



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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
30 JUNE 2014

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

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

MANAGEMENT'S CERTIFICATION

I hereby certify that the attached unaudited condensed interim financial statements for the financial period ended 30 June 2014 have been prepared from the Bank's accounting and other records and that they are in accordance with the requirements of MFRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and the Guidelines on Financial Reporting for Islamic Banking Institutions issued by Bank Negara Malaysia in 2013.

SAW SAY PIN
Chief Financial Officer

Date: 21 July 2014

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

UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014

	<i>Note</i>	30 Jun 2014 RM'000	31 Dec 2013 RM'000
Assets			
Cash and short-term funds	10	2,728,850	3,093,206
Deposits and placements with banks and other financial institutions	11	157,631	163,950
Financial assets held-for-trading	12	39,073	89,659
Financial investments available-for-sale	13	1,856,763	1,341,006
Financing and advances	14	9,851,813	9,175,173
Derivative financial assets	32	110,577	85,464
Other assets	16	453,635	181,011
Statutory deposits with Bank Negara Malaysia	17	445,062	390,562
Equipment		18,870	22,793
Intangible assets		6	9
Deferred tax assets		6,590	7,093
Tax recoverable		-	14,472
Total assets		15,668,870	14,564,398
Liabilities			
Deposits from customers	18	11,594,179	11,030,564
Deposits and placements from banks and other financial institutions	19	1,460,005	1,580,469
Bills and acceptances payable		20,904	10,972
Derivative financial liabilities	32	122,933	117,031
Other liabilities	20	458,169	147,980
Provision for taxation		8,203	-
Multi-Currency Sukuk Programme	21	500,000	500,000
Subordinated Commodity Murabahah Financing	22	249,456	-
Total liabilities		14,413,849	13,387,016
Equity			
Share capital		50,000	50,000
Reserves		1,205,021	1,127,382
Total equity attributable to owner of the Bank		1,255,021	1,177,382
Total liabilities and equity		15,668,870	14,564,398
Commitments and Contingencies	31	15,043,509	12,007,406

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2013 and the accompanying explanatory notes on pages 5 to 31 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 21 July 2014.

HSBC AMANAH MALAYSIA BERHAD
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**UNAUDITED CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2014**

	<i>Note</i>	Second Quarter		Half Year To	
		30 Jun 2014 RM'000	30 Jun 2013 RM'000 Restated	30 Jun 2014 RM'000	30 Jun 2013 RM'000 Restated
Income derived from investment of depositors' funds and others	23	161,443	144,039	315,694	290,265
Income derived from investment of shareholder's funds	24	34,056	33,660	67,700	66,992
Impairment losses on financing	25	(17,284)	(14,546)	(32,032)	(46,648)
Total distributable income		<u>178,215</u>	163,153	<u>351,362</u>	310,609
Income attributable to depositors	26	(69,248)	(61,651)	(135,451)	(121,732)
Total net income		<u>108,967</u>	101,502	<u>215,911</u>	188,877
Personnel expenses	27	(11,018)	(10,309)	(21,413)	(18,290)
Other overheads and expenditures	28	(48,990)	(46,045)	(95,764)	(89,668)
Profit before income tax		<u>48,959</u>	45,148	<u>98,734</u>	80,919
Income tax expense		(10,935)	(10,429)	(22,713)	(19,318)
Profit for the period		<u>38,024</u>	<u>34,719</u>	<u>76,021</u>	<u>61,601</u>
Other comprehensive (expenses)/ income <i>Items that will subsequently be reclassified to profit or loss when specific conditions are met</i>					
Available-for-sale reserve:					
Change in fair value		(1,478)	(5,147)	1,857	(3,814)
Income tax expense relating to components of other comprehensive income		370	1,287	(464)	954
Other comprehensive (expenses)/ income for the period, net of income tax		<u>(1,108)</u>	<u>(3,860)</u>	<u>1,393</u>	<u>(2,860)</u>
Total comprehensive income for the period		<u>36,916</u>	<u>30,859</u>	<u>77,414</u>	<u>58,741</u>
Profit attributable to the owner of the Bank		38,024	34,719	76,021	61,601
Total comprehensive income attributable to the owner of the Bank		36,916	30,859	77,414	58,741
Basic earnings per RM0.50 ordinary share		<u>38 sen</u>	34.7 sen	<u>76 sen</u>	61.6 sen

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HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2014

	←-----			<i>Non-distributable</i>	-----→		<i>Distributable</i>	<i>Total</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Available-for-sale reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve*</i>	<i>Retained profits</i>	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
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 period								
Net profit for the period	-	-	-	-	-	-	76,021	76,021
Other comprehensive income, net of income tax								
Available-for-sale reserve:								
Net change in fair value	-	-	-	1,393	-	-	-	1,393
Total other comprehensive income	-	-	-	1,393	-	-	-	1,393
Total comprehensive income for the period	-	-	-	1,393	-	-	76,021	77,414
Transactions with the owner (the ultimate holding company), recorded directly in equity								
Share based payment transactions	-	-	-	-	225	-	-	225
Transfer relating to regulatory reserves	-	-	-	-	-	13,000	(13,000)	-
Balance at 30 June	50,000	610,000	50,000	(4,567)	1,517	13,000	535,071	1,255,021
2013								
Balance at 1 January	50,000	610,000	50,000	534	1,161	-	328,085	1,039,780
Total comprehensive income for the period								
Net profit for the period	-	-	-	-	-	-	61,601	61,601
Other comprehensive income, net of income tax								
Available-for-sale reserve:								
Net change in fair value	-	-	-	(2,860)	-	-	-	(2,860)
Total other comprehensive income	-	-	-	(2,860)	-	-	-	(2,860)
Total comprehensive income for the period	-	-	-	(2,860)	-	-	61,601	58,741
Transactions with the owner (the ultimate holding company), recorded directly in equity								
Share based payment transactions	-	-	-	-	(15)	-	(9)	(24)
Balance at 30 June	50,000	610,000	50,000	(2,326)	1,146	-	389,677	1,098,497

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

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2013 and the accompanying explanatory notes on pages 5 to 31 attached to the unaudited condensed interim financial statements.

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HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2014

	30 Jun 2014	30 Jun 2013
	RM'000	RM'000
Profit before income tax expense	98,734	80,919
Adjustments for non-operating and non-cash items	4,514	5,270
Operating profit before working capital changes	103,248	86,189
Changes in working capital:		
Net changes in operating assets	(971,972)	(267,602)
Net changes in operating liabilities	769,175	1,561,006
Taxation paid	-	(20,833)
Net cash (used in)/ generated from operating activities	(99,549)	1,358,760
Net cash (used in)/ generated from investing activities	(514,263)	56,365
Net cash generated from financing activities	249,456	-
	(264,807)	56,365
Net changes in cash and cash equivalents	(364,356)	1,415,125
Cash and cash equivalents at beginning of the period	3,093,206	1,650,386
Cash and cash equivalents at end of the period	2,728,850	3,065,511
Analysis of cash and cash equivalents		
Cash and short-term funds	2,728,850	3,065,511

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NOTES TO THE FINANCIAL STATEMENTS

1 General Information

HSBC Amanah Malaysia Berhad ('the Bank') was incorporated on 26 February 2008 and is a licensed Islamic Bank under the Islamic Financial Services Act, 2013. The registered office of the Bank is at No. 2, Leboh Ampang, 50100 Kuala Lumpur.

The principal activities of the Bank are Islamic banking and related financial services. There were no significant changes in these activities during the financial period.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 30 June 2014 have been prepared under the historical cost convention except for the following assets and liabilities which are stated at fair values: financial instruments held-for-trading, financial investments available-for-sale and derivative financial instruments.

The unaudited condensed interim financial statements for the financial period ended 30 June 2014 have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards ('MFRS') 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board ('MASB') and Bank Negara Malaysia requirements on Shariah related disclosures.

The unaudited condensed interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2013. The explanatory notes attached in the unaudited condensed interim financial statements provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Bank since the financial year ended 31 December 2013.

All significant accounting policies and methods of computation applied in the unaudited condensed interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the year ended 31 December 2013, except for the adoption of the following amendments to MFRSs and Issues Committee ('IC') Interpretations.

- Amendments to MFRS 10, MFRS 12 and MFRS 127, Investment Entities
- Amendments to MFRS 12, Disclosure of Interests in Other Entities: Investment Entities
- Amendments to MFRS 127, Separate Financial Statements (2011): Investment Entities
- Amendments to MFRS 132, Financial Instruments: Presentation (Offsetting Financial Assets and Financial Liabilities)
- Amendments to MFRS 136, Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets (Amendments to MFRS136)
- Amendments to MFRS 139, Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting (Amendments to MFRS139)
- IC Interpretation 21, Levies

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation

The following are amendments to MFRSs that have been issued by the MASB but have not been adopted by the Bank as they are either not applicable or not yet effective:-

Effective for annual periods commencing on or after 1 July 2014

- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)
- Amendments to MFRS 2, Share-based Payment (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 3, Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 8, Operating Segments (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 13, Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)
- Amendments to MFRS 116, Property, Plant and Equipment (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 119, Employee Benefits – Defined Benefit Plans: Employee Contributions
- Amendments to MFRS 124, Related Party Disclosures (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 138, Intangible Assets (Annual Improvements 2010-2012 Cycle)
- Amendments to MFRS 140, Investment Property (Annual Improvements 2011-2013 Cycle)

The Bank plans to apply the abovementioned amendments from the annual period beginning 1 July 2014.

MFRSs and Amendments effective for a date yet to be confirmed

- MFRS 9, Financial Instruments (IFRS 9 issued by IASB in November 2009)
- MFRS 9, Financial Instruments (IFRS 9 issued by IASB in October 2010)
- MFRS 9, Financial Instruments (2013)
- Amendments to MFRS 7 – Financial Instruments: Disclosures - Mandatory Effective Date of MFRS 9 and Transition Disclosures.

The initial application of the above accounting standards and amendments are not expected to have any material financial impact to the current period and prior period financial statements of the Bank upon their first adoption, except as mentioned below:-

MFRS 9, Financial Instruments

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.

3 Auditors' Report On Preceding Annual Financial Statements

The audit report on the audited financial statements for the financial year ended 31 December 2013 was not subject to any qualification.

4 Seasonality or Cyclical Factors

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

5 Unusual Items Due to Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Bank for the financial period ended 30 June 2014.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

6 Changes in Estimates

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

There were no material changes in estimates of amounts reported in prior financial years that have a material effect on the financial results and position of the Bank for the financial period ended 30 June 2014.

7 Debt and Equity Securities

There were no issuances, cancellations, repurchases, resale or repayment of debt or equity securities during the financial period ended 30 June 2014.

8 Dividend

No dividend was declared nor paid during the financial period ended 30 June 2014.

9 Significant and Subsequent Events

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

10 Cash and Short-Term Funds

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Cash and balances with banks and other financial institutions	170,770	143,206
Money at call and interbank placements maturing within one month	2,558,080	2,950,000
	<u>2,728,850</u>	<u>3,093,206</u>

11 Deposits and Placements with Banks and Other Financial Institutions

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Other financial institutions	<u>157,631</u>	<u>163,950</u>

12 Financial Assets Held-for-Trading

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	<u>39,073</u>	<u>89,659</u>

13 Financial Investments Available-for-Sale

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	1,712,433	1,316,015
Negotiable instruments of deposit	144,330	24,991
	<u>1,856,763</u>	<u>1,341,006</u>

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

Maturing within one year	671,999	573,850
More than one year to three years	415,024	304,708
More than three years to five years	749,860	442,664
Over five years	19,880	19,784
	<u>1,856,763</u>	<u>1,341,006</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances

(i) By type and Shariah contracts

	Commodity Murabahah RM'000	Sale-based contracts			Lease-based contracts		Equity-based contracts	Ujrah RM'000	Total RM'000
		Bai Bithaman Ajil RM'000	Bai Al-Inah RM'000	Bai Al-Dayn RM'000	Ijarah RM'000	Ijarah Thumma Al-Bai RM'000	Diminishing Musharakah RM'000		
30 Jun 2014									
Cash line-i	-	-	105,444	-	-	-	-	-	105,444
Term financing:									
House financing	-	5,289	57	-	-	-	3,213,276	-	3,218,622
Hire purchase receivables	-	-	-	-	-	240,386	-	-	240,386
Lease receivables	-	-	-	-	2,948	-	-	-	2,948
Other term financing	3,045,048	225,172	243,318	-	-	-	1,158,947	-	4,672,485
Trust receipts	57,319	-	-	-	-	-	-	-	57,319
Claims on customers under acceptance credits	561,989	-	-	103,208	-	-	-	32,406	697,603
Staff financing-i	2,327	-	742	-	-	-	53,294	-	56,363
Credit cards-i	-	-	-	-	-	-	-	453,319	453,319
Revolving credit	509,008	-	-	-	-	-	-	-	509,008
Gross financing and advances	4,175,691	230,461	349,561	103,208	2,948	240,386	4,425,517	485,725	10,013,497
Less: Allowance for impaired financing									
Collective allowances for impairment									(112,151)
Individual allowances for impairment									(49,533)
Total net financing and advances									9,851,813

	Commodity Murabahah RM'000	Sale-based contracts			Lease-based contracts		Equity-based contracts	Ujrah RM'000	Total RM'000
		Bai Bithaman Ajil RM'000	Bai Al-Inah RM'000	Bai Al-Dayn RM'000	Ijarah RM'000	Ijarah Thumma Al-Bai RM'000	Diminishing Musharakah RM'000		
31 Dec 2013									
Cash line-i	-	-	90,276	-	-	-	-	-	90,276
Term financing:									
House financing	-	5,486	63	-	-	-	2,654,446	-	2,659,995
Hire purchase receivables	-	-	-	-	-	252,560	-	-	252,560
Lease receivables	-	-	-	-	2,442	-	-	-	2,442
Other term financing	2,845,521	206,467	405,450	1,413	-	-	1,400,056	-	4,858,907
Trust receipts	55,039	-	-	-	-	-	-	-	55,039
Claims on customers under acceptance credits	466,918	-	-	184,052	-	-	-	9,713	660,683
Staff financing-i	278	-	2,305	-	-	-	43,932	-	46,515
Credit cards-i	-	-	-	-	-	-	-	470,834	470,834
Revolving credit	238,349	-	-	-	-	-	-	-	238,349
Gross financing and advances	3,606,105	211,953	498,094	185,465	2,442	252,560	4,098,434	480,547	9,335,600
Less: Allowance for impaired financing									
Collective allowances for impairment									(119,290)
Individual allowances for impairment									(41,137)
Total net financing and advances									9,175,173

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances (Cont'd)

(ii) By type of customer

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Domestic non-bank financial institutions	542,606	329,023
Domestic business enterprises:		
Small medium enterprises	1,632,013	1,713,220
Others	2,475,853	2,267,570
Government and statutory bodies	17,550	19,190
Individuals	4,579,986	4,500,134
Other domestic entities	1,686	1,722
Foreign entities	763,803	504,741
	10,013,497	9,335,600

(iii) By profit rate sensitivity

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
		Restated
Fixed rate:		
House financing	8,340	8,988
Hire purchase receivables	240,386	252,560
Other financing	1,806,048	1,807,208
Variable rate:		
BFR plus	6,994,947	6,555,768
Cost-plus	510,457	240,242
Other variable rates	453,319	470,834
	10,013,497	9,335,600

(iv) By residual contractual maturity

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Maturing within one year	4,339,582	3,821,794
More than one year to three years	453,688	571,348
More than three years to five years	701,483	666,145
Over five years	4,518,744	4,276,313
	10,013,497	9,335,600

(v) By sector

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Agriculture, hunting, forestry & fishing	310,427	367,359
Mining and quarrying	199,584	103,688
Manufacturing	1,123,592	1,118,514
Electricity, gas and water	83,448	90,568
Construction	730,880	664,984
Real estate	283,139	254,476
Wholesale & retail trade, restaurants & hotels	674,196	657,827
Transport, storage and communication	246,175	274,259
Finance, takaful and business services	793,646	576,063
Household - Retail	5,210,880	4,999,671
Others	357,530	228,191
	10,013,497	9,335,600

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances (Cont'd)

(vi) By purpose

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Purchase of landed property:		
- Residential	2,954,997	2,509,261
- Non-residential	312,398	290,467
Purchase of transport vehicles	2,622	1,534
Purchase of fixed assets excluding land & building	26,122	20,199
Consumption credit	2,006,650	2,271,120
Construction	730,880	664,984
Working capital	3,827,683	3,551,919
Other purpose	152,145	26,116
	<u>10,013,497</u>	<u>9,335,600</u>

(vii) By geographical distribution

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Northern Region	1,292,611	1,403,353
Southern Region	1,540,837	1,413,876
Central Region	6,632,237	5,996,088
Eastern Region	547,812	522,283
	<u>10,013,497</u>	<u>9,335,600</u>

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.

Concentration by location for financing of customers is based on the location of the customer.

(viii) Assets under Management

The details of assets under management in respect of the Restricted Profit Sharing Investment account financing are as below. The exposures and the corresponding risk weighted amount are reported in HSBC Bank Malaysia Berhad's financial statements.

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Term financing	344,649	629,757
Less: Individual allowance for impaired financing	-	-
Total net financing and advances	<u>344,649</u>	<u>629,757</u>
	Principal	Risk
	RM'000	weighted
		RM'000
Total RWA for Credit Risk		
- at 30 Jun 2014	344,649	389,487
- at 31 Dec 2013	629,757	629,757

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Impaired Financing

(i) Movements in impaired financing and advances

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
At beginning of period/year	166,906	129,418
Classified as impaired during the period/year	133,775	261,752
Reclassified as performing	(66,827)	(85,345)
Amount recovered	(37,237)	(47,315)
Amount written off	(49,982)	(119,997)
Other movements	14,988	28,393
At end of period/year	161,623	166,906
Less: Individual allowance for impairment	(49,533)	(41,137)
Collective allowance for impairment (impaired portion)	(44,769)	(43,641)
Net impaired financing and advances	67,321	82,128

(ii) Movements in allowance for impaired financing

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Collective allowance for impairment		
At beginning of period/year	119,290	144,853
Made during the period/year	55,598	157,960
Amount released	(17,735)	(66,909)
Amount written off	(44,066)	(115,853)
Discount unwind	(936)	(761)
At end of period/year	112,151	119,290

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Individual allowance for impairment		
At beginning of period/year	41,137	30,379
Made during the period/year	30,287	42,424
Amount recovered	(23,236)	(36,823)
Amount written off	(4,443)	(4,705)
Other movement	6,197	10,291
Discount unwind	(409)	(429)
At end of period/year	49,533	41,137

(iii) By contract

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Bai Bithaman Ajil (<i>deferred payment sale</i>)	87	106
Bai Al-Dayn (<i>sale of debt</i>)	842	1,330
Ijarah Thumma Al-Bai (AITAB) (<i>hire purchase</i>)	10,429	7,670
Murabahah (<i>cost-plus</i>)	50,106	39,663
Musharakah (<i>profit and loss sharing</i>)	61,938	66,335
Bai Al-Inah (<i>sell and buy back</i>)	24,993	37,611
Ujrah (<i>fee-based</i>)	13,228	14,191
	161,623	166,906

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Impaired Financing (Cont'd)

(iv) By sector

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Manufacturing	10,818	6,358
Construction	1,639	2,455
Wholesale & retail trade, restaurants & hotels	3,002	2,092
Transport, storage and communication	197	960
Finance, takaful and business services	623	346
Household - Retail	144,653	154,504
Others	691	191
	<u>161,623</u>	<u>166,906</u>

(v) By purpose

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Purchase of landed property:		
- Residential	54,483	65,700
- Non-residential	6,437	102
Purchase of transport vehicles	348	69
Consumption credit	83,052	87,775
Construction	1,639	2,455
Working capital	14,976	10,092
Other purpose	688	713
	<u>161,623</u>	<u>166,906</u>

(vi) By geographical distribution

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Northern Region	37,814	38,608
Southern Region	17,514	26,209
Central Region	100,819	96,782
Eastern Region	5,476	5,307
	<u>161,623</u>	<u>166,906</u>

Refer Note 14(vii) for definition of each region.

16 Other Assets

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Income receivable	19,603	18,548
Amount due from holding company/ related companies	422,274	151,497
Other receivables, deposits and prepayments	11,758	10,966
	<u>453,635</u>	<u>181,011</u>

17 Statutory deposits with Bank Negara Malaysia

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Deposits From Customers

(i) By type of deposit

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
		Restated
Non-Mudharabah Fund		
Demand deposits		
- Wadiah	1,345,066	1,152,713
- Wakalah	66,328	98,682
Savings deposits		
- Wadiah	653,986	611,078
- Wakalah	667,809	617,472
Fixed return investment deposits		
- Murabahah	6,659,390	6,552,310
Islamic repurchase agreements		
- Bai Al-Inah	157,049	152,660
Negotiable instruments of deposits		
- Wakalah	-	10,703
- Wakalah with Commodity Wa'ad	659,020	526,705
Others		
- Wakalah with Commodity Wa'ad	1,250,813	1,138,431
- Wakalah with Murabahah	134,718	169,810
	11,594,179	11,030,564

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

	RM'000	RM'000
Due within six months	5,722,794	5,726,792
More than six months to one year	1,023,199	909,369
More than one year to three years	96,795	92,019
More than three years to five years	475,622	361,538
	7,318,410	7,089,718

(ii) By type of customer

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Government and statutory bodies	36,289	87,211
Business enterprises	2,136,231	1,930,020
Individuals	7,265,246	7,038,482
Others	2,156,413	1,974,851
	11,594,179	11,030,564

19 Deposits and Placements from Banks and Other Financial Institutions

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
		Restated
Non-Mudharabah		
Licensed banks	515,005	793,520
Bank Negara Malaysia	-	26,815
Other financial institutions	-	134
Mudharabah		
Licensed banks	795,000	760,000
Other financial institutions	150,000	-
	1,460,005	1,580,469

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Other Liabilities

	Note	30 Jun 2014 RM'000	31 Dec 2013 RM'000
Profit payable		57,519	52,383
Amounts due to holding company/ related companies		304,586	9,137
Profit equalisation reserve	(a)	1,242	1,290
Other creditors and accruals	(b)	94,822	85,170
		<u>458,169</u>	<u>147,980</u>

(a) Movement in profit equalisation reserve is as follows:

	30 Jun 2014 RM'000	31 Dec 2013 RM'000
At beginning of period/year	1,290	1,340
Contribution to non-profit organisations	(48)	(50)
At end of period/year	<u>1,242</u>	<u>1,290</u>

(b) 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.

Source and use of charity funds

	30 Jun 2014 RM'000	31 Dec 2013 RM'000
Source of charity funds		
At beginning of period/year	3	32
Income from inadvertent Shariah non-compliant activities	48	72
Use of charity funds		
Contribution to non-profit organisations	-	(101)
At end of period/year	<u>51</u>	<u>3</u>

21 Multi-Currency Sukuk Programme

	30 Jun 2014 RM'000	31 Dec 2013 RM'000
Multi-Currency Sukuk Programme ("MCSP")	<u>500,000</u>	<u>500,000</u>

This is a 5-year medium term note (Sukuk) under the Bank's RM3 billion Multi-Currency Sukuk Programme. The Sukuk's maturity date is 28 September 2017 and bears a distribution rate of 3.75% per annum payable semi-annually in arrears. The Sukuk issued under the MCSP is carried at amortised cost, with profit payable recognised on an accrual basis.

22 Subordinated Commodity Murabahah Financing

	30 Jun 2014 RM'000	31 Dec 2013 RM'000
Subordinated Commodity Murabahah Financing	<u>249,456</u>	<u>-</u>

This is a Basel III compliant Tier 2 subordinated Commodity Murabahah financing-i of USD equivalent of RM250 million from the Bank's immediate holding company, HSBC Bank Malaysia Berhad. The tenor of the facility is 10 years with the profit payable quarterly in arrears from the utilisation date.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Income Derived from Investment of Depositors' Funds and Others

	Second Quarter		Half Year To	
	30 Jun 2014	30 Jun 2013	30 Jun 2014	30 Jun 2013
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of:				
(i) general investment deposits	127,540	110,587	242,950	219,192
(ii) specific investment deposits	7,207	7,945	13,710	20,983
(iii) other deposits	26,696	25,507	59,034	50,090
	161,443	144,039	315,694	290,265
(i) Income derived from investment of general investment deposits				
	30 Jun 2014	30 Jun 2013	30 Jun 2014	30 Jun 2013
	RM'000	RM'000	RM'000	RM'000
<u>Finance income and hibah:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	96,579	89,943	187,634	182,771
- Recoveries from impaired financing	3,544	2,226	5,991	4,095
Financial investments available-for-sale	11,533	4,564	20,377	9,313
Money at call and deposit with financial institutions	15,268	13,854	29,783	23,013
	126,924	110,587	243,785	219,192
<u>Other operating income</u>				
Net gains from dealing in foreign currency	3,545	-	7,088	-
Net gains from sale of financial assets held-for-trading and other financial instruments	4,166	-	7,998	-
Net unrealised gains from revaluation of financial assets held-for-trading	84	-	1,213	-
Net profit paid for financial assets held-for-trading and other financial instruments	(12,054)	-	(22,523)	-
Net gain from trading in derivatives	5,176	-	5,736	-
Others	(301)	-	(347)	-
	616	-	(835)	-
	127,540	110,587	242,950	219,192

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

(ii) Income derived from investment of specific investment deposits

	Second Quarter		Half Year To	
	30 Jun 2014 RM'000	30 Jun 2013 RM'000	30 Jun 2014 RM'000	30 Jun 2013 RM'000
<u>Finance income and hibah:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	5,325	5,219	10,191	9,601
Recoveries from impaired financing	-	-	-	-
Financial investments available-for-sale	-	3,834	-	7,641
	5,325	9,053	10,191	17,242
<u>Other operating income</u>				
Fees and commission	505	872	1,355	2,149
Net gains from dealing in foreign currency	1,377	4,609	2,164	8,994
Net gain from sale of financial assets				
held-for-trading and other financial instruments	-	4,199	-	10,447
Net (losses)/gains from trading in derivatives	-	(36)	-	126
Net profit paid from financial assets				
held-for-trading and other financial instruments	-	(10,100)	-	(16,892)
Net unrealised loss from revaluation of financial assets held-for-trading	-	(652)	-	(1,083)
	1,882	(1,108)	3,519	3,741
	7,207	7,945	13,710	20,983

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

Guarantee fees	255	264	514	526
Service charges and fees	174	15	764	59
Credit facilities	-	527	1	1,006

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

(iii) Income derived from investment of other deposits

	Second Quarter		Half Year To	
	30 Jun 2014	30 Jun 2013	30 Jun 2014	30 Jun 2013
	RM'000	RM'000	RM'000	RM'000
<u>Finance income and hibah:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	20,080	20,755	45,593	41,767
- Recoveries from impaired financing	770	513	1,456	936
Financial investments available-for-sale	2,473	1,053	4,951	2,128
Money at call and deposit with financial institutions	3,170	3,186	7,237	5,259
	<u>26,493</u>	<u>25,507</u>	<u>59,237</u>	<u>50,090</u>
<u>Other operating income</u>				
Net gains from dealing in foreign currency	729	-	1,722	-
Net gains from sale of financial assets held-for-trading and other financial instruments	869	-	1,943	-
Net gain from trading in derivatives	1,237	-	1,394	-
Net unrealised gains from revaluation of financial assets held-for-trading	(21)	-	295	-
Net profit paid from financial assets held-for-trading and other financial instruments	(2,540)	-	(5,473)	-
Others	(71)	-	(84)	-
	<u>203</u>	<u>-</u>	<u>(203)</u>	<u>-</u>
	<u>26,696</u>	<u>25,507</u>	<u>59,034</u>	<u>50,090</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24 Income Derived from Investment of Shareholder's Funds

	Second Quarter		Half Year To	
	30 Jun 2014	30 Jun 2013	30 Jun 2014	30 Jun 2013
	RM'000	RM'000	RM'000	RM'000
<u>Finance income and hibah:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	10,433	10,058	21,182	21,101
- Recoveries from impaired financing	387	251	676	473
Financial investments available-for-sale	1,256	510	2,300	1,075
Money at call and deposit with financial institutions	1,649	1,568	3,362	2,657
	13,725	12,387	27,520	25,306
<u>Other operating income</u>				
Fees and commission	19,355	20,302	37,801	39,753
Net gains from dealing in foreign currency	382	-	800	-
Net gains from sale of financial assets held-for-trading and other financial instruments	451	-	903	-
Net gain from trading in derivatives	582	-	648	-
Net unrealised gains from revaluation of financial assets held-for-trading	4	-	137	-
Net profit paid from financial assets held-for-trading and other financial instruments	(1,307)	-	(2,543)	-
Shared-service fees from holding company	910	915	1,834	1,809
Net gain on disposal of equipment	-	-	-	-
Other income	(46)	56	600	124
	20,331	21,273	40,180	41,686
	34,056	33,660	67,700	66,992
The above fees and commissions were derived from the following major contributors:				
Service charges and fees	4,784	6,410	9,507	10,665
Cards	8,883	7,251	15,610	13,652
Agency fees	4,709	4,307	8,763	8,928

25 Impairment Losses on Financing

	30 Jun 2014	30 Jun 2013	30 Jun 2014	30 Jun 2013
	RM'000	RM'000	RM'000	RM'000
Impairment charges on financing:				
(a) Individual allowance for impairment				
- Provided	16,542	7,709	30,287	19,760
- Written back	(11,664)	(6,942)	(23,236)	(16,282)
(b) Collective allowance for impairment				
- Provided	25,232	33,596	55,598	76,522
- Written back	(7,426)	(12,403)	(17,735)	(19,113)
Impaired financing				
- Recovered	(7,531)	(7,914)	(15,239)	(15,547)
- Written off	2,131	500	2,357	1,308
	17,284	14,546	32,032	46,648

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

26 Income Attributable to Depositors

	Second Quarter		Half Year To	
	30 Jun 2014 RM'000	30 Jun 2013 RM'000 Restated	30 Jun 2014 RM'000	30 Jun 2013 RM'000 Restated
Non-Mudharabah Fund				
Deposits from customers	55,582	47,515	108,585	92,049
Deposits and placements of banks and other financial institutions	1,477	1,319	3,241	2,690
Others	5,364	5,069	10,524	9,975
Mudharabah Fund				
Deposits and placements of banks and other financial institutions	6,825	7,748	13,101	17,018
	69,248	61,651	135,451	121,732

27 Personnel Expenses

	30 Jun 2014		30 Jun 2013	
	RM'000	RM'000 Restated	RM'000	RM'000 Restated
Salaries, allowances and bonuses	9,135	8,404	17,574	14,899
Employees Provident Fund contributions	1,512	1,269	2,858	2,050
Other staff related costs	371	636	981	1,341
	11,018	10,309	21,413	18,290

28 Other Overheads and Expenditures

	30 Jun 2014		30 Jun 2013	
	RM'000	RM'000 Restated	RM'000	RM'000 Restated
Promotion and marketing related expenses				
Advertising and promotion	4,992	4,723	9,311	7,485
Marketing	1,584	1,477	2,254	2,651
	6,576	6,200	11,565	10,136
Establishment related expenses				
Depreciation of equipment	2,106	2,707	4,285	5,178
Amortisation of intangible assets	2	6	4	11
Information technology costs	379	651	1,122	910
Hire of equipment	1	6	3	23
Rental of premises	2,000	1,963	4,002	3,994
Equipment written off	-	-	-	14
Others	773	761	1,372	1,292
	5,261	6,094	10,788	11,422
General administrative expenses				
Intercompany expenses	32,857	31,727	65,583	62,714
Auditors' remuneration				
Statutory audit fees				
KPMG Malaysia	30	30	60	60
Other services				
KPMG Malaysia	27	32	95	75
Professional fees	568	550	823	858
Others	3,671	1,412	6,850	4,403
	37,153	33,751	73,411	68,110
	48,990	46,045	95,764	89,668

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 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:

	30 Jun 2014	31 Dec 2013
Aggregate value of outstanding credit exposures to connected parties (RM'000)	498,359	231,557
As a percentage of total credit exposures	3.96%	2.00%
Aggregate value of outstanding credit exposures to connected parties which is non-performing or in default (RM'000)	-	-
As a percentage of total credit exposures	-	-

30 Capital Adequacy

	30 Jun 2014	31 Dec 2013
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	50,000	50,000
Share premium	610,000	610,000
Retained profits	535,071	472,050
Other reserves	58,427	43,345
Regulatory adjustments	(19,810)	(5,116)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	1,233,688	1,170,279
Tier 2 capital		
Subordinated Commodity Murabahah financing	249,456	-
Collective impairment allowance (unimpaired portion) & regulatory reserves	83,632	75,649
Total Tier 2 capital	333,088	75,649
Capital base	1,566,776	1,245,928
CET1 and Tier 1 Capital ratio	11.973%	12.300%
Total Capital ratio	15.206%	13.095%

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:

	30 Jun 2014		31 Dec 2013	
	Principal	Risk-weighted	Principal	Risk-weighted
	RM'000	RM'000	RM'000	RM'000
Total RWA for credit risk	18,022,447	9,292,201	16,569,610	8,580,305
Total RWA for market risk	-	111,764	-	78,252
Total RWA for operational risk	-	899,632	-	856,104
	18,022,447	10,303,597	16,569,610	9,514,661

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Commitments and Contingencies

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

	Principal amount RM'000	Positive fair value of derivative contracts ^ RM'000	Credit equivalent amount * RM'000	Risk weighted amount * RM'000
30 Jun 2014				
Direct credit substitutes	469,982	-	469,982	384,769
Transaction-related contingent items	863,568	-	431,784	318,156
Short-term self-liquidating trade-related contingencies	45,013	-	9,003	6,329
Irrevocable commitments to extend credit				
- Maturity not exceeding one year	2,047,503	-	409,501	329,849
- Maturity exceeding one year	1,093,469	-	546,734	528,500
Unutilised credit card lines	1,139,327	-	227,865	170,899
Equity related contracts				
- Less than one year	306,495	251	19,550	3,910
- One year to less than five years	1,176,639	4,346	98,477	19,695
Profit rate related contracts				
- Less than one year	83,000	160	288	58
- One year to less than five years	4,841,373	75,478	216,240	62,510
Foreign exchange related contracts				
- Less than one year	2,080,810	16,794	49,456	12,324
- One year to less than five years	800,000	9,817	81,817	53,017
- Over five years	96,330	3,731	13,364	9,511
	15,043,509	110,577	2,574,061	1,899,527
		Note 32		

31 Dec 2013

Direct credit substitutes	493,365	-	493,365	448,235
Transaction-related contingent items	832,700	-	416,350	293,927
Short-term self-liquidating trade-related contingencies	19,611	-	3,922	3,288
Irrevocable commitments to extend credit				
- Maturity not exceeding one year	1,873,926	-	374,785	333,163
- Maturity exceeding one year	861,017	-	430,508	416,910
Unutilised credit card lines	1,030,840	-	206,168	154,626
Equity related contracts				
- Less than one year	644,322	11	39,062	18,346
- One year to less than five years	752,273	5,095	67,296	31,154
Profit rate related contracts				
- Less than one year	98,500	359	537	269
- One year to less than five years	3,101,025	58,935	154,051	85,717
Foreign exchange related contracts				
- Less than one year	2,201,457	16,424	62,439	37,043
- Over five years	98,370	4,640	14,587	12,127
	12,007,406	85,464	2,263,070	1,834,805
		Note 32		

^ The foreign exchange, equity related and profit rate related contracts are off-balance sheet derivative financial instruments whose values change in response to change in prices or rates (such as foreign exchange rates, profit rates and commodities price) of the underlying instruments. The table above shows the Bank's derivative financial instruments at the statement of financial position date. The underlying principal amount of these derivative financial instruments and their corresponding gross positive (derivative financial asset) fair values at the statement of financial position date are shown above.

* The credit equivalent and risk weighted amounts are computed using credit conversion factors and risk weighting rules as per Bank Negara Malaysia guidelines. The credit conversion factors and risk weighting rules were based on Basel II Capital Adequacy Framework for Islamic Banks, "CAFIB".

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 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:

30 Jun 2014	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
Trading derivatives:												
Foreign exchange contracts												
- Forwards	2,040,369	-	-	2,040,369	16,323	-	-	16,323	16,460	-	-	16,460
- Swaps	-	800,000	93,885	893,885	-	9,817	3,731	13,548	-	2,064	3,016	5,080
- Options	42,886	-	-	42,886	471	-	-	471	21	-	-	21
Profit rate related contracts												
- Swaps	83,000	3,693,295	-	3,776,295	160	11,869	-	12,029	-	9,425	-	9,425
- Options	-	868,078	-	868,078	-	62,775	-	62,775	-	73,816	-	73,816
Equity related contracts												
- Options	306,495	1,176,639	-	1,483,134	899	3,698	-	4,597	5,560	12,515	-	18,075
Sub- total	<u>2,472,750</u>	<u>6,538,012</u>	<u>93,885</u>	<u>9,104,647</u>	<u>17,853</u>	<u>88,159</u>	<u>3,731</u>	<u>109,743</u>	<u>22,041</u>	<u>97,820</u>	<u>3,016</u>	<u>122,877</u>
Hedging Derivatives:												
Fair Value Hedge												
Profit rate related contracts												
- Swaps	-	280,000	-	280,000	-	834	-	834	-	56	-	56
Sub- total	<u>-</u>	<u>280,000</u>	<u>-</u>	<u>280,000</u>	<u>-</u>	<u>834</u>	<u>-</u>	<u>834</u>	<u>-</u>	<u>56</u>	<u>-</u>	<u>56</u>
Total	<u>2,472,750</u>	<u>6,818,012</u>	<u>93,885</u>	<u>9,384,647</u>	<u>17,853</u>	<u>88,993</u>	<u>3,731</u>	<u>110,577</u>	<u>22,041</u>	<u>97,876</u>	<u>3,016</u>	<u>122,933</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Derivative Financial Instruments (Cont'd)

31 Dec 2013	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
Trading derivatives:												
Foreign exchange contracts												
- Forwards	2,178,902	-	-	2,178,902	13,607	-	-	13,607	13,186	-	-	13,186
- Swaps	-	-	94,905	94,905	-	-	4,750	4,750	-	-	3,970	3,970
- Options	26,020	-	-	26,020	-	2,707	-	2,707	23	-	-	23
Profit rate related contracts												
- Swaps	98,500	1,802,194	550,000	2,450,694	359	8,230	3,487	12,076	-	5,674	1,879	7,553
- Options	-	668,832	-	668,832	-	46,720	-	46,720	-	58,873	-	58,873
Equity related contracts												
- Options	644,322	707,865	-	1,352,187	11	5,095	-	5,106	26,100	7,326	-	33,426
Sub- total	2,947,744	3,178,891	644,905	6,771,540	13,977	62,752	8,237	84,966	39,309	71,873	5,849	117,031
Hedging Derivatives:												
Fair Value Hedge												
Profit rate related contracts												
- Swaps	-	80,000	-	80,000	-	498	-	498	-	-	-	-
Sub- total	-	80,000	-	80,000	-	498	-	498	-	-	-	-
Total	2,947,744	3,258,891	644,905	6,851,540	13,977	63,250	8,237	85,464	39,309	71,873	5,849	117,031

NOTES TO THE ACCOUNTS (Cont'd)

33 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

30 Jun 2014	Non-trading book						Trading book	Total	Effective profit rate %
	Up to 1 month	>1 - 3 months	>3 - 12 months	1 - 5 years	Over 5 years	Non-profit sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
ASSETS									
Cash and short-term funds	2,558,080	-	-	-	-	170,770	-	2,728,850	3.04
Deposits and placements with banks and other financial institutions	-	157,631	-	-	-	-	-	157,631	1.50
Financial assets held-for-trading	-	-	-	-	-	-	39,073	39,073	3.40
Financial investments available-for-sale	-	144,330	527,669	1,164,884	19,880	-	-	1,856,763	3.27
Financing and advances									
- performing	8,171,618	229,733	175,337	993,224	42,867	168,463	-	9,781,242	5.78
- impaired *	-	-	-	-	-	70,571	-	70,571	-
Derivative financial assets	-	-	-	-	-	-	110,577	110,577	-
Others	-	-	-	-	-	922,649	1,514	924,163	-
Total Assets	10,729,698	531,694	703,006	2,158,108	62,747	1,332,453	151,164	15,668,870	
LIABILITIES AND EQUITY									
Deposits from customers	5,044,675	1,642,003	1,411,085	40,470	-	1,411,395	2,044,551	11,594,179	2.36
Deposits and placements from banks and other financial institutions	377,575	761,330	160,550	160,550	-	-	-	1,460,005	2.58
Bills and acceptances payable	-	-	-	-	-	20,904	-	20,904	-
Multi-Currency Sukuk Programme	-	-	-	500,000	-	-	-	500,000	3.75
Subordinated Commodity Murabahah Financing	-	-	-	-	249,456	-	-	249,456	2.48
Derivative financial liabilities	-	-	-	-	-	-	122,933	122,933	-
Others	-	-	-	-	-	456,589	9,783	466,372	-
Total Liabilities	5,422,250	2,403,333	1,571,635	701,020	249,456	1,888,888	2,177,267	14,413,849	
Equity	-	-	-	-	-	1,255,021	-	1,255,021	-
Total Liabilities and Equity	5,422,250	2,403,333	1,571,635	701,020	249,456	3,143,909	2,177,267	15,668,870	
On-balance sheet									
profit sensitivity gap	5,307,448	(1,871,639)	(868,629)	1,457,088	(186,709)	(1,811,456)	(2,026,103)	-	
Off-balance sheet									
profit sensitivity gap									
- Profit rate swaps	21,093	(83,722)	53,000	30,000	(20,371)	-	-	-	
- Profit rate options	-	-	-	-	-	-	-	-	
Total profit sensitivity gap	5,328,541	(1,955,361)	(815,629)	1,487,088	(207,080)	(1,811,456)	(2,026,103)	-	

* This is arrived at after deducting individual impairment allowance and collective impairment allowance (impaired portion only) from impaired financing.

NOTES TO THE ACCOUNTS (Cont'd)

33 Profit rate risk (Cont'd)

31 Dec 2013	Non-trading book						Trading book RM'000	Total RM'000	Effective profit rate %
	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			
ASSETS									
Cash and short-term funds	2,950,000	-	-	-	-	143,206	-	3,093,206	3.05
Deposits and placements with banks and other financial institutions	163,950	-	-	-	-	-	-	163,950	1.50
Financial assets held-for-trading	-	-	-	-	-	-	89,659	89,659	3.28
Financial investments available-for-sale	-	45,020	528,831	747,371	19,784	-	-	1,341,006	3.00
Financing and advances									
- performing	7,345,711	156,178	235,123	1,085,911	43,891	226,231	-	9,093,045	5.92
- impaired *	-	-	-	-	-	82,128	-	82,128	-
Derivative financial assets	-	-	-	-	-	-	85,464	85,464	-
Others	-	-	-	-	-	614,951	989	615,940	-
Total Assets	10,459,661	201,198	763,954	1,833,282	63,675	1,066,516	176,112	14,564,398	
LIABILITIES AND EQUITY									
Deposits from customers	5,374,553	1,579,517	1,352,400	41,109	-	837,336	1,845,649	11,030,564	2.51
Deposits and placements from banks and other financial institutions	197,619	150,000	1,042,085	163,950	-	26,815	-	1,580,469	2.59
Bills and acceptances payable	-	-	-	-	-	10,972	-	10,972	-
Multi-Currency Sukuk Programme	-	-	-	500,000	-	-	-	500,000	3.75
Derivative financial liabilities	-	-	-	-	-	-	117,031	117,031	-
Others	-	-	-	-	-	147,942	38	147,980	-
Total Liabilities	5,572,172	1,729,517	2,394,485	705,059	-	1,023,065	1,962,718	13,387,016	
Equity	-	-	-	-	-	1,177,382	-	1,177,382	
Total Liabilities and Equity	5,572,172	1,729,517	2,394,485	705,059	-	2,200,447	1,962,718	14,564,398	
On-balance sheet profit sensitivity gap	4,887,489	(1,528,319)	(1,630,531)	1,128,223	63,675	(1,133,931)	(1,786,606)	-	
Off-balance sheet profit sensitivity gap	-	-	-	53,000	(32,820)	-	-	20,180	
- Profit rate swaps	(71,921)	(262,545)	-	-	334,466	-	-	-	
Total profit sensitivity gap	4,815,568	(1,790,864)	(1,630,531)	1,181,223	365,321	(1,133,931)	(1,786,606)	20,180	

* This is arrived at after deducting individual impairment allowance and collective impairment allowance (impaired portion only) from impaired financing.

NOTES TO THE ACCOUNTS (Cont'd)

34 Liquidity Risk

The following tables summarise the Bank's exposure to liquidity risk. The asset and liabilities a carrying amount are allocated to time bands by reference to the remaining contractual maturity and/or their behavioral profile.

30 Jun 2014	Non-trading book						Trading book RM'000	Total RM'000
	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		
ASSETS								
Cash and short-term funds	2,728,850	-	-	-	-	-	-	2,728,850
Deposits and placements with banks and other financial institutions	-	157,631	-	-	-	-	-	157,631
Financial assets held-for-trading	-	-	-	-	-	-	39,073	39,073
Financial investments available-for-sale	-	144,330	527,669	1,164,884	19,880	-	-	1,856,763
Financing and advances	1,739,724	1,966,379	507,863	1,147,883	4,489,964	-	-	9,851,813
Derivative financial assets	-	-	-	-	-	-	110,577	110,577
Others	426,202	7	-	447	-	480,484	17,023	924,163
Total Assets	4,894,776	2,268,347	1,035,532	2,313,214	4,509,844	480,484	166,673	15,668,870
LIABILITIES AND EQUITY								
Deposits from customers	6,456,070	1,642,003	1,411,085	40,470	-	-	2,044,551	11,594,179
Deposits and placements from banks and other financial institutions	377,575	761,330	160,550	160,550	-	-	-	1,460,005
Bills and acceptances payable	20,904	-	-	-	-	-	-	20,904
Multi-Currency Sukuk Programme	-	-	-	500,000	-	-	-	500,000
Subordinated Commodity Murabahah Financing	-	-	-	-	249,456	-	-	249,456
Derivative financial liabilities	-	-	-	-	-	-	122,933	122,933
Others	370,538	12,087	16,022	5,718	-	52,224	9,783	466,372
Total Liabilities	7,225,087	2,415,420	1,587,657	706,738	249,456	52,224	2,177,267	14,413,849
Equity	-	-	-	-	-	1,255,021	-	1,255,021
Total Liabilities and Equity	7,225,087	2,415,420	1,587,657	706,738	249,456	1,307,245	2,177,267	15,668,870
Net maturity mismatches	(2,330,311)	(147,073)	(552,125)	1,606,476	4,260,388	(826,761)	(2,010,594)	-
Off balance sheet liabilities	3,122,242	1,532,116	2,281,225	8,011,292	96,634	-	-	15,043,509

NOTES TO THE ACCOUNTS (Cont'd)

34 Liquidity Risk (Cont'd)

31 Dec 2013	←		Non-trading book				→		Total RM'000
	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		
ASSETS									
Cash and short-term funds	3,093,206	-	-	-	-	-	-	-	3,093,206
Deposits and placements with banks and other financial institutions	163,950	-	-	-	-	-	-	-	163,950
Financial assets held-for-trading	-	-	-	-	-	-	89,659	-	89,659
Financial investments available-for-sale	-	45,020	528,831	747,371	19,784	-	-	-	1,341,006
Financing and advances	1,958,740	1,440,036	302,301	1,228,604	4,245,492	-	-	-	9,175,173
Derivative financial assets	-	-	-	-	-	-	85,464	-	85,464
Others	4,454	162,456	-	-	-	448,041	989	-	615,940
Total Assets	5,220,350	1,647,512	831,132	1,975,975	4,265,276	448,041	176,112	-	14,564,398
LIABILITIES AND EQUITY									
Deposits from customers	6,211,889	1,579,517	1,352,400	41,109	-	-	1,845,649	-	11,030,564
Deposits and placements from banks and other financial institutions	224,434	150,000	1,042,085	163,950	-	-	-	-	1,580,469
Bills and acceptances payable	10,972	-	-	-	-	-	-	-	10,972
Multi-Currency Sukuk Programme	-	-	-	500,000	-	-	-	-	500,000
Derivative financial liabilities	-	-	-	-	-	-	117,031	-	117,031
Others	19,015	47,615	-	2,495	-	78,817	38	-	147,980
Total Liabilities	6,466,310	1,777,132	2,394,485	707,554	-	78,817	1,962,718	-	13,387,016
Equity	-	-	-	-	-	1,177,382	-	-	1,177,382
Total Liabilities and Equity	6,466,310	1,777,132	2,394,485	707,554	-	1,256,199	1,962,718	-	14,564,398
Net maturity mismatches	(1,245,960)	(129,620)	(1,563,353)	1,268,421	4,265,276	(808,158)	(1,786,606)	-	-
Off balance sheet liabilities	3,185,246	1,015,882	2,546,700	5,161,208	98,370	-	-	-	12,007,406

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Performance Review

The Bank achieved profit before tax of RM98.7 million, an increase of RM17.8 million, or 22.0%, compared with the first half year of 2013.

Total net income at RM215.9 million improved by RM27.0 million or 14.3% compared to the first half of 2013. Impairment losses on financing declined by RM14.6 million on lower net collective impairment provision whilst net finance income improved by RM15.2 million. Operating expenses increased by RM9.2 million arising from higher personnel expenses (up RM3.1 million), intercompany expenses (up RM2.9 million) and promotion and marketing related expenses (up RM1.4 million).

Balance sheet size grew by RM1.1 billion or 7.6% against 31 December 2013. Growth in total assets was principally due to increase in financing and advances (+RM0.7 billion) and financial investments available-for-sale (up RM0.5 billion). The growth was mainly funded by increase in customer deposits (up RM0.6 billion) and subordinated liabilities (up RM0.2 billion).

36 Business Prospects

The Malaysian economy rose by 6.2% in 1Q2014 (1Q2013: 4.1%), surpassing the initial forecast of 4.5% - 5.5%. This was driven by a stronger expansion in domestic demand and a turnaround in net exports. Private sector activity remained the main driver of growth in the first quarter, with sustained strong growth in both consumption and investment activities. Private consumption remained strong at 7.1%, supported by stable employment conditions and continued wage growth. Growth in public consumption has increased to 11.2% (4Q 2013:5.2%), reflecting higher Government spending on supplies and

The Bank's priorities in 2014 remain unchanged, to grow the business, implement the highest global standards of conduct and compliance, and streamline processes and procedures. On growing the business, the Bank continues to invest in Premier and Advance propositions especially in the offering of wealth management solutions to meet customer needs. Leveraging on HSBC Group expertise, the Bank is able to provide holistic banking services solution to our existing and new corporate customers. Further, the Bank will capitalise on the HSBC Group's international connectivity for cross border trade initiatives, and will engage with relevant Government bodies for early identification of inbound investments.

The Bank has adopted the relationship based approach (as opposed to the product push approach) for a number of years and this journey will continue as it is a better and more sustainable business model for delivering a better customer experience.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Comparative Figures

Restatement of Comparative Figures

The presentation and classification of items in the current financial statements are consistent with the previous year except for the following:

(i) Reclassification to conform to current period's presentation

Statement of financial position at 31 December 2013

	RM'000 As restated	RM'000 As previously stated
a) Financing and Advances		
By profit rate sensitivity	<u>9,335,600</u>	<u>9,335,600</u>
<i>(of which the affected components are disclosed below) :</i>		
Variable rate:		
House financing	-	3,266,668
Other financing	-	4,000,176
BFR plus	6,555,768	-
Cost-plus	240,242	-
Other variable rates	470,834	-
	<u>7,266,844</u>	<u>7,266,844</u>
b) Deposits from customers	<u>11,030,564</u>	<u>11,030,564</u>
<i>(of which the affected components are disclosed below) :</i>		
Others		
Hybrid	-	93,769
Wakalah	-	60,467
Murabahah	-	1,154,005
Wakalah with Commodity Wa'ad	1,138,431	-
Wakalah with Murabahah	169,810	-
c) Deposits and Placements from Banks and Other Financial Institutions		
Non-Mudharabah		
Licensed banks	793,520	-
Bank Negara Malaysia	26,815	-
Other financial institutions	134	-
Mudharabah		
Licensed banks	760,000	1,553,520
Bank Negara Malaysia	-	26,815
Other financial institutions	-	134
	<u>1,580,469</u>	<u>1,580,469</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Comparative Figures (Cont'd)

Restatement of Comparative Figures (Cont'd)

Statement of profit or loss and other comprehensive income for the financial period ended 30 June 2013

	RM'000 As restated	RM'000 As previously stated
a) Income Attributable to Depositors	121,732	121,732
<i>(of which the affected components are disclosed below) :</i>		
Non-Mudharabah Fund		
Deposits and placements of banks and other financial institutions	2,690	-
Others	9,975	-
Mudharabah Fund		
Deposits and placements of banks and other financial institutions	17,018	19,708
Others	-	9,975
b) Personnel Expenses	18,290	18,444
<i>(of which the affected components are disclosed below) :</i>		
Other staff related costs	1,341	1,495
c) Other Overheads and Expenditures	68,110	67,829
<i>(of which the affected components are disclosed below) :</i>		
Promotion and marketing related expenses	10,136	10,263
Advertising and promotion	7,485	7,612