

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
31 MARCH 2017

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

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

UNAUDITED CONDENSED STATEMENTS OF FINANCIAL POSITION
AT 31 MARCH 2017

	Note	<i>Group</i>		<i>Bank</i>	
		31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Assets					
Cash and short-term funds	11	8,290,407	16,804,114	6,886,062	14,999,888
Securities purchased under resale agreements		942,135	6,162,230	942,135	6,162,230
Deposits and placements with banks and other financial institutions	12	315,000	1,861,400	3,127,204	3,875,486
Financial assets held-for-trading	13	6,028,112	2,266,452	6,027,620	2,265,964
Financial investments available-for-sale	14	15,988,235	6,558,044	14,239,001	5,189,470
Loans, advances and financing	15	48,886,813	46,894,834	36,213,703	35,151,571
Derivative financial assets	33	2,244,947	2,988,954	2,303,212	3,089,446
Other assets	17	538,374	261,639	562,108	267,107
Statutory deposits with Bank Negara Malaysia	18	1,089,860	1,118,360	747,398	792,898
Investments in subsidiary companies	19	-	-	660,021	660,021
Property and equipment		360,089	364,324	353,824	357,087
Intangible assets		56,638	58,731	56,638	58,731
Tax recoverable		29,356	57,235	18,850	46,950
Deferred tax assets		26,750	28,258	17,724	17,863
Total assets		84,796,716	85,424,575	72,155,500	72,934,712
Liabilities					
Deposits from customers	19	60,853,556	60,837,098	51,947,694	52,110,576
Deposits and placements from banks and other financial institutions	20	6,213,863	6,571,193	6,177,476	6,542,777
Bills and acceptances payable		317,912	326,305	295,890	302,673
Derivative financial liabilities	33	2,349,053	3,127,028	2,356,384	3,132,513
Other liabilities	21	2,701,312	2,428,762	1,652,306	1,329,136
Multi-Currency Sukuk Programme	22	1,755,017	1,756,001	-	-
Subordinated liabilities	23	1,639,234	1,648,824	1,639,234	1,648,824
Total liabilities		75,829,947	76,695,211	64,068,984	65,066,499
Equity					
Share capital		1,045,875	114,500	1,045,875	114,500
Reserves		7,920,894	8,614,864	7,040,641	7,753,713
Total equity attributable to owner of the Bank		8,966,769	8,729,364	8,086,516	7,868,213
Total liabilities and equity		84,796,716	85,424,575	72,155,500	72,934,712
Commitments and Contingencies	32	184,048,490	173,191,009	177,280,166	166,087,429

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and Bank for the financial year ended 31 December 2016 and the accompanying explanatory notes on pages 8 to 34 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 28 April 2017.

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

UNAUDITED CONDENSED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2017

	<i>Note</i>	Group		Bank	
		31 Mar 2017 RM'000	31 Mar 2016 RM'000	31 Mar 2017 RM'000	31 Mar 2016 RM'000
Interest income	24	566,081	598,455	582,003	620,967
Interest expense	24	(206,305)	(239,171)	(206,305)	(239,171)
Net interest income	24	359,776	359,284	375,698	381,796
Fee and commission income	25	116,245	112,722	116,245	112,722
Fee and commission expense	25	(21,243)	(22,074)	(21,243)	(22,074)
Net fee and commission income	25	95,002	90,648	95,002	90,648
Net trading income	26	193,818	221,857	136,469	175,147
Income from Islamic banking operations	27	80,161	100,964	-	-
Other operating income	28	7,347	10,794	38,856	46,221
Operating income before impairment losses		736,104	783,547	646,025	693,812
Loans/financing impairment (charges)/release and other credit risk provisions	29	(81,269)	(34,372)	(42,129)	13,516
Net operating income		654,835	749,175	603,896	707,328
Other operating expenses	30	(361,434)	(357,259)	(333,379)	(330,590)
Profit before tax		293,401	391,916	270,517	376,738
Tax expense		(73,708)	(98,374)	(68,450)	(96,284)
Profit for the financial period		219,693	293,542	202,067	280,454
Other comprehensive income/(expense)					
<i>Items that will subsequently be reclassified to profit or loss when specific conditions are met</i>					
Own credit reserve:					
Change in fair value		246	-	-	-
Income tax effect		(59)	-	-	-
Available-for-sale reserve:					
Change in fair value		9,795	172,793	8,100	168,862
Amount transferred to profit or loss		1,551	(31,569)	1,551	(28,514)
Income tax effect		(2,723)	(33,894)	(2,316)	(33,684)
Other comprehensive income for the financial period, net of income tax		8,810	107,330	7,335	106,664
Total comprehensive income for the financial period		228,503	400,872	209,402	387,118
Profit attributable to the owner of the Bank		219,693	293,542	202,067	280,454
Total comprehensive income attributable to the owner of the Bank		228,503	400,872	209,402	387,118
Basic earnings per RM0.50 ordinary share		95.9 sen	128.2 sen	88.2 sen	122.5 sen

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HSBC BANK MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2017

Group (RM'000)

	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available- for-sale reserve</i>	<i>Own Credit Reserve⁽¹⁾</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profit</i>	<i>Total equity</i>
2017											
Balance at 1 January	114,500	741,375	164,500	216,229	190,000	81,157	-	83,841	284,000	6,853,762	8,729,364
Total comprehensive income for the financial period											
Profit for the financial period	-	-	-	-	-	-	-	-	-	219,693	219,693
Other comprehensive income, net of income tax											
Revaluation reserve:											
Transfer to retained profit upon realisation of depreciation	-	-	-	(586)	-	-	-	-	-	586	-
Available-for-sale reserve:											
Net change in fair value	-	-	-	-	-	7,444	187	-	-	-	7,631
Net amount transferred to profit or loss	-	-	-	-	-	1,179	-	-	-	-	1,179
<i>Total other comprehensive income</i>	-	-	-	(586)	-	8,623	187	-	-	586	8,810
Total comprehensive income for the financial period	-	-	-	(586)	-	8,623	187	-	-	220,279	228,503
Transfer in accordance to Section 618(2) of the Companies Act 2016	931,375	(741,375)	-	-	(190,000)	-	-	-	-	-	-
Transactions with the owner, recorded directly in equity											
Share based payment transactions	-	-	-	-	-	-	-	10,179	-	(1,277)	8,902
Balance at 31 March	1,045,875	-	164,500	215,643	-	89,780	187	94,020	284,000	7,072,764	8,966,769

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

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2016 and the accompanying explanatory notes on pages 8 to 34 attached to the unaudited condensed interim financial statements.

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HSBC BANK MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2017 (Cont'd)

Group (RM'000)

	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available- for-sale reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profit</i>	<i>Total equity</i>
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 period										
Profit for the financial period	-	-	-	-	-	-	-	-	293,542	293,542
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profit upon realisation of depreciation	-	-	-	(521)	-	-	-	-	521	-
Available-for-sale reserve:										
Net change in fair value	-	-	-	-	-	131,323	-	-	-	131,323
Net amount transferred to profit or loss	-	-	-	-	-	(23,993)	-	-	-	(23,993)
<i>Total other comprehensive income</i>	-	-	-	(521)	-	107,330	-	-	521	107,330
Total comprehensive income for the financial period	-	-	-	(521)	-	107,330	-	-	294,063	400,872
Transactions with the owner, recorded directly in equity										
Share based payment transactions	-	-	-	-	-	-	2,037	-	1,948	3,985
Balance at 31 March	114,500	741,375	164,500	186,441	190,000	125,899	97,990	284,000	6,348,673	8,253,378

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2016 and the accompanying explanatory notes on pages 8 to 34 attached to the unaudited condensed interim financial statements.

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2017 (Cont'd)

Bank (RM'000)	<i>Non-distributable</i>							<i>Distributable</i>		<i>Total equity</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available-for-sale reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profit</i>	
2017										
Balance at 1 January	114,500	741,375	114,500	216,229	190,000	87,704	83,438	250,000	6,070,467	7,868,213
Total comprehensive income for the financial period										
Profit for the financial period	-	-	-	-	-	-	-	-	202,067	202,067
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profit upon realisation of depreciation	-	-	-	(586)	-	-	-	-	586	-
Available-for-sale reserve:										
Net change in fair value	-	-	-	-	-	6,156	-	-	-	6,156
Net amount transferred to profit or loss	-	-	-	-	-	1,179	-	-	-	1,179
<i>Total other comprehensive income</i>	-	-	-	(586)	-	7,335	-	-	586	7,335
Total comprehensive income for the financial period	-	-	-	(586)	-	7,335	-	-	202,653	209,402
Transfer in accordance to Section 618(2) of the Companies Act 2016	931,375	(741,375)	-	-	(190,000)	-	-	-	-	-
Transactions with the owner, recorded directly in equity										
Share based payment transactions	-	-	-	-	-	-	10,178	-	(1,277)	8,901
Balance at 31 March	1,045,875	-	114,500	215,643	-	95,039	93,616	250,000	6,271,843	8,086,516

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2017 (Cont'd)

Bank (RM'000)	<i>Non-distributable</i>							<i>Distributable</i>		<i>Total equity</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available-for-sale reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profit</i>	
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 period										
Profit for the financial period	-	-	-	-	-	-	-	-	280,454	280,454
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profit upon realisation of depreciation	-	-	-	(521)	-	-	-	-	521	-
Available-for-sale reserve:										
Net change in fair value	-	-	-	-	-	128,335	-	-	-	128,335
Net amount transferred to profit or loss	-	-	-	-	-	(21,671)	-	-	-	(21,671)
<i>Total other comprehensive income</i>	-	-	-	(521)	-	106,664	-	-	521	106,664
Total comprehensive income for the financial period	-	-	-	(521)	-	106,664	-	-	280,975	387,118
Transactions with the owner, recorded directly in equity										
Share based payment transactions	-	-	-	-	-	-	2,652	-	1,948	4,600
Balance at 31 March	114,500	741,375	114,500	186,441	190,000	120,287	97,547	250,000	5,633,683	7,448,333

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2016 and the accompanying explanatory notes on pages 8 to 34 attached to the unaudited condensed interim financial statements.

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HSBC BANK MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2017

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Mar 2016	31 Mar 2017	31 Mar 2016
	RM'000	RM'000	RM'000	RM'000
Profit before tax	293,401	391,916	270,517	376,738
Adjustments for non-operating and non-cash items	252,495	281,527	259,649	218,473
Operating profit before working capital changes	545,896	673,443	530,166	595,211
Changes in working capital:				
Net changes in operating assets	1,271,820	1,053,247	1,430,722	1,257,907
Net changes in operating liabilities	(827,588)	(4,864,984)	(978,441)	(3,384,908)
Income tax paid	(47,104)	(49,332)	(42,528)	(43,948)
Net cash generated from/(used in) operations	943,024	(3,187,626)	939,919	(1,575,738)
Net cash used in investing activities	(9,428,646)	(544,652)	(9,049,448)	(849,046)
Net cash used in financing activity	(28,085)	(40,620)	(4,297)	(15,439)
	(9,456,731)	(585,272)	(9,053,745)	(864,485)
Net changes in cash and cash equivalents	(8,513,707)	(3,772,898)	(8,113,826)	(2,440,223)
Cash and cash equivalents at 1 January	16,804,114	18,251,909	14,999,888	14,318,083
Cash and cash equivalents at 31 March	8,290,407	14,479,011	6,886,062	11,877,860
Analysis of cash and cash equivalents				
Cash and short-term funds	8,290,407	14,479,011	6,886,062	11,877,860
Cash and cash equivalents comprise the following:				
Cash and short-term funds	8,290,407	14,479,011	6,886,062	11,877,860
Adjustment for cash collateral	(714,770)	(995,003)	(739,770)	(1,345,003)
Cash and cash equivalents	7,575,637	13,484,008	6,146,292	10,532,857

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and Bank for the financial year ended 31 March 2017 and the accompanying explanatory notes on pages 8 to 34 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 28 April 2017.

HSBC BANK MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS

1 General Information

HSBC Bank Malaysia Berhad (the Bank) 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. The Bank and its subsidiaries are collectively known as "the Group".

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

The Bank is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Bank is located at 10th Floor, North Tower, 2, Leboh Ampang, 50100 Kuala Lumpur.

The immediate parent bank and the ultimate holding company during the financial period 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 28 April 2017.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 31 March 2017 have been prepared under the historical cost convention except for the following assets and liabilities which are stated at fair values: financial instruments held-for-trading, financial investments available-for-sale, derivative financial instruments, and financial instruments fair-valued through profit and loss.

The unaudited condensed interim financial statements for the financial period ended 31 March 2017 have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (MFRS) 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (MASB). The unaudited condensed interim financial statements incorporate those activities relating to Islamic Banking which have been undertaken by the Bank's Islamic subsidiary.

The unaudited condensed interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2016. The explanatory notes attached in the unaudited condensed interim financial statements provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Group and Bank since the financial year ended 31 December 2016.

All significant accounting policies and methods of computation applied in the unaudited condensed interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the year ended 31 December 2016.

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

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 2017 are as follows:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.
- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

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

The amendments shall be applied retrospectively.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

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

a. Financial year beginning on/after 1 January 2018:

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

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

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

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

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

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

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

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

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income (OCI). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and 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 income statement, unless this creates an accounting mismatch. With effect from 1 January 2017, the Group has early applied this requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss without applying the other requirements of MFRS 9. The early adoption is applied prospectively from 2017 and onwards.

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

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

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

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

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

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

Key provisions of the new standard are as follows:

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

b. Financial year beginning on/after 1 January 2019:

MFRS 16 'Leases' 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 Bank upon its first adoption, except for MFRS 9.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Auditors' Report On Preceding Annual Financial Statements

The audit report on the audited annual financial statements for the financial year ended 31 December 2016 was not subject to any qualification.

4 Seasonality or Cyclical Factors

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

5 Unusual Items due to Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group and Bank for the financial period ended 31 March 2017.

6 Changes in Estimates

The preparation of financial information requires the use of estimates. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from those reported. Management believes that critical accounting policies where judgement is necessarily applied are those which relate to impairment allowances for loans, advances and financing, the valuation of financial instruments and the impairment allowance of available-for-sale financial investments.

There were no material changes in estimates of amounts reported in prior financial years that have a material effect on the financial results and position of the Group and Bank for the financial period ended 31 March 2017.

7 Debt and Equity Securities

There were no issuances, cancellations, repurchases, resale or repayment of debt and equity securities during the financial period ended 31 March 2017.

8 Dividend

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

9 Carrying Amount of Revalued Assets

Property and equipment are stated at cost/valuation less accumulated depreciation and impairment losses (if any) except for freehold land which is stated at professional valuation. There was no change in the valuation of property and equipment that was brought forward from the previous audited financial statements for the financial period ended 31 March 2017.

10 Significant and Subsequent Events

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Cash and Short Term Funds

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	955,601	1,121,507	803,998	931,916
Money at call and interbank placements maturing within one month	7,334,806	15,682,607	6,082,064	14,067,972
	8,290,407	16,804,114	6,886,062	14,999,888

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 RM714.8 million (31 December 2016: RM1,079.0 million) and RM739.8 million (31 December 2016: RM1,429.0 million) respectively.

12 Deposits and Placements with Banks and Other Financial Institutions

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Licensed banks	315,000	425,000	3,127,204	2,439,086
Bank Negara Malaysia	-	1,436,400	-	1,436,400
	315,000	1,861,400	3,127,204	3,875,486

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 RM2,812.2 million (31 December 2016: RM2,014.1 million).

13 Financial Assets Held-for-Trading

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
At fair value				
Money market instruments:				
Malaysian Government treasury bills	248,036	128,792	248,036	128,792
Islamic treasury bills	46,887	29,620	46,887	29,620
Bank Negara Malaysia bills and notes	1,853,014	147,681	1,853,014	147,681
Malaysian Government securities	3,233,737	1,601,737	3,233,737	1,601,737
Malaysian Government Islamic bonds	549,718	249,154	549,226	248,666
Islamic fixed rate bonds	8,953	8,895	8,953	8,895
Cagamas bonds and notes	2,477	2,452	2,477	2,452
	5,942,822	2,168,331	5,942,330	2,167,843
Unquoted:				
Corporate bonds and Sukuk	85,290	98,121	85,290	98,121
	6,028,112	2,266,452	6,027,620	2,265,964

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financial Investments Available-for-Sale

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
At fair value	RM'000	RM'000	RM'000	RM'000
Money market instruments:				
Malaysian Government treasury bills	35,803	-	35,803	-
Malaysian Government securities	11,601,749	2,666,063	11,601,749	2,666,063
Malaysian Government Islamic bonds	2,391,023	2,133,363	775,582	764,789
Malaysian Government Islamic treasury bills	48,616	-	48,616	-
Islamic fixed rate Sukuk	509,840	504,449	509,840	504,449
Islamic treasury bills	24,308	-	-	-
Cagamas bonds and notes	463,693	414,397	463,693	414,397
Negotiable instruments of deposit	269,509	-	160,024	-
US treasury bond	441,146	671,742	441,146	671,742
Bankers' acceptance and Islamic accepted bills	34,518	-	34,518	-
	15,820,205	6,390,014	14,070,971	5,021,440
Unquoted:				
Shares	167,559	167,559	167,559	167,559
Corporate bonds	471	471	471	471
	168,030	168,030	168,030	168,030
	15,988,235	6,558,044	14,239,001	5,189,470

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

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Maturing within one year	10,346,966	895,867	9,787,526	715,643
More than one year to three years	3,027,110	2,808,372	2,294,160	2,075,923
More than three years to five years	1,496,170	1,744,117	1,059,471	1,308,271
Over five years	949,959	941,658	929,814	921,603
	15,820,205	6,390,014	14,070,971	5,021,440

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Loans, Advances and Financing

(i) By type

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
At amortised cost				
Overdrafts/cash line	809,241	1,224,214	723,699	1,126,374
Term loans/financing:				
Housing loans/financing	19,515,682	19,496,554	15,128,856	15,139,920
Syndicated term loans/financing	3,595,534	2,409,157	2,442,658	1,758,891
Factoring receivables	173,168	224,757	173,168	224,757
Hire purchase receivables	197,893	208,921	-	-
Lease receivables	2,377	2,738	-	-
Other term loans/financing ⁽¹⁾	10,248,876	10,502,925	6,379,087	6,635,422
Bills receivable	1,250,419	1,100,284	1,140,009	990,012
Trust receipts	2,399,573	2,104,186	1,542,463	1,641,951
Claims on customers under acceptance credits	2,060,981	1,869,112	1,566,524	1,364,737
Staff loans/financing	129,729	135,101	123,575	128,908
Credit/charge cards	3,086,506	3,154,850	2,288,611	2,367,140
Revolving credit	6,150,285	5,152,622	5,158,741	4,202,461
Other loans/financing	9,222	9,018	8,070	7,831
Gross loans, advances and financing	49,629,486	47,594,439	36,675,461	35,588,404
Less: Allowance for impaired loans, advances and financing				
- Collectively assessed	(489,143)	(469,565)	(283,572)	(269,550)
- Individually assessed	(253,530)	(230,040)	(178,186)	(167,283)
Total net loans, advances and financing	48,886,813	46,894,834	36,213,703	35,151,571

⁽¹⁾ Included in the loans, advances and financing of the Bank at 31 March 2017 are financing which are disclosed as "Asset under Management" in the financial statements of HBMS. These details are as follows:

	<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Other term loans/financing	1,589,008	832,087
	1,589,008	832,087

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Loans, Advances and Financing (Cont'd)

(i) By type (Cont'd)

Syndicated Investment Account for Financing/Investment Agency Account (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 proportionately 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 in the audited financial statements of the Group and the Bank for the financial year ended 31 December 2016.

(ii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Domestic non-bank financial institutions	653,666	638,263	-	-
Domestic business enterprises:				
Small medium enterprises	7,651,020	7,130,268	5,652,581	5,309,204
Others	14,548,384	12,872,728	11,389,284	10,474,991
Government and statutory bodies	9,543	10,316	-	-
Individuals	22,470,123	22,589,526	16,527,338	16,687,675
Other domestic entities	5,997	6,305	4,562	4,839
Foreign entities	4,290,753	4,347,033	3,101,696	3,111,695
	49,629,486	47,594,439	36,675,461	35,588,404

(iii) By residual contractual maturity

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Maturity within one year	20,278,081	18,127,142	15,013,239	13,770,956
More than one year to three years	3,382,250	3,515,403	2,755,919	2,860,890
More than three years to five years	2,930,762	2,475,446	1,832,854	1,363,990
More than five years	23,038,393	23,476,448	17,073,449	17,592,568
	49,629,486	47,594,439	36,675,461	35,588,404

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Loans, Advances and Financing (Cont'd)

(iv) By interest/profit rate sensitivity

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Fixed rate:				
Housing loans/financing	941	1,341	676	943
Hire purchase receivables	197,894	208,921	-	-
Other fixed rate loans/financing	10,470,844	9,628,558	7,270,554	6,844,259
Variable rate:				
BR/BLR/BFR plus	23,641,453	24,077,415	18,174,073	18,606,188
Cost-plus	15,318,354	13,678,204	11,230,158	10,137,014
	49,629,486	47,594,439	36,675,461	35,588,404

(v) By sector

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Agricultural, hunting, forestry and fishing	1,191,998	1,176,579	1,072,026	1,040,207
Mining and quarrying	413,857	384,706	161,427	166,512
Manufacturing	6,387,384	6,351,035	5,024,378	5,163,094
Electricity, gas and water	41,954	48,252	12,324	15,345
Construction	3,030,440	2,468,451	2,655,154	2,113,806
Real estate	3,167,806	3,098,856	2,297,196	2,277,002
Wholesale & retail trade and restaurants & hotels	3,992,152	3,760,487	3,080,415	2,944,164
Transport, storage and communication	1,907,332	373,579	1,308,218	186,858
Finance, insurance and business services	2,132,053	2,479,650	1,099,194	1,549,936
Household-retail	25,914,029	26,017,506	19,332,824	19,480,811
Others	1,450,481	1,435,338	632,305	650,669
	49,629,486	47,594,439	36,675,461	35,588,404

(vi) By purpose

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Purchase of property:				
Residential	19,603,566	19,586,996	15,213,420	15,227,147
Non residential	1,612,285	1,669,618	776,788	816,610
Purchase of securities	5,561	5,831	5,561	5,831
Purchase of transport vehicles	29,993	30,798	28,165	28,951
Purchase of fixed assets excluding land & building	3,690	4,068	3,332	3,702
Consumption credit	5,750,432	5,851,404	3,833,837	3,957,812
Construction	2,072,617	1,943,074	1,692,458	1,599,631
Working capital	19,685,845	17,567,239	14,816,583	13,624,119
Other purpose	865,497	935,411	305,317	324,601
	49,629,486	47,594,439	36,675,461	35,588,404

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Loans, Advances and Financing (Cont'd)

(vii) By geographical distribution

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Northern Region	6,544,680	6,651,438	5,092,590	5,246,198
Southern Region	6,561,551	6,692,390	5,009,696	5,122,978
Central Region	33,751,064	31,441,394	24,263,356	22,875,491
Eastern Region	2,772,191	2,809,217	2,309,819	2,343,737
	49,629,486	47,594,439	36,675,461	35,588,404

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.

16 Impaired Loans, Advances and Financing

(i) Movements in impaired loans, advances and financing

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	1,026,953	941,081	723,427	705,802
Classified as impaired during the financial period/year	272,829	1,113,363	168,098	754,657
Reclassified as performing	(122,048)	(503,968)	(86,354)	(381,139)
Amount recovered	(69,787)	(290,068)	(52,527)	(240,237)
Amount written off	(64,428)	(233,455)	(32,251)	(115,656)
Balance at 31 March/31 December	1,043,519	1,026,953	720,393	723,427

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

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

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Collective allowance for impairment				
Balance at 1 January	469,565	444,234	269,550	303,970
Made during the financial period/year	98,987	402,500	55,851	191,013
Amount released	(20,792)	(186,755)	(13,637)	(128,491)
Amount written off	(58,617)	(190,414)	(28,192)	(96,942)
Balance at 31 March/31 December	489,143	469,565	283,572	269,550

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Individual allowance for impairment				
Balance at 1 January	230,040	230,297	167,283	161,650
Made during the financial period/year	50,171	110,361	30,824	80,320
Amount released	(30,269)	(80,987)	(20,934)	(62,872)
Amount reinstated/(written off)	3,588	(29,631)	1,013	(11,815)
Balance at 31 March/31 December	253,530	230,040	178,186	167,283

(iii) By sector

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Agricultural, hunting, forestry and fishing	61,260	63,410	61,260	63,410
Manufacturing	45,099	58,611	42,106	54,573
Construction	49,394	52,877	49,313	52,673
Real estate	1,272	1,548	1,272	1,548
Wholesale & retail trade, restaurants & hotels	43,631	44,973	31,571	32,664
Transport, storage and communication	3,679	3,950	14	285
Finance, insurance and business services	25,581	25,796	2,431	2,450
Household-retail	813,209	774,858	532,032	515,512
Others	394	930	394	312
	1,043,519	1,026,953	720,393	723,427

(iv) By purpose

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Purchase of property:				
Residential	519,438	480,942	368,170	345,875
Non residential	20,935	20,968	10,699	10,081
Purchase of transport vehicles	454	552	276	406
Purchase of fixed assets excluding land & building	358	358	-	-
Consumption credit	280,151	283,385	155,368	162,168
Construction	49,365	52,766	49,284	52,562
Working capital	172,606	187,954	136,384	152,307
Other purpose	212	28	212	28
	1,043,519	1,026,953	720,393	723,427

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

(v) By geographical distribution

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Northern Region	169,096	183,825	121,302	136,112
Southern Region	95,055	100,367	66,082	69,761
Central Region	619,848	580,344	388,873	367,701
Eastern Region	159,520	162,417	144,136	149,853
	1,043,519	1,026,953	720,393	723,427

17 Other Assets

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Settlements	243,804	7,097	243,804	7,097
Interest/profit receivable	164,504	112,285	150,437	103,218
Income receivable	28,175	31,209	24,199	25,150
Deposits and prepayments	6,972	3,136	6,946	3,064
Amount due from subsidiary company	-	-	51,243	36,472
Other receivables	94,919	107,912	85,479	92,106
	538,374	261,639	562,108	267,107

18 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Deposits from Customers

(i) By type of deposit	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
At amortised cost				
Demand deposits	18,912,090	19,695,534	16,727,083	17,793,237
Savings deposits	13,200,876	13,182,399	11,515,369	11,555,217
Fixed/Investment deposits	24,630,051	24,355,592	19,667,330	19,218,332
Repurchase agreements	72,627	59,783	-	-
Wholesale money market deposits	483,158	418,226	483,158	418,226
Negotiable instruments of deposit	1,080,607	641,776	1,080,607	641,776
	58,379,409	58,353,310	49,473,547	49,626,788
At fair value				
Structured investments	2,474,147	2,483,788	2,474,147	2,483,788
	60,853,556	60,837,098	51,947,694	52,110,576

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) in the financial statements of the Group and the Bank for the financial year ended 31 December 2016.

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

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Due within six months	19,979,852	19,400,668	15,788,805	15,023,894
More than six months to one year	4,919,835	5,155,699	4,181,457	4,420,541
More than one year to three years	569,945	327,056	545,284	307,346
More than three years to five years	241,026	113,945	232,391	108,327
	25,710,658	24,997,368	20,747,937	19,860,108

(ii) By type of customer	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Government and statutory bodies	28,642	26,145	21,171	19,716
Business enterprises	20,183,635	20,114,260	18,003,675	18,088,116
Individuals	27,865,616	27,629,617	23,338,323	23,045,734
Others	12,775,663	13,067,076	10,584,525	10,957,010
	60,853,556	60,837,098	51,947,694	52,110,576

20 Deposits and Placements from Banks and Other Financial Institutions

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Licensed banks	1,260,379	774,180	1,260,365	774,180
Bank Negara Malaysia	39,523	63,486	3,150	35,070
Other financial institutions	4,913,961	5,733,527	4,913,961	5,733,527
	6,213,863	6,571,193	6,177,476	6,542,777

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Other Liabilities

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000	31 Mar 2017 RM'000	31 Dec 2016 RM'000
At amortised cost				
Settlements	257,810	71,943	257,810	71,943
Interest/profit payable	246,743	252,014	197,002	190,475
Deferred income	111,015	102,972	99,390	91,686
Marginal deposit	115,656	74,396	93,696	51,635
Amount due to subsidiary company	-	-	244	45,132
Accrued expenses	351,897	363,332	328,581	337,097
Other creditors	751,572	594,696	675,583	541,168
	1,834,693	1,459,353	1,652,306	1,329,136
At fair value				
Islamic structured products ^[1]	866,619	969,409	-	-
	2,701,312	2,428,762	1,652,306	1,329,136

^[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) in the financial statements of the Group and the Bank for the financial year ended 31 December 2016.

22 Multi-Currency Sukuk Programme

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

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

<u>Issuance under MCSP</u>	Nominal Value (RM'000)	Issue Date	Maturity Date	Carrying Value (RM'000)	
				31 Mar 2017	31 Dec 2016
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	502,248	502,835
3rd series	750,000	27 Mar 2015	27 Mar 2020	752,769	753,166
	<u>1,250,000</u>			<u>1,255,017</u>	<u>1,256,001</u>
Total	<u>1,750,000</u>			<u>1,755,017</u>	<u>1,756,001</u>

Movement in MCSP

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

	<i>Group</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000
The cumulative change in fair value due to changes in own credit risk	(245)	(5,669)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Subordinated Liabilities

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Subordinated Liabilities	1,639,234	1,648,824	1,639,234	1,648,824
(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	2,045	2,559	2,045	2,559
	1,002,045	1,002,559	1,002,045	1,002,559

(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.

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
(ii) Subordinated term loan				
- First tranche issued on 25 June 2014	343,614	348,508	343,614	348,508
- Second tranche issued on 30 June 2015	293,575	297,757	293,575	297,757
	637,189	646,265	637,189	646,265

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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24 Net Interest Income

	Group		Bank	
	31 Mar 2017 RM'000	31 Mar 2016 RM'000	31 Mar 2017 RM'000	31 Mar 2016 RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	386,930	412,293	386,930	412,293
- Interest income recognised from impaired loans	8,604	10,574	8,604	10,574
Money at call and deposit placements with financial institutions	112,627	122,610	128,549	145,122
Financial investments available-for-sale	57,920	52,978	57,920	52,978
	566,081	598,455	582,003	620,967
Interest expense				
Deposits and placements of banks and other financial institutions	(12,790)	(12,976)	(12,790)	(12,976)
Deposits from customers	(174,820)	(207,977)	(174,820)	(207,977)
Subordinated liabilities	(15,893)	(15,439)	(15,893)	(15,439)
Others	(2,802)	(2,779)	(2,802)	(2,779)
	(206,305)	(239,171)	(206,305)	(239,171)
Net interest income	359,776	359,284	375,698	381,796

25 Net Fee and Commission Income

	Group		Bank	
	31 Mar 2017 RM'000	31 Mar 2016 RM'000	31 Mar 2017 RM'000	31 Mar 2016 RM'000
Fee and commission income				
Credit cards	39,556	37,537	39,556	37,537
Service charges	32,384	35,956	32,384	35,956
Credit facilities	13,852	13,777	13,852	13,777
Agency	22,911	16,576	22,911	16,576
Others	7,542	8,876	7,542	8,876
	116,245	112,722	116,245	112,722
Fee and commission expense				
Credit cards	(13,926)	(15,244)	(13,926)	(15,244)
Interbank and clearing	(329)	(519)	(329)	(519)
Brokerage	(425)	(574)	(425)	(574)
Intergroup	(3,474)	(2,456)	(3,474)	(2,456)
Debit cards	(877)	(1,012)	(877)	(1,012)
Cash management	(887)	(843)	(887)	(843)
Others	(1,325)	(1,426)	(1,325)	(1,426)
	(21,243)	(22,074)	(21,243)	(22,074)
Net fee and commission income	95,002	90,648	95,002	90,648

26 Net Trading Income

	Group		Bank	
	31 Mar 2017 RM'000	31 Mar 2016 RM'000	31 Mar 2017 RM'000	31 Mar 2016 RM'000
Realised gains on financial assets/liabilities held-for-trading and other financial instruments	4,735	27,001	4,735	27,001
Net interest income/(expense) from financial assets held-for-trading	8,534	(3,340)	8,534	(3,340)
Net unrealised gains/(losses) on revaluation of financial assets held-for-trading	10,366	(10,893)	10,366	(10,893)
Net realised gains arising from dealing in foreign currency	172,088	393,700	173,510	395,876
Net unrealised losses from dealing in foreign currency	(2,499)	(192,280)	(58,323)	(264,733)
Net realised gains arising from dealing in derivatives	147,136	13,326	150,486	13,555
Net unrealised (losses)/gains on revaluation of derivatives	(146,529)	(5,265)	(152,825)	18,073
Losses arising from fair value hedges	(14)	(392)	(14)	(392)
	193,818	221,857	136,469	175,147

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Income from Islamic Banking operations

	Group	
	31 Mar 2017 RM'000	31 Mar 2016 RM'000
Income derived from investment of depositor funds and others	108,117	131,740
Income derived from investment of shareholders funds ^[1]	33,844	43,312
Income attributable to the depositors	<u>(61,800)</u>	<u>(74,088)</u>
	80,161	100,964
^[1] Included in income derived from investment of shareholders funds of the Group at 31 March are net (losses)/gains on financial instruments designated at fair value through profit or loss.	<u>(200)</u>	<u>8,974</u>

28 Other Operating Income

	Group		Bank	
	31 Mar 2017 RM'000	31 Mar 2016 RM'000	31 Mar 2017 RM'000	31 Mar 2016 RM'000
Disposal of financial investments available-for-sale	-	6,561	-	6,561
Rental income	1,699	1,491	1,699	1,491
Net (losses)/gains on disposal of property and equipment	(4)	2	(4)	2
Income recharges from subsidiary	-	-	31,509	35,427
Other operating income	5,652	2,740	5,652	2,740
	<u>7,347</u>	<u>10,794</u>	<u>38,856</u>	<u>46,221</u>

29 Loans/Financing Impairment Charges and other Credit Risk Provisions

	Group		Bank	
	31 Mar 2017 RM'000	31 Mar 2016 RM'000	31 Mar 2017 RM'000	31 Mar 2016 RM'000
Impairment charges on loans and financing:				
(a) Individual allowance for impairment				
Made during the financial period	50,171	36,166	30,824	26,226
Released during the financial period	(30,269)	(39,043)	(20,934)	(30,340)
(b) Collective allowance for impairment				
Made during the financial period	98,987	129,989	55,851	51,124
Released during the financial period	(20,792)	(75,673)	(13,637)	(49,582)
Impaired loans and financing				
Recovered during the financial period	(20,952)	(21,133)	(12,620)	(13,884)
Written off during the financial period	4,125	4,026	2,646	2,900
Impairment charges on other credit related items				
Made during the financial period	-	40	-	40
Released during the financial period	(1)	-	(1)	-
	<u>81,269</u>	<u>34,372</u>	<u>42,129</u>	<u>(13,516)</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Other Operating Expenses

	Group		Bank	
	31 Mar 2017 RM'000	31 Mar 2016 RM'000	31 Mar 2017 RM'000	31 Mar 2016 RM'000
Personnel expenses	181,472	168,915	170,074	160,546
Promotion and marketing related expenses	14,166	16,384	11,619	12,680
Establishment related expenses	33,498	36,541	28,794	31,519
General administrative expenses	132,298	135,419	122,892	125,845
	361,434	357,259	333,379	330,590
Personnel expenses				
Salaries, allowances and bonuses	139,078	130,428	130,734	123,372
Employees Provident Fund contributions	22,438	20,770	20,992	19,518
Others	19,956	17,717	18,348	17,656
	181,472	168,915	170,074	160,546
Promotion and marketing related expenses	14,166	16,384	11,619	12,680
Establishment related expenses				
Depreciation of property and equipment	5,858	7,197	4,734	5,847
Amortisation of intangible assets	5,253	5,397	5,253	5,397
Information technology costs	3,485	4,274	2,745	3,581
Hire of equipment	2,201	3,026	2,201	3,026
Rental of premises	8,523	9,310	6,590	7,250
Property and equipment written off	3	-	3	-
General repairs and maintenance	3,162	2,044	3,162	2,044
Utilities	3,090	3,636	2,747	3,150
Others	1,923	1,657	1,359	1,224
	33,498	36,541	28,794	31,519
General administrative expenses				
Group recharges	89,318	90,447	89,198	90,220
Others	42,980	44,972	33,694	35,625
	132,298	135,419	122,892	125,845

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Capital Adequacy

	<i>Group</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Tier 1 capital		
Paid-up ordinary share capital	1,045,875	114,500
Share premium	-	741,375
Retained profits (including proposed dividend)	6,853,071	6,853,762
Other reserves	909,303	1,078,361
Regulatory adjustments	(790,473)	(804,852)
Total Common Equity Tier 1 (CET 1) and Tier 1 capital	8,017,776	7,983,146
Tier 2 capital		
Subordinated liabilities	500,000	600,000
Subordinated term loan	637,189	646,265
Collective impairment allowance (unimpaired portion) & regulatory reserves	591,710	583,984
Regulatory adjustments	111,809	112,156
Total Tier 2 capital	1,840,708	1,942,405
Capital base	9,858,484	9,925,551
<u>Inclusive of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	13.880%	14.344%
Total Capital ratio	17.067%	17.834%
<u>Net of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	13.534%	13.985%
Total Capital ratio	16.720%	17.475%

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:

	<i>Group</i>			
	31 Mar 2017		31 Dec 2016	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
Total RWA for credit risk	95,976,560 ^[1]	50,247,311 ^[1]	100,868,068 ^[1]	48,857,558 ^[1]
Total RWA for market risk	-	1,734,596	-	1,004,081
Total RWA for operational risk	-	5,783,086	-	5,793,257
	95,976,560	57,764,993	100,868,068	55,654,896

^[1] The principal and risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 15(i) for more details) are as follows:

	<i>Group</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Under SIAF/IAA arrangement	1,680,536	931,474
	1,680,536	931,474

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Capital Adequacy (Cont'd)

	<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Tier 1 capital		
Paid-up ordinary share capital	1,045,875	114,500
Share premium	-	741,375
Retained profits (including proposed dividend)	6,069,776	6,070,467
Other reserves	831,631	1,002,572
Regulatory adjustments	<u>(1,278,010)</u>	<u>(1,153,887)</u>
Total Common Equity Tier 1 (CET1) and Tier 1 capital	<u>6,669,272</u>	<u>6,775,027</u>
Tier 2 capital		
Subordinated liabilities	500,000	600,000
Subordinated term loan	637,189	646,265
Collective impairment allowance (unimpaired portion) & regulatory reserves	446,798	448,723
Regulatory adjustments	<u>(657,384)</u>	<u>(798,117)</u>
Total Tier 2 capital	<u>926,603</u>	<u>896,871</u>
Capital base	<u>7,595,875</u>	<u>7,671,898</u>
<u>Inclusive of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	14.428%	15.083%
Total Capital ratio	16.432%	17.079%
<u>Net of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	13.995%	14.638%
Total Capital ratio	16.000%	16.634%

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:

	<i>Bank</i>			
	31 Mar 2017		31 Dec 2016	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
Total RWA for credit risk	79,570,161 ^[1]	39,277,081 ^[1]	84,583,629 ^[1]	38,698,597 ^[1]
Total RWA for market risk	-	1,727,246	-	992,685
Total RWA for operational risk	-	5,220,602	-	5,227,510
	<u>79,570,161</u>	<u>46,224,929</u>	<u>84,583,629</u>	<u>44,918,792</u>

^[1] The principal and risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 15(i) for more details) are as follows:

	<i>Bank</i>	
	31 Mar 2017 RM'000	31 Dec 2016 RM'000
Under SIAF/IAA arrangement	1,680,536	931,474
	<u>1,680,536</u>	<u>931,474</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 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.

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2017	31 Dec 2016	31 Mar 2017	31 Dec 2016
Principal amount	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	2,660,518	2,540,306	2,088,423	2,004,489
Transaction-related contingent items	8,788,913	9,087,444	7,658,729	7,974,454
Short-term self-liquidating trade-related contingencies	425,217	496,518	365,917	385,490
Irrevocable commitments to extend credit:				
- Maturity not exceeding one year	18,697,039	18,304,774	15,453,186	14,619,766
- Maturity exceeding one year	12,503,503	12,855,434	10,473,158	10,814,187
Unutilised credit card lines	10,314,970	9,788,741	7,859,255	7,536,799
Foreign exchange related contracts:				
- Less than one year	64,219,775	54,971,901	64,580,838	55,011,906
- Over one year to less than five years	10,882,932	11,415,043	10,882,934	11,415,044
- Over five years	1,924,094	1,806,757	1,924,094	1,806,757
Interest/profit rate related contracts:				
- Less than one year	13,514,155	11,487,221	13,544,155	11,577,221
- Over one year to less than five years	35,165,426	34,218,507	36,764,869	35,847,951
- Over five years	2,198,316	3,057,912	2,198,316	3,057,912
Gold and other precious metals contracts:				
- Less than one year	12,704	10,905	12,704	10,905
Equity related contracts:				
- Less than one year	2,011,691	2,339,593	2,647,721	3,104,829
- Over one year to less than five years	729,237	809,953	825,867	919,719
	184,048,490	173,191,009	177,280,166	166,087,429

of which the amount related to SIAF/IAA arrangement (refer Note 15(i) for more detail) are as below:

<i>Irrevocable commitments to extend credit:</i>				
- Maturity not exceeding one year	373,048	496,933	373,048	496,933
- Maturity exceeding one year	33,836	-	33,836	-
	406,884	496,933	406,884	496,933

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 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 At 31 Mar 2017	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
	Up to 1 Year RM'000	> 1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	> 1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	> 1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
Trading derivatives:												
Foreign exchange contracts												
- Forwards	53,093,578	579,393	-	53,672,971	466,219	12,992	-	479,211	320,714	3,725	-	324,439
- Swaps	9,484,538	10,131,886	1,924,094	21,540,518	580,694	681,964	304,250	1,566,908	420,839	1,093,644	40,105	1,554,588
- Options	1,641,659	171,653	-	1,813,312	26,614	1,819	-	28,433	3,431	3,344	-	6,775
Interest/profit rate related contracts												
- Futures	265,380	-	-	265,380	-	-	-	-	72	-	-	72
- Options	300,761	509,399	-	810,160	3,297	3,642	-	6,939	2,725	346	-	3,071
- Swaps	12,388,014	33,403,944	1,778,316	47,570,274	16,921	128,035	14,027	158,983	11,086	126,209	37,011	174,306
Equity related contracts												
- Options	2,011,691	729,237	-	2,740,928	-	-	-	-	278,854	-	-	278,854
Precious metal contracts												
- Options	12,704	-	-	12,704	8	-	-	8	25	-	-	25
Sub- total	79,198,325	45,525,512	3,702,410	128,426,247	1,093,753	828,452	318,277	2,240,482	1,037,746	1,227,268	77,116	2,342,130
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	560,000	1,252,083	420,000	2,232,083	2,316	2,149	-	4,465	617	4,088	2,218	6,923
Sub- total	560,000	1,252,083	420,000	2,232,083	2,316	2,149	-	4,465	617	4,088	2,218	6,923
Total	79,758,325	46,777,595	4,122,410	130,658,330	1,096,069	830,601	318,277	2,244,947	1,038,363	1,231,356	79,334	2,349,053

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 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):

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 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):

Bank	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 Mar 2017	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	53,454,641	579,394	-	54,034,035	465,753	12,992	-	478,745	321,056	3,725	-	324,781
- Swaps	9,484,538	10,131,886	1,924,094	21,540,518	580,694	681,854	304,250	1,566,798	420,839	1,093,644	40,105	1,554,588
- Options	1,641,659	171,654	-	1,813,313	26,614	1,819	-	28,433	3,432	3,344	-	6,776
Interest rate related contracts												
- Futures	265,380	-	-	265,380	-	-	-	-	72	-	-	72
- Options	300,761	698,842	-	999,603	3,297	3,789	-	7,086	2,725	3,538	-	6,263
- Swaps	12,448,014	34,973,944	1,778,316	49,200,274	16,954	128,587	14,027	159,568	11,086	130,005	37,011	178,102
Equity related contracts												
- Options	2,647,721	825,867	-	3,473,588	58,109	-	-	58,109	278,854	-	-	278,854
Precious metal contracts												
- Options	12,704	-	-	12,704	8	-	-	8	25	-	-	25
Sub- total	80,255,418	47,381,587	3,702,410	131,339,415	1,151,429	829,041	318,277	2,298,747	1,038,089	1,234,256	77,116	2,349,461
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	530,000	1,092,083	420,000	2,042,083	2,316	2,149	-	4,465	617	4,088	2,218	6,923
Sub- total	530,000	1,092,083	420,000	2,042,083	2,316	2,149	-	4,465	617	4,088	2,218	6,923
Total	80,785,418	48,473,670	4,122,410	133,381,498	1,153,745	831,190	318,277	2,303,212	1,038,706	1,238,344	79,334	2,356,384

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 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):

Bank	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	45,361,753	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

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

	Group		Bank	
	31 Mar 2017	31 Mar 2016	31 Mar 2017	31 Mar 2016
	RM'000	RM'000	RM'000	RM'000
Gains/(Losses) on hedging instruments	1,023	(21,144)	1,023	(21,144)
(Losses)/Gains on the hedged items attributable to the hedged risk	(1,037)	20,752	(1,037)	20,752
	(14)	(392)	(14)	(392)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Business Prospects

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

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

Domestic demand will continue to be the main driver of growth, supported primarily by private sector spending. Overall, while domestic conditions remain resilient, uncertainties in the external environment may pose downside risks to Malaysia's growth prospects. Although Bank Negara Malaysia (BNM)'s foreign exchange market stabilisation measures had seen improvement in balancing the Ringgit's supply and demand, the Ringgit, which depreciated against most major and regional currencies in 2016, will continue to face hurdles from the US Dollar's strength which is backed by the US Federal Reserve (Fed)'s future rate hikes.

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

As for the banking sector, challenges facing the industry include moderate loans growth, competition for deposits, weak capital market activities, potential rising credit costs, escalation of costs of doing business and compliance costs. Margin compression will continue given heightened competition within the banking industry.

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Performance Review

The Group recorded a profit before tax of RM293.4 million for the financial period ended 31 March 2017, a decrease of RM98.5 million compared to the corresponding period in 2016.

Total balance sheet size at 31 March 2017 stood at RM84.8 billion, RM0.6 billion lower compared against 31 December 2016 (RM85.4 billion). However, the Group has recorded a 4.2% (or RM2 billion) growth in customer advances in Q1 2017. The Group's capital and liquidity ratios continues to remain strong and well above regulatory requirements.

In tandem with the growth in customer advances, net interest income has improved. Operating income was lower by RM47.4 million, mainly due to lower trading income on the back of reduced market volatility.

The net loan/financing impairment charges for the financial period ended 31 March 2017 were RM46.9 million higher than history, mainly due to higher allowance made on net individual impairment on mortgage products and corporates accounts, coupled with higher net collective impairment made on credit cards and restructured loans.

The Group continues to place high importance in managing its operating expenses to ensure that the resources are spent in a sustainable manner. For the quarter ended 31 March 2017, the overall costs base only increased marginally by 1.2% against history. Savings were recorded across promotion and marketing related expenses, establishment related expenses and general administrative expenses. Increase in personnel expenses were in line with Group's commitment to invest in people for both growth and control agenda.