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

FINANCIAL STATEMENTS
31 DECEMBER 2015

Domiciled in Malaysia.
Registered Office :
2, Leboh Ampang,
50100 Kuala Lumpur

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

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BOARD OF DIRECTORS

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Non-Independent Non-Executive Director/Chairman

Mukhtar Malik Hussain
Non-Independent Non-Executive Director

Mohamed Rafe bin Mohamed Haneef *(resigned on 31 December 2015)*
Chief Executive Officer, Non-Independent Executive Director

Mohamed Ross bin Mohd Din
Independent Non-Executive Director

Azlan bin Abdullah
Independent Non-Executive Director

Mohamed Ashraf bin Mohamed Iqbal
Independent Non-Executive Director

Seow Yoo Lin
Independent Non-Executive Director

Adil Ahmad
Independent Non-Executive Director

PROFILE OF DIRECTORS

Louisa Cheang Wai Wan
Non-Independent Non-Executive Director/Chairman

Ms Cheang was appointed on 1 January 2012. She graduated from the University of Hong Kong majoring in Political Science and Management Studies. Ms Cheang is currently the Group General Manager, Group Head of Retail Banking and Wealth Management (RBWM) of HSBC, London. She has been Head of RBWM Asia Pacific of HSBC, Hong Kong since 2011 and Regional Director of Personal Financial Services Asia-Pacific since June 2009 overseeing HSBC's personal financial services business in Hong Kong and 18 other countries and territories in the region. Prior to this, Ms Cheang was Head of Personal Financial Services Hong Kong and Head of Marketing in Asia-Pacific. Before joining HSBC, Ms Cheang was the marketing head at Citibank, Smartone Mobile Communications and American Express.

Ms Cheang's other current roles include International Advisor of Visa International and China Union Pay and Honorary Certified Financial Management Planner of the Hong Kong Institute of Bankers.

Mukhtar Malik Hussain
Non-Independent Non-Executive Director

Mr Mukhtar was appointed on 15 December 2009. He graduated from the University of Wales with a Bachelor of Science in Economics. He first joined HSBC Group in 1982 as a Graduate Trainee in Midland Bank International. After close to 11 years of working in the HSBC Group London offices, Mr Mukhtar left for Dubai. In Dubai, he held numerous senior positions including Chief Executive Officer HSBC Financial Services (Middle East) Limited, and Chief Executive Officer Corporate and Investment Banking where he assumed responsibility for the wholesale banking platform for HSBC Bank Middle East and North Africa. He thereafter returned to London as Co-Head of Global Banking and Global Head of Principal Investments. In 2008, he moved back to Dubai and assumed the positions of Chief Executive Officer Global Banking and Markets, Middle East and North Africa, Deputy Chairman of HSBC Bank Middle East Limited and Global Chief Executive Officer of HSBC Amanah a dual role with global responsibilities for Islamic Finance and HSBC's wholesale banking activities in the Middle East and North Africa before coming to Malaysia in 2009.

Mr Mukhtar is also currently the Chief Executive Officer of HSBC Bank Malaysia Berhad and member of the Executive Committee of HSBC Asia Pacific.

Mohamed Ross bin Mohd Din
Independent Non-Executive Director

En Ross was appointed on 26 February 2008. He is the Chairman of the Risk Committee and a member of the Audit Committee and Nominating Committee of the Bank. En Ross holds a Banking Diploma (Part 1) from Institute of Bankers, United Kingdom. En Ross joined HSBC Bank Malaysia Berhad (HBMY) in early 1972 and served in various capacities in HBMY ranging from Corporate Banking and Retail Banking to Area and Branch Management. He also served as Head of Treasury Malaysia and Head of Group Audit Malaysia between 1987 and 1996. During this period he also worked for a year in Hong Kong, London and New York in the areas of Foreign Exchange and Treasury.

Prior to retiring from HBMY on 31 December 2007, he managed HBMS's onshore business franchise in Malaysia and was responsible for the Islamic retail and corporate business emanating from the branch network. From January 2008 to December 2008, he was the Executive Director and Senior Advisor in HSBC Amanah Takaful Malaysia Sdn Bhd.

En Ross is currently a council member of the Outward Bound Trust of Malaysia and a Director of Kumpulan Perangsang Selangor Berhad (Group). He also sits on an Advisory Board overseeing a Private Equity Fund (Ekuinas OFM Program) as an Independent member and also a member of the Trustees of Lembaga Zakat Selangor.

PROFILE OF DIRECTORS (Cont'd)

Azlan bin Abdullah
Independent Non-Executive Director

En Azlan was appointed on 6 August 2008. He is a member of the Audit Committee and Nominating Committee of the Bank. He graduated from Trinity University, United States of America with a Bachelor of Science in Business Administration and Morehead State University, United States of America with a Masters in Business Administration. En Azlan began his career in Citibank N.A in the World Corporate Group, a division within the Corporate Banking Group in 1983. After 5 years, he then moved on to United Asian Bank which later merged with Bank of Commerce. In 1994, he joined Citibank Berhad as Vice President and Head of the Public Sector, a division in the Corporate Banking Group focusing on lending to government-owned entities.

En Azlan is currently the Executive Director of Melewar Industrial Group Berhad and the Chief Executive Officer of Mycron Steel Berhad and Mycron Steel CRC Sdn Bhd He is also a Director of several other private limited companies. In addition, he is a council member of Malaysian Iron and Steel Industry Federation and an alumni member of International Association of Traffic and Safety Sciences based in Japan.

Mohamed Ashraf bin Mohamed Iqbal
Independent Non-Executive Director

En Ashraf was appointed on 6 August 2008. He is the Chairman of Nominating Committee and a member of the Risk Committee of the Bank. En Ashraf graduated from California State University, United States of America with a Bachelor of Science in Mechanical Engineering and thereafter obtained a Masters in Business Administration from the same institution. His earlier career included a period of over 5 years with Shell Malaysia involved in a variety of human resource and business re-engineering projects. He then moved on to Proton Berhad where he assumed the positions of Managing Director of Proton Cars (UK) Ltd, Executive Director of Proton Cars (Europe) Ltd and Director of Proton Cars (Australia) Ltd. He then assumed the position of Director of Hay Group, Asia from 1999 to 2002 and Managing Director of Federal Auto Holdings Berhad from 2002 to 2005. He was formerly a Partner of CEO Solutions Sdn Bhd and an Advisor to Maestro Planning Solutions Sdn Bhd.

En Ashraf is currently a Director of MindSpring Sdn Bhd, a one person consulting firm that he started after 17 years of working in various industries.

Seow Yoo Lin
Independent Non-Executive Director

Mr Seow was appointed on 12 February 2014. He is the Chairman of the Audit Committee, a member of Risk Committee and a member of Nominating Committee of the Bank.

Mr Seow holds a Masters in Business Administration from the International Management Centre, Buckingham, U.K. He is a member of the Malaysian Institute of Certified Public Accountants and Malaysian Institute of Accountants. He began his career with KPMG Malaysia, a professional accounting and audit firm in 1977. He has been the audit partner on a wide range of companies including public listed companies and multinationals in banking and finance, manufacturing, trading and services. He was the Managing Partner of KPMG Malaysia from 2007 to 2010 and retired from the firm in 2011.

In addition to his current role, Mr Seow also sits on the Boards of Southern Steel Berhad, Hume Industries Berhad and Dolomite Corporation Berhad.

PROFILE OF DIRECTORS (Cont'd)

Adil Ahmad
Independent Non-Executive Director

En Adil was appointed on 5 May 2014. He is the member of the Nominating Committee of the Bank since 12 January 2015. He holds a Masters in Business Administration (Finance & Accounting) and BA in Economics from Cornell University, Ithaca, New York. He has 25 years of international banking experience and began his career in the 1980s at ANZ Grindlays Bank Pakistan. He was the Director and Head of Global Islamic Finance of ANZ Investment Bank in London from 1993 to 1997 and thereafter Executive, Group Strategy of ANZ Banking Group Ltd in Melbourne from 1997 to 2000. He assumed the position as the Chief Executive Officer of ANZ Banking Group Ltd Vietnam from 2000 to 2005. In 2006 he left the ANZ Banking Group to become CEO of Kuwait International Bank, from where he retired in 2009.

Since retiring to Malaysia, En Adil has advised international clients on strategic and financial matters for projects in Vietnam, Malaysia and Pakistan, and has provided Islamic and conventional banking training programs for banks and other financial institutions.

BOARD RESPONSIBILITY AND OVERSIGHT

BOARD OF DIRECTORS

Composition of the Board

At the date of this report, the Board consists of seven (7) members; comprising two (2) non-independent non-executive Directors and five (5) independent non-executive Directors.

The concept of independence adopted by the Board is as defined in paragraph 2.27 of Bank Negara Malaysia (BNM)'s Guidelines on Corporate Governance for Licensed Islamic Banks (BNM/GP1-i).

There is a clear separation between the roles of Chairman and Chief Executive Officer of HSBC Amanah Malaysia Berhad (the Bank) to ensure an appropriate balance of role, responsibility, authority and accountability. The Board of Directors is led by Ms Louisa Cheang Wai Wan as the Chairman, Non-Independent Non-Executive Director and the management of the Bank was led by En Mohamed Rafe bin Mohamed Haneef, the Chief Executive Officer, Non-Independent Executive Director who has resigned on 31 December 2015. Currently, the position is temporarily held by the Acting Chief Executive Officer, En Amin Siru bin Abdul Rahman, effective 1 January 2016.

Roles and Responsibilities of the Board

The primary responsibility of the Board of Directors is to adopt an effective and high standard of corporate governance practices by the Bank which include reviewing and approving the Bank's strategies; the annual business plans and performance targets; the significant policies and procedures for monitoring and control of operations; appointments of key senior officers; acquisitions and disposals above pre-determined thresholds; and monitor the management's performance in implementing them.

The Board of Directors also carries out other various functions and responsibilities as laid down by the guidelines and directives issued by Bank Negara Malaysia from time to time.

Frequency and Conduct of Board Meetings

To discharge its duties effectively, the Board has met seven (7) times during the financial year.

The Board receives reports on the progress of the Bank's business operations and minutes of meetings of Board and Management Committees for review at each of its meetings. At these meetings, the members also consider a variety of matters including the Bank's financial results, strategic decisions and corporate governance matters. The Board also receives presentations from each key business area, and on any other topic as they request.

The agenda for every Board meeting together with comprehensive management reports, proposal papers and supporting documents are distributed to the Directors in advance of all the Board meetings, to allow time for appropriate review and to enable full discussion at the Board meetings. All proceedings from the Board meetings are minuted. Minutes of every Board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at the following Board meeting.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

BOARD OF DIRECTORS (Cont'd)

Frequency and Conduct of Board Meetings (Cont'd)

The attendance of Directors at the Board meetings held in the financial year ended 31 December 2015 was as follows:

Name of member	Designation	Attendance/No. of meetings held
Louisa Cheang Wai Wan	Chairman, Non-Independent Non-Executive Director	6/7
Mukhtar Malik Hussain	Non-Independent Non-Executive Director	6/7
Mohamed Rafe bin Mohamed Haneef *(resigned on 31 December 2015)*	Chief Executive Officer, Non-Independent Executive Director	7/7
Mohamed Ross bin Mohd Din	Independent Non-Executive Director	7/7
Azlan bin Abdullah	Independent Non-Executive Director	6/7
Mohamed Ashraf bin Mohamed Iqbal	Independent Non-Executive Director	6/7
Seow Yoo Lin	Independent Non-Executive Director	7/7
Adil Ahmad	Independent Non-Executive Director	6/7

BOARD COMMITTEES

The Board of Directors has established Board Committees to assist them in the overall management and the running of the Bank’s business operations. The appointments of the members to these committees were approved by the Board of Directors upon recommendation by the Nominating Committee. The functions and the terms of reference of each committee, as well as the authority delegated by the Board of Directors to these committees, have been clearly defined by the Board of Directors.

The Board Committees in the Bank are as follows:

- Audit Committee
- Risk Committee
- Nominating Committee
- Connected Party Transactions Committee
- Shariah Committee
- Executive Committee

Pursuant to the BNM guidelines on Corporate Governance for Licensed Institutions, the Audit Committee, Risk Committee, Shariah Committee and Nominating Committee were established in September 2008. The guideline also requires the Board to establish a Remuneration Committee. The Bank, however, has obtained an exemption from Bank Negara Malaysia on 8 July 2008 from this requirement.

The Connected Party Transactions Committee was established in June 2009 pursuant to the requirements under the Bank Negara Malaysia Guidelines on Credit Transactions and Exposures with Connected Parties.

In addition to the above Board Committees, the Bank has established various sub-committees to assist the Executive Committee in performing their roles and responsibilities and to assist the Chief Executive Officer in the day to day running of the Bank.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE

Composition

The present members of the Audit Committee comprise:

- Seow Yoo Lin (Chairman)
- Azlan bin Abdullah
- Mohamed Ross bin Mohd Din

Frequency of Meetings

A total of four (4) Audit Committee meetings were held during the financial year 2015 and all members attended every meeting held except for Azlan bin Abdullah who attended 3 out of the 4 meetings during the financial year.

Terms of Reference

The Terms of Reference as set out below were tabled at the Audit Committee for review and approved at the Board of Directors' meetings held on 26 October 2015 with no major amendments.

Membership

1. The Committee shall comprise not less than three (3) members. All members shall be independent Non-Executive Directors.

2. The Chairman of the Committee shall be appointed by the Board. Members of the Committee and the Chairman shall be appointed subject to endorsement by The Hongkong and Shanghai Banking Corporation Limited (HBAP) Audit Committee.

3. The Board may from time to time appoint to the Committee additional members it has determined to be independent. In the absence of sufficient independent Non-Executive Directors, the Board may appoint individuals from elsewhere in the HSBC Group with no line or functional responsibility for the activities of the Bank.

4. The Chairman of the Committee shall be an independent director.

5. The Committee may invite any director, executive, external auditor or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.

Meetings and Quorum

6. The Committee shall meet with such frequency and at such times as it may determine. It is expected that the Committee shall meet at least four times each financial year.

7. The quorum for meetings shall be two (2) Non-Executive Directors.

8. At all meetings of the Committee, the Chairman of the Committee, if present, shall preside. If the Chairman is absent, the members present at the meeting shall elect a chairman of the meeting, who shall be an independent Non-Executive Director.

Objective

9. The Committee shall be accountable to the Board and shall have non-executive responsibility for oversight of and advice to the Board on matters relating to financial reporting.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee

10. Without limiting the generality of the Committee's objective, the Committee shall have the following non-executive responsibilities, powers, authorities and discretion.

10.1 To monitor the integrity of the financial statements of the Bank, and any formal announcements relating to the Bank's financial performance or supplementary regulatory information, reviewing significant financial reporting judgments contained in them. In reviewing the Bank's financial statements before submission to the Board, the Committee shall focus particularly on:

(i) any changes in accounting policies and practices;
(ii) major judgmental areas;
(iii) significant adjustments resulting from audit;
(iv) the going concern assumptions and any qualifications;
(v) compliance with accounting standards;
(vi) compliance with legal requirements in relation to financial reporting;
(vii) regulatory guidance on disclosure of areas of special interest;
(viii) comment letters from appropriate regulatory authorities; and
(ix) matters drawn to the attention of the Committee by the Bank's external auditor. In regard to the above:

(a) members of the Committee shall liaise with the Board, members of Senior Management, the external auditor and head of internal audit;
(b) the Committee shall consider any significant or unusual items that are, or may need to be, highlighted in the annual report and accounts and shall give due consideration to any matters raised by the chief financial officer, chief risk officer, head of internal audit, Head of Regulatory Compliance or external auditor; and
(c) the Committee shall ensure that the accounts are prepared and published in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies and bad and doubtful debts.

10.2 To review the Bank's financial and accounting policies and practices.

10.3 To review and discuss with management the effectiveness of the Bank's internal control systems relating to financial reporting and, where appropriate, to endorse the content of the statement relating to internal controls over financial reporting in the annual report for submission to the Board including Shariah compliance.

10.4 To monitor and review the effectiveness of the internal audit function, consider the major findings of internal investigation and management's response, and ensure that the internal audit function is adequately resourced, has appropriate standing within the Bank and is free from constraint by management or other restrictions. Where applicable, the Committee shall recommend to the Board the appointment and removal of the Head of Internal Audit.

10.5 To satisfy itself that there is appropriate co-ordination between the internal and external auditors.

10.6 To make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and shall be directly responsible for the approval of the remuneration and terms of engagement of the external auditor.

10.7 To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements and reports from the external auditors on their own policies and procedures regarding independence and quality control and to oversee the appropriate rotation of audit partners with the external auditor.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

10.8 To implement the HSBC Group policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; where required under that policy to approve in advance any non-audit services provided by the external auditor that are not prohibited by the Sarbanes-Oxley Act of 2002 (in amounts to be pre-determined by the HSBC Group Audit Committee) and the fees for any such services; to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken.

For this purpose "external auditor" shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally.

10.9 To review the external auditor's annual report on the progress of the audit, its management letter, any material queries raised by the external auditor to the management in respect of the accounting records, financial accounts or systems of control and in each case, responses from management. Any material issues arising which relate to the management of risk or internal controls (other than internal financial controls) shall be referred to the Risk Committee as appropriate.

10.10 To require a timely response to be provided to the financial reporting and related control issues raised in the external auditor's management letter.

10.11 To discuss with the external auditor their general approach, nature and scope of their audit and reporting obligations before the audit commences including, in particular, the nature of any significant unresolved accounting and auditing problems and reservations arising from their interim reviews and final audits, major judgmental areas (including all critical accounting policies and practices used by the Bank and changes thereto), all alternative accounting treatments that have been discussed with management together with the potential ramifications of using those alternatives, the nature of any significant adjustments, the going concern assumption, compliance with accounting standards and legal requirements, reclassifications or additional disclosures proposed by the external auditor which are significant or which may in the future become material, the nature and impact of any material changes in accounting policies and practices, any written communications provided by the external auditor to management and any other matters the external auditor may wish to discuss (in the absence of management where necessary).

10.12 To review and discuss the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programmes and budget and succession planning for key roles throughout the function.

10.13 To consider any findings of major investigations of internal control over financial reporting matters as delegated by the Board or on the Committee's initiative and assess management's response.

10.14 To receive an annual report, and other reports from time to time as may be required by applicable laws and regulations, from the chief executive officer and chief financial officer to the effect that such persons have disclosed to the Committee and to the external auditor all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which could adversely affect the Bank's ability to record and report financial data and any fraud, whether material or not, that involves management or other employees who have a significant role in the Bank's internal controls over financial reporting.

10.15 To provide to the Board such assurances as it may reasonably require regarding compliance by the Bank, its subsidiaries (if any) and those of its associates for which it provides management services with all supervisory and other regulations to which they are subject.

10.16 To provide to the Board such additional assurance as it may reasonably require regarding the reliability of financial information submitted to it.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

10.17 To receive from the Regulatory Compliance function reports on the treatment of substantiated complaints regarding accounting, internal accounting controls or auditing matters received through the HSBC Confidential (or such other system as the HSBC Group Audit Committee may approve) for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

10.18 To report any significant actual, suspected or alleged fraud (involving misconduct or unethical behaviour related to financial reporting) or misrepresentation of assets, which has not been included in a report submitted by management to the Committee, to the non-executive committee responsible for oversight of risk established within the Bank's Holding Company within the HSBC Group.

10.19 To agree the Bank's policy for the employment of former employees of the external auditor, within the terms of the HSBC Group's policy.

10.20 The Committee shall meet alone with the external auditor and with the Head of Internal Audit at least once each financial year to ensure that there are no unresolved issues or concerns.

10.21 Where applicable to review the composition, powers, duties and responsibilities of subsidiaries' non-executive audit committee. The HSBC Group Audit Committee will review the core terms of reference for adoption by such committees and approve material deviations from such core terms.

10.22 To undertake or consider on behalf of the Chairman or the Board such other related tasks or topics as the Chairman or the Board may from to time entrust to it.

10.23 The Committee may appoint, employ or retain such professional advisors as the Committee may consider appropriate. Any such appointment shall be made through the Secretary to the Committee, who shall be responsible for the contractual arrangements and payment of fees by the Bank on behalf of the Committee.

10.24 The Committee shall review annually the Committee's terms of reference and its own effectiveness and recommend to the Board any necessary changes.

10.25 To report to the Board on the matters set out in these terms of reference.

10.26 To provide half-yearly certificates to the HSBC Group Audit Committee, or to any audit committee of an immediate holding company in the form required by the HSBC Group Audit Committee. Such certificates are to include a statement that the members of the Committee are independent.

10.27 To review any related party transactions that may arise within the Bank and pursuant to the applicable laws and regulations.

10.28 To investigate any matter within these terms of reference, to have full access to and co-operation by management and to have full and unrestricted access to information.

11. The Committee may consider any matter relating to, and may request any information as it considers appropriate, from risk committee or any other committee which has responsibility for the oversight of risk within the Bank.

Where there is a perceived overlap of responsibilities between this Committee and the Risk Committee, the respective Committee Chairmen shall have the discretion to agree the most appropriate Committee to fulfill any obligation. An obligation under the terms of reference of this Committee or the Risk Committee will be deemed by the Board to have been fulfilled providing it is dealt with by either the Committee.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

AUDIT COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

12. Where the Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board on action needed to address the issue or to make improvements and, shall report any such concerns to the HSBC Group Audit Committee and/or HSBC Group Risk Committee as appropriate; or to any audit and/or risk committee of an immediate holding company as appropriate.

Written or Circulating Resolution

13. Any resolution in writing, signed or assented to by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly called and constituted and may consist of several documents in the like form each signed by one or more of the members of the Committee.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK COMMITTEE

Composition

The present members of the Risk Committee comprise:

- Mohamed Ross bin Mohd Din (Chairman)
- Seow Yoo Lin
- Mohamed Ashraf bin Mohamed Iqbal

Frequency of Meetings

A total of four (4) Risk Committee meetings were held during the financial year 2015 and all members attended every meeting held except for Mohamed Ashraf bin Mohamed Iqbal who attended 3 out of the 4 meetings during the financial year.

Terms of Reference

The Terms of Reference as set out below were tabled at the Risk Committee and Board of Directors' meetings held on 26 October 2015 with no major amendments.

Membership

1. The Committee shall comprise not less than three (3) members. All members shall be independent Non-Executive Directors.

2. The Chairman of the Committee shall be appointed by the Board. Members of the Committee and the Chairman shall be subject to endorsement by The Hongkong and Shanghai Banking Corporation Limited (HBAP) Risk Committee.

3. The Chairman of the Committee shall be an independent non-executive director. The Board may from time to time appoint to the Committee additional members it has determined to be independent. In the absence of sufficient independent Non-Executive Directors, the Board may appoint individuals from elsewhere in the HSBC Group with no line or functional responsibility for the activities of the Bank.

4. The Committee may invite any director, executive or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective.

Meetings and Quorum

5. The Committee shall meet with such frequency and at such times as it may determine but in any event, not less than once every quarter.

6. The quorum for meetings shall be two (2) Non-Executive Directors.

7. At all meetings of the Committee, the Chairman of the Committee, if present, shall preside. If the Chairman is absent, the members present at the meeting shall elect a chairman of the meeting, who shall be an independent Non-Executive Director.

Objective

8. The Committee shall be accountable to the Board and shall have non-executive responsibility for oversight of and advice to the Board on matters relating to high level risk related matters and risk governance.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee

9. Without limiting the generality of the Committee's objective, the Committee shall have the following non-executive responsibilities, powers, authorities and discretion:

9.1 To oversee and advise the Board on all high level risk related matters. In providing such oversight and preparing advice to the Board, the Committee shall oversee (i) current and forward-looking risk exposures; (ii) the Bank's risk appetite and future risk strategy, including capital and liquidity management strategy; and (iii) management of risk within the Bank.

9.2 To advise the Board on risk appetite and tolerance in determining strategy. In preparing advice to the Board on risk appetite and tolerance, the Committee shall (i) satisfy itself that risk appetite conforms to the Bank's strategy; (ii) seek such assurance as it may deem appropriate and take into account the current and prospective macroeconomic and financial environment, drawing on financial stability assessments published by authoritative sources that may be relevant; (iii) review and approve the methodology used in establishing the Bank's risk appetite including risk asset ratios, limits on exposures and concentrations, leverage ratios, economic capital ratios and stress and scenario testing; and (iv) review the results of appropriate stress and scenario testing.

9.3 To advise the Board on alignment of remuneration with risk appetite.

9.4 To consider and advise the Board on the risks associated with proposed strategic acquisitions or disposals as requested from time to time by any Director in consultation with the Chairman of the Committee. In preparing such advice, the Committee shall satisfy itself that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the HSBC Group, drawing on independent external advice where appropriate and available, before the Board takes a decision whether to proceed.

9.5 To require regular risk management reports from management which:
- (i) enable the Committee to assess the risks involved in the Bank's business and how they are controlled and monitored by management; and
- (ii) give clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure which may require a complex assessment of the Bank's vulnerability to hitherto unknown or unidentified risks.

9.6 To review the effectiveness of the Bank's risk management framework and internal control systems (other than internal financial control systems).

In undertaking this responsibility, the Committee shall:

- (i) satisfy itself that there are adequate procedures for monitoring in a sufficiently timely and accurate manner, large exposures or risk types whose relevance may become of critical importance;
- (ii) satisfy itself that there are adequate procedures in place for requiring compliance with HSBC Group policies;
- (iii) consider any material findings from regulatory reviews and interactions with regulators in relation to risk governance or risk assessment or management process;
- (iv) discuss the internal control systems with management and satisfy itself that management has discharged its duty to have an effective internal control system. The Audit Committee of HSBC Bank Malaysia Berhad shall have primary responsibility in this regard in relation to internal financial controls;
- (v) satisfy itself that the risk management function is adequately resourced (including taking into account qualifications and experience of staff and training programmes and budget), has appropriate standing within the Bank and is free from constraint by management or other restrictions; and
- (vi) seek assurance from internal audit that internal control processes for risk management are adequate for the strategy determined by the Board.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

9.7 Where applicable, the Committee shall approve the appointment and removal of the Chief Risk Officer. The Committee shall seek such assurance as it may deem appropriate that the Chief Risk Officer:

(i) participates in the risk management and oversight process at the highest level on an enterprise-wide basis;
(ii) has satisfied himself or herself that risk originators in the business units are aware of and aligned with the Bank's risk appetite;
(iii) has a status of total independence from individual business units;
(iv) reports to the Committee alongside an internal functional reporting line to the Asia Pacific Chief Risk Officer;
(v) cannot be removed from office without the prior agreement of the Board; and
(vi) has direct access to the chairman of the Committee in the event of need.

9.8 To seek to embed and maintain throughout the Bank a supportive culture in relation to the management of risk and maintenance of internal controls alongside prescribed rules and procedures.

9.9 To review any issue which arises from any report from internal audit, the external auditor's annual report on the progress of the external audit, the management letter from the external auditor, any queries raised by the external auditor to management or, in each case, responses from management, which relates to the management of risk or internal control and has been referred to the Committee by the Audit Committee or the Committee to consider.

9.10 To require a timely response to be provided by management on material issues relating to the management of risk or internal control (other than internal financial control) raised in the external auditor's management letter which are considered by the Committee.

9.11 To review and endorse the content of the statements made in relation to internal controls (other than internal financial controls) in the annual report and accounts for submission to the Board.

9.12 Where applicable, to (i) review at least annually the terms of reference for the executive risk management meetings; and (ii) to review the minutes of such meetings and such further information as the executive risk management meeting may request from time to time.

9.13 To provide to the Board such additional assurance as it may reasonable require regarding the reliability of risk information submitted to it.

9.14 The Committee shall meet alone with Head of Internal Audit at least once a year to ensure that there are no issues or concerns.

9.15 Where applicable, to review the composition, powers, duties and responsibilities of subsidiaries' risk management committees. The HSBC Group Risk Committee will review the core terms of reference for adoption by such committees and approve material deviations from such core terms.

9.16 To undertake or consider on behalf of the Chairman or the Board such other related tasks or topics as the Chairman or the Board may from to time entrust to it.

9.17 The Committee may appoint, employ or retain such professional advisors as the Committee may consider appropriate. In particular, the Committee shall consider whether external advice on risk matters should be taken to challenge analysis undertaken and assessments made by the Committee and the risk management function, for example an external advisor might be asked for input on the stress and scenario testing of a business strategy. Any such appointment shall be made through the Secretary to the Committee, who shall be responsible for the contractual arrangements and payment of fees by the Bank on behalf of the Committee.

9.18 The Committee shall review annually the Committee's terms of reference and its own effectiveness and recommend to the Board, any necessary changes.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

RISK COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

9.19 To report to the Board on the matters set out in these terms of reference.

9.20 To ensure a Shariah Risk management control function, with necessary infrastructure, has been established to identify, measure, monitor, report and control Shariah non-compliance risks. The Shariah risk management control function form part of the Bank's integrated risk management framework. The systematic approach of managing Shariah non-compliance risks should include but is not limited to the following:

(i) ensures executions of business and operations that are in accordance with Shariah principles;
(ii) reviews business operations on regular basis to ensure Shariah compliance;
(iii) identify the inherent Shariah non-compliance risks, taking into account existing controls that have been put in place and their effectiveness in mitigating such risks;
(iv) measures the potential impact of such Shariah non-compliance risks to the Bank based on historical and actual de-recognition of income derived from Shariah non-compliant incidents;
(v) monitors Shariah non-compliance risks to facilitate efficient and effective management of such risks; a report on Shariah non-compliance risk indicators shall be escalated to the Board periodically;
(vi) provides recommendations on rectification/remediation measures taken as well as follow-up on implementation and controls to avoid recurrences;
(vii) formulating appropriate Shariah risk management policies and guidelines; and
(viii) developing and implementing processes for Shariah non-compliance risk awareness and training.

10. The Committee may consider any matter relating to, and may request any information as it considers appropriate, from audit committee, risk committee or any other committee which has responsibility for the oversight of risk within the Bank.

Where there is a perceived overlap of responsibilities between the Bank’s Audit Committee and Risk Committee, the respective Committee Chairman shall have the discretion to agree the most appropriate Committee to fulfill any obligation. An obligation under the terms of reference of the Bank’s Audit Committee or the Risk Committee will be deemed by the Board to have been fulfilled providing it is dealt with by either of the Committees.

11. Where the Committee’s monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the Board on action needed to address the issue or to make improvements and shall report any such concerns to the HSBC Group Audit Committee and/or HSBC Group Risk Committee as appropriate; or to any audit and/or risk committee of an intermediate holding company as appropriate.

Written or Circulating Resolution

12. Any resolution in writing, signed or assented to by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly called and constituted and may consist of several documents in the like form each signed by one or more of the members of the Committee.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE

Composition

The present members of the Nominating Committee comprise:

- Mohamed Ashraf bin Mohamed Iqbal (Chairman)
- Mohamed Ross bin Mohd Din
- Azlan bin Abdullah
- Seow Yoo Lin
- Adil Ahmad
- Mohamed Rafe bin Mohamed Haneef *(resigned on 31 December 2015)*

Frequency of Meetings

A total of five (5) Nominating Committee meetings were held during the financial year 2014 and all members attended every meeting held except for Azlan bin Abdullah and Mohamed Ashraf bin Mohamed Iqbal who attended four (4) out of the five (5) meetings during the year.

Terms of Reference

The Terms of Reference as set out below were tabled at the Nominating Committee meeting for review and approved at the Board of Directors meeting held on 26 October 2015 with no major amendments.

Membership

1 The Committee shall consist of a minimum of five (5) members, of which at least four (4) must be Non-Executive Directors. The fifth person shall be an executive, who shall be the Chief Executive Officer (CEO) of the Bank.

2 The Chairman of the Committee shall be an independent Non-Executive Director appointed by the Board. In order to avoid conflict of interest, a member of the Committee shall abstain from participating in discussions and decisions on matters involving him/her.

3 The Committee may invite any director, executive or other person to attend any meeting(s) of the Committee as it may from time to time consider appropriate to assist the Committee in the attainment of its objective.

Meetings and Quorum

4 The Committee shall meet with such frequency and at such times as it may determine but in any event, not less than twice a year.

5 The quorum for meetings shall be three (3) directors.

6 At all meetings of the Committee, the Chairman of the Committee, if present, shall preside. If the Chairman is absent, the members present at the meeting shall elect a Chairman, who shall be an independent Non-Executive Director.

Objectives

7 The Committee shall be responsible for ensuring that there are formal and transparent procedures for the appointment and/or reappointment of Directors, Shariah Committee members, CEO, Company Secretary and key Senior Management. In addition, the Committee shall be responsible for the assessment of the effectiveness of individual directors, board as a whole, Shariah Committee members, Company Secretary and the performance of CEO and the key Senior Management of the Bank.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Responsibilities of the Committee

8. Without limiting the generality of the Committee's objective, the Committee shall have the following responsibilities:

8.1 To establish the minimum requirements for the Board which requires mixed skills, experience, qualification and other core competencies required of a Director. The Committee is also responsible for establishing minimum requirements for the CEO. The requirements and criteria should be approved by the full Board.

8.2 To assess and recommend the nominees for Directorship, Board Committees, Shariah Committee as well as nominees for the CEO before an application is submitted to Bank Negara Malaysia for approval.

8.3 Before recommending a nominee for Directorship, the Committee shall evaluate the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee shall:

(i) use such method or methods to facilitate the search as it may deem appropriate;
(ii) consider candidates from a wide range of backgrounds;
(iii) consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position; and
(iv) have due regard for the benefits of diversity on the board, including gender.

8.4 To oversee the overall composition of the Board, in terms of appropriate size and skills, and the balance between Executive Directors, Non-Executive Directors and Independent Directors through annual review. This includes giving full consideration to succession planning for Directors in the course of its work, taking into account the challenges and opportunities facing the Bank and what skills and expertise are therefore needed on the Board in the future.

8.5 To review annually the time required from Non-Executive Directors. Performance evaluation should be used to assess whether he/she are spending enough time to fulfil their duties.

8.6 To ensure that on appointment to the Board, the Non- Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings.

8.7 To recommend to the Board the re-election by shareholders of Directors retiring by rotation and the renewal of the terms of office of Directors.

8.8 To establish a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board, the contribution of the Board's various committee, the performance of the CEO, Company Secretary and key Senior Management of the Bank. Annual assessment should be conducted based on objective performance criteria and such performance criteria should be approved by the full Board.

8.9 To oversee the appointment, management succession planning and performance evaluation of key Senior Management. The Committee shall keep under review the leadership needs of the Bank, both executive and non-executive, with a view to ensuring the continued ability of the Bank to compete effectively in the marketplace.

8.10 To review the list of key Senior Management and be satisfied that the list is comprehensive and has taken into account all key positions within the Bank.

8.11 To be responsible for conducting assessments of the fitness and propriety of Directors, Shariah Committee members and CEO. For key Senior Management, this function may be performed by the CEO or a designated committee under the delegated authority of the Board and the Committee.

8.12 To recommend to the Board the removal of any director, CEO or Shariah Committee members, or key Senior Management if he/she is ineffective, errant and negligent in discharging his/her responsibilities.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

NOMINATING COMMITTEE (Cont'd)

Responsibilities of the Committee (Cont'd)

8.13 To assess on an annual basis, to ensure that the Directors and key Senior Management are not disqualified under section 68, 70 and 71 of the Islamic Financial Institution Act 2013; Company Secretary is not disqualified under Section 139C of the Companies Act 1965 and the Shariah Committee members are not disqualified under the Bank Negara Malaysia Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions.

8.14 To ensure that all Directors and Shariah Committee members receive an appropriate continuous training program in order to keep abreast with the latest developments in the industry.

9. In order to be consistent with HSBC Group's global strategies, where strategies and policies related to the objective of this Committee are driven by the parent company, the Committee shall:

9.1 Discuss, evaluate and provide input on strategies and policies to suit the local environment; and

9.2 Deliberate and make the necessary recommendations on such strategies and policies to assist the Board when approving major issues and strategies.

10. Where major decisions related to the objective of this Committee are made by the parent company, the Committee shall evaluate the issues before making recommendations to the Board for adoption.

11. The Committee will not be delegated with decision making powers but shall report its recommendation to the Board for decision.

12. The Committee may appoint, employ or retain such professional advisers as the Committee may consider appropriate. Any such appointment shall be made through the Secretary to the Committee, who shall be responsible for the contractual arrangements and payment of fees by the Bank on behalf of the Committee.

Written or Circulating Resolution

13. Any resolution in writing, signed or assented to by all the members of the Committee shall be as valid and effectual as if it had been passed at a meeting of the Committee duly called and constituted. Any such resolution may consist of several documents in the like form each signed by one or more members of the Committee.

Amendment

14. The Committee shall review annually the Committees' terms of reference and its own effectiveness and recommend to the Board any necessary changes.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

CONNECTED PARTY TRANSACTIONS COMMITTEE (CPTC)

Composition

The Committee shall consist of the following five (5) members:

- Azlan bin Abdullah (Non-Executive Director)
- Mohamed Ashraf bin Mohamed Iqbal (Non-Executive Director)
- Adil Ahmad (Non-Executive Director) (appointed on 6 January 2015)
- John Lim Cheng Siew, Acting Chief Risk Officer (CRO)
- Alvin Choo, Head of Wholesale Credit and Market Risk (WCR)

Terms of Reference

The Terms of Reference was revised and approved via a Circular Resolution on 6 January 2015.

Quorum

A minimum of three (3) members' authorisation shall constitute a quorum. The three (3) members shall comprise of two (2) Non-Executive Directors and either the CRO or Head of WCR.

The Chairman of the meeting shall be elected by the Committee who have formed the quorum.

Written Resolution

Any resolution in writing, signed or assented to by a minimum of three (3) members of the Committee comprising of two (2) Non-Executive Directors and either the CRO or the Head of WCR shall be as valid and effectual as if it had been passed at a meeting of the Committee duly called and constituted and may consist of several documents in the like form each signed by one or more of the members of the Committee.

Powers delegated by the Board

The Committee is delegated with the authority of the Board to approve transactions with a connected party of the Bank as

a) For any financing transactions to Connected Party (CP) of up to RM100 million (increased from RM50 million), inclusive of existing financing facilities, shall be approved by the Connected Party Transactions Committee (CPTC) and subsequently to be presented to the Board on quarterly basis for notation. However, if the members of the CPTC are of the view that the transaction is of a material nature, the CPTC shall then recommend the transaction to the Board for approval, notwithstanding that the amount is below the RM100 million threshold; or

b) Transactional limit of RM16 million (c.USD5 million) for the approval of intra-group limits (for guarantee limits) and subsequently to be presented quarterly to the Board for notation. These are the most frequently requested limits for the purpose of issuance of guarantee against counter-guarantee from other HSBC offices. For clarity, the CPTC can approve transactions of up to RM16 million (c.USD5 million) notwithstanding that the cumulative exposures are above RM100 million; or

c) Revision on the tenor of the transaction up to 1 year with no change in exposure; or

d) Where there are no change in exposures, transactions of up to RM100 million where the limits are reallocated from (i) a funded facility (including guarantee) (Category A) to another Category A facility or (ii) Category A facility to a non-funded facility (excluding guarantee) (Category B); or

e) Transactions which are fully secured by cash or bank deposits.

f) This authority limit may be reviewed or changed from time to time as delegated by the Board.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

CONNECTED PARTY TRANSACTIONS COMMITTEE (CPTC) (Cont'd)

Terms of Reference (Cont'd)

Powers delegated by the Board (Cont'd)

The exercise of the above authority by the Committee shall be subject to the Bank's normal credit evaluation process as well as the existing credit policies and financing guidelines, which include the following:

- HBMS Guidelines on Credit Transactions and Exposures with Connected Parties
- Business Instruction Manual – Volume 3 Credit
- Country Risk Plan
- Large Credit Exposure Policy
- Bank Negara Malaysia Policy on Single Counterparty Exposure Limit for Islamic Banking Institutions
- Bank Negara Guidelines on Credit Transactions and Exposure with Connected Parties for Islamic Banks
- Companies Act 1965
- Hong Kong Banking Ordinance
- Applicable laws and regulations

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

SHARIAH COMMITTEE

Composition

The present members of the Shariah Committee comprise:

- Assoc. Prof. Dr. Younes Soualhi (Chairman)
- Khairul Anuar Ahmad
- Assoc. Prof. Dr. Muhammad Yusuf Saleem Ghulam Nabi
- Prof. Dr. Obiyathulla Ismath Bacha
- Prof. Dr. Abdul Rahim Abdul Rahman

Terms of Reference

Membership

1.1 The Shariah Committee shall consist of at least five (5) members who must be individuals appointed upon recommendation of the Bank's Nominating Committee and approval of the Board of Directors and only after obtaining prior written approval of Bank Negara Malaysia. Such appointment shall be valid for a renewable term of two (2) years.

Meetings, Quorum, Frequency and Decision Making

2.1 The Shariah Committee should hold meetings at least once in every two (2) months and whenever required, and should report regularly to the Board.

2.2 The minimum quorum of a Shariah Committee meeting is two-third with the majority of attending members must be with Shariah background.

2.3 At all meetings of the Shariah Committee, the Chairman of the Committee with qualified Shariah background, if present shall preside.

2.4 If the Chairman of the Shariah Committee is unable to attend the meeting, the members shall elect one (1) member among themselves to become the alternate Chairman to preside over the meeting. The alternate Chairman shall be a member with qualified Shariah background.

2.5 Notwithstanding the clauses 2.3 and 2.4, and considering the current composition of the Shariah Committee, all three (3) members with Shariah background must attend all the meetings.

2.6 Decisions shall be made on the basis of two-third of the members presentwith the majority of the two-third votes shall be from members with Shariah background.

A total of nine (9) Shariah Committee meetings were held during the financial year 2015. The attendance of the members at the Shariah Committee meetings held are as follows:

Name of member	Designation	Attendance/No. of meetings
Assoc. Prof. Dr. Younes Soualhi	Chairman	9/9
Khairul Anuar Ahmad	Member	9/9
Dr. Muhammad Yusuf Saleem Ghulam Nabi	Member	9/9
Prof. Dr. Obiyathulla Ismath Bacha	Member	9/9
Prof. Dr. Abdul Rahim Abdul Rahman	Member	9/9

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

SHARIAH COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Objectives

3 The primary objective of the Shariah Committee is to ensure that the Bank is operated and managed in accordance with Shariah [1] through performing its responsibilities set out below.

Responsibilities of the Committee

4.1 Without limiting the generality of the Shariah Committee's objectives, the Shariah Committee shall have the following responsibilities, authorities and discretion:

(a) To make decisions on Shariah matters in an independent and objective manner without undue influence or duress and to be responsible and accountable for the Shariah decisions, opinions and views;

(b) To advise the Board and provide input on Shariah matters in order for the Bank to comply with the Shariah principles at all times;

(c) To attend all the Board and/or Board Committee's meeting whenever required and accordingly update the Board on any pertinent Shariah matters relating to the Bank;

(d) To endorse Shariah policies and procedures prepared by the Bank to ensure that the contents are Shariah compliant;

(e) To approve the product structures and transactions that are being managed, executed and entered into by the Bank;

(f) To endorse and validate the following documentations including but not limited to:

(i) the terms and conditions contained in the forms, contracts, agreements or other legal documentations used in effecting the transactions; and
(ii) the product manual, marketing advertisements, sales illustrations and brochures used to describe the products;

(g) To assess the work carried out by Shariah Review and Shariah Audit functions;

(h) To perform an oversight role on Shariah matters related to the Bank's business operations and activities through the Shariah review and the Shariah audit functions;

(i) To provide necessary assistance on Shariah matters to the Bank's related parties such as its legal counsel, compliance department and auditors to ensure compliance with Shariah;

(j) To provide written Shariah opinions if the Bank makes a reference to the Shariah Advisory Council of BNM for further deliberation or in the event the Bank submits an application to BNM/Securities Commission for approval on any new product/transaction;

(k) To ratify the list of approved matters prepared by the Shariah Department that the operations and business activities of the Bank are in compliance with Shariah;

(l) To provide Shariah compliant endorsement in the annual financial statements of the Bank, supported by the Annual Shariah Committee Report;

[1] Compliance with Shariah is interpreted in accordance with the Islamic Financial Services Act 2013

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

SHARIAH COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Responsibilities of the Committee (Cont'd)

(m) To provide consultation to the Audit Committee in the course of the Audit Committee in determining the deliverables of the Shariah audit function;

(n) To identify issues that require its attention and where appropriate, to propose corrective measures based on regular Shariah review reports and Shariah audit observations; and

(o) If the Shariah Committee has a reasonable ground to believe that the Bank is involved in non-compliant activities, the Shariah Committee shall inform the Board and to advise, propose or rectify as necessary to ensure its conformity to Shariah requirements. In cases where Shariah non-compliant activities are not effectively or adequately addressed or no rectification measures are made by the Bank, the Shariah Committee shall inform BNM of the same.

Confidentiality & Consistency

5.1 All internal and privileged information obtained by any Shariah Committee member in the course of their duties shall be kept confidential at all times and shall not be disclosed to anyone or be misused.

5.2 Professional ethics, judgment and consistency shall be exercised in ensuring Shariah compliance.

Written or Circulating Resolution

6.1 Any resolution in writing, signed or assented to by all the members of the Shariah Committee shall be as valid and effectual as if it had been passed at a meeting of the Shariah Committee duly called and constituted and may consist of several documents in the like form each signed by one or more of such members.

Disqualification

7.1 A person is disqualified from being appointed or elected, reappointed or re-elected, accepting any appointment or election, or holding office, as a chairman, director, chief executive officer or senior officer of an institution if:

(a) He is an undischarged bankrupt, has suspended payments or has compounded with his creditors whether in or outside Malaysia;
(b) A charge for a criminal offence relating to dishonesty or fraud under any written law of any country, territory or place outside Malaysia, has been proven against him;
(c) He is prohibited from being a director of a company or in any way, whether directly or indirectly, be concerned or take part in the management of a company in Malaysia pursuant to a court order made under section 130A of the Companies Act, 1965 and has not obtained any leave of the court under the same section; or
(d) Under any law relating to prevention of crime, drug trafficking or immigration:
    (i) An order of detention, supervision or deportation has been made against that person; or
    (ii) Any form of restriction or supervision by bond or otherwise, has been imposed on him.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

SHARIAH COMMITTEE (Cont'd)

Terms of Reference (Cont'd)

Restrictions

8.1 A Shariah Committee member shall not have any relationship that could interfere or be reasonably perceived to interfere with the exercise of independent judgment, with the following persons:

- (a) an immediate family member such as spouse, children or siblings who are, or who were during the last financial year, employed by the the Bank or any of its related companies as a senior executive officer (CEO) or non-independent board members; and
- (b) a substantial shareholder or a partner in (with a stake of 5% or more) or an executive officer of, or a director of any for-profit business organization to which the Bank or any of its subsidiaries made or from which the Bank or any of its subsidiaries received, significant payments in the current or immediate past financial year.

8.2 A Shariah Committee member shall not be:

- (a) an employee of the Bank or any of its related companies for the current or the last financial year;
- (b) a member of Shariah Advisory Council of BNM; and
- (c) another Shariah Committee who is currently serving another Islamic financial institution of the same industry.

Recommendation

9.1 Where, in the course of meeting its objectives and performing its obligations, the Shariah Committee discovers an issue of concern or for which there is scope for improvement, it shall make recommendations to the Board on action needed to address the issue or to make improvements.

9.2 Any changes to these Terms of reference must be recommended to the Board.

Law and Guidelines

10.1 The provisions of these Terms of Reference must be read together with all applicable laws and regulations including all guidelines, circulars and directives issued by BNM and other relevant authorities, the Bank’s Memorandum and Articles of Association, policies and manuals which the Bank must adhere to by virtue of being a member of the HSBC Group of companies.

10.2 In the event of any conflict between these Terms of Reference and such laws and guidelines, the provisions of such laws and guidelines must prevail.

BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

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, key reports submitted to the Board during the financial year include:

- Minutes of the Board Committees
- Business Progress Report
- Financial Performance Report
- Annual Operating Plan
- Market Risk Limits
- Risk Appetite Statement
- Internal Capital Adequacy Assessment Process
- Advanced Internal Ratings –Based Approach (IRBA) Implementation Plan
- Risk Management Reports
- Operational Risk Report
- Credit Advances Reports
- Stress Testing Results
- Credit Transactions and Exposures to Connected Parties
- Anti-Money Laundering and Counter Terrorist Financing Reports
- Capital Contingency Funding Plan
- Amanah Mortgage Portfolio Updates

INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

It is the responsibility of management at all levels to ensure that effective internal controls are in place for all the operations for which they are responsible. Controls within the internal control environment are provided by the implementation of established control frameworks and documented procedures/processes with first line oversight/monitoring effected through managerial /executive supervision and through the Business Risk Control Management teams. Internal Audit provides independent assurance on the effectiveness of the designs of the control frameworks/procedures/processes and on the effectiveness of their implementation.

Systems, processes and procedures are in place to identify, assess, monitor, control and report on all major risks including credit, volatility in the market prices of financial papers, liquidity, operational errors, breaches of law or regulations, unauthorized activities or frauds. These risks are reported to and monitored by the respective Global Business/Function Risk Review Committee, the Risk Committee, the Asset and Liability Management Committee, the Executive Committee, the Audit Committee, the Risk Management Committee and the Board of Directors.

Responsibilities for financial performance against plans and for capital expenditure, credit exposures and market risk exposures are delegated within limits to line management. Global functions in the HSBC Group Head Office are responsible for setting policies, procedures and standards in the areas of finance; legal, financial crime compliance and regulatory compliance; internal audit; human resources; credit; market risk; operational risk; IT systems and operations; property management; and for selected global product lines. The Bank operates within these policies, procedures and standards set by the HSBC Group Head Office Global functions.

The holding company's internal audit function assesses and monitors compliance with policies and standards and the operational effectiveness of internal control structures/frameworks across the Bank in conjunction with other HSBC Global Internal Audit units. The work of the audit function is focused on areas of greatest risk to the Group on a risk based approach. The Head of Internal Audit reports functionally to the Audit Committee and to the Head of Global Internal Audit, Asia Pacific and administratively to the Chief Executive Officer.

The Audit Committee has kept under review the effectiveness of this system of internal control and has reported regularly to the Board of Directors.

The Audit Committee has also reviewed the annual internal audit plan to ensure adequate scope and comprehensive coverage on the audit activities, effectiveness of the audit process, adequate resource deployment for the financial year and satisfactory performance of the Internal Audit Unit. The Committee has reviewed the internal audit reports, audit recommendations made and management's response to these recommendations. Where appropriate, the Committee as directed action to be taken by the Group's management team to rectify any deficiencies identified by Internal Audit and to improve the system of internal controls based on the internal auditors' recommendations for improvements.

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	May 2015	• Long term	AAA
		• Short term	P1
		• Outlook	Stable
		• Multi-Currency Sukuk Programme	AAA

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

The Directors have pleasure in presenting their report together with the audited financial statements of HSBC Amanah Malaysia Berhad (the Bank) for the financial year ended 31 December 2015.

Principal Activities

The principal activities of the Bank are Islamic banking business and related financial services.

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

Results

	RM'000
Profit for the financial year attributable to the owner of the Bank	
Profit before tax	**153,161**
Tax expense	**(31,099)**
Profit after tax	**122,062**

Dividend

The Directors do not recommend any dividend payment in respect of the current financial year.

Reserves and Provisions

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

Other statutory information

Before the financial statements 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 Bank inadequate to any substantial extent,
ii) that would render the value attributed to the assets in the financial statements of the Bank misleading, or
iii) which have arisen which render adherence to the existing methods of valuation of assets or liabilities 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 Bank misleading.

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

i) any charge on the assets 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 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 the Bank 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 Bank to meet its obligations as and when they fall due.

DIRECTORS' REPORT (Cont'd)

Other statutory information (Cont'd)

In the opinion of the Directors, the financial performance of the Bank for the financial year ended 31 December 2015 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 adjustment to the audited financial statements.

DIRECTORS' REPORT (Cont'd)

2015 Business Strategy

There were many challenges within the global economy in 2015 with Europe struggling to manage migrant and debt crises. Middle East and North Africa region suffering from geopolitical risks and China facing an economic slowdown. Amid the lacklustre backdrop, the Malaysian economy registered a moderate growth of 4.5% in 4Q 2015 (3Q2015: 4.7%) with year 2015 expanded by 5.0% (2014: 6.0%). The growth was mainly supported by the private sector demand.

HSBC Amanah Malaysia Berhad (the Bank) demonstrated resilience and was able to maintain a respectable performance in 2015 despite having to operate in an increasingly regulated banking landscape and challenging and yet competitive business environment. The Bank remained strong in both liquidity and capital strength. This financial strength is recognised by external parties including RAM Ratings Services Berhad who has reaffirmed the Bank's long term and short term ratings of AAA and P1 ratings respectively, reflecting the Bank's robust asset quality and strong financial standing. The Bank maintained its market leader position in various segments and won numerous awards in 2015.

2015 saw the banking industry pricing up customer deposits in response to the implementation of Basel III Liquidity Coverage Ratio by Bank Negara Malaysia (BNM). As a result, Retail Banking and Wealth Management (RBWM) faced pricing competition in both assets and liabilities. Premier and Advance propositions were re-launched, to offer improved services for our customers, aiming to retain customers through better product proposition and services. Another challenge for RBWM was its card business that faced heighten regulations and increased competition. RBWM has overcome the challenge by securing a number of key partnership, launching of acquisition campaigns and nationwide spend campaigns, resulting in a 56% growth in new cards during 2015.

2015 was a year where there were capital outflows (similar to other emerging markets) in response to global economic development including US normalising its interest rate. During the year, Ringgit weakened and bond yield rose. The Bank's Global Banking & Markets (GBM) has worked closely with our corporate customers (both importers and exporters) to manage their exposure accordingly. GBM also took advantage of its debt capital market leadership and expertise to secure key deals, enhance cross border connectivity, seek opportunities with regionally identified business corridor initiatives with China and intra-ASEAN countries, to drive strategic themes e.g. Renminbi (RMB) as a settlement currency.

Commercial Banking (CMB) has focused on Trade Corridors in identifying and developing plans to engage with businesses which operating in the key trading routes with Malaysia. China Desk also continues its ongoing focus on business opportunities arising from the internationalisation of the RMB. In line with Global Standards adopted by the Group, strategic migration of manual transaction to e-payments continues to be one of the PCM’s priorities in growing the businesses. Whilst there was margin compression coupled with weaker global demand, Global Trade and Receivables Finance (GTRF) have shown improvement in trade balances through ongoing focus on customers.

The Bank continues to invest in the long term future of the community in which we operate. We focus our investments around 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 Bank endeavours 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 the HSBC Group’s vision in becoming the world’s leading international bank.

Performance Review for 2015

The Bank recorded profit before tax of RM153.2 million, RM28.7 million or 15.8% below history. The growth in income derived from investment of depositors' funds and others and shareholder's funds of RM77.2 million was eroded by higher income attributable to depositors (up RM85.5 million), impairment losses on financing (up RM13.9 million) and operating expenses (up RM6.6 million).

Higher earnings from financing and advances (up RM43.1 million), financial assets available-for-sale (up RM19.1 million) and deposits and placements from banks and other financial institutions (up RM18.8 million) contributed to the growth in income derived from investment of depositors' funds and others and shareholder's funds. This was offset by lower net trading income (down RM3.7 million) arising from lower gains from derivatives trading (down RM15.8 million), foreign exchange (down RM5.1 million) and held-for-trading assets (down RM5.0 million), moderated by lower profit paid on structured products (down RM22.5 million).

Income attributable to depositors increased arising from profit paid on Multi-Currency Sukuk Programme (up RM40.1 million), deposits and placements from banks and other financial institutions (up RM26.2 million) and customer deposits (up RM11.1m), while impairment losses on financing grew mainly on higher individual impairment (up RM16.2 million), offset by higher net recoveries from impaired financing (up RM3.4 million). Operating expenses increased on higher general administrative expenses (up RM5.5 million) and personnel expenses (up RM4.0 million).

Meanwhile, balance sheet size grew by RM2.9 billion or 18.0% arising from higher interbank placements (up RM3.9 billion) and financing and advances (up RM1.3 billion) offset by lower financial assets available-for-sale (down RM2.4 billion). The Bank's capital and liquidity ratios remain strong and are well above regulatory requirements.

DIRECTORS' REPORT (Cont'd)

Outlook for 2016

Malaysia’s real Gross Domestic Product (GDP) is expected to grow between 4.5% and 5.5% for 2015, and between 4.0% and 4.5% for 2016. Domestic demand will remain the key driver of growth. While private consumption is expected to moderate as households adjust to the introduction of the Goods and Services Tax (GST), the still low unemployment rate at a circa of 3.2% would support household spending.

Inflationary pressure is envisaged to show a moderate increase to 3.0% for 2016 from the 2.3% projected for 2015, arising from the compounding impact of GST, toll rate hike, imported inflation and overall lesser subsidies. Despite increased volatility in international financial markets, interest rates in the domestic money market have remained stable with the Overnight Policy Rate (OPR) continued to be at 3.25% since its last revision on 10 July 2014. The current stance of monetary policy remains accommodative and is assessed to be appropriate.

The Ringgit continued to be driven by shifts in investor sentiments and portfolio investments amid weaker oil and commodity prices as well as strengthening of US dollar. 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.

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 may see a wider acceptance by corporates, coupled with increase in cross border investment flows which may compensate for lower international trade volumes.

As for the banking sector, challenges facing the industry include moderate financing growth, competition for liabilities, weak capital market activities, potential rising credit costs, escalation of costs of doing business and compliance costs, with headwinds coming from moderate increase in consumer spending and private investment following the GST implementation; narrowing spreads in 2016 due to rising funding costs with the implementation of Basel III liquidity ratio in mid-2015 and the implementation of additional capital buffer requirements.

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

DIRECTORS' REPORT (Cont'd)

Awards won during the financial year

1 Winning Deals, *Malaysia Airports Holdings MYR1 billion sukuk* - Euromoney Innovation in Islamic Finance Awards 2015.

2 Winning Deals, *Indonesia US$1.5 billion 10-year sukuk* - Euromoney Innovation in Islamic Finance Awards 2015.

3 The IFN Wakalah Deal of the Year, *Government of Malaysia US$1.5 billion RegS/144A Sovereign Sukuk* - Islamic Finance News Deals of the Year 2015

4 The Project & Infrastructure Finance Deal of the Year, *Jimah East Power RM8.98 billion Commodity Murabahah Sukuk* - Islamic Finance News Deals of the Year 2015

5 Best sovereign sukuk, *Republic of Indonesia US$1.5 billion ijara and wakala global sukuk*, in which the Bank has acted as one of the joint bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

6 Best quasi-sovereign sukuk, *Export-Import Bank of Malaysia US$300 million wakala sukuk*, in which the Bank has acted as one of the joint principal advisers, lead arrangers, bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

7 Best corporate sukuk, *Cagamas 70 million ringgit one-year and 930 million ringgit three-year sukuk*, in which the Bank has acted as one of the joint arrangers, The Asset Triple A Islamic Finance Awards 2015

8 Best corporate hybrid sukuk/ Best local currency sukuk, *Malaysia Airports Holdings 1 billion ringgit perpetual subordinated musharaka sukuk*, in which the Bank has acted as one of the joint Shariah advisers, lead arrangers, bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

9 Best new sukuk, *Hong Kong SAR US$1billion ijara sukuk*, in which the Bank has acted as the lead coordinator and one of the joint global coordinators, joint bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

10 Best Deals, Hong Kong, *Hong Kong SAR US$1billion ijara sukuk*, in which the Bank has acted as one of the joint global coordinator, bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

11 Best Deals, Indonesia, *Republic of Indonesia US$1.5 billion ijara and wakala global sukuk*, in which the Bank has acted as one of the joint bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

12 Best Deals, Malaysia, *Export-Import Bank of Malaysia US$300 million wakala sukuk*, in which the Bank has acted as one of joint principal advisers, lead arrangers, bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

13 Best Deals, Turkey, *Turkiye Finanas Katilim Bankasi 800 million ringgit murabaha sukuk*, in which the Bank has acted as one of the joint principal advisers, lead arrangers, bookrunners and lead managers, The Asset Triple A Islamic Finance Awards 2015

14 Best Islamic Finance House, FinanceAsia Achievement Awards 2015

15 Best Sovereign Bond, *The Government of Malaysia $1.5bn sukuk*, in which the Bank acted as joint bookrunner, GlobalCapital Asia Regional Capital Markets Awards 2015

16 Most Innovative Islamic Finance Deal of the Year in Southeast Asia, *Malaysia Airports Holdings' RM1 billion (US$230 million) Perpetual Subordinated Sukuk*, in which the Bank has acted as joint principal advisers, joint lead arrangers, joint lead managers and joint bookrunners, Alpha Southeast Asia Deal & Solution Awards 2015

DIRECTORS' REPORT (Cont'd)

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:

- Louisa Cheang Wai Wan
- Mukhtar Malik Hussain
- Mohamed Ross bin Mohd Din
- Azlan bin Abdullad
- Mohamed Ashraf bin Mohamed Iqbal
- Seow Yoo Lin
- Adil Ahmad
- Mohamed Rafe bin Mohamed Haneef *(resigned on 31 December 2015)*

In accordance with Articles 72 and 73 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 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** →			
HSBC Holdings plc Ordinary Shares	Balance at 1.1.2015	Bought	Sold	Balance at 31.12.2015
Mukhtar Malik Hussain	1,034,253	47,757	-	1,082,010
Louisa Cheang Wai Wan	47,691	40,156	-	87,847
Mohamed Rafe Mohamed Haneef	14,486	5,503	-	19,989

	← **Number of Shares** →			
HSBC Holdings plc HSBC Share Plan	Balance at 1.1.2015	Shares issued during the year [1]	Shares vested during the year	Balance at 31.12.2015
Mukhtar Malik Hussain	385,636	246,698	(153,318)	479,016

[1] *Includes scrip dividends*

None of the other Directors holding office at 31 December 2015 had any interest in the ordinary shares and options of the Bank and of its related corporations during the financial year.

DIRECTORS' REPORT (Cont'd)

Directors' Benefits

Since the end of the previous financial year, no Director of the Bank has received or 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 a related company) 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 during the financial year which any Directors might 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.

Immediate and Ultimate Holding Company

The Directors regard HSBC Bank Malaysia Berhad, a company incorporated in Malaysia, and HSBC Holdings plc, a company incorporated in England, as the immediate and ultimate holding companies of the Bank respectively.

Zakat Obligation

The Bank is not obliged to pay zakat for the financial year ended 31 December 2015.

Auditors

The accounts for the financial year ended 31 December 2015 has been audited by PricewaterhouseCoopers (PwC). A resolution to re-appoint PwC as auditors of the Bank will be proposed at the forthcoming Annual General Meeting.

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

MUKHTAR MALIK HUSSAIN
Director

SEOW YOO LIN
Director

Kuala Lumpur, Malaysia
01 March 2016

DIRECTORS' STATEMENT

In the opinion of the directors:

We, Mukhtar Malik Hussain and Seow Yoo Lin, being two of the Directors of HSBC Amanah Malaysia Berhad, do hereby state on behalf of the Directors that, in our opinion, the financial statements set out on pages 41 to 123 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 Bank as at 31 December 2015 and of the financial performance and cash flows of the Bank for the financial year then ended.

Signed at Kuala Lumpur, Malaysia this 01 March 2016.

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

MUKHTAR MALIK HUSSAIN
Director

SEOW YOO LIN
Director

STATUTORY DECLARATION

I, Neoh Elly, being the officer primarily responsible for the financial management of HSBC Amanah Malaysia Berhad, do solemnly and sincerely declare that, to the best of my knowledge and belief, the financial statements set out on pages 41 to 123 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 abovenamed
in Kuala Lumpur, Malaysia on 01 March 2016.

NEOH ELLY

BEFORE ME:

Signature of Commissioner for Oaths

SHARIAH COMMITTEE'S REPORT

In the name of Allah, the most Beneficent, the most Merciful.

Praise to Allah, the Lord of the Worlds and peace and blessings be upon our Prophet Muhammad, his family and companions.

Assalamu 'Alaikum Warahmatullahi Wabarakatuh

In carrying out the roles and responsibilities as Shariah Committee of HSBC Amanah Malaysia Berhad as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia, the Bank's Shariah Governance Policy as well as the Bank's Committee's Terms of Reference, we hereby submit the following report for the financial year ended 31 December 2015:

1. We have conducted nine (9) meetings for the whole year of 2015 and reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the financial year ended 31 December 2015 to ensure conformity with Shariah requirements.

2. We have performed oversight role through the Shariah review and Shariah audit functions in ensuring the Bank has complied with the Shariah principles and rulings issued by us and the Shariah Advisory Council of Bank Negara Malaysia.

3. The management of the Bank is responsible for ensuring that the financial institution conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

4. We have assessed the work carried out by Shariah Department and its effectiveness to implement the Shariah Governance Framework which included pre and post examination, on a test basis, each type of transaction across business lines, the relevant documentations and procedures adopted and/or entered into by the Bank.

5. In performing our duties, we planned and performed our review and had obtained all the information and explanations which we considered indispensable and necessary in order to provide us with satisfactory evidence to arrive at sound Shariah decisions and to give reasonable assurance that the Bank has complied with Shariah requirements and has not violated the Shariah rules and principles based on the evidences which have been disclosed and tabulated before us.

On that note, we, being the members of the Shariah Committee of HSBC Amanah Malaysia Berhad, do hereby confirm that, with the exception of identified breaches that are being remedied, in our opinion:

(a) the contracts, transactions, dealings entered into by the Bank during the financial year ended 31 December 2015 have been reviewed by us and are in compliance with Shariah rules and principles;

(b) the allocation of profit and charging of losses relating to the Bank's assets and liabilities conform to the basis that had been approved by us in accordance with Shariah principles;

(c) all earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes; and

(d) the Bank is not required to pay zakat for the financial year ended 31 December 2015 because its shareholder has no obligation to pay zakat.

SHARIAH COMMITTEE'S REPORT (Cont'd)

We, the members of the Shariah Committee of HSBC Amanah Malaysia Berhad, do hereby confirm that with the exception of identified breaches that are being remedied, the operations of the Bank for the financial year ended 31 December 2015 have been conducted in conformity with the Shariah principles.

We pray to Allah the Almighty to grant us success and the path of straight forwardness.

Wassalamu ‘Alaikum Warahmatullahi Wabarakatuh

Chairman of the Shariah Committee
Assoc. Prof Dr Younes Soualhi

Member of the Shariah Committee
Khairul Anuar Ahmad

Member of the Shariah Committee
Dr. Muhammad Yusuf Saleem Ghulam Nabi

Member of the Shariah Committee
Prof. Dr. Obiyathulla Ismath Bacha

Member of the Shariah Committee
Prof. Dr. Abdul Rahim Abdul Rahman

Kuala Lumpur, Malaysia
01 March 2016

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HSBC AMANAH MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 807705-X)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of HSBC Amanah Malaysia Berhad on pages 41 to 123 which comprise the statement of financial position as at 31 December 2015 of the Bank, the statement of profit or loss and other comprehensive income, statement of changes in equity and statements of cash flows of the Bank for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 45.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation of financial statements so as to 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 that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation of financial statements that give a true and fair view 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HSBC AMANAH MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 807705-X)

REPORT ON THE FINANCIAL STATEMENTS (Cont'd)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2015 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirement of Companies Act, 1965 in Malaysia.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SOO HOO KHOON YEAN
Approval Number: 2682/10/17(J)
Chartered Accountant

Date: 01 March 2016

Kuala Lumpur

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

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2015

	Note	**31 Dec 2015 RM'000**	31 Dec 2014 RM'000 (Restated)
Assets			
Cash and short-term funds	*6*	**4,750,390**	670,934
Financial assets held for trading	*7*	**10,492**	20,055
Financial investments available-for-sale	*8*	**1,701,243**	4,135,323
Financing and advances	*9*	**11,968,217**	10,680,538
Derivative financial assets	*11*	**307,299**	123,842
Other assets	*12*	**241,611**	239,287
Statutory deposits with Bank Negara Malaysia	*13*	**329,662**	479,062
Equipment	*14*	**10,288**	16,214
Intangible assets	*15*	**-**	2
Deferred tax assets	*16*	**5,548**	7,757
Tax recoverable	*17*	**5,162**	8,861
Total assets		**19,329,912**	16,381,875
Liabilities			
Deposits from customers	*18*	**9,386,123**	10,976,181
Deposits and placements from banks and other financial institutions	*19*	**4,160,089**	2,501,753
Bills and acceptances payable		**14,904**	25,709
Derivative financial liabilities	*11*	**473,231**	127,617
Other liabilities	*20*	**1,475,375**	158,416
Multi-Currency Sukuk Programme	*21*	**1,749,823**	1,001,854
Subordinated Commodity Murabahah Financing	*22*	**618,461**	271,636
Total liabilities		**17,878,006**	15,063,166
Equity			
Share capital	*23*	**50,000**	50,000
Reserves	*24*	**1,401,906**	1,268,709
Total equity attributable to owner of the Bank		**1,451,906**	1,318,709
Total liabilities and equity		**19,329,912**	16,381,875
Commitments and Contingencies	*36*	**21,889,668**	15,940,789

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

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	Note	**31 Dec 2015 RM'000**	31 Dec 2014 RM'000
Income derived from investment of depositors' funds and others	*25*	**718,486**	644,273
Income derived from investment of shareholder's funds	*26*	**135,990**	132,982
Impairment losses on financing	*27*	**(82,487)**	(68,589)
Total distributable income		**771,989**	708,666
Income attributable to depositors	*28*	**(375,509)**	(290,031)
Total net income		**396,480**	418,635
Personnel expenses	*29*	**(47,134)**	(43,119)
Other overheads and expenditures	*30*	**(196,185)**	(193,638)
Profit before tax		**153,161**	181,878
Tax expense	*31*	**(31,099)**	(40,045)
Profit for the financial year		**122,062**	141,833
Other comprehensive income/(expense)			
Items that will subsequently be reclassified to profit or loss when specific conditions are met:			
Available-for-sale reserve:			
Change in fair value		**15,276**	(590)
Amount transferred to profit or loss		**(232)**	-
Income tax effect		**(3,610)**	141
Adjustment for reduction in corporate tax rate		**-**	(79)
Other comprehensive income/(expense) for the financial year, net of tax		**11,434**	(528)
Total comprehensive income for the financial year		**133,496**	141,305
Profit attributable to the owner of the Bank		**122,062**	141,833
Total comprehensive income attributable to the owner of the Bank		**133,496**	141,305
Basic earnings per RM0.50 ordinary share	*32*	**122.1 sen**	141.8 sen

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

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	Non-distributable						*Distributable*	
	Share capital	*Share premium*	*Statutory reserve*	*Available-for-sale reserve*	*Capital contribution reserve*	*Regulatory reserve* [1]	*Retained profits*	*Total*
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
2015								
Balance at 1 January	**50,000**	**610,000**	**50,000**	**(6,488)**	**1,374**	**13,000**	**600,823**	**1,318,709**
Total comprehensive income for the financial year								
Profit for the financial year	**-**	**-**	**-**	**-**	**-**	**-**	**122,062**	**122,062**
Other comprehensive income, net of tax								
Available-for-sale reserve:								
Net change in fair value	**-**	**-**	**-**	**11,610**	**-**	**-**	**-**	**11,610**
Net amount transferred to profit or loss	**-**	**-**	**-**	**(176)**	**-**	**-**	**-**	**(176)**
Total other comprehensive income	**-**	**-**	**-**	**11,434**	**-**	**-**	**-**	**11,434**
Total comprehensive income for the financial year	**-**	**-**	**-**	**11,434**	**-**	**-**	**122,062**	**133,496**
Transfer relating to regulatory reserves	**-**	**-**	**-**		**-**	**21,000**	**(21,000)**	**-**
Transactions with the owner (the ultimate holding company), recorded directly in equity								
Share based payment transactions	**-**	**-**	**-**	**-**	**(316)**	**-**	**17**	**(299)**
Balance at 31 December	**50,000**	**610,000**	**50,000**	**4,946**	**1,058**	**34,000**	**701,902**	**1,451,906**
2014								
Balance at 1 January	50,000	610,000	50,000	(5,960)	1,292	-	472,050	1,177,382
Total comprehensive income for the financial year								
Profit for the financial year	-	-	-	-	-	-	141,833	141,833
Other comprehensive income, net of tax								
Available-for-sale reserve:								
Net change in fair value	-	-	-	(528)	-	-	-	(528)
Total other comprehensive income	-	-	-	(528)	-	-	-	(528)
Total comprehensive income for the financial year	-	-	-	(528)		-	141,833	141,305
Transfer relating to regulatory reserves	-	-	-	-	-	13,000	(13,000)	-
Transactions with the owner (the ultimate holding company), recorded directly in equity								
Share based payment transactions	-	-	-	-	82	-	(60)	22
Balance at 31 December	50,000	610,000	50,000	(6,488)	1,374	13,000	600,823	1,318,709

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

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

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

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	31 Dec 2015 RM'000	31 Dec 2014 RM'000 (Restated)
Cash Flows from Operating Activities		
Profit before income tax expense	**153,161**	181,878
Adjustments for :		
Unrealised gain on revaluation of financial assets held-for-trading	**(2,519)**	(4,726)
Unrealised loss/(gain) from dealing in foreign currency	**12,060**	(13,652)
Unrealised loss on revaluation of derivatives	**15,827**	299
Allowance for impairment losses on financing	**114,716**	99,402
Share based payment transactions	**365**	670
Depreciation of equipment	**7,106**	8,469
Amortisation of intangible assets	**2**	7
Operating profit before changes in operating assets and liabilities	**300,718**	272,347
Decrease/(Increase) in operating assets		
Financial assets held-for-trading	**12,082**	74,330
Financing and advances	**(1,402,395)**	(1,440,758)
Derivative financial assets	**(211,344)**	(25,025)
Other assets	**(24,023)**	(66,896)
Statutory deposits with Bank Negara Malaysia	**149,400**	(88,500)
(Decrease)/Increase in operating liabilities		
Deposits from customers	**(1,590,058)**	(54,383)
Deposits and placements from banks and other financial institutions	**1,658,336**	921,284
Bills and acceptances payable	**(10,805)**	14,737
Derivative financial liabilities	**345,614**	10,586
Other liabilities	**1,476,454**	50,621
Net cash generated from/(used in) operating activities	**703,979**	(331,657)
Income tax paid	**(28,802)**	(35,036)
Net cash generated from/(used in) operating activities	**675,177**	(366,693)
Cash Flows from Investing Activities		
Purchase of financial assets available-for-sale	**(1,588,287)**	(4,079,370)
Proceeds from disposal of financial assets available-for-sale	**4,059,155**	1,293,024
Purchase of equipment	**(1,224)**	(1,890)
Net cash generated from/(used in) investing activities	**2,469,644**	(2,788,236)
Cash Flows from Financing Activities		
Proceeds from Multi-Currency Sukuk Programme	**750,000**	500,000
Proceeds from Subordinated Liabilities	**250,299**	250,039
Profit paid on Multi-Currency Sukuk Programme	**(54,823)**	(14,158)
Profit paid on Subordinated Liabilities	**(10,841)**	(3,224)
Net cash generated from financing activities	**934,635**	732,657
Net increase/(decrease) in Cash and Cash Equivalents	**4,079,456**	(2,422,272)
Cash and Cash Equivalents at beginning of the financial year	**670,934**	3,093,206
Cash and Cash Equivalents at end of the financial year	**4,750,390**	670,934
Analysis of Cash and Cash Equivalents		
Cash and short-term funds	**4,750,390**	670,934

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

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

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

HSBC Amanah Malaysia Berhad (the Bank) is a licensed Islamic Bank under the Islamic Financial Services Act, 2013. The principal activities of the Bank are Islamic banking and related financial services.

There were no significant changes in these activities during the financial 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 ultimate holding company during the financial year are HSBC Bank Malaysia Berhad and HSBC Holdings Plc, respectively.

The financial statements were approved and authorised for issue by the Board of Directors on 10 February 2016.

2 Basis of Preparation

(a) Statement of Compliance

The financial statements of the Bank have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards, the requirements of the Companies Act, 1965 in Malaysia and BNM requirements on Shariah related disclosures.

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

The new accounting standards and amendments to published standards that are effective and applicable to the Bank for the financial year beginning 1 January 2015 are as follows:

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

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

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

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

a. Financial year beginning on/after 1 January 2016

- Amendments to MFRS 116 ‘Property, plant and equipment’ and MFRS 138 ‘Intangible assets’ clarify that the use of revenue-based methods to calculate the depreciation of an item of property, plant and equipment is not appropriate. This is because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

  The amendments to MFRS 138 also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption can be overcome only in the limited circumstances where the intangible asset is expressed as a measure of revenue or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

2 Basis of Preparation (Cont'd)

(a) Statement of Compliance (Cont'd)

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

b. Financial year beginning on/after 1 January 2018

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

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income (OCI). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and profit.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

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

- MFRS 15 ‘Revenue from contracts with customers’ replaces MFRS 118 ‘Revenue’ and MFRS 111 ‘Construction contracts’ and related interpretations. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers.

  Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The initial application of the above accounting standards, amendments and interpretation are not expected to have any material financial impacts to the current and prior year’s financial statement of the Bank upon its first adoption, except for MFRS 9.

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.

2 Basis of Preparation (Cont'd)

(b) Basis of measurement

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

(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 judgements

The results of 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 judgement 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 Bank's critical accounting policies where judgement is necessarily applied are those which relate to impairment of financing and advances and the valuation of financial instruments (see Note 5). There are no other significant areas of estimation uncertainty and critical judgements 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 estimate is 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 Bank.

(a) 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.

(b) Revenue

Revenue comprises gross finance income, fee and commission income, net trading income, investment income and other operating income.

(c) Financing Income and Expenses

Financing income and expenses for all financial instruments of the Bank, except those classified as held-for-trading, are recognised within 'finance income' and 'income attributable to deposits' in the profit or loss on an accrual basis applying the effective profit rate method in accordance with the principles of Shariah and using the effective profit rate method in accordance with the principles of Shariah.

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

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

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

i) Murabahah
Income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

ii) Ijarah Thumma Al-Bai
Income is recognised on effective profit rate over the term of the contract.

iii) Musharakah (Co-ownership)
Income is accounted for on the basis of the reducing balance on a time-apportioned (the Bank’s co-ownership portion) basis that reflects the effective yield on the asset.

3 Significant Accounting Policies (Cont'd)

(c) Financing Income and Expenses (Cont'd)

iv) Bai Al-Inah (Sale and Buy Back)

Income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

v) Bai Bithaman Ajil

Income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

vi) Bai Al-Dayn

Income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

vii) Ujrah (rendering services for credit card-i holders)

Income is recognised based on actual costs incurred by the Bank to provide the facility to customers.

viii) Ujrah (rendering services for facilities other than credit card-i holders)

Income is recognised based on mutually agreed fee to provide the facility to customers.

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

(d) Fees and Commission, Net Trading Income and Other Operating Income

Fee income is earned from a diverse range of services the Bank provides 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 significant act has been 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 profit rate of a financial instrument is recognised as an adjustment to the effective profit rate and recorded in 'financing income' (see Note 3(c)).

Other fees and commission expense relates 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 have approved the dividend for unlisted equity securities.

Net trading income comprises all gains and losses from realised and unrealised changes in the fair value of financial assets and financial liabilities held-for-trading, together with the related profit income and attributable profit on financial liabilities.

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
- finance income, finance 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 profit arising from debt securities issued by the group and derivatives managed in conjunction with those debt securities, which is recognised in 'financing expense' (Note 3(c)).

3 Significant Accounting Policies (Cont'd)

(e) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to a business combination or items recognised directly in other comprehensive income or equity, in which case it is recognized 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 Bank provides 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 Bank intends 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.

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 Bank have a legal right to offset.

Deferred tax relating to fair value re-measurements of available-for-sale investments 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 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 Bank categorises financial assets as follows:
- financing and advances (See Note 3(k))
- financial investments held to maturity (See Note 3(j)(i))
- financial investments available-for-sale (See Note 3(j)(ii)); or
- trading assets (see Note 3(i)):

The Bank classifies its financial liabilities, other than financial guarantees, as measured at amortised cost or trading liabilities. (See accounting policies in Notes 3(i), 3(q), 3(s)).

3 Significant Accounting Policies (Cont'd)

(f) Financial instruments (Cont'd)

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 Bank has 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.

iv) Offsetting financial assets/liabilities and income/expenses

Financial assets and financial 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 Bank intends 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 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 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 the 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 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 income statement. 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 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 Bank's valuation methodologies, which are described in Note 5(b)(ii).

(g) Cash and cash equivalents

For the purpose of the statement 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.

3 Significant Accounting Policies (Cont'd)

(h) Contracts under Islamic Sell and Buyback 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 the consideration paid is recorded as an asset on the statement of financial position.

The difference between the sale and repurchase price is treated as interest/profit income and recognised over the life of the agreement.

(i) Trading assets and trading liabilities

Treasury bills, financing and advances to and from customers, placings with and by banks, debt securities, 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 Bank enters 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’.

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 the trading desk for trading and not for funding purposes 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 Bank enters 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 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 profit rate method, less any impairment losses.

3 Significant Accounting Policies (Cont'd)

(j) Financial investments (Cont'd)

ii) Available-for-sale

Available-for-sale financial assets are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income in 'Available-for-sale reserves – changes 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'.

Profit earned is recognised on available-for-sale debt securities using the effective 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 profit rates. Dividends are recognised in the profit or loss when the right to receive payment is established.

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment in the value of a financial asset. 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.

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 '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.

The impairment methodologies for available-for-sale financial assets are set out in more detail below:

- *Available-for-sale debt securities*
  When assessing available-for-sale debt securities for objective evidence of impairment at the reporting date, the Bank considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in 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 asset below its cost is also 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 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:

3 Significant Accounting Policies (Cont'd)

(j) Financial investments (Cont'd)

- Available-for-sale debt security.
  A subsequent decline in the fair value of the instrument is recognised in the profit or loss if, and only if, there is further 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. If there is no longer objective evidence that the debt security is impaired, the impairment loss is also reversed through the profit or loss;

- 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. Impairment losses recognised on the equity security are not reversed through the profit or loss. 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.

(k) Financing and Advances

Financing and advances consist of Murabahah, Diminishing Musharakah, Bai Al-Inah, Bai Bithaman Ajil, Ijarah, Ijarah Thumma Al-Bai, Bai Al-Dayn and Ujrah contracts. They include financing and advances to customers and placements with banks that originated from the Bank, which are not classified as either held for trading or designated at fair value. They are recognised when cash is advanced to customers and derecognised when either the customer repays its obligations, or the advances 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 profit rate method, less any reduction from impairment or uncollectibility.

For financing under the SIAF/IAA or PSIA arrangements, the Bank applies the derecognition principles as stated in accounting policy Note 3(f)(iii) on derecognition of financial assets.

(l) Impairment of financing and advances

Losses for impaired financing and advances are recognised promptly when there is objective evidence that impairment of a financing or portfolio of financing has occurred or when principal or profit or both are past due for more than ninety (90) days, whichever is sooner. Impairment allowances are calculated on individual financing and on groups of financing assessed collectively. Impairment losses are recorded as charges to the profit or loss. The carrying amount of impaired 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 Bank’s allowance for impaired financing are in conformity with MFRS 139.

i) Individually assessed financing and advances

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

Financing that meet the above criteria will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify a collective assessment.

3 Significant Accounting Policies (Cont'd)

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

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

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

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

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

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

- the 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 financing 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 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 customer to obtain, and make payments in, the currency of the financing if not denominated in local
- when available, the secondary market price of the debt.

The realisable value of security is determined based on the current market value when the impairment assessment is performed. The value is not adjusted for expected future changes in market prices; however, 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 financing, which includes expected future receipts of contractual profit, at the financing's original effective profit rate and comparing the resultant present value with the 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.

3 Significant Accounting Policies (Cont'd)

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

ii) Collectively assessed financing and advances

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

Individually assessed financing for which no evidence of impairment has been specifically identified on an individual basis is grouped together according to their credit risk characteristics for a collective impairment assessment. 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 Bank has incurred as a result of events occurring before the balance sheet date, which the Bank is not able to identify on an individual financing basis, and that can be reliably estimated when information becomes available which identifies losses on individual financing within the group, those 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, financing 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 financing; and
- management’s experienced judgement 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.

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 financing and advances

Statistical methods are used to determine impairment losses for homogeneous groups of financing and advances not considered individually significant. Losses in these groups of financing are recorded individually when individual 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 Bank utilises roll rate methodology which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of financing that will eventually be written off as a result of the events occurring before the balance sheet date which the Bank is not able to identify individually. Individual financing are grouped using ranges past due days and statistical analysis is then used to estimate the likelihood that financing in each range will progress through the various stages of delinquency and become irrecoverable. Additionaly, individual 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 profit 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 Bank adopts a basic formulaic approach based on historical loss rate experience. 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 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.

3 Significant Accounting Policies (Cont'd)

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

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

Homogeneous groups of financing and advances (Cont'd)

These additional portfolio risk factors may include recent financing portfolio growth and product mix, unemployment rates, bankruptcy trends, geographic concentrations, financing product features (such as the ability of customers to repay adjustable-rate financing where reset profit rates give rise to increases in profit charges), economic conditions such as national and local trends in housing markets and 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 factors which can affect customer payment patterns on outstanding financing, 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.

iii) Write-off of financing and advances

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 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 financing impairment allowance account accordingly. The write-back is recognised in profit or loss.

v) Renegotiated financing

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

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 financing will only be reclassified as unimpaired when restructured payment is received and observed for a minimum period of 12 months.

A 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 financing is substantially a different financial instrument.

3 Significant Accounting Policies (Cont'd)

(m) 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 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 an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

(n) Operating leases

Leases, where the the Bank does not assume substantially all the risks and rewards of ownership, are classified as operating leases and the leased assets are not recognised in the statement of financial position of 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 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 Bank’s own bills and acceptances rediscounted and outstanding in the market.

3 Significant Accounting Policies (Cont'd)

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

Financial liabilities are recognised when the Bank enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. 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 profit 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 Commodity Murabahah financing of the Bank are measured at amortised cost using the effective profit 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. Profit payable on subordinated sukuk of the Bank is recognised on an accrual basis.

(r) Provisions

Provisions for liabilities and charges are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation arising from past events, which had arisen as a result of past events and for which a reliable estimate can made of the amount of the obligation.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, 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 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 (if there are any) unless the probability of settlement is remote.

(s) Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as unusual contracts are recorded initially at their fair value, which is generally the fee received or 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.

3 Significant Accounting Policies (Cont'd)

(t) Derivative financial instruments and hedge accounting

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 sukuk 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 comprehensive income. When derivatives are designated as hedges, the Bank classifies 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.

Hedge accounting

At the inception of a hedging relationship, the Bank documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Bank requires 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. Profit on designated qualifying hedges is included in ‘Net finance income’.

i) 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, liabilities or group that contain the hedged risk. If a hedging 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 statement of comprehensive income on a recalculated effective profit rate over the residual period to maturity, unless the hedged item has been derecognised, in which case, it is released to the profit or loss immediately.

ii) 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.

The accumulated gains and losses recognised in other comprehensive income are reclassified to profit or loss in the periods in which the hedged item will affect the profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income are removed from equity and included in the initial measurement of the cost of the asset or liability.

3 Significant Accounting Policies (Cont'd)

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

Hedge accounting (Cont'd)

ii) Cash flow hedge (Cont'd)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income at that time remains in equity until the forecast transaction is eventually recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was 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 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 Bank are:

  Long-term debt issues. The profit payable on certain fixed-rate long-term debt securities issued has been matched with the profit on ‘receive fixed/pay variable’ profit swaps as part of a documented 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;

- applies to a group of financial instruments that 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 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 Bank enters 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.

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 profit or loss as incurred.

3 Significant Accounting Policies (Cont'd)

(w) Share based payments

The Bank's ultimate holding company, HSBC Holdings Plc 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.

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.

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 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 Bank by the weighted average number of shares outstanding during the period.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial Risk Management

a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks (includes foreign exchange, profit rate and equity price risk)
- operational risks

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

Risk management framework

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 Bank regularly reviews 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 Bank's management of risk.

The Executive Committee, Board Risk Committee (constituted by Non-Executive Directors) and Asset and Liability Management Committee, appointed by the Board of Directors, formulate risk management policy, monitor risk and regularly review the effectiveness of 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. In addition, a separate internal Risk Management Committee was set up in 2014 in line with the HSBC Group's Risk Governance Structure to oversee and ensure that risk issues across all businesses are appropriately managed, and that adequate controls exist. The Bank's holding company also has an internal Operational Risk and Internal Control Committee 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 financing, trade finance and holdings of investment debt securities. 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 market, operational and environmental risk, has a functional reporting line to the HSBC Asia Regional Pacific Chief Risk Officer.

The Bank has established a credit process involving credit policies, procedures and financing guidelines which are regularly updated and credit approval authorities delegated from the Board of Directors to the Credit Committee. 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 Committee, Executive Committee, Risk Committee and the Board, covering:

- well defined credit risk appetite on business with growth, maintain and shrink;
- risk concentration and exposures to 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 and Monitor' List trend and Top 10 Distressed names; and
- rescheduled and restructured financing.

b) Credit risk management (Cont'd)

The Bank has 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 Bank's exposure to credit risk is shown in Note 4(b)(i).

(i) Impairment assessment

Individually impaired financing and securities are financing and advances and investment debt securities for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and profit due according to the contractual terms of the financing/investment security. These financing are graded CRR 9-10 in the Bank's internal credit risk grading system. Please refer to Note 4(b)(viii) for further information on the Bank's internal credit risk rating

When impairment losses occur, the Bank reduces the carrying amount of 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 financing that are not considered individually significant. It is the Bank's policy that allowances for impaired financing are created promptly and consistently. Management regularly evaluates the adequacy of the established allowances for impaired financing by conducting a detailed review of the financing portfolio, comparing performance and delinquency statistics with historical trends and assessing the impact of current economic conditions.

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

Past due but not impaired financing and investment debt securities are those for which contractual profit or principal payments are past due, but the Bank 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 Bank.

Examples of exposures past due but not impaired include overdue financing fully secured by cash collateral; house financing that are individually assessed for impairment, and that are in arrears less than 90 days, but where the value of collateral is sufficient to pay both the principal financial obligation and potential profit; 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.

(iii) Financing with renegotiated terms

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

(iv) Write-off of financing and advances

Financing are normally written off, either partially or in full, when there is no realistic prospect of further recovery. Where 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial Risk Management (Cont'd)

b) Credit risk management (Cont'd)

(iv) Write-off of financing and advances (Cont'd)

In line with HSBC Global policy, 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 Bank, takes many forms, the most common method of which is to take collateral. The principal collateral types employed by 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 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 cash and marketable securities are used in much of the over-the-counter (OTC) derivatives activities and in the Bank's securities financing business (securities financing and borrowing or repos and reverse repos).

(v) Collateral held as security

The Bank does not disclose the fair value of collateral held as security or other credit enhancements on financing and advances past due but not impaired, or on individually assessed financing and advances, 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 financing for the Bank as at 31 Dec 2015 are 49.66% (2014: 50.78%). 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 pay the outstanding financing amount. If excess funds arise after the financing has been repaid, they are made available either to pay other secured financiers with lower priority or are returned to the customer. The Bank does not generally occupy repossessed properties for its business use.

(vi) Concentration of credit risk

The Bank monitors concentration of credit risk by sector and geographical location. The analysis of concentration of credit risk from financing and advances to customers is shown in Note 10(iv) and 10(vi). The analysis of concentration of credit risk from the Bank's financial assets are shown in Note 4(b)(viii).

(vii) Financial assets held-for-trading

The Bank holds financial assets held-for-trading of RM10.5 million (2014: RM20.1 million). An analysis of the credit quality of the maximum credit exposure, based on the rating agency Standard & Poor's, is as disclosed in Note 7 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

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

	2015		
	Financing and advances to customers RM'000	**Financing and advances to banks [1] RM'000**	**Other financial assets [2] RM'000**
Carrying amount	**11,968,217**	**4,750,390**	**2,019,034**
Assets at amortised cost			
Individually impaired:			
Gross amount	**235,279**	**-**	**-**
Allowance for impairment	**(68,647)**	**-**	**-**
Carrying amount	**166,632**	**-**	**-**
Past due but not impaired:			
Carrying amount	**776,757**	**-**	**-**
Past due comprises:			
up to 29 days	**533,081**	**-**	**-**
30 - 59 days	**179,099**	**-**	**-**
60 - 89 days	**64,577**	**-**	**-**
	776,757	**-**	**-**
Neither past due nor impaired:			
Strong	**6,202,137**	**4,750,390**	**-**
Medium -good	**2,056,149**	**-**	**-**
Medium-satisfactory	**2,820,917**	**-**	**-**
Substandard	**85,889**	**-**	**-**
Carrying amount	**11,165,092**	**4,750,390**	**-**
of which includes accounts with renegotiated terms	**30,579**	**-**	**-**
Collective allowance for impairment	**(140,264)**	**-**	**-**
Carrying amount-amortised cost	**11,968,217**	**4,750,390**	**-**
Other financial assets			
Neither past due nor impaired:			
Strong	**-**	**-**	**1,775,806**
Medium-good	**-**	**-**	**231,603**
Medium-satisfactory	**-**	**-**	**11,527**
Sub-standard	**-**	**-**	**98**
Carrying amount [3]	**-**	**-**	**2,019,034**
Carrying amount - fair value	**-**	**-**	**2,019,034**

In addition to the above, the Bank had entered into financing commitments and contingencies of RM8,437.9 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 RM1,884.4 million.

[1] Consists of cash and short term funds and deposits and placements with banks and other financial institutions

[2] Consists of derivative financial assets, financial assets held-for-trading and financial investments available-for-sale

[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)

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

	2014		
	Financing and advances to customers RM'000	Financing and advances to banks [1] RM'000	Other financial assets [2] RM'000
Carrying amount	10,680,538	670,934	4,279,220
Assets at amortised cost			
Individually impaired:			
Gross amount	162,227	-	-
Allowance for impairment	(43,821)	-	-
Carrying amount	118,406	-	-
Past due but not impaired:			
Carrying amount	725,811	-	-
Past due comprises:			
up to 29 days	518,029	-	-
30 - 59 days	158,065	-	-
60 - 89 days	49,717	-	-
	725,811	-	-
Neither past due nor impaired:			
Strong	5,475,656	670,934	-
Medium -good	1,935,363	-	-
Medium-satisfactory	2,036,602	-	-
Substandard	513,517	-	-
Carrying amount	9,961,138	670,934	-
of which includes accounts with renegotiated terms	*17,826*	-	-
Collective allowance for impairment	(124,817)	-	-
Carrying amount-amortised cost	10,680,538	670,934	-
Other financial assets			
Neither past due nor impaired:			
Strong	-	-	4,223,942
Medium-good	-	-	54,138
Medium-satisfactory	-	-	376
Sub-standard	-	-	764
Carrying amount	-	-	4,279,220
Carrying amount-fair value [3]	-	-	4,279,220

In addition to the above, the Bank had entered into financing commitments and contingencies of RM6,969.7 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 RM1,879.8 million.

[1] Consists of cash and short term funds and deposits and placements with banks and other financial institutions

[2] Consists of derivative financial assets, financial assets held-for-trading and financial investments available-for-sale

[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)

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

The five credit quality classifications set out and defined below describe the credit quality of HSBC’s financing, debt securities portfolios and derivatives. Since 2008, the medium classification has been subdivided into ‘medium-good’ and ‘medium satisfactory’ to provide further granularity. These five classifications each encompass a range of more granular, internal credit rating grades assigned to corporate and retail financing 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 Bank's debt securities and other bills	External Credit Rating [1]
Strong	A- and above
Medium-good	BBB+ and BBB-
Medium-satisfactory	BB+ to B and unrated
Sub-standard	B- to C
Impaired	Default

[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.

Credit quality of the Bank's corporate financing/derivative financial assets/ deposits and placements with banks and other financial institutions	Internal Credit Rating
Strong	CRR1 - CRR2
Medium-good	CRR3
Medium-satisfactory	CRR4 - CRR5
Sub-standard	CRR6 - CRR8
Impaired	CRR9 - CRR10

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

b) Credit risk management (Cont'd)

(x) Concentration by sector and by location [2]

	31 Dec 2015		31 Dec 2014	
	and advances to banks [3] **RM'000**	**Other financial assets** [4] **RM'000**	Financing and advances to banks [3] RM'000	Other financial assets [4] RM'000
Carrying amount	**4,750,390**	**2,019,034**	670,934	4,279,220
<u>By Sector</u>				
Manufacturing	**-**	**15,272**	-	5,511
Construction	**-**	**10,021**	-	20,055
Real estate	**-**	**3,470**	-	-
Wholesale & retail trade, restaurants & hotels	**-**	**23**	-	2
Transport, storage and communication	**-**	**98**	-	-
Finance, insurance and business services	**4,750,390**	**231,174**	670,934	315,763
Others	**-**	**1,758,976**	-	3,937,889
	4,750,390	**2,019,034**	670,934	4,279,220
<u>By geographical location</u>				
Within Malaysia	**4,493,310**	**1,806,134**	599,850	4,214,831
Outside Malaysia	**257,080**	**212,900**	71,084	64,389
	4,750,390	**2,019,034**	670,934	4,279,220

[2] Concentration by sector and location for financing and advances is disclosed under Note 10(iv) and 10(vi) to the financial statements

[3] Consists of cash and short term funds and deposits and placements with banks and other financial institutions

[4] Consists of derivative financial assets, financial assets held-for-trading and financial investments available-for-sale

c) Liquidity and funding management

Liquidity risk is the risk that the Bank does 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 Bank maintains 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 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 Bank places considerable importance on maintaining their stability. For deposits, stability depends upon preserving depositor confidence in the Bank's capital strength and liquidity, and on competitive and transparent pricing. In aggregate, the Bank is a 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 New Liquidity Framework; and practices and limits set by ALCO and regional Head Office. These limits vary to take account of the depth and liquidity of the local market in which the Bank operates. The Bank maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flows are appropriately balanced and all obligations are met when due.

The Bank's liquidity and funding management process includes:

- projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet advances to core funding ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix;
- 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;
- stress testing and scenario analysis which are important tools in HSBC Group's liquidity management framework. This will also include an assessment of asset liquidity under various stress scenarios;
- managing the maturities and diversify secured and unsecured funding liabilities across markets, products and counterparties; and
- maintaining liabilities of appropriate term relative to asset base.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

c) Liquidity and funding management (Cont'd)

The balances in the tables below will not agree directly with the balances in the statement of financial position as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments. In addition, 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 financing commitments expire without being drawn upon.

i) Cash flows payable by the Bank under financial liabilities by remaining contractual maturities

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**
At 31 Dec 2015					
Non-derivative liabilities					
Deposits by customers	**3,587,064**	**4,382,985**	**1,439,915**	**49,845**	**-**
Deposits and placements from banks and other financial institutions	**-**	**1,610,379**	**1,707,008**	**956,590**	**-**
Bills and acceptances payable	**14,904**	**-**	**-**	**-**	**-**
Multi-Currency Sukuk Programme	**-**	**19,870**	**41,247**	**1,896,361**	**-**
Subordinated Commodity Murabahah financing	**-**	**4,037**	**12,487**	**64,350**	**684,908**
Other liabilities	**38,398**	**1,396,512**	**9,989**	**313**	**-**
Financing and other credit-related commitments	**5,953,651**	**133,109**	**462,519**	**4,189**	**-**
Financial guarantees and similar contracts	**715,109**	**55,316**	**710,850**	**400,436**	**2,691**
	10,309,126	**7,602,208**	**4,384,015**	**3,372,084**	**687,599**
Derivative liabilities					
Gross settled derivatives					
- Inflow	**-**	**(443,397)**	**(289,954)**	**(846,981)**	**-**
- Outflow	**-**	**528,394**	**327,823**	**1,140,086**	**-**
Net settled drrivatives	**-**	**1,122**	**(317)**	**18,628**	**-**

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
At 31 Dec 2014					
Non-derivative liabilities					
Deposits by customers	4,893,619	4,685,281	1,426,767	45,821	-
Deposits and placements from banks and other financial institutions	-	935,219	1,058,910	585,246	-
Bills and acceptances payable	25,709	-	-	-	-
Multi-Currency Sukuk Programme	-	9,349	9,349	528,099	-
Subordinated Commodity Murabahah financing	-	1,660	5,186	27,217	302,285
Other liabilities	23,856	97,391	9,426	274	-
Financing and other credit-related commitments	3,047,539	671,438	414,128	956,814	-
Financial guarantees and similar contracts	155,738	802,218	615,977	188,865	-
	8,146,461	7,202,556	3,539,743	2,332,336	302,285
Derivative liabilities					
Gross settled derivatives					
- Inflow	-	(473,198)	(228,648)	(521,083)	-
- Outflow	-	493,322	240,913	567,169	6,632
Net settled drrivatives	-	2,769	5,227	4,182	-

d) Market risk management

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

The objective of 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 a premier provider of financial products and services.

There were no significant changes to our policies and practices for the management of market risk in 2015.

The Bank separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market making, proprietary position taking and other marked-to-market positions so designated. Non-trading portfolios primarily arise from the profit rate management of the Bank's retail and commercial banking assets and liabilities, and financial investments 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 either the Global Markets or to a separate book managed under the supervision of ALCO. 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 Bank has an independent market risk 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 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 value at risk and present value of a basis point, together with stress and sensitivity 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 that occur 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 VAR models used by the Bank are based predominantly on historical simulation. 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 profit 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 Bank incorporate the following features:

- historical market rates and prices are calculated with reference to foreign exchange rates and commodity prices, profit 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 is calculated to a 99 per cent confidence level and use a one-day holding period scaled to 10 days. 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 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 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.

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)

A summary of the VAR position of the Bank's trading portfolio at the reporting date is as follows:

RM'000	**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**

RM'000	At 31 Dec 2014	Average	Maximum	Minimum
Foreign currency risk	74	56	187	7
Profit rate risk	34	39	108	18
Credit spread risk	-	-	-	-
Overall	60	68	203	22

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 hedged in one day. 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 Bank recognises 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 profit rates, exchange rates and other main economic indicators on the Bank’s profitability, capital adequacy and liquidity. The stress-testing provides the Risk Committee with an assessment of the financial impact of identified extreme events on the market risk exposures of 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 profit rates, for 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 profit rate swaps) are used for hedging purposes in the management of asset and liability portfolios and structured positions. This enables 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

(ii) Exposure to profit rate risk - non-trading portfolio

Market risk in non-trading portfolios arises principally from mismatches between the future yields on assets and their funding cost as a result of profit rate changes. This market risk is transferred to Global Markets and ALCO portfolios, 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 profit rate risk of the products and hence are subject to scrutiny from ALCO, the regional Head Office and GMO WMR. The net exposure is monitored against the limits granted by GMO 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.

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 Bank to profit rates. Non-trading portfolios are subject to prospective profit rate movements which could reduce future net finance income. Non-trading portfolios include positions that arise from the profit rate management of 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 profit rate changes. Analysis of this risk is complicated by having to make assumptions within certain product areas such as the incidence of financing prepayments, and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts.

The Bank manages market risk in non-trading portfolios by monitoring the sensitivity of projected net finance income under varying profit rate scenarios (simulation modelling). For simulation modelling, 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 profit rates and a 25 basis points fall or rise in 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 profit rate risk. In reality, the business units would proactively seek to change the profit rate profile to minimise losses and to optimise net revenues. Other simplifying assumptions are made, including that all positions run to maturity.

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

(iii) Sensitivity of projected net finance income

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

	RM'000			
	31 Dec 2015		31 Dec 2014	
Basis point parallel shift in yield curve	*+100 bps*	*-100 bps*	*+100 bps*	*-100 bps*
RM	**45,092**	**(45,057)**	12,307	(12,286)
USD	**8,961**	**(6,878)**	4,950	(2,130)
Others	**3,807**	**(2,934)**	(319)	148
	57,860	**(54,869)**	16,938	(14,268)

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

d) Market risk management (Cont'd)

(iii) Sensitivity of projected net finance income (Cont'd)

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

	RM'000			
			31 Dec 2014	
Basis point parallel shift in yield curve	*+200 bps*	*-200 bps*	*+200 bps*	*-200 bps*
RM	**(38,879)**	**38,879**	(70,804)	84,385
USD	**(21,600)**	**8,640**	7,769	(5,980)
Others	**8,640**	**(4,320)**	7,428	(3,548)
	(51,839)	**43,199**	(55,607)	74,857

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

Sensitivity of reported reserves in "other comprehensive income" to 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.

	RM'000			
	31 Dec 2015		31 Dec 2014	
Basis point parallel shift in yield curve	*+100 bps*	*-100 bps*	*+100 bps*	*-100 bps*
RM	**(30,349)**	**30,349**	(34,937)	34,937

(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 Bank controls the foreign exchange risk within the trading portfolio by limiting the open exposure to individual currencies, and on an aggregate basis.

	RM'000			
	31 Dec 2015		31 Dec 2014	
Appreciation/depreciation	***+1%***	***-1%***	*+1%*	*-1%*
Impact to profit after income tax expense	**104**	**(104)**	(73)	73

Change in foreign exchange rate has no impact to other comprehensive income as at the reporting date (2014: NIL).

The Bank measures 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 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 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 Bank are traded on a back-to-back basis with HSBC group offices and therefore have no open exposure.

4 Financial risk management (Cont'd)

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.

(i) Three lines of defence

The Three Lines of Defence model is essential to delivering strong risk management within the bank. It defines who is responsible to do what to identify, assess, measure, manage, monitor, and mitigate operational risks, encouraging collaboration and enabling efficient coordination of risk and control activities.

- The first line of defence is accountable for managing and monitoring operational risk in the business.
- The second line is responsible for providing risk oversight, challenge, advice and insights to the business.
- The third line of defence independently assures that the Bank is managing operational risk effectively.

Having a strong Three Lines of Defence model in operation across the bank enables us to identify and effectively manage operational risks.

Activity to strengthen our operational risk culture and to better embed the use of our ORMF continued in 2015. 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.

(ii) Other featured operational risks

- *Challenges to achieving our 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.
- *Fraud and financial crime*: 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 these risks.
- *Third party risks:* 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 Bank’s ability service its customers.
- *Regulatory compliance:* our ability to respond to increasing demands or changes in regulatory 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Financial risk management (Cont'd)

e) Operational risk management (Cont'd)

In operationalising the operational risk management framework, 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 Bank stay in line with best practice and takes account of lessons learned from publicised operational failures within the financial services industry.

The Bank adheres to the HSBC Global Standard on operational risk. This standard explains how HSBC manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk vulnerabilities and implementing any additional procedures required for compliance with local statutory requirements. The standard 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;
- risk mitigation, including insurance, is considered where this is cost-effective.

The Bank maintains and tests contingency facilities to support operations in the event of disasters. Additional reviews and tests are conducted in the event that 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 principal forms of capital are included in the following balances on the 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 requirement

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, retained earnings, reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. The Bank does not have any Additional Tier 1 Capital as at 31 December 2015.
- Tier 2 capital includes qualifying subordinated liabilities, collective impairment allowances (excluding collective impairment allowances attributable to loans classified as impaired) and regulatory reserve, which are disclosed as the regulatory adjustments.

(ii) Basel III

Since December 2010, the Basel Committee has developed a comprehensive set of reform measures covering additional capital and liquidity requirements, commonly referred to as 'Basel III'.

The Basel III capital rules set out the minimum common equity tier 1 (CET1) requirement of 4.5% and a minimum total capital requirement of 8% from 1 January 2015.

In addition to the criteria detailed in the Basel III proposals, the Basel Committee issued further minimum requirements in January 2011 to ensure that all classes of capital instruments fully absorb losses at the point of non-viability before taxpayers are exposed to loss. Instruments issued on or after 1 January 2013 may only be included in regulatory capital if the new requirements are met. The capital treatment of securities issued prior to this date will be phased out over a 10-year period commencing on 1 January 2013.

BNM's updated guidelines on Capital Adequacy Framework for Islamic Banks (Capital Components) came into effect in 2015 to implement Basel III capital buffer requirements. The changes include the phasing-in from 2016 to 2019 of the Capital Conservation Buffer (CCB), which is intended to build up capital buffers by individual banking institutions during normal times that can be drawn down during stress periods, and the Countercyclical Capital Buffer (CCyB) which 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 Bank will be 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.

As a consequence of the developments outlined above, there remains uncertainty over the timing and trajectory of implementation of the full Basel III capital requirements and residual uncertainty as to the minimum levels of capital that the group will be required to hold.

5 Use of estimates and judgements

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

The accounting policies that are deemed critical to 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 judgement including the use of assumptions and estimation, are discussed below.

(a) Impairment of financing and advances

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

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 judgements 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 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 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.

2015	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**	**Total RM'000**
Financial assets held-for-trading (Note 7)	**10,492**	**-**	**-**	**10,492**
Financial investments available-for-sale [1] (Note 8)	**1,701,243**	**-**	**-**	**1,701,243**
Derivative financial assets (Note 11)	**-**	**307,299**	**-**	**307,299**
	1,711,735	**307,299**	**-**	**2,019,034**
Trading liabilities [2]	**-**	**1,177,159**	**91,498**	**1,268,657**
Derivative financial liabilities (Note 11)	**101**	**467,443**	**5,687**	**473,231**
	101	**1,644,602**	**97,185**	**1,741,888**
2014				
Financial assets held-for-trading (Note 7)	20,055	-	-	20,055
Financial investments available-for-sale [1] (Note 8)	1,421,640	2,713,683	-	4,135,323
Derivative financial assets (Note 11)	-	121,281	2,561	123,842
	1,441,695	2,834,964	2,561	4,279,220
Trading liabilities [2]	-	1,479,097	292,381	1,771,478
Derivative financial liabilities (Note 11)	-	123,035	4,582	127,617
	-	1,602,132	296,963	1,899,095

[1] *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.*

[2] *Trading liabilities consist of structured products classified as trading, net short position in securities form part of the balance reported under Note 20 (Other Liabilities).*

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

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

(i) Control framework

Fair values are subject to a control framework that aims 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 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.

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 of financial instruments carried at fair value

Fair values are determined according to the following hierachy:

- Level 1 - Quoted market price
  Financial instruments with quoted prices for identical instruments in active markets that 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 identical or 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 best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities used. Where a financial instrument has a quoted price in an active market, the fair value of the portfolio is calculated as the product of the number of units and quoted price. In the event that the market for a financial instrument is not active, a valuation technique is used.

5 Use of estimates and judgements (Cont'd)

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

(ii) Determination of fair value of financial instruments carried at fair value (Cont'd)

The judgement 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.

(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 upon the instrument type and available market data. Most 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 profit rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an profit rate swap. Projection uses 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 upon more than one market factor, and in these cases it will typically be necessary to consider how movements in one market factor may impact the other market factors. The model inputs necessary to perform such calculations include 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. If, in the opinion of management an instrument in its entirety is classified as valued using significant unobservable inputs, 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 Bank issues structured notes.

Gains and losses arising from changes in the credit spread of liabilities issued by the Bank reverse over the contractual life of the debt, provided that the debt is not paid 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 Bank considers that there are additional factors that would be considered relevant by a market participant that are not incorporated within the valuation model. The Bank classifies 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. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (Cont'd)

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

(iv) *Fair value adjustments (Cont'd)*

- **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.

(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 valuation model.

(iii) Credit valuation adjustment
The credit valuation adjustment 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 Bank may not receive the full market value of the transactions. Further detail is provided below.

(iv) Debit valuation adjustment
The debit valuation adjustment is an adjustment to the valuation of over-the-counter derivative contracts to reflect within fair value the possibility that the Bank may default, and that the Bank may not pay full market value of the transactions.

(v) Funding fair value adjustment
The funding fair value adjustment 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. The expected future funding exposure is adjusted for events that may terminate the exposure such as the default of the group or the counterparty. The funding fair value adjustment and debit valuation adjustment 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 judgements (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 Bank calculates a separate credit valuation adjustment (CVA) and debit valuation adjustment (DVA) for each counterparty to which the Bank has exposure.

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

For most products, the Bank uses 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. A standard loss given default (LGD) assumption of 60% is generally adopted for developed market exposures, and 75% for emerging market exposures. Alternative loss given default assumptions may be adopted where both the nature of the exposure and the available data support this.

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 probability of default by the counterparty. When there is significant wrong-way risk, a trade-specific approach is applied to reflect the wrong-way risk within the valuation.

With the exception of certain central clearing parties, the Bank includes all third-party counterparties in the CVA and DVA calculations and does not net these adjustments across the Bank’s entities. During the year, the Bank refined the methodologies used to calculate the CVA and DVA to more accurately reflect credit mitigation. The Bank reviews and refines the CVA and DVA methodologies on an ongoing basis.

- **Valuation of uncollateralised derivatives**

In line with evolving industry practice, funding fair value adjustment (FFVA) reflects the funding of uncollateralised derivative exposure at rates other than overnight profitt rate (OIS). As at 31 December 2015, the FFVA was -RM4.9m (2014: -RM1.7m) for the Bank, which has a one-off impact on trading revenue. This is an area in which a full industry consensus has not yet emerged. The Bank will continue to monitor industry evolution and refine the calculation methodology as necessary.

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NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (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:

	2015			2014		
RM'000	**Derivative financial assets**	**Derivative financial liabilities**	**Trading liabilities**	Derivative financial assets	Derivative financial liabilities	Trading liabilities
Balance at 1 January	**2,561**	**4,582**	**292,381**	-	10,506	200,320
Total gains or losses in profit or loss	**(2,561)** [1]	**22,385** [1]	**(18,183)** [2]	2,567 [2]	(5,924) [2]	8,396 [1]
Issues	**-**	**-**	**85,525**	-	-	218,711
Settlements	**-**	**-**	**(239,698)**	-	-	(130,533)
Transfer out of Level 3	**-**	**(21,280)**	**(28,527)**	(6)	-	(4,513)
Balance at 31 December	**-**	**5,687**	**91,498**	2,561	4,582	292,381

[1] Denotes losses in profit or loss
[2] Denotes gains in 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 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'.

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:

	2015			2014		
RM'000	**Derivative financial assets**	**Derivative financial liabilities**	**Trading liabilities**	Derivative financial assets	Derivative financial liabilities	Trading liabilities
Total gains or losses included in profit or loss for the year ended:						
- Net trading income	**(2,562)** [1]	**-**	**6,283** [2]	-	(10,340) [2]	5,946 [1]
Total gains or losses for the year ended included in profit or loss for assets and liabilities held at the end of the year:						
- Net trading income	**-**	**22,385** [1]	**(24,466)** [2]	2,567 [2]	4,416 [1]	2,450 [1]

[1] Denotes losses in profit or loss
[2] Denotes gains in profit or loss

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Use of estimates and judgements (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 for the current year, as well as the key unobservable inputs used in the valuation models.

Type of Financial Instruments	Valuation Technique	Key unobservable inputs	Range of estimates for unobservable input
Trading liabilities	Option model	Long term equity volatility	**2015 : 21.73%** [1] 2014 : 17.81% - 29.49%
		Foreign currency volatility	**2015 : 4.91% - 20.47%** 2014 : 3.63% - 4.96%

[1] Upper and lower ranges are the same

(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 Bank may incur in hedging the risks associated with the option. If option prices become more expensive, this will increase the value of the Bank’s long option positions (i.e. the positions in which the Bank has purchased options), while the Bank’s short option positions (i.e. the positions in which the Bank has sold options) will suffer losses.

Volatility varies by underlying reference market price, and by strike and maturity of the option. 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Cash and Short-Term Funds

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Cash and balances with banks and other financial institutions	**369,010**	170,934
Money at call and interbank placements maturing within one month	**4,381,380**	500,000
	4,750,390	670,934

7 Financial Assets Held for Trading

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	**490**	20,055
Unquoted securities:		
Private debt securities (including commercial paper credit)	**10,002**	-
	10,492	20,055

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

	Rating		
Money market instruments:			
Malaysian Government Islamic bonds	*A+ to A-*	**490**	20,055
Unquoted securities:			
Private debt securities	- [1]	**10,002**	-
		10,492	20,055

[1] Rated separately by another rating agency

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

8 Financial Investments Available-for-Sale

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
At fair value		
Money market instruments:		
Bank Negara Malaysia bills	**-**	2,484,809
Malaysian Government Islamic bonds	**1,701,243**	1,421,640
Negotiable instruments of deposit	**-**	228,874
	1,701,243	4,135,323

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

Maturing within one year	**171,710**	2,813,526
More than one year to three years	**1,310,874**	683,491
More than three years to five years	**218,659**	638,306
	1,701,243	4,135,323

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

9 Financing and Advances

(i) By type and Shariah contracts

At amortised cost	Sale-based contracts				Lease-based contracts		Equity-based contracts		
	Commodity Murabahah	Bai Bithaman Ajil	Bai Al-Inah	Bai Al-Dayn	Ijarah	Ijarah Thumma Al-Bai	Diminishing Musharakah	Ujrah	Total
31 Dec 2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	90,400	-	-	-	-	-	-	-	90,400
Term financing:									
House financing	-	1,179	-	-	-	-	4,207,587	-	4,208,766
Hire purchase receivables	-	-	-	-	-	229,552	-	-	229,552
Lease receivables	-	-	-	-	4,103	-	-	-	4,103
Other term financing	3,773,028	25,973	31,784	-	-	-	992,306	-	4,823,091
Trust receipts	603,681	-	-	-	-	-	-	-	603,681
Claims on customers under acceptance credits	833,970	-	-	-	-	-	-	-	833,970
Staff financing-i	3,468	-	775	-	-	-	3,266	-	7,509
Credit cards-i	-	-	-	-	-	-	-	569,358	569,358
Revolving credit	806,698	-	-	-	-	-	-	-	806,698
Gross financing and advances	6,111,245	27,152	32,559	-	4,103	229,552	5,203,159	569,358	12,177,128
Less: Allowance for impaired financing									
Collective allowances for impairment									(140,264)
Individual allowances for impairment									(68,647)
Total net financing and advances									11,968,217

	Sale-based contracts				Lease-based contracts		Equity-based contracts		
	Commodity Murabahah	Bai Bithaman Ajil	Bai Al-Inah	Bai Al-Dayn	Ijarah	Ijarah Thumma Al-Bai	Diminishing Musharakah	Ujrah	Total
31 Dec 2014 (Restated)	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	92,561	-	647	-	-	-	-	-	93,208
Term financing:									
House financing	-	2,449	-	-	-	-	3,818,297	-	3,820,746
Hire purchase receivables	-	-	-	-	-	234,530	-	-	234,530
Lease receivables	-	-	-	-	5,373	-	-	-	5,373
Other term financing	3,419,045	108,205	138,882	-	-	-	925,242	-	4,591,374
Trust receipts	358,591	-	-	-	-	-	-	-	358,591
Claims on customers under acceptance credits	461,478	-	-	157,780		-	-	-	619,258
Staff financing-i	2,941	-	1,046	-	-	-	4,050	-	8,037
Credit cards-i	-	-	-	-	-	-	-	499,820	499,820
Revolving credit	618,239	-	-	-	-	-	-	-	618,239
Gross financing and advances	4,952,855	110,654	140,575	157,780	5,373	234,530	4,747,589	499,820	10,849,176
Less: Allowance for impaired financing									
Collective allowances for impairment									(124,817)
Individual allowances for impairment									(43,821)
Total net financing and advances									10,680,538

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

9 Financing and Advances (Cont'd)

(ii) By type of customer

	31 Dec 2015 RM'000	31 Dec 2014 RM'000 (Restated)
Domestic non-bank financial institutions	**670,298**	392,939
Domestic business enterprises:		
Small medium enterprises	**2,004,648**	1,958,012
Others	**2,944,504**	2,216,241
Government and statutory bodies	**13,566**	15,898
Individuals	**5,431,238**	4,931,784
Other domestic entities	**1,568**	1,657
Foreign entities	**1,111,306**	1,332,645
	12,177,128	10,849,176

(iii) By profit rate sensitivity

	31 Dec 2015 RM'000	31 Dec 2014 RM'000 (Restated)
Fixed rate:		
House financing	**1,135**	2,356
Hire purchase receivables	**229,552**	234,530
Other financing	**2,840,103**	2,339,521
Variable rate:		
BR/BFR plus	**5,277,948**	4,843,482
Cost-plus	**3,828,390**	3,429,287
	12,177,128	10,849,176

(iv) By residual contractual maturity

	31 Dec 2015 RM'000	31 Dec 2014 RM'000 (Restated)
Maturing within one year	**4,532,866**	4,711,242
More than one year to three years	**642,702**	402,099
More than three years to five years	**1,490,233**	873,355
Over five years	**5,511,327**	4,862,480
	12,177,128	10,849,176

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

9 Financing and Advances (Cont'd)

(v) By sector

	31 Dec 2015 RM'000	31 Dec 2014 RM'000 (Restated)
Agriculture, hunting, forestry & fishing	**624,260**	266,339
Mining and quarrying	**206,294**	167,795
Manufacturing	**1,306,244**	1,233,112
Electricity, gas and water	**14,772**	76,190
Construction	**597,155**	702,597
Real estate	**392,934**	238,026
Wholesale & retail trade, restaurants & hotels	**1,088,766**	793,365
Transport, storage and communication	**166,443**	213,442
Finance, takaful and business services	**1,035,462**	689,121
Household - Retail	**6,073,723**	5,527,443
Others	**671,075**	941,746
	12,177,128	10,849,176

(vi) By purpose

	31 Dec 2015 RM'000	31 Dec 2014 RM'000 (Restated)
Purchase of landed property:		
Residential	**4,212,033**	3,823,177
Non-residential	**840,581**	796,247
Purchase of transport vehicles	**2,122**	2,359
Purchase of fixed assets excluding land & building	**3,706**	12,716
Consumption credit	**1,588,371**	1,449,760
Construction	**586,283**	702,597
Working capital	**4,461,645**	3,307,779
Other purpose	**482,387**	754,541
	12,177,128	10,849,176

(vii) By geographical distribution

	31 Dec 2015 RM'000	31 Dec 2014 RM'000 (Restated)
Northern Region	**1,448,803**	1,368,837
Southern Region	**1,638,669**	1,529,537
Central Region	**8,609,131**	7,468,846
Eastern Region	**480,525**	481,956
	12,177,128	10,849,176

Concentration by location for financing and advances is based on the location of the customer.
The Northern region consists of the states of Perlis, Kedah, Penang, Perak, Pahang, Kelantan and Terengganu.
The Southern region consists of the states of Johor, Malacca and Negeri Sembilan.
The Central region consists of the states of Selangor and the Federal Territory of Kuala Lumpur.
The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

9 Financing and Advances (Cont'd)

(viii) Assets under Management

The details of assets under management in respect of the Restricted Investment Account (RPSIA) and Syndicated Investment Agency Financing (SIAF)/Investment Agency Account (IAA) financing are as below. The exposures and the corresponding risk weighted amount are reported in investors' financial statements.

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Under SIAF/IAA arrangement	**1,573,615**	-
Under RPSIA arrangement	**19,918**	415,743
Total net financing and advances	**1,593,533**	415,743

Commitments and Contingencies	**Credit Principal amount RM'000**	**Credit equivalent amount RM'000**	**Risk weighted amount RM'000**
Irrevocable commitments to extend credit:			
Maturity not exceeding one year			
- **at 31 Dec 2015**			
Under SIAF/IAA arrangement	**180,273**	**36,055**	**36,055**
Under RPSIA arrangement	**858,598**	**171,720**	**171,720**
	1,038,871	**207,775**	**207,775**
- at 31 Dec 2014			
Under SIAF/IAA arrangement	-	-	-
Under RPSIA arrangement	-	-	-
	-	-	-

	Principal RM'000	**Risk weighted RM'000**
Total RWA for Credit Risk		
- **at 31 Dec 2015**		
Under SIAF/IAA arrangement	**1,609,670**	**1,609,670**
Under RPSIA arrangement	**191,638**	**191,638**
	1,801,308	**1,801,308**
- at 31 Dec 2014		
Under SIAF/IAA arrangement	-	-
Under RPSIA arrangement	415,743	415,743
	415,743	415,743

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

9 Financing and Advances (Cont'd)

(viii) Assets under Management (Cont'd)

The Restricted Profit Sharing Investment Account (RPSIA) is with the Bank's holding company, HSBC Bank Malaysia Berhad (HBMY), and the contract is based on the Mudharabah principle where HBMY provides the funds, whilst the assets are managed by the Bank. The profits of the underlying assets are shared based on pre-agreed ratios, whilst risks on the financing are borne by HBMY. Hence, the underlying assets and allowances for impairment arising thereon, if any, are recognised and accounted for by HBMY. Effective 31 March 2015, Syndicated Investment Account for Financing / Investment Agency Account (SIAF / IAA) replaces RPSIA for new financing and advances.

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

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

10 Impaired Financing

(i) Movements in impaired financing and advances

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Balance at 1 January	**162,227**	166,906
Classified as impaired during the financial year	**319,623**	265,934
Reclassified as performing	**(109,381)**	(132,732)
Amount recovered	**(54,894)**	(64,272)
Amount written off	**(82,296)**	(73,609)
Balance at 31 December	**235,279**	162,227

(ii) Movements in allowance for impaired financing

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Collective allowance for impairment		
Balance at 1 January	**124,817**	119,290
Made during the financial year	**152,186**	118,612
Amount released	**(58,310)**	(25,873)
Amount written off	**(78,429)**	(87,212)
Balance at 31 December	**140,264**	124,817

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Individual allowance for impairment		
Balance at 1 January	**43,821**	41,137
Made during the financial year	**45,829**	33,643
Amount recovered	**(27,717)**	(31,739)
Amount written off	**6,714**	780
Balance at 31 December	**68,647**	43,821

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Impaired Financing (Cont'd)

(iii) By contract

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Bai Bithaman Ajil *(deferred payment sale)*	**69**	135
Bai Al-Dayn *(sale of debt)*	**-**	47
Ijarah Thumma Al-Bai (AITAB) *(hire purchase)*	**7,049**	11,759
Murabahah *(cost-plus)*	**102,339**	43,961
Musharakah (*profit and loss sharing)*	**110,720**	80,142
Bai Al-Inah *(sell and buy back)*	**2,776**	12,033
Ujrah *(fee-based)*	**12,326**	14,150
	235,279	162,227

(iv) By sector

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Manufacturing	**21,093**	13,592
Electricity, gas and water	**-**	3
Construction	**204**	782
Wholesale & retail trade, restaurants & hotels	**9,672**	2,941
Transport, storage and communication	**5,443**	5,670
Finance, takaful and business services	**5,527**	625
Household - Retail	**192,687**	138,017
Others	**653**	597
	235,279	162,227

(v) By purpose

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Purchase of landed property:		
- Residential	**94,984**	55,963
- Non-residential	**10,255**	7,186
Purchase of transport vehicles	**133**	296
Purchase of fixed assets excluding land & building	**358**	-
Consumption credit	**95,770**	74,674
Construction	**204**	782
Working capital	**33,575**	22,640
Other purpose	**-**	686
	235,279	162,227

(vi) By geographical distribution

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Northern Region	**54,102**	33,864
Southern Region	**30,267**	21,245
Central Region	**141,764**	97,980
Eastern Region	**9,146**	9,138
	235,279	162,227

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

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

	Contract / Notional Amount				**Positive Fair Value**				**Negative Fair Value**			
	Up to 1 Year	**>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**
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	**2,389,269**	**-**	**-**	**2,389,269**	**59,414**	**-**	**-**	**59,414**	**54,748**	**-**	**-**	**54,748**
- Swaps	**-**	**1,676,892**	**-**	**1,676,892**	**-**	**228,113**	**-**	**228,113**	**-**	**232,103**	**-**	**232,103**
- Options	**48,046**	**349,125**	**-**	**397,171**	**-**	**4,918**	**-**	**4,918**	**-**	**4,918**	**-**	**4,918**
Profit rate related contracts												
- Swaps	**1,201,265**	**6,114,917**	**-**	**7,316,182**	**2,221**	**10,996**	**-**	**13,217**	**1,760**	**15,869**	**-**	**17,629**
- Options	**-**	**250,891**	**-**	**250,891**	**-**	**849**	**-**	**849**	**-**	**2,908**	**-**	**2,908**
Equity related contracts												
- Options purchased	**192,724**	**948,669**	**-**	**1,141,393**	**83**	**306**	**-**	**389**	**70,618**	**90,106**	**-**	**160,724**
Sub- total	**3,831,304**	**9,340,494**	**-**	**13,171,798**	**61,718**	**245,182**	**-**	**306,900**	**127,126**	**345,904**	**-**	**473,030**
Hedging Derivatives:												
Fair Value Hedge												
Profit rate related contracts												
- Swaps	**-**	**280,000**	**-**	**280,000**	**-**	**399**	**-**	**399**	**-**	**201**	**-**	**201**
Sub- total	**-**	**280,000**	**-**	**280,000**	**-**	**399**	**-**	**399**	**-**	**201**	**-**	**201**
Total	**3,831,304**	**9,620,494**	**-**	**13,451,798**	**61,718**	**245,581**	**-**	**307,299**	**127,126**	**346,105**	**-**	**473,231**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Derivative Financial Instruments (Cont'd)

	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
31 Dec 2014	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	1,931,962	-	-	1,931,962	51,636	-	-	51,636	36,516	-	-	36,516
- Swaps	-	928,905	-	928,905	-		-	52,982	-	47,200	-	47,200
- Options	39,395	-	-	39,395	1,670	-	-	1,670	32	-	-	32
Profit rate related contracts												
- Swaps	30,000	4,161,873	-	4,191,873	12	11,334	-	11,346	-	10,689	-	10,689
- Options	-	376,261	-	376,261	-	-	-	-	-	6,632	-	6,632
Equity related contracts												
- Options purchased	250,213	972,460	-	1,222,673	2,430	2,908	-	5,338	3,301	23,219	-	26,520
Sub- total	2,251,570	6,439,499	-	8,691,069	55,748	67,224	-	122,972	39,849	87,740	-	127,589
Hedging Derivatives:												
Fair Value Hedge												
Profit rate related contracts												
- Swaps	-	280,000	-	280,000	-	870	-	870	-	28	-	28
Sub- total	-	280,000	-	280,000	-	870	-	870	-	28	-	28
Total	2,251,570	6,719,499	-	8,971,069	55,748	68,094	-	123,842	39,849	87,768	-	127,617

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

	31 Dec 2015	31 Dec 2014
	RM'000	RM'000
(Loss)/gain on hedging instruments	**(632)**	199
Gain/(loss) on the hedged items attributable to the hedged risk	**646**	(302)
	14	(103)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Other Assets

	31 Dec 2015 RM'000	31 Dec 2014 RM'000 Restated
Income receivable	**12,037**	13,591
Amount due from holding company/ related companies	**209,358**	135,415
Other receivables, deposits and prepayments	**20,216**	90,281
	241,611	239,287

13 Statutory deposits with Bank Negara Malaysia

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Equipment

2015	Office equipment, fixtures and fittings	Computer equipment	Motor vehicles	Total
	RM'000	RM'000	RM'000	RM'000
Cost				
Balance at 1 January	**34,938**	**17,632**	**221**	**52,791**
Additions	**131**	**794**	**299**	**1,224**
Disposals	**-**	**-**	**(221)**	**(221)**
Balance at 31 December	**35,069**	**18,426**	**299**	**53,794**
Accumulated depreciation				
Balance at 1 January	**25,081**	**11,327**	**169**	**36,577**
Charge for the financial year	**4,926**	**2,112**	**68**	**7,106**
Disposals	**-**	**-**	**(177)**	**(177)**
Balance at 31 December	**30,007**	**13,439**	**60**	**43,506**
Net book value at 31 December	**5,062**	**4,987**	**239**	**10,288**

2014	Office equipment, fixtures and fittings	Computer equipment	Motor vehicles	Total
	RM'000	RM'000	RM'000	RM'000
Cost				
Balance at 1 January	33,776	17,160	221	51,157
Additions	1,162	728	-	1,890
Written off	-	(256)	-	(256)
Balance at 31 December	34,938	17,632	221	52,791
Accumulated depreciation				
Balance at 1 January	18,832	9,407	125	28,364
Charge for the financial year	6,249	2,176	44	8,469
Written off	-	(256)	-	(256)
Balance at 31 December	25,081	11,327	169	36,577
Net book value at 31 December	9,857	6,305	52	16,214

15 Intangible assets

	31 Dec 2015	31 Dec 2014
	RM'000	RM'000
Computer software		
Cost		
Balance at 1 January	**5,093**	5,093
Written off	**(40)**	-
Balance at 31 December	**5,053**	5,093
Accumulated depreciation		
Balance at 1 January	**5,091**	5084
Charge for the financial year	**2**	7
Written off	**(40)**	**-**
Balance at 31 December	**5,053**	5,091
Net book value at 31 December	**-**	2

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Deferred Tax Assets

The amounts, prior to offsetting are summarised as follows:

	31 Dec 2015	31 Dec 2014
	RM'000	RM'000
Deferred tax assets	**7,581**	9,066
Deferred tax liabilities	**(2,033)**	(1,309)
	5,548	7,757

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

Deferred tax assets		
- settled more than 12 months	**2,800**	4,054
- settled within 12 months	**4,781**	5,012
Deferred tax liabilities		
- settled more than 12 months	**(1,730)**	(930)
- settled within 12 months	**(303)**	(379)
	5,548	7,757

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

	31 Dec 2015	31 Dec 2014
	RM'000	RM'000
Equipment capital allowances	**(449)**	(1,273)
Available-for-sale reserve	**(1,562)**	2,049
Provision for accrued expenses	**7,457**	6,994
Other temporary differences	**124**	23
Lease receivables	**(22)**	(36)
	5,548	7,757

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Deferred Tax Assets (Cont'd)

The movements in temporary differences during the financial year are as follows:

2015	Balance at 1 January RM'000	Recognised in profit or loss RM'000	Recognised in other comprehensive income RM'000	Balance at 31 December RM'000
Available-for-sale reserve	**2,049**	**-**	**(2,049)**	**-**
Provision for accrued expenses	**6,994**	**463**	**-**	**7,457**
Other temporary differences	**23**	**101**	**-**	**124**
Deferred Tax Assets	**9,066**	**564**	**(2,049)**	**7,581**
Equipment capital allowances	**(1,273)**	**824**	**-**	**(449)**
Lease receivables	**(36)**	**14**	**-**	**(22)**
Available-for-sale reserves	**-**	**-**	**(1,562)**	**(1,562)**
Deferred Tax Liabilities	**(1,309)**	**838**	**(1,562)**	**(2,033)**
Net Deferred Tax Assets	**7,757**	**1,402**	**(3,611)**	**5,548**
2014				
Available-for-sale reserve	1,987	-	62	2,049
Provision for accrued expenses	7,039	(45)	-	6,994
Other temporary differences	16	7	-	23
Deferred Tax Assets	9,042	(38)	62	9,066
Equipment capital allowances	(1,887)	614	-	(1,273)
Lease receivables	(62)	26	-	(36)
Available-for-sale reserves	-	-	-	-
Deferred Tax Liabilities	(1,949)	640	-	(1,309)
Net Deferred Tax Assets	7,093	602	62	7,757

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Tax Recoverable

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Tax recoverable	**5,162**	8,861

18 Deposits From Customers

(i) By type of deposit

At amortised cost	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Non-Mudharabah Fund		
Demand deposits		
- Wadiah	**1,857,231**	1,548,966
Savings deposits		
- Wadiah	**1,589,421**	1,351,171
Fixed return investment deposits		
- Murabahah	**5,799,059**	6,082,562
Islamic repurchase agreements		
- Bai Al-Inah	**140,412**	205,055
At fair value		
Negotiable instruments of deposits		
- Wakalah with Commodity Wa'ad	**-**	681,411
Structured products [1]		
- Wakalah with Commodity Wa'ad	**-**	1,021,151
- Wakalah with Mudharabah	**-**	85,865
	9,386,123	10,976,181

[1] Effective 1 July 2015, structured products have been reclassified to other liabilities (refer to Note 20).

The maturity structure of term deposits and negotiable instruments of deposits is as follows:

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Due within six months	**4,906,663**	5,278,924
More than six months to one year	**848,285**	984,577
More than one year to three years	**42,063**	69,882
More than three years to five years	**2,048**	430,590
	5,799,059	6,763,973

(ii) By type of customer

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Government and statutory bodies	**8,848**	11,554
Business enterprises	**2,379,984**	2,163,743
Individuals	**5,065,914**	6,789,836
Others	**1,931,377**	2,011,048
	9,386,123	10,976,181

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Deposits and Placements from Banks and Other Financial Institutions

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Non-Mudharabah Fund		
Licensesd banks	**2,833,307**	1,822,110
Bank Negara Malaysia	**49,614**	19,643
Other financial institutions	**1,277,168**	-
Mudharabah Fund		
Licensed banks	**-**	660,000
	4,160,089	2,501,753

20 Other Liabilities

	Note	31 Dec 2015 RM'000	31 Dec 2014 RM'000
At amortised cost			
Amounts due to holding company/ related companies		**89**	64
Profit payable			
- Structured products		**5,375**	7,781
- Others		**74,233**	57,252
Other creditors and accruals	(a)	**127,021**	93,319
		206,718	158,416
At fair value			
Structured products, at fair value			
- Wakalah with Commodity Wa'ad	(b)	**1,268,657**	-
		1,268,657	-
		1,475,375	158,416

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

(a) Other creditors and accruals

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

Source and use of charity funds

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Source of charity funds		
Balance at 1 January	**165**	3
Income for the financial year	**135**	162
Use of charity funds		
Contribution to non-profit organisations	**(230)**	-
Balance at 31 December	**70**	165

(b) Movement in structured products

	31 Dec 2015 RM'000
Balance at 1 January	**-**
Reclassified from deposits from customers	**1,788,427**
New placement during the financial year	**2,724,356**
Redemption during the financial year	**(3,108,048)**
Fair value mark-to-market	**(136,078)**
Balance at 31 December	**1,268,657**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Multi-Currency Sukuk Programme

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Multi-Currency Sukuk Programme (MCSP)	**1,749,823**	1,001,854

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

Issuance under MCSP	**Nominal Value RM'000**	**Issue Date**	**Maturity Date**	**Carrying Value 31 Dec 2015 RM'000**	Carrying Value 31 Dec 2014 RM'000
At amortised cost					
1st series at amortised cost	500,000	28 Sept 2012	28 Sept 2017	**500,000**	500,000
At fair value					
2nd series	500,000	16 Oct 2014	16 Oct 2019	**500,641**	501,854
3rd series	750,000	27 Mar 2015	27 Mar 2020	**749,182**	-
	1,250,000			**1,249,823**	501,854
	1,750,000			**1,749,823**	1,001,854

Movement in MCSP

	2nd series 31 Dec 2015 RM'000	2nd series 31 Dec 2014 RM'000	**3rd series 31 Dec 2015 RM'000**	3rd series 31 Dec 2014 RM'000
Balance at 1 January	**501,854**	-	**-**	-
New issuance during the financial year	**-**	500,000	**750,000**	-
Change in fair value other than from own credit risk	**1,374**	4,482	**(7,020)**	-
Change in fair value from own credit risk	**(2,587)**	(2,628)	**6,202**	-
Balance at 31 December	**500,641**	501,854	**749,182**	-

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
The cumulative change in fair value due to changes in own credit risk	**3,615**	(2,628)

22 Subordinated Commodity Murabahah Financing

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	**333,515**	271,636
- Second tranche issued on 30 June 2015	**284,946**	-
	618,461	271,636

The unsecured Subordinated Commodity Murabahah financing comprise of two tranches of Basel III compliant Tier 2 subordinated financing of USD equivalent of RM250 million each from the Bank's immediate holding company, HSBC Bank Malaysia Berhad (HBMY). The tenor for both the Subordinated Commodity Murabahah financing is 10 years from the utilisation date with profit payable quarterly in arrears.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Share Capital

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Authorised:		
600 million ordinary shares of RM0.50 each	**300,000**	300,000
Issued and fully paid:		
100 million ordinary shares of RM0.50 each		
Balance at 1 January/31 December	**50,000**	50,000

24 Reserves

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Non-distributable		
Share premium	**610,000**	610,000
Statutory reserve	**50,000**	50,000
Available-for-sale reserve	**4,946**	(6,488)
Capital Contribution reserve	**1,058**	1,374
Regulatory reserves	**34,000**	13,000
	700,004	667,886
Distributable		
Retained profits	**701,902**	600,823
	1,401,906	1,268,709

The statutory reserve is maintained in compliance with Section 12 of the Islamic Financial Services Act 2013 and is not distributable as cash dividends.

The capital contribution reserve is maintained to record the amount relating to share options granted to employees of the Bank directly by HSBC Holdings plc.

The regulatory reserve is maintained in compliance with paragraph 13 of BNM's policy document on classification and Impairment Provisions and impairment for financing and subsequent circular issued in February 2014, to maintain, in aggregate, collective impairment allowance and regulatory reserve of no less than 1.2% of gross financing and advances, 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 eeffect from 1 January 2008. Under this system, tax on a company's profits is a final tax and dividends are tax exempt in thehands of shareholders.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Income Derived from Investment of Depositors' Funds and Others

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Income derived from investment of:		
(i) general investment deposits	**484,448**	485,665
(ii) specific investment deposits	**47,313**	34,745
(iii) others	**186,725**	123,863
	718,486	644,273

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
(i) Income derived from investment of general investment deposits		
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**368,451**	383,466
- Recoveries from impaired financing	**9,630**	10,961
Financial investments available-for-sale	**56,570**	47,860
Money at call and deposit with financial institutions	**64,178**	57,454
	498,829	499,741
Other operating income		
Realised gain/(loss) from dealing in foreign currency	**14,664**	(38)
Unrealised (loss)/gain from dealing in foreign currency	**(8,405)**	9,991
Gain from sale of financial assets held-for-trading and other financial instruments	**8,931**	11,904
Unrealised gain from revaluation of financial assets held-for-trading	**1,709**	3,447
Net profit paid for financial assets held-for-trading and other financial instruments	**(25,545)**	(44,250)
Realised gain from trading in derivatives	**4,543**	5,163
Unrealised loss from trading in derivatives	**(10,285)**	(218)
Other gain/(loss)	**7**	(75)
	(14,381)	(14,076)
	484,448	485,665

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
(ii) Income derived from investment of specific investment deposits		
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**36,437**	23,516
Money at call and deposit with financial institutions	**-**	8
	36,437	23,524
Other operating income		
Fees and commission	**3,689**	2,595
Realised gain from dealing in foreign currency	**7,192**	8,671
Unrealised loss from dealing in foreign currency	**(5)**	(45)
	10,876	11,221
	47,313	34,745
The above fees and commissions were derived from the following major contributors:		
Corporate advisory	**848**	-
Guarantee fees	**1,440**	868
Service charges and fees	**1,397**	1,580

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
(iii) Income derived from investment of others		
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**141,873**	97,799
- Recoveries from impaired financing	**3,729**	2,795
Financial investments available-for-sale	**21,173**	12,206
Money at call and deposit with financial institutions	**25,304**	14,653
	192,079	127,453
Other operating income		
Realised gain/(loss) from dealing in foreign currency	**5,574**	(9)
Unrealised (loss)/gain from dealing in foreign currency	**(2,649)**	2,548
Gain from sale of financial assets held-for-trading and other financial instruments	**3,495**	3,036
Realised gain from trading in derivatives	**1,715**	1,317
Unrealised loss from trading in derivatives	**(4,234)**	(56)
Unrealised gain from revaluation of financial assets held-for-trading	**601**	879
Net profit paid from financial assets held-for-trading and other financial instruments	**(9,862)**	(11,286)
Other gain/(loss)	**6**	(19)
	(5,354)	(3,590)
	186,725	123,863

26 Income Derived from Investment of Shareholder's Funds

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Finance income:		
Financing and advances		
- Profit earned other than recoveries from impaired financing	**46,025**	44,461
- Recoveries from impaired financing	**1,205**	1,271
Financial investments available-for-sale	**7,015**	5,549
Money at call and deposit with financial institutions	**8,067**	6,661
	62,312	57,942
Other operating income		
Fees and commission	**73,511**	76,995
Realised gain/(loss) from dealing in foreign currency	**1,826**	(4)
Unrealised (loss)/gain from dealing in foreign currency	**(1,001)**	1,158
Gain from sale of financial assets held-for-trading and other financial instruments	**1,120**	1,380
Realised gain from trading in derivatives	**565**	598
Unrealised loss from trading in derivatives	**(1,308)**	(25)
Unrealised gain from revaluation of financial assets held-for-trading	**209**	400
Net profit paid from financial assets held-for-trading and other financial instruments	**(3,193)**	(5,131)
Shared-service fees from holding company	**3,297**	3,559
Net gain on disposal of financial assets available-for-sale	**232**	-
Net loss on financial instruments designated at fair value through profit or loss	**(1,839)**	(4,546)
Other income	**259**	656
	73,678	75,040
	135,990	132,982

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

Service charges and fees	**24,925**	17,457
Cards	**29,273**	33,008
Agency fees	**8,484**	15,767

27 Impairment Losses on Financing

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Impairment charges on financing:		
(a) Individual impairment		
- Provided	**45,829**	33,643
- Written back	**(27,717)**	(31,739)
(b) Collective impairment		
- Provided	**152,186**	118,612
- Written back	**(58,310)**	(25,873)
Impaired financing		
- Recovered	**(32,229)**	(30,813)
- Written off	**2,728**	4,759
	82,487	68,589

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Income Attributable to Depositors

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Non-Mudharabah Fund		
- Deposits from customers	**229,496**	218,429
- Deposits and placements of banks and other financial institutions	**60,693**	18,568
- Others	**77,104**	28,890
Mudharabah Fund		
- Deposits and placements of banks and other financial institutions	**8,216**	24,144
	375,509	290,031

29 Personnel Expenses

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Salaries, allowances and bonuses	**37,711**	34,934
Employees Provident Fund contributions	**6,466**	5,711
Other staff related costs	**2,957**	2,474
	47,134	43,119

30 Other Overheads and Expenditures

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Promotion and marketing related expenses	**23,484**	24,954
Establishment related expenses		
Depreciation of equipment	**7,106**	8,469
Amortisation of intangible assets	**2**	7
Information technology costs	**2,911**	2,313
Rental of premises	**8,163**	8,298
Utilities	**1,880**	1,993
Others	**831**	1,345
	20,893	22,425
General administrative expenses		
Intercompany expenses	**127,551**	130,701
Auditors' remuneration		
- Statutory audit fees	**100**	120
- Audit related fees	**158**	170
- Other services	**69**	-
Professional fees	**2,834**	1,531
Communication	**1,347**	1,434
Others	**19,749**	12,303
	151,808	146,259
	196,185	193,638

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Other Overheads and Expenditures (Cont'd)

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

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Fees	**399**	427

31 Income Tax Expense

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Malaysian income tax		
- Current year	**32,832**	41,145
- Prior year	**(331)**	(498)
Total current tax recognised in profit or loss	**32,501**	40,647
Deferred tax:		
Origination and reversal of temporary differences		
- Current year	**(1,402)**	(691)
- Overprovision in prior years	**-**	89
Total deferred tax recognised in profit or loss	**(1,402)**	(602)
Total income tax expense	**31,099**	40,045

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

	RM'000	RM'000
Profit before tax	**153,161**	181,878
Income tax using Malaysian tax rate of 25%	**38,290**	45,470
Non-deductible expenses	**1,549**	1,947
Tax exempt income	**(8,409)**	(7,201)
Effect of change in tax rate	**-**	238
Over provision in respect of prior years	**(331)**	(409)
Tax expense	**31,099**	40,045

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

32 Earnings per share

The earnings per ordinary share have been calculated based on profit for the year and 100,000,000 number of ordinary shares of RM0.50 each in issue during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Significant Related Party Transactions and Balances

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

a. 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
b. where 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 Bank comprise:

i the Bank's immediate parent bank, holding bank, and ultimate holding company (hereinafter collectively referred to as parent);
ii subsidiary and associated companies of the Bank's parent companies; and
iii key management personnel who are defined as those person having authority for planning, directing and controlling the activities of the Bank. Key personnel include all members of the Board of Directors of HSBC Amanah Malaysia Berhad. and certain members of Senior Management of the Bank.

(a) The significant transactions and outstanding balances of the Bank with parent banks and other related companies are as follows:

	31 Dec 2015			31 Dec 2014		
	Parent **RM'000**	***Other related companies*** **RM'000**	***Key management presonnel*** **RM'000**	*Parent* RM'000	*Other related companies* RM'000	*Key management presonnel* RM'000
Income						
Finance income from deposits and placements with banks and other financial institutions	**-**	**-**	**-**	-	-	-
Finance income from financing and advances	**-**	**-**	**18**	-	-	18
Fees and commission	**4,569**	**7,052**	**-**	6,034	12,328	-
Other income	**3,297**	**5**	**-**	3,559	652	-
	7,866	**7,057**	**18**	9,593	12,980	18
Expenditure						
Profit attributable to deposits and placements from banks and other financial institutions	**76,904**	**-**	**-**	42,514	-	-
Profit attributable to deposits from customers	**-**	**2,542**	**-**	-	2,554	-
Fees and commission	**35**	**195**	**-**	34	206	-
Operating expenses	**123,267**	**4,284**	**-**	130,428	273	-
	200,206	**7,021**	**-**	172,976	3,033	-
Amount due from						
Deposits and placements with banks and other financial institutions	**5,903**	**274,302**	**-**	4,307	66,034	-
Financing and advances	**-**	**-**	**-**	-	-	2,616
Derivative financial assets	**16,773**	**1,353**	**-**	33,037	63	-
Other assets	**210,094**	**306**	**-**	135,415	1,934	-
	232,770	**275,961**	**-**	172,759	68,031	2,616
Amount due to						
Deposits and placements from banks and other financial institutions	**4,728,936**	**-**	**-**	2,753,746	-	-
Deposits from customers	**-**	**81,725**	**61**	-	111,068	158
Derivative financial liabilities	**461,566**	**-**	**-**	123,498	-	-
Other liabilities		**1,259**	**-**	4,813	532	-
	5,190,502	**82,984**	**61**	2,882,057	111,600	158

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

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

(b) Key Management Personnel Compensation

The key management personnel compensation are as follows:

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Directors of the Bank:		
- Fees	**515**	474
- Remuneration	**1,783**	2,184
- Other short term employee benefits (including estimated monetary value of benefits-in-kind)	**731**	663
Total short-term employee benefits	**3,029**	3,321
- Share-based payments	**822**	357
	3,851	3,678

Details of Directors' remuneration of the Bank during the year are as follows:

2015

RM'000	**Salaries and bonuses**	**Other short-term employee benefits**	**Benefits-in-kind**	**Fees**	**Total**
Directors					
Executive Director					
Mohamed Rafe Bin Mohamed Haneef (CEO) [1]	**1,783**	**579**	**152**	**-**	**2,514**
Non Executive Directors					
Louisa Cheang	**-**	**-**	**-**	**-**	**-**
Mukhtar Malik Hussain	**-**	**-**	**-**	**-**	**-**
Mohamed Ross bin Mohd Din	**-**	**-**	**-**	**113**	**113**
Azlan bin Abdullah	**-**	**-**	**-**	**99**	**99**
Mohamed Ashraf Bin Mohamed Iqbal	**-**	**-**	**-**	**102**	**102**
Seow Yoo Lin	**-**	**-**	**-**	**113**	**113**
Adil Ahmad	**-**	**-**	**-**	**88**	
	1,783	**579**	**152**	**515**	**2,941**

[1] Resigned on 31 December 2015

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

(b) Key Management Personnel Compensation (Cont'd)

RM'000	Salaries and bonuses	Other short-term employee benefits	Benefits-in-kind	Fees	Total
Directors					
Executive Director					
Mohamed Rafe Bin Mohamed Haneef (CEO)	2,184	511	152	-	2,847
Non Executive Directors					
Louisa Cheang	-	-	-	-	-
Mukhtar Malik Hussain	-	-	-	-	-
Mohamed Ross bin Mohd Din	-	-	-	112	112
Azlan bin Abdullah	-	-	-	97	97
Mohamed Ashraf Bin Mohamed Iqbal	-	-	-	101	101
Seow Yoo Lin	-	-	-	99	99
Adil Ahmad	-	-	-	52	52
Lee Choo Hock	-	-	-	13	13
	2,184	511	152	474	3,321

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Credit exposure to connected parties

The credit exposures of the Bank to connected parties, as defined by Bank Negara Malaysia's Guidelines on Credit Transactions and Exposures with Connected Parties' are as follows:

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Aggregate value of outstanding credit exposures to connected parties	**547,758**	913,242
As a percentage of total credit exposures	**3.41%**	6.58%
Aggregate value of outstanding credit exposures to connected parties which is non-performing or in default	**-**	-
As a percentage of total credit exposures	**-**	-

35 Capital Adequacy

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Tier 1 capital		
Paid-up ordinary share capital	**50,000**	50,000
Share premium	**610,000**	610,000
Retained profits	**701,902**	600,823
Other reserves	**91,565**	55,837
Regulatory adjustments	**(37,639)**	(15,674)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	**1,415,828**	1,300,986
Tier 2 capital		
Subordinated Commodity Murabahah financing	**618,461**	271,636
Collective impairment allowance (unimpaired portion) & regulatory reserves	**118,212**	96,689
Total Tier 2 capital	**736,673**	368,325
Capital base	**2,152,501**	1,669,311
CET1 and Tier 1 Capital ratio	**11.911%**	11.793%
Total Capital ratio	**18.108%**	15.132%

The total capital and capital adequacy ratios have been computed based on the Standardised Approach in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB). The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

Breakdown of risk-weighted assets (RWA) in the various categories of risk weights:

	31 Dec 2015		31 Dec 2014	
	Principal RM'000	**Risk-weighted RM'000**	Principal RM'000	Risk-weighted RM'000
Total RWA for credit risk	**22,406,281**	**10,885,513**	19,368,430	10,001,574
Total RWA for market risk	**-**	**104,374**	-	110,353
Total RWA for operational risk	**-**	**897,064**	-	919,539
	22,406,281	**11,886,951**	19,368,430	11,031,466

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Commitments and Contingencies

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

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

31 Dec 2015	**Principal amount RM'000**	**Credit equivalent amount [1] RM'000**	**Risk weighted amount [1] RM'000**
Direct credit substitutes	**622,855**	**622,855**	**320,805**
Transaction-related contingent items	**1,089,395**	**544,698**	**335,095**
Short-term self-liquidating trade-related contingencies	**172,151**	**34,430**	**31,946**
Irrevocable commitments to extend credit			
- Maturity not exceeding one year	**3,056,937**	**611,387**	**516,459**
- Maturity exceeding one year	**1,818,014**	**909,007**	**580,507**
Unutilised credit card lines	**1,678,518**	**335,704**	**251,778**
Equity related contracts			
- Less than one year	**192,724**	**11,732**	**-**
- One year to less than five years	**948,669**	**76,199**	**-**
Profit rate related contracts			
- Less than one year	**1,201,265**	**4,870**	**116**
- One year to less than five years	**6,645,808**	**203,092**	**18,329**
Foreign exchange related contracts			
- Less than one year	**2,437,315**	**85,703**	**16,631**
- One year to less than five years	**2,026,017**	**425,668**	**313,045**
	21,889,668	**3,865,345**	**2,384,711**

31 Dec 2014	Principal amount RM'000	Credit equivalent amount [1] RM'000	Risk weighted amount [1] RM'000
Direct credit substitutes	832,224	832,224	460,309
Transaction-related contingent items	1,013,164	506,582	345,283
Short-term self-liquidating trade-related contingencies	34,412	6,882	3,237
Irrevocable commitments to extend credit			
- Maturity not exceeding one year	2,432,239	486,448	415,640
- Maturity exceeding one year	1,306,864	653,432	635,862
Unutilised credit card lines	1,350,816	270,163	202,622
Equity related contracts			
- Less than one year	250,213	17,489	3,498
- One year to less than five years	972,460	82,024	16,405
Profit rate related contracts			
- Less than one year	30,000	32	-
- One year to less than five years	4,818,135	130,633	41,242
Foreign exchange related contracts			
- Less than one year	1,971,357	79,829	19,430
- One year to less than five years	928,905	142,761	107,810
	15,940,789	3,208,499	2,251,338

[1] The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per BNM guidelines. The credit conversion factors and risk weighting rules were based on Basel II Capital Adequacy Framework for Islamic Banks (CAFIB).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Profit Rate Risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The following table summarises the Bank's exposure to the profit rates 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 →								
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-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**	**Effective profit rate %**
ASSETS									
Cash and short-term funds	**4,662,526**	**-**	**-**	**-**	**-**	**87,864**	**-**	**4,750,390**	**3.29**
Financial assets held-for-trading	**-**	**-**	**-**	**-**	**-**	**-**	**10,492**	**10,492**	**3.29**
Financial investments available-for-sale	**-**	**-**	**171,710**	**1,529,533**	**-**	**-**	**-**	**1,701,243**	**3.54**
Financing and advances									
- performing	**2,942,903**	**7,598,180**	**430,346**	**936,844**	**33,576**	**-**	**-**	**11,941,849**	**5.26**
- impaired [1]	**-**	**-**	**-**	**-**	**-**	**166,632**	**-**	**166,632**	**-**
- collective allowance	**-**	**-**	**-**	**-**	**-**	**(140,264)**	**-**	**(140,264)**	**-**
Derivative financial assets	**-**	**-**	**-**	**399**	**-**	**-**	**306,900**	**307,299**	**-**
Other assets	**-**	**-**	**-**	**-**	**-**	**241,611**	**-**	**241,611**	**-**
Total Financial Assets	**7,605,429**	**7,598,180**	**602,056**	**2,466,776**	**33,576**	**355,843**	**317,392**	**18,979,252**	
Deposits from customers	**5,182,972**	**1,977,410**	**1,405,652**	**44,111**	**-**	**775,978**	**-**	**9,386,123**	**2.60**
Deposits and placements from banks and other financial institutions	**820,779**	**735,392**	**1,679,300**	**879,219**		**45,399**	**-**	**4,160,089**	**2.20**
Bills and acceptances payable	**-**	**-**	**-**	**-**	**-**	**14,904**	**-**	**14,904**	**-**
Multi-Currency Sukuk Programme	**-**	**-**	**-**	**1,749,823**	**-**	**-**	**-**	**1,749,823**	**4.00**
Subordinated Commodity Murabahah Financing	**-**	**-**	**-**	**-**	**618,461**	**-**	**-**	**618,461**	**2.45**
Derivative financial liabilities	**-**	**-**	**-**	**201**	**-**	**-**	**473,030**	**473,231**	**-**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**1,445,212**	**-**	**1,445,212**	**2.90**
Total Financial Liabilities	**6,003,751**	**2,712,802**	**3,084,952**	**2,673,354**	**618,461**	**2,281,493**	**473,030**	**17,847,843**	
Total profit sensitivity gap	**1,601,678**	**4,885,378**	**(2,482,896)**	**(206,578)**	**(584,885)**	**(1,925,650)**	**(155,638)**	**1,131,409**	

[1] This is arrived at after deducting individual impairment allowance from impaired financing.

37 Profit rate risk (Cont'd)

31 Dec 2014 (Restated)	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-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
ASSETS									
Cash and short-term funds	500,000	-	-	-	-	170,934	-	670,934	3.31
Financial assets held-for-trading	-	-	-	-	-	-	20,055	20,055	3.48
Financial investments available-for-sale	-	2,058,055	755,471	1,321,797	-	-	-	4,135,323	3.29
Financing and advances									
- performing	2,452,070	7,005,825	278,195	934,635	16,224	-	-	10,686,949	5.66
- impaired [1]	-	-	-	-	-	118,406	-	118,406	-
- collective allowance	-	-	-	-	-	(124,817)	-	(124,817)	-
Derivative financial assets	-	-	-	870	-	-	122,972	123,842	-
Other assets	-	-	-	-	-	239,287	-	239,287	-
Total Financial Assets	2,952,070	9,063,880	1,033,666	2,257,302	16,224	403,810	143,027	15,869,979	
LIABILITIES AND EQUITY									
Deposits from customers	5,436,264	1,575,195	1,392,307	40,478	-	743,510	1,788,427	10,976,181	2.36
Deposits and placements from banks and other financial institutions	929,480	-	1,039,650	532,623	-	-	-	2,501,753	2.47
Bills and acceptances payable	-	-	-	-	-	25,709	-	25,709	-
Multi-Currency Sukuk Programme	-	-	-	1,001,854	-	-	-	1,001,854	3.98
Derivative financial liabilities	-	-	-	28	-	-	127,589	127,617	-
Subordinated Commodity Murabahah Financing	-	-	-	-	271,636	-	-	271,636	2.51
Other Liabilities	-	-	-	-	-	130,946	-	130,946	-
Total Financial Liabilities	6,365,744	1,575,195	2,431,957	1,574,983	271,636	900,165	1,916,016	15,035,696	
Total profit sensitivity gap	(3,413,674)	7,488,685	(1,398,291)	682,319	(255,412)	(496,355)	(1,772,989)	834,283	

[1] This is arrived at after deducting individual impairment allowance from impaired financing.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Contractual maturity / behavioural profile

The following tables summarise 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 behavioural profile.

	Non-trading book							
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	**4,750,390**	**-**	**-**	**-**	**-**	**-**	**-**	**4,750,390**
Financial assets held-for-trading	**-**	**-**	**-**	**-**	**-**	**-**	**10,492**	**10,492**
Financial investments available-for-sale	**-**	**-**	**171,710**	**1,529,533**	**-**	**-**	**-**	**1,701,243**
Financing and advances	**1,888,585**	**1,639,415**	**954,754**	**2,103,147**	**5,382,316**	**-**	**-**	**11,968,217**
Derivative financial assets	**-**	**-**	**-**	**399**	**-**	**-**	**306,900**	**307,299**
Others	**210,500**	**-**	**834**	**10,053**	**8**	**370,876**	**-**	**592,271**
Total Assets	**6,849,475**	**1,639,415**	**1,127,298**	**3,643,132**	**5,382,324**	**370,876**	**317,392**	**19,329,912**
LIABILITIES AND EQUITY								
Deposits from customers	**5,958,950**	**1,977,410**	**1,405,652**	**44,111**	**-**	**-**	**-**	**9,386,123**
Deposits and placements from banks and other financial institutions	**866,178**	**735,392**	**1,679,300**	**879,219**	**-**	**-**	**-**	**4,160,089**
Bills and acceptances payable	**14,904**	**-**	**-**	**-**	**-**		**-**	**14,904**
Multi-Currency Sukuk Programme	**-**	**-**	**-**	**1,749,823**		**-**	**-**	**1,749,823**
Subordinated Commodity Murabahah Financing	**-**	**-**	**-**	**-**	**618,461**	**-**	**-**	**618,461**
Derivative financial liabilities	**-**	**-**	**-**	**201**	**-**	**-**	**473,030**	**473,231**
Others	**21,454**	**13,047**	**20,332**	**24,577**	**145**	**127,163**	**-**	**206,718**
Total Liabilities	**6,861,486**	**2,725,849**	**3,105,284**	**2,697,931**	**618,606**	**127,163**	**473,030**	**16,609,349**
Equity	**-**	**-**	**-**	**-**	**-**	**1,451,906**	**-**	**1,451,906**
Total Liabilities and Equity	**6,861,486**	**2,725,849**	**3,105,284**	**2,697,931**	**618,606**	**1,579,069**	**473,030**	**18,061,255**
Net maturity mismatches	**(12,011)**	**(1,086,434)**	**(1,977,986)**	**945,201**	**4,763,718**	**(1,208,193)**	**(155,638)**	**1,268,657**
Off balance sheet liabilities	**8,097,118**	**857,436**	**2,907,306**	**10,025,117**	**2,691**	**-**	**-**	**21,889,668**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Contractual maturity / behavioural profile (Cont'd)

31 Dec 2014 (Restated)	Non-trading book Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years	Over 5 years RM'000	Non-specific maturity RM'000	Trading book RM'000	Total RM'000
ASSETS								
Cash and short-term funds	670,934	-	-	-	-	-	-	670,934
Financial assets held-for-trading	-	-	-	-	-	-	20,055	20,055
Financial investments available-for-sale	-	2,058,055	755,471	1,321,797	-	-	-	4,135,323
Financing and advances	2,534,612	1,805,316	246,459	1,266,418	4,827,733	-	-	10,680,538
Derivative financial assets	-	-	-	870	-	-	122,972	123,842
Others	136,362	-	1,523	10,964	-	601,410	924	751,183
Total Assets	3,341,908	3,863,371	1,003,453	2,600,049	4,827,733	601,410	143,951	16,381,875
LIABILITIES AND EQUITY								
Deposits from customers	6,179,774	1,575,195	1,392,307	40,478	-	-	1,788,427	10,976,181
Deposits and placements from banks and other financial institutions	929,480	-	1,039,650	532,623	-	-	-	2,501,753
Bills and acceptances payable	25,709	-	-	-	-	-	-	25,709
Multi-Currency Sukuk Programme	-	-	-	1,001,854	-	-	-	1,001,854
Subordinated Commodity Murabahah Financing	-	-	-	-	271,636	-	-	271,636
Derivative financial liabilities	-	-	-	28	-	-	127,589	127,617
Others	24,461	11,435	18,882	10,852	-	84,405	8,381	158,416
Total Liabilities	7,159,424	1,586,630	2,450,839	1,585,835	271,636	84,405	1,924,397	15,063,166
Equity	-	-	-	-	-	1,318,709	-	1,318,709
Total Liabilities and Equity	7,159,424	1,586,630	2,450,839	1,585,835	271,636	1,403,114	1,924,397	16,381,875
Net maturity mismatches	(3,817,516)	2,276,741	(1,447,386)	1,014,214	4,556,097	(801,704)	(1,780,446)	-
Off balance sheet liabilities	3,701,541	1,854,416	1,903,676	8,292,291	188,865	-	-	15,940,789

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39 Collateral

In the normal course of business, the Bank sells assets to raise liabilities and accepts 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.

	31 Dec 2015	31 Dec 2014
Carrying amount of assets pledged as collateral	**RM'000**	RM'000
- Collateral pledged for repurchase agreements	**140,412**	205,055

40 Fair values of financial assets and liabilities not measured at fair value

The fair value of each financial asset and liabilities presented in the statement of financial position of the Bank approximates the carrying amount as at the reporting date except for the following:

	31 Dec 2015 Carrying amount RM'000	**31 Dec 2015 Fair Value RM'000**	31 Dec 2014 Carrying amount RM'000	31 Dec 2014 Fair Value RM'000
Financial Assets				
Financing and advances	**11,968,217**	**11,982,719**	10,680,538	10,689,251
Financial Liabilities				
Deposits from customers	**9,386,123**	**9,386,266**	10,976,181	10,943,802
Deposits and placements from banks and other financial institutions	**4,160,089**	**4,159,370**	10,680,538	2,475,823
Multi-Currency Sukuk Programme	**1,749,823**	**1,747,423**	1,001,854	999,631
Subordinated Commodity Murabahah Financing	**618,461**	**610,090**	271,636	271,520

The methods and assumptions used in estimating the fair values of financial instruments other than those already mentioned in Note 3(f) are as follows:

Cash and short-term funds
Deposits and placements with banks and other financial institutions
Bills and acceptances payable

The carrying amounts approximate fair values due to their relatively short-term nature.

Financing and advances
For personal and commercial financing which mature or reprice after six months, fair value is principally estimated by discounting anticipated cash flows (including profit at contractual rates). Performing 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. For impaired financing, the fair value is the carrying value of the financing, net of individual impairment allowances. Collective impairment allowances are deducted from the fair value of financing.

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.

Multi-Currency Sukuk Programme
Subordinated Commodity Murabahah Financing
The fair value of subordinated bonds 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)

40 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 statement of financial position of the Bank approximates the carrying amount as at the reporting date except for the following (Cont'd):

31 Dec 2015	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Total carrying amount RM'000
Financial Assets					
Financing and advances	-	-	**11,982,719**	**11,982,719**	**11,968,217**
Financial Liabilities					
Deposits from customers	-	**9,386,266**	-	**9,386,266**	**9,386,123**
Deposits and placements from banks and other financial institutions	-	**4,159,370**	-	**4,159,370**	**4,160,089**
Multi-Currency Sukuk Programme	-	**1,747,423**	-	**1,747,423**	**1,749,823**
Subordinated Commodity Murabahah Financing	-	**610,090**	-	**610,090**	**618,461**
31 Dec 2014					
Financial Assets					
Cash and short-term funds	-	-	670,934	670,934	670,934
Financing and advances	-	-	10,689,251	10,689,251	10,680,538
Financial Liabilities					
Deposits from customers	-	10,943,802	-	10,943,802	10,976,181
Deposits and placements from banks and other financial institutions	-	2,475,823	-	2,475,823	10,680,538
Multi-Currency Sukuk Programme	-	999,631	-	999,631	1,001,854
Subordinated Commodity Murabahah Financing	-	271,520	-	271,636	271,636

41 Lease commitments

The Bank has 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:

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Less than one year	**6,855**	5,674
Between one and three years	**5,585**	4,843
Between three and five years	**17**	5
	12,457	10,522

42 Capital commitments

	31 Dec 2015 RM'000	31 Dec 2014 RM'000
Capital expenditure commitments:		
- Authorised and contracted, but not provided for	-	203
- Authorised but not contracted for	**650**	-
	650	203

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

43 Equity-based compensation

The Bank participated in the following cash 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:

	31 Dec 2015 Number ('000)	**Weighted average exercise price £**	31 Dec 2014 Number ('000)	Weighted average exercise price £
Balance at 1 January	**16**	**6.61**	23	5.88
Exercised in the financial year	**(4)**	**4.46**	(6)	4.16
Lapsed in the financial year	**(2)**	**3.70**	(1)	4.46
Balance at 31 December	**10**	**8.05**	16	6.61
Options vested at 31 December	**4**		6	
Compensation cost recognised during the financial year	**(3)**		(7)	

The weighted average remaining contractual life for the share options is 1.29 years.

b) Restricted Share Plan
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.

	31 Dec 2015 Number ('000)	31 Dec 2014 Number ('000)
Balance at 1 January	**13**	17
Additions during the financial year	**23**	10
Released in the year	**(27)**	(14)
Balance at 31 December	**9**	13
Compensation cost recognised during the financial year	**333**	677

The weighted average purchase price for all shares purchased by HSBC for awards under the Restricted Share Plan is £5.94 (2014: £6.82). The weighted average fair value of the HSBC share at 31 December 2015 was £5.36 (2014: £6.09). The weighted average remaining vesting period as at 31 December 2015 for shares granted during the year was 2.69 years (2014: 2.47 years).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

43 Equity-based compensation (Cont'd)

c) Savings-Related Share Match Schemes

The Savings-Related 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 £250 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.

	31 Dec 2015 Number ('000)	**Weighted average exercise price £**
Balance at 1 January	**-**	**-**
Additions during the financial year	**3**	**6.03**
Lapsed in the year	**(1)**	**6.03**
Balance at 31 December	**2**	**6.03**
Compensation cost recognised during the financial year	**35**	

The weighted average fair value of the HSBC share at 31 December for the shares granted during the year was £6.03.

The fair value of a share award is based on the quoted share price at the date of the grant.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

44 Shariah Advisors

In line with Bank Negara Malaysia's "Shariah Governance Framework for Islamic Financial Institution" the following Shariah Scholars were appointed:

1) Assoc. Prof. Dr. Younes Soualhi
Assoc. Prof. Dr. Younes Soualhi is currently a Senior Researcher in International Shariah Research Academy. He holds a Bachelor, Master and Phd in Usul al-Fiqh from the Emir Abdul Qadir University for Islamic Sciences, Algeria, IIUM and University Malaya respectively. He also holds a diploma in Human Sciences from IIUM.

2) Khairul Anuar bin Ahmed
Khairul Anuar bin Ahmad is currently Lecturer in International Islamic University College Selangor. He holds a Bachelor and Master of Shariah from University of Malaya.

3) Assoc. Prof. Dr. Muhammad Yusuf Saleem Ghulam Nabi
Assoc. Prof. Dr. Muhammad Yusuf Saleem Ghulam Nabi is currently Assistant Professor in International Centre for Education of Islamic Finance (INCEIF). He holds a Bachelor of Law (LLB), Master of Comparative Law and Doctor of Philosophy (Law) from IIUM.

4) Prof. Dr. Obiyathulla Ismath Bacha
Prof. Dr. Obiyathulla Ismath Bacha is currently Professor of Finance in INCEIF. He holds a Bachelor of Social Science from Science University of Malaysia (USM), Master of Arts (Economics), Master of Business Administration and Doctor of Business Administration with specialisation in Finance from Boston University.

5) Prof. Dr Abdul Rahim
Prof. Dr. Abdul Rahim Abdul Rahman is currently Professor at the Faculty of Economics and Muamalat, Islamic Science University of Malaysia (USIM). He holds a Bachelor in Finance and Accounting from University of East London, and Master of Accounting and Management Sciences and Phd in Accounting for Islamic Institution from University of Southampton, United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

45 Comparative Figures

Restatement of Comparative Figures

The presentation and classification of items in the financial statements are consistent with the previous financial year except for those listed below. The restatement of 31Dec2014 financial data in relation to (a) and (b) is a result of an initiative rolled out by the Bank during the year to align financial reporting data with Central Credit Reference Information System (CCRIS) data. Similar reclassification is made to 31Dec2014 data so that they are comparable to 30Jun2015 data. The Bank's prior year profit and loss and retained earning brought forward are not affected by these reclassifications.

(a) Financing and Advances
By type and Shariah contracts

		Sale-based contracts	Equity-based contracts
31 Dec 2014 (As restated)	Total RM'000	Commodity Murabahah RM'000	Diminishing Musharakah RM'000
Financing and advances	10,680,538		
(of which the affected components are disclosed below)			
Term financing:			
House financing	3,820,746	-	3,818,297
Other term financing	4,591,374	3,419,045	925,242
Staff financing-i	8,037	2,941	4,050

		Sale-based contracts	Equity-based contracts
31 Dec 2014 (As previously stated)	Total RM'000	Commodity Murabahah RM'000	Diminishing Musharakah RM'000
Financing and advances	10,507,543		
(of which the affected components are disclosed below)			
Term financing:			
House financing	3,309,059	-	3,306,610
Other term financing	4,890,214	3,246,050	1,397,077
Staff financing-i	47,889	2,941	43,902

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

45 Comparative Figures (Cont'd)

Restatement of Comparative Figures (Cont'd)

	31 Dec 2014	
	RM'000	RM'000
	As restated	As previously stated
(a) Financing and advances (continued)	10,680,538	10,507,543
(of which the affected components are disclosed below)		
By type of customer		
Foreign entities	1,332,645	1,159,650
By profit rate sensitivity		
Fixed rate:		
House financing	2,356	6,947
Other financing	2,339,521	1,910,631
Variable rate:		
BR/BFR plus	4,843,482	7,403,014
Cost-plus	3,429,287	621,239
By residual contractual maturity		
Maturing within one year	4,711,242	4,538,247
By sector		
Others	941,746	768,751
By purpose		
Purchase of landed property:		
- Residential	3,823,177	3,031,749
- Non-residential	796,247	326,452
Consumption credit	1,449,760	2,241,187
Working capital	3,307,779	3,777,575
Other purpose	754,541	581,546
By geographical distribution		
Central Region	7,468,846	7,295,851
(b) Deposits and placements with banks and other financial institutions		
Other financial institutions	-	172,936
(c) Other Assets	239,287	239,346
(of which the affected components are disclosed below)		
Income receivable	13,591	13,650