

HSBC AMANAH

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
30 SEPTEMBER 2015

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 interim condensed financial statements for the financial period ended 30 September 2015 have been prepared from the Bank's accounting and other records and that they are in accordance with the requirements of MFRS134: 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 (BNM) in 2015.

NEOH ELLY
Chief Financial Officer

Date : 26 October 2015

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

UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2015

	<i>Note</i>	30 Sep 2015 RM'000	31 Dec 2014 RM'000 (Restated)
Assets			
Cash and short-term funds	10	3,675,872	670,934
Financial assets held for trading	11	483	20,055
Financial investments available-for-sale	12	1,887,834	4,135,323
Financing and advances	13	12,144,398	10,680,538
Derivative financial assets	15	393,847	123,842
Other assets	16	37,596	239,287
Statutory deposits with Bank Negara Malaysia	17	350,662	479,062
Equipment		11,742	16,214
Intangible assets		-	2
Deferred tax assets		8,433	7,757
Tax recoverable		10,044	8,861
Total assets		18,520,911	16,381,875
Liabilities			
Deposits from customers	18	10,018,125	10,976,181
Deposits and placements from banks and other financial institutions	19	2,820,358	2,501,753
Bills and acceptances payable		12,748	25,709
Derivative financial liabilities	15	606,490	127,617
Other liabilities	20	1,267,409	158,416
Multi-Currency Sukuk Programme	21	1,748,868	1,001,854
Subordinated Commodity Murabahah Financing	22	633,155	271,636
Total liabilities		17,107,153	15,063,166
Equity			
Share capital		50,000	50,000
Reserves		1,363,758	1,268,709
Total equity attributable to owner of the Bank		1,413,758	1,318,709
Total liabilities and equity		18,520,911	16,381,875
Commitments and Contingencies	30	18,778,830	15,940,789

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 2014 and the accompanying explanatory notes on pages 5 to 27 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 26 October 2015.

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 SEPTEMBER 2015**

	<i>Note</i>	Third Quarter		Year-To-Date Ended	
		30 Sep 2015	30 Sep 2014	30 Sep 2015	30 Sep 2014
		RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositors' funds and others	23	181,249	162,871	535,952	478,565
Income derived from investment of shareholder's funds	24	25,167	34,841	84,323	102,541
Impairment losses on financing	25	(21,569)	(21,382)	(43,612)	(53,414)
Total distributable income		184,847	176,330	576,663	527,692
Income attributable to depositors	26	(94,664)	(74,833)	(274,387)	(210,284)
Total net income		90,183	101,497	302,276	317,408
Personnel expenses	27	(12,633)	(11,433)	(39,036)	(33,245)
Other overheads and expenditures	28	(49,733)	(47,467)	(148,862)	(142,829)
Profit before tax		27,817	42,597	114,378	141,334
Tax expense		(5,001)	(11,797)	(22,009)	(31,223)
Profit for the period		22,816	30,800	92,369	110,111
Other comprehensive (expense)/ 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		(8,317)	1,695	4,082	3,552
Amount transferred to profit or loss		-	-	(232)	-
Income tax credit relating to components of other comprehensive income		1,996	(424)	(924)	(888)
Other comprehensive income/(expense) for the period, net of tax		(6,321)	1,271	2,926	2,664
Total comprehensive income for the period		16,495	32,071	95,295	112,775
Profit attributable to the owner of the Bank		22,816	38,024	92,369	110,111
Total comprehensive income attributable to the owner of the Bank		16,495	36,916	95,295	112,775
Basic earnings per RM0.50 ordinary share		22.8 sen	38.0 sen	92.4 sen	110.1 sen

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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2015

	Non-distributable					Distributable		Total RM'000
	Share capital RM'000	Share premium RM'000	Statutory reserve RM'000	Available- for-sale reserve RM'000	Capital contribution reserve RM'000	Regulatory reserve* RM'000	Retained profits 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 year								
Profit for the period	-	-	-	-	-	-	92,369	92,369
Other comprehensive income, net of tax								
Available-for-sale reserve:								
Net change in fair value	-	-	-	3,102	-	-	-	3,102
Net amount transferred to profit or loss	-	-	-	(176)	-	-	-	(176)
Total other comprehensive income	-	-	-	2,926	-	-	-	2,926
Total comprehensive income for the period	-	-	-	2,926	-	-	92,369	95,295
Transactions with the owner (the ultimate holding company), recorded directly in equity								
Share based payment transactions	-	-	-	-	(263)	-	17	(246)
Transfer relating to regulatory reserves	-	-	-	-	-	21,000	(21,000)	-
Balance at 30 September	<u>50,000</u>	<u>610,000</u>	<u>50,000</u>	<u>(3,562)</u>	<u>1,111</u>	<u>34,000</u>	<u>672,209</u>	<u>1,413,758</u>
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 year								
Profit for the period	-	-	-	-	-	-	110,111	110,111
Other comprehensive income, net of tax								
Available-for-sale reserve:								
Net change in fair value	-	-	-	2,664	-	-	-	2,664
Total other comprehensive income	-	-	-	2,664	-	-	-	2,664
Total comprehensive income for the period	-	-	-	2,664	-	-	110,111	112,775
Transactions with the owner (the ultimate holding company), recorded directly in equity								
Share based payment transactions	-	-	-	-	186	-	(197)	(11)
Transfer relating to regulatory reserves	-	-	-	-	-	13,000	(13,000)	-
Balance at 30 September	<u>50,000</u>	<u>610,000</u>	<u>50,000</u>	<u>(3,296)</u>	<u>1,478</u>	<u>13,000</u>	<u>568,964</u>	<u>1,290,146</u>

* 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 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 2014 and the accompanying explanatory notes on pages 5 to 27 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 SEPTEMBER 2015

	30 Sep 2015	30 Sep 2014
	RM'000	RM'000
Profit before tax	114,378	141,334
Adjustments for non-operating and non-cash items	5,347	6,620
Operating profit before working capital changes	119,725	147,954
Changes in working capital:		
Net changes in operating assets	(1,384,202)	(1,019,297)
Net changes in operating liabilities	1,043,705	954,364
Income tax paid	(24,792)	(8,369)
Net cash (used in)/ generated from operating activities	(245,564)	74,652
Net cash (used in)/ generated from investing activities	2,250,203	70,792
Net cash generated from financing activities	1,000,299	254,817
	3,250,502	325,609
Net changes in cash and cash equivalents	3,004,938	400,261
Cash and cash equivalents at beginning of the period	670,934	3,093,206
Cash and cash equivalents at end of the period	3,675,872	3,493,467
Analysis of cash and cash equivalents		
Cash and short-term funds	3,675,872	3,493,467

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 2014 and the accompanying explanatory notes on pages 5 to 27 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 26 October 2015.

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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 September 2015 have been prepared under the historical cost convention except for the following assets and liabilities which are stated at fair values: financial instruments held-for-trading, financial investments available-for-sale, derivative financial instruments and financial instruments fair valued through profit and loss.

The unaudited condensed interim financial statements for the financial period ended 30 September 2015 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 2014. 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 2014.

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 2014.

The following are accounting standard amendments and interpretations 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:

MFRSs, interpretations and amendments effective for annual periods commencing on or after 1 January 2016

- Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to MFRS 10, *Consolidated Financial Statements*, MFRS 12, *Disclosure of Interests in Other Entities* and MFRS 128, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*
- MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 101, *Presentation of Financial Statements – Disclosure Initiative*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 138, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 141, *Agriculture – Agriculture: Bearer Plants*
- Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 127, *Separate Financial Statements – Equity Method in Separate Financial Statements*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Basis of Preparation (continued)

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- MFRS 15, Revenue from Contracts with Customers

MFRSs, interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, Financial Instruments (2014)

The initial application of the above accounting standards, amendments and interpretation 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 2014 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 September 2015.

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 September 2015.

7 Debt and Equity Securities

There were no other issuances, cancellations, repurchases, resale or repayment of other debt or equity securities during the financial period ended 30 September 2015, except for those disclosed under Note 21.

8 Dividend

No dividend was declared nor paid during the financial period ended 30 September 2015.

9 Significant and Subsequent Events

There were no material events subsequent to the balance sheet date that requires disclosure or adjustments to the unaudited condensed interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Cash and Short-Term Funds

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
Cash and balances with banks and other financial institutions	155,872	170,934
Money at call and interbank placements maturing within one month	3,520,000	500,000
	3,675,872	670,934

11 Financial Assets Held for Trading

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	483	20,055

12 Financial Investments Available-for-Sale

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
At fair value		
Money market instruments:		
Bank Negara Malaysia bills	-	2,484,809
Malaysian Government Islamic bonds	1,689,109	1,421,640
Negotiable instruments of deposit	198,725	228,874
	1,887,834	4,135,323

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

Maturing within one year	29,535	2,813,526
More than one year to three years	1,634,603	683,491
More than three years to five years	223,696	638,306
	1,887,834	4,135,323

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 Financing and Advances

(i) By type and Shariah contracts

	Sale-based contracts				Lease-based contracts		Equity-based contracts	Ujrah	Total
	Commodity Murabahah	Bai Bithaman Ajil	Bai Al-Inah	Bai Al-Dayn	Ijarah	Ijarah Thumma Al-Bai	Diminishing Musharakah		
30 Sep 2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	86,907	-	-	-	-	-	-	-	86,907
Term financing:									
House financing	-	1,436	-	-	-	-	4,135,231	-	4,136,667
Hire purchase receivables	-	-	-	-	-	238,563	-	-	238,563
Lease receivables	-	-	-	-	4,430	-	-	-	4,430
Other term financing	4,289,584	31,904	49,858	-	-	-	966,943	-	5,338,289
Trust receipts	582,751	-	-	-	-	-	-	-	582,751
Claims on customers under acceptance credits	748,346	-	-	-	-	-	-	-	748,346
Staff financing-i	3,723	-	941	-	-	-	2,829	-	7,493
Credit cards-i	-	-	-	-	-	-	-	527,744	527,744
Revolving credit	649,923	-	-	-	-	-	-	-	649,923
Gross financing and advances	6,361,234	33,340	50,799	-	4,430	238,563	5,105,003	527,744	12,321,113
Less: Allowance for impaired financing									
Collective allowances for impairment									(113,355)
Individual allowances for impairment									(63,360)
Total net financing and advances									12,144,398

	Sale-based contracts				Lease-based contracts		Equity-based contracts	Ujrah	Total
	Commodity Murabahah	Bai Bithaman Ajil	Bai Al-Inah	Bai Al-Dayn	Ijarah	Ijarah Thumma Al-Bai	Diminishing Musharakah		
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 (continued)

13 Financing and Advances (continued)

(ii) By type of customer

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
		(Restated)
Domestic non-bank financial institutions	482,295	392,939
Domestic business enterprises:		
Small medium enterprises	2,628,155	1,958,012
Others	2,529,113	2,216,241
Government and statutory bodies	14,519	15,898
Individuals	5,281,314	4,931,784
Other domestic entities	1,597	1,657
Foreign entities	1,384,120	1,332,645
	<u>12,321,113</u>	<u>10,849,176</u>

(iii) By profit rate sensitivity

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
		(Restated)
Fixed rate:		
House financing	1,380	2,356
Hire purchase receivables	238,563	234,530
Other financing	2,172,553	1,839,701
Variable rate:		
BR/BFR plus	5,182,425	4,843,482
Cost-plus	4,198,448	3,429,287
Other variable rates	527,744	499,820
	<u>12,321,113</u>	<u>10,849,176</u>

(iv) By residual contractual maturity

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
		(Restated)
Maturing within one year	4,439,926	4,711,242
More than one year to three years	847,225	402,099
More than three years to five years	1,669,722	873,355
Over five years	5,364,240	4,862,480
	<u>12,321,113</u>	<u>10,849,176</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 Financing and Advances (continued)

(v) By sector

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
		(Restated)
Agriculture, hunting, forestry & fishing	652,470	266,339
Mining and quarrying	328,770	167,795
Manufacturing	1,185,898	1,233,112
Electricity, gas and water	64,172	76,190
Construction	569,763	702,597
Real estate	291,512	238,026
Wholesale & retail trade, restaurants & hotels	862,665	793,365
Transport, storage and communication	163,186	213,442
Finance, takaful and business services	1,224,937	689,121
Household - Retail	5,926,599	5,527,443
Others	1,051,141	941,746
	12,321,113	10,849,176

(vi) By purpose

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
		(Restated)
Purchase of landed property:		
- Residential	4,139,496	3,823,177
- Non-residential	821,508	796,247
Purchase of transport vehicles	2,243	2,359
Purchase of fixed assets excluding land & building	5,332	12,716
Consumption credit	1,522,867	1,449,760
Construction	558,385	702,597
Working capital	4,517,928	3,307,779
Other purpose	753,354	754,541
	12,321,113	10,849,176

(vii) By geographical distribution

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
		(Restated)
Northern Region	1,348,874	1,368,837
Southern Region	1,616,800	1,529,537
Central Region	8,877,318	7,468,846
Eastern Region	478,121	481,956
	12,321,113	10,849,176

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 and advances is based on the location of the customer.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 Financing and Advances (continued)

(viii) Assets under Management

The details of assets under management in respect of the Restricted Profit Sharing 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.

	30 Sep 2015 RM'000	31 Dec 2014 RM'000	
Under SIAF/IAA arrangement	1,026,917	-	
Under RPSIA arrangement	771,558	415,743	
Total net financing and advances	1,798,475	415,743	
	Credit Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Commitments and Contingencies			
Irrevocable commitments to extend credit:			
- at 30 Sep 2015			
<u>Under RPSIA arrangement</u>			
- Maturity not exceeding one year	663,645	132,729	132,729
- at 31 Dec 2014			
<u>Under RPSIA arrangement</u>			
- Maturity not exceeding one year	-	-	-
		Principal RM'000	Risk weighted RM'000
Total RWA for Credit Risk			
- at 30 Sep 2015		1,931,204	1,931,204
- at 31 Dec 2014		415,743	415,743

The Restricted Profit Sharing Investment Account (RPSIA) is with the Bank's holding company, HSBC Bank Malaysia Berhad (HBM MY), and the contract is based on the Mudharabah principle where HBM MY 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 HBM MY. Hence, the underlying assets and allowances for impairment arising thereon, if any, are recognised and accounted for by HBM MY. 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 HBM MY, 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 HBM MY and the other financial institutions for their respective portion of the funding provided in the syndication arrangement. At the same time, risks on the financing are also proportionately borne by HBM MY and the other financial institutions. Hence, the underlying assets and allowances for impairment arising thereon, if any, are proportionately recognised and accounted for by HBM MY 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 in the audited financial statements of the Bank for the financial year ended 31 Dec 2014.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 Impaired Financing

(i) Movements in impaired financing and advances

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
At beginning of period/year	162,227	166,906
Classified as impaired during the period/year	231,247	265,934
Reclassified as performing	(76,482)	(132,732)
Amount recovered	(43,323)	(64,272)
Amount written off	(64,183)	(97,356)
Other movements	336	23,747
	209,822	162,227
Less: Individual allowance for impairment	(63,360)	(43,821)
Collective allowance for impairment (impaired portion)	(36,232)	(41,128)
Net impaired financing and advances	110,230	77,278

(ii) Movements in allowance for impaired financing

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
Collective allowance for impairment		
At beginning of period/year	124,817	119,290
Made during the period/year	97,762	118,612
Amount released	(48,522)	(25,873)
Amount written off	(61,252)	(86,338)
Other movement	550	(874)
At end of period/year	113,355	124,817

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
Individual allowance for impairment		
At beginning of period/year	43,821	41,137
Made during the period/year	34,257	33,643
Amount recovered	(18,019)	(31,739)
Amount written off	(4,460)	(8,148)
Other movement	7,761	8,928
At end of period/year	63,360	43,821

(iii) By contract

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
Bai Bithaman Ajil (<i>deferred payment sale</i>)	73	135
Bai Al-Dayn (<i>sale of debt</i>)	-	47
Ijarah Thumma Al-Bai (AITAB) (<i>hire purchase</i>)	7,421	11,759
Murabahah (<i>cost-plus</i>)	94,493	43,961
Musharakah (<i>profit and loss sharing</i>)	91,693	80,142
Bai Al-Inah (<i>sell and buy back</i>)	4,008	12,033
Ujrah (<i>fee-based</i>)	12,134	14,150
	209,822	162,227

NOTES TO THE FINANCIAL STATEMENTS (continued)

14 Impaired Financing (Cont'd)

(iv) By sector

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
Manufacturing	21,624	13,592
Electricity, gas and water	-	3
Construction	198	782
Wholesale & retail trade, restaurants & hotels	3,954	2,941
Transport, storage and communication	5,458	5,670
Finance, takaful and business services	6,884	625
Household - Retail	170,859	138,017
Others	845	597
	209,822	162,227

(v) By purpose

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
Purchase of landed property:		
- Residential	81,070	55,963
- Non-residential	8,097	7,186
Purchase of transport vehicles	113	296
Purchase of fixed assets excluding land & building	358	-
Consumption credit	84,436	74,674
Construction	198	782
Working capital	35,550	22,640
Other purpose	-	686
	209,822	162,227

(vi) By geographical distribution

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
Northern Region	53,074	33,864
Southern Region	22,307	21,245
Central Region	126,342	97,980
Eastern Region	8,099	9,138
	209,822	162,227

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

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

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 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
30 Sep 2015												
Trading derivatives:												
Foreign exchange contracts												
- Forwards	1,772,892	-	-	1,772,892	78,824	-	-	78,824	76,451	-	-	76,451
- Swaps	-	1,704,773	-	1,704,773	-	267,487	-	267,487	-	267,147	-	267,147
- Options	57,514	-	-	57,514	-	-	-	-	-	-	-	-
Profit rate related contracts												
- Swaps	851,298	5,028,286	-	5,879,584	1,973	42,588	-	44,561	1,635	62,147	-	63,782
- Options	-	207,790	-	207,790	-	400	-	400	-	10,519	-	10,519
Equity related contracts												
- Options purchased	203,512	807,097	-	1,010,609	637	285	-	922	66,163	122,428	-	188,591
Sub- total	2,885,216	7,747,946	-	10,633,162	81,434	310,760	-	392,194	144,249	462,241	-	606,490
Hedging Derivatives:												
Fair Value Hedge												
Profit rate related contracts												
- Swaps	-	280,000	-	280,000	-	1,653	-	1,653	-	-	-	-
Sub- total	-	280,000	-	280,000	-	1,653	-	1,653	-	-	-	-
Total	2,885,216	8,027,946	-	10,913,162	81,434	312,413	-	393,847	144,249	462,241	-	606,490

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 Derivative Financial Instruments (continued)

	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
31 Dec 2014												
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	-	52,982	-	47,200	-	47,200
- Options	39,395	-	-	39,395	1,670	-	-	1,670	32	-	-	32
Profit rate related contracts												
- Options	30,000	4,161,873	-	4,191,873	12	11,334	-	11,346	-	10,689	-	10,689
- Swaps	-	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

NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Other Assets

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
		(Restated)
Income receivable	21,651	13,591
Amount due from holding company/ related companies	101	135,415
Other receivables, deposits and prepayments	15,844	90,281
	37,596	239,287

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.

18 Deposits From Customers

(i) By type of deposit

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
Non-Mudharabah Fund		
Demand deposits		
- Wadiah	2,348,203	1,548,966
Savings deposits		
- Wadiah	1,538,574	1,351,171
Fixed return investment deposits		
- Murabahah	6,024,944	6,082,562
Islamic repurchase agreements		
- Bai Al-Inah	106,404	205,055
Negotiable instruments of deposits		
- Wakalah with Commodity Wa'ad	-	681,411
Structured products		
- Wakalah with Commodity Wa'ad	-	1,021,151
- Wakalah with Mudharabah	-	85,865
	10,018,125	10,976,181

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:

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
Due within six months	5,130,260	5,278,924
More than six months to one year	846,031	984,577
More than one year to three years	46,526	69,882
More than three years to five years	2,127	430,590
	6,024,944	6,763,973

(ii) By type of customer

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
Government and statutory bodies	9,545	11,554
Business enterprises	2,876,237	2,163,743
Individuals	5,226,363	6,789,836
Others	1,905,980	2,011,048
	10,018,125	10,976,181

NOTES TO THE FINANCIAL STATEMENTS (continued)

19 Deposits and Placements from Banks and Other Financial Institutions

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
Non-Mudharabah Fund		
Licenseds banks	2,805,331	1,822,110
Bank Negara Malaysia	15,027	19,643
Mudharabah Fund		
Licensed banks	-	660,000
	2,820,358	2,501,753

20 Other Liabilities

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
	Note	
Amounts due to holding company/ related companies	24,616	64
Structured products	(a)	
- Wakalah with Commodity Wa'ad	1,071,069	-
Profit payable		
- Structured products	4,343	7,781
- Others	62,792	57,252
Other creditors and accruals	(b)	93,319
	1,267,409	158,416

Effective 1 July 2015, structured products have been reclassified from deposits from customers (refer to Note 18).

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) on financial instruments in the audited financial statements for the financial year ended 31 Dec 2014.

(a) Movement in structured products

	30 Sep 2015
	RM'000
At beginning of period	-
Reclassified from deposits from customers	1,788,427
New placement during the period	2,238,040
Redemption during the period	(2,788,240)
Fair value mark-to-market	(167,158)
At end of period	1,071,069

(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. The contribution was distributed to the Non-Governmental Organisations approved by the Shariah Committee during the financial year

Source and use of charity funds

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
Source of charity funds		
At beginning of period/year	165	3
Income for the period/year	255	162
Use of charity funds		
Contribution to non-profit organisations	(377)	-
At end of period/year	43	165

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Multi-Currency Sukuk Programme

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	1,748,868	1,001,854

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

	Nominal Value	Issue Date	Maturity Date	Carrying Value	
				30 Sep 2015	31 Dec 2014
Issuance under MCSP	RM'000			RM'000	RM'000
1st series at amortised cost	500,000	28 Sept 2012	28 Sept 2017	500,000	500,000
2nd series at fair value through profit and loss	500,000	16 Oct 2014	16 Oct 2019	500,369	501,854
3rd series at fair value through profit and loss	750,000	27 Mar 2015	27 Mar 2020	748,499	-
	1,750,000			1,748,868	1,001,854

22 Subordinated Commodity Murabahah Financing

	30 Sep 2015	31 Dec 2014
	RM'000	RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	341,439	271,636
- Second tranche issued on 30 June 2015	291,716	-
	633,155	271,636

The 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.

The Subordinated Commodity Murabahah financing constitute direct, unsecured and subordinated obligations of the Bank.

NOTES TO THE FINANCIAL STATEMENTS (continued)

23 Income Derived from Investment of Depositors' Funds and Others

	Third Quarter		Year-To-Date Ended	
	30 Sep 2015 RM'000	30 Sep 2014 RM'000	30 Sep 2015 RM'000	30 Sep 2014 RM'000
Income derived from investment of:				
(i) general investment deposits	115,590	122,817	358,209	365,767
(ii) specific investment deposits	9,210	11,313	38,450	25,023
(iii) others	56,449	28,741	139,293	87,775
	181,249	162,871	535,952	478,565

(i) Income derived from investment of general investment deposits

	Third Quarter		Year-To-Date Ended	
	30 Sep 2015 RM'000	30 Sep 2014 RM'000	30 Sep 2015 RM'000	30 Sep 2014 RM'000
<u>Finance income and hibah:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	86,623	98,666	272,761	286,300
- Recoveries from impaired financing	2,304	2,696	6,931	8,687
Financial investments available-for-sale	9,999	11,713	45,499	32,090
Money at call and deposit with financial institutions	17,360	15,586	43,062	45,369
	116,286	128,661	368,253	372,446
<u>Other operating income</u>				
Net gains from dealing in foreign currency	6,298	871	3,610	7,959
Net gains from sale of financial assets held-for-trading and other financial instruments	2,989	4,167	6,865	12,165
Net unrealised gains/(losses) from revaluation of financial assets held-for-trading	276	(587)	1,787	626
Net profit paid for financial assets held-for-trading and other financial instruments	(5,433)	(10,813)	(18,039)	(33,336)
Net (losses)/gains from trading in derivatives	(4,837)	279	(4,242)	6,015
Other loss	11	239	(25)	(108)
	(696)	(5,844)	(10,044)	(6,679)
	115,590	122,817	358,209	365,767

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	Third Quarter		Year-To-Date Ended	
	30 Sep 2015 RM'000	30 Sep 2014 RM'000	30 Sep 2015 RM'000	30 Sep 2014 RM'000
(ii) Income derived from investment of specific investment deposits				
<u>Finance income and hibah:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	12,798	6,435	29,430	16,626
<u>Other operating income</u>				
Fees and commission	624	597	3,041	1,952
Net (losses)/gains from dealing in foreign currency	(4,212)	4,281	5,979	6,445
	(3,588)	4,878	9,020	8,397
	9,210	11,313	38,450	25,023

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

Corporate advisory	-	-	818	-
Guarantee fees	430	174	969	688
Service charges and fees	194	388	1,252	1,152

	Third Quarter		Year-To-Date Ended	
	30 Sep 2015 RM'000	30 Sep 2014 RM'000	30 Sep 2015 RM'000	30 Sep 2014 RM'000
(iii) Income derived from investment of others				
<u>Finance income and hibah:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	42,303	23,112	105,861	68,705
- Recoveries from impaired financing	1,125	629	2,705	2,085
Financial investments available-for-sale	4,883	2,750	17,005	7,701
Money at call and deposit with financial institutions	8,478	3,651	17,254	10,888
	56,789	30,142	142,825	89,379
<u>Other operating income</u>				
Net gains from dealing in foreign currency	3,076	188	2,158	1,910
Net gains from sale of financial assets held-for-trading and other financial instruments	1,460	976	2,783	2,919
Net (losses)/gains from trading in derivatives	(2,362)	49	(2,159)	1,443
Net unrealised gains/(losses) from revaluation of financial assets held-for-trading	135	(145)	651	150
Net profit paid from financial assets held-for-trading and other financial instruments	(2,654)	(2,527)	(6,958)	(8,000)
Other gain/(loss)	5	58	(7)	(26)
	(340)	(1,401)	(3,532)	(1,604)
	56,449	28,741	139,293	87,775

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 Income Derived from Investment of Shareholder's Funds

	Third Quarter		Year-To-Date Ended	
	30 Sep 2015 RM'000	30 Sep 2014 RM'000	30 Sep 2015 RM'000	30 Sep 2014 RM'000
<u>Finance income and hibah:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	11,737	11,499	34,307	32,681
- Recoveries from impaired financing	312	316	873	992
Financial investments available-for-sale	1,355	1,363	5,659	3,663
Money at call and deposit with financial institutions	2,353	1,817	5,469	5,179
	15,757	14,995	46,308	42,515
<u>Other operating income</u>				
Fees and commission	16,714	19,640	52,120	57,441
Net (losses)/gains from dealing in foreign currency	853	108	527	908
Net gains from sale of financial assets held-for-trading and other financial instruments	(249)	486	221	1,389
Net (losses)/gains from trading in derivatives	(655)	39	(583)	687
Net unrealised gains from revaluation of financial assets held-for-trading	692	(66)	875	71
Net profit paid from financial assets held-for-trading and other financial instruments	(737)	(1,262)	(2,265)	(3,805)
Shared-service fees from holding company	804	873	2,509	2,707
Net gain on disposal of financial assets available-for-sale	-	-	232	-
Net loss on financial instruments fair valued through profit or loss	(8,163)	-	(15,811)	-
Other income	151	28	190	628
	9,410	19,846	38,015	60,026
	25,167	34,841	84,323	102,541
The above fees and commissions were derived from the following major contributors:				
Service charges and fees	6,890	4,676	18,592	14,183
Cards	6,853	8,024	21,697	23,634
Agency fees	1,855	3,730	7,067	12,493

25 Impairment Losses on Financing

	Third Quarter		Year-To-Date Ended	
	30 Sep 2015 RM'000	30 Sep 2014 RM'000	30 Sep 2015 RM'000	30 Sep 2014 RM'000
Impairment charges on financing:				
(a) Individual impairment				
- Provided	20,313	6,675	34,257	27,418
- Written back	(1,724)	(8,076)	(18,019)	(21,768)
(b) Collective impairment				
- Provided	22,687	34,648	97,762	90,246
- Written back	(13,209)	(4,424)	(48,522)	(22,159)
Impaired financing				
- Recovered	(7,319)	(7,790)	(23,969)	(23,029)
- Written off	821	349	2,103	2,706
	21,569	21,382	43,612	53,414

NOTES TO THE FINANCIAL STATEMENTS (continued)

26 Income Attributable to Depositors

	Third Quarter		Year-To-Date Ended	
	30 Sep 2015 RM'000	30 Sep 2014 RM'000	30 Sep 2015 RM'000	30 Sep 2014 RM'000
<u>Non-Mudharabah Fund</u>				
- Deposits from customers	59,227	55,121	172,017	163,706
- Deposits and placements of banks and other financial institutions	13,536	4,866	39,375	8,107
- Others	21,901	6,992	54,779	17,516
<u>Mudharabah Fund</u>				
- Deposits and placements of banks and other financial institutions	-	7,854	8,216	20,955
	94,664	74,833	274,387	210,284

27 Personnel Expenses

	Third Quarter		Year-To-Date Ended	
	30 Sep 2015 RM'000	30 Sep 2014 RM'000	30 Sep 2015 RM'000	30 Sep 2014 RM'000
Salaries, allowances and bonuses	9,733	9,326	30,978	26,900
Employees Provident Fund contributions	1,655	1,536	5,300	4,394
Other staff related costs	1,245	571	2,758	1,951
	12,633	11,433	39,036	33,245

28 Other Overheads and Expenditures

	Third Quarter		Year-To-Date Ended	
	30 Sep 2015 RM'000	30 Sep 2014 RM'000	30 Sep 2015 RM'000	30 Sep 2014 RM'000
Promotion and marketing related expenses	5,205	5,174	16,974	17,009
<u>Establishment related expenses</u>				
Depreciation of equipment	1,752	2,143	5,608	6,428
Amortisation of intangible assets	-	2	2	6
Information technology costs	1,124	783	2,556	1,905
Rental of premises	2,036	2,174	6,137	6,176
Utilities	470	600	1,439	1,334
Others	272	268	595	906
	5,653	5,970	16,337	16,755
<u>General administrative expenses</u>				
Intercompany expenses	31,533	32,374	98,138	97,957
Auditors' remuneration				
- Statutory audit fees	25	60	75	120
- Other services	(8)	73	129	168
Professional fees	514	472	1,844	1,295
Communication	526	424	856	1,050
Others	6,285	2,920	14,509	8,475
	38,875	36,323	115,551	109,065
	49,733	47,467	148,862	142,829

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 Capital Adequacy

	30 Sep 2015	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	664,377	600,823
Other reserves	80,424	55,837
Regulatory adjustments	(22,163)	(15,674)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	1,382,638	1,300,986
Tier 2 capital		
Subordinated Commodity Murabahah financing	633,155	271,636
Collective impairment allowance (unimpaired portion) & regulatory reserves	111,123	96,689
Total Tier 2 capital	744,278	368,325
Capital base	2,126,916	1,669,311
CET1 and Tier 1 Capital ratio	11.287%	11.793%
Total Capital ratio	17.363%	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:

	30 Sep 2015		31 Dec 2014	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
Total RWA for credit risk	21,534,291	11,234,339	19,368,430	10,001,574
Total RWA for market risk	-	119,113	-	110,353
Total RWA for operational risk	-	896,283	-	919,539
	21,534,291	12,249,735	19,368,430	11,031,466

NOTES TO THE FINANCIAL STATEMENTS (continued)

30 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.

	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount * RM'000
30 Sep 2015			
Direct credit substitutes	737,127	737,127	352,474
Transaction-related contingent items	1,164,757	582,378	378,354
Short-term self-liquidating trade-related contingencies	70,242	14,048	7,881
Irrevocable commitments to extend credit			
- Maturity not exceeding one year	2,676,206	535,241	430,453
- Maturity exceeding one year	1,619,131	809,565	741,119
Unutilised credit card lines	1,598,204	319,641	239,731
Equity related contracts			
- Less than one year	203,512	12,848	-
- One year to less than five years	807,097	64,852	-
Profit rate related contracts			
- Less than one year	851,298	4,026	321
- One year to less than five years	5,516,076	195,674	25,400
Foreign exchange related contracts			
- Less than one year	1,830,406	112,145	24,636
- One year to less than five years	1,704,774	444,078	323,991
	18,778,830	3,831,623	2,524,360
31 Dec 2014			
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	6
- 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	2,251,344

* 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 (continued)

31 Performance Review

Profit before tax declined by RM27.0 million or 19.1% against history, arising from higher income attributable to depositors (+RM64.1 million) and operating expenses (+RM11.8million), partly offset by higher income derived from investment of depositors' funds and others and shareholder's funds (+RM39.2 million) and lower impairment losses on financing (-RM9.8 million).

Income derived from investment of depositors' funds and others and shareholder's funds increased by RM39.2 million, mainly due to higher finance income (+RM65.8 million), offset by lower trading income (-RM6.2 million) and higher net losses on financial instruments fair valued through profit and loss (-RM15.8 million).

Income attributable to depositors and others increased arising from a 20 basis point increase in the Overnight Policy Rate in July 2014, two sukuk issuances in October 2014 and March 2015 respectively, as well as the USD equivalent of RM500 million subordinated financing facilities from HSBC Bank Malaysia Berhad. Meanwhile, operating expenses increased mainly on higher personnel expenses and other general administrative expenses.

Balance sheet size grew by 13.1% or RM2.1 billion to RM18.5 billion, driven by increase in cash and short term funds (+RM3.0 billion) and financing and advances (+RM1.5 billion), offset by lower financial investments available-for-sale (-RM2.2 billion). The Bank's capital and liquidity ratios remain strong and are well above regulatory requirements.

32 Business Prospects

The Malaysian economy registered a growth of 4.9% in 2Q 2015, compared to 5.6% in 1Q 2015 (2Q 2014:6.4%), driven mainly by private sector demand. The economy is projected to grow between 4.5%-5.0% for 2015 amid a more challenging external environment.

Private consumption expanded at a more moderate rate of 6.4% in 2Q 2015 (1Q 2015: 8.8%) as households adjusted to the implementation of the Goods and Services Tax (GST). Private investment grew moderately by 3.9% (1Q 2015: 11.7%) due to a decline in spending on machinery and equipment. Public consumption has recorded higher growth of 6.8% (1Q 2015: 4.1%), following the stronger expansion in supplies and services expenditure amid sustained growth in emoluments.

Inflation has increased to 2.2% in Q2 2015 (1Q 2015: 0.7%) reflecting mainly the impact of the implementation of GST on 1 April 2015. Despite increased volatility in international financial markets, profit rates in the domestic money market have remained stable with the Overnight Policy Rate (OPR) remaining at 3.25%. 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. Nevertheless, the Malaysian economy is expected to remain on a steady growth path and the economic cost of Ringgit depreciation remains manageable. Domestic demand will remain the key driver of growth. While private consumption is expected to moderate as households adjust to the introduction of GST, the low unemployment rate at a circa of 3.2% would support household spending.

The Bank's priorities in 2015 remain unchanged, to leverage on our increased resource investments into the business, grow the business with new distribution channels and increase productivity across existing channels, implement the highest global standards of conduct and compliance, and streamline processes and procedures for the benefit of the customers. Leveraging on HSBC Group expertise, the Bank is able to provide holistic banking service solutions to our existing and new corporate customers. Further, the Bank will capitalise on the HSBC Group's international connectivity for customers' cross border trade investments initiatives, offer banking services for inbound investments to Malaysia and connect our customers to the right parties for their outbound investments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

33 Comparative Figures

Restatement of Comparative Figures

The presentation and classification of items in the current interim financial statements are consistent with the previous financial period except for those listed below. The restatement of 31Dec2014 financial data is a result of an initiative rolled out by the Bank in Q12015 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 period profit and loss and retained earnings brought forward are not affected by these reclassifications.

(a) Financing and Advances
By type and Shariah contracts

	Total RM'000	Sale-based contracts	Equity-based contracts
		Commodity Murabahah RM'000	Diminishing Musharakah RM'000
31 Dec 2014 (As restated)			
Financing and advances	10,680,538		
<i>(of which the affected components are disclosed below)</i>			
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

	Total RM'000	Sale-based contracts	Equity-based contracts
		Commodity Murabahah RM'000	Diminishing Musharakah RM'000
31 Dec 2014 (As previously stated)			
Financing and advances	10,507,543		
<i>(of which the affected components are disclosed below)</i>			
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 (continued)

33 Comparative Figures (continued)

Restatement of Comparative Figures (continued)

	31 Dec 2014	
	RM'000 As restated	RM'000 As previously stated
(a) Financing and advances (continued)	10,680,538	10,507,543
<i>(of which the affected components are disclosed below)</i>		
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	1,839,701	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) Other Assets	239,287	239,346
<i>(of which the affected components are disclosed below)</i>		
Income receivable	13,591	13,650