during the year was £5.01 (2015: £5.71). The weighted average remaining vesting period as at 31 December 2016 was 3.77 years (2015: 3.98 years).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

47 Comparative Figures

The presentation and classification of items in the financial statements are consistent with the previous financial year except those listed below. Comparatives for net fee commission income, other operating expenses and income from islamic banking operations were restated to conform to the current financial year's presentation. There was no significant impact to the financial performance and ratios in relation to the financial year ended 31 December 2016. The Group's and the Bank's prior year profit and loss and retained profits brought forward are not affected by these reclassifications.

	Statement of Profit or Loss and Other Comprehensive Income	*Group*		*Bank*	
	31 Dec 2015	RM'000 As restated	RM'000 As previously stated	RM'000 As restated	RM'000 As previously stated
a)	**Net Fee and Commission Income**	408,956	435,497	408,985	435,526
	(of which the affected components are disclosed below) :				
	Fee and Commission Expense				
	Others	(73,495)	(46,954)	(73,496)	(46,955)
b)	**Other operating expenses**	1,495,784	1,535,171	1,391,875	1,418,416
	(of which the affected components are disclosed below) :				
	Promotion and marketing related expenses	67,444	106,831	56,806	83,347
c)	**Income from Islamic Banking operations**	545,533	558,379	-	-
	(of which the affected components are disclosed below) :				
	Income derived from investment of shareholders funds	119,876	132,722	-	-