

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

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
**30 SEPTEMBER 2018**

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

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

**UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2018**

	<i>Note</i>	<b>30 Sep 2018</b> <b>RM'000</b>	31 Dec 2017 RM'000
<b>Assets</b>			
Cash and short-term funds	12	<b>1,568,740</b>	1,465,919
Financial investments available-for-sale	13	-	2,221,044
Financial investments at fair value through other comprehensive income (FVOCI)	14	<b>2,954,602</b>	-
Financing and advances	15	<b>13,825,659</b>	13,383,803
Derivative financial assets	18	<b>244,772</b>	278,472
Other assets	19	<b>573,871</b>	43,359
Statutory deposits with Bank Negara Malaysia	20	<b>382,662</b>	361,362
Equipment		<b>7,037</b>	5,520
Deferred tax assets		<b>9,822</b>	8,637
Tax recoverable		-	7,624
<b>Total assets</b>		<b>19,567,165</b>	17,775,740
<b>Liabilities</b>			
Deposits from customers	21	<b>11,767,461</b>	10,034,525
Deposits and placements from banks and other financial institutions	22	<b>2,514,121</b>	3,361,939
Financial liabilities designated as fair value through profit or loss (FVTPL)	23	<b>641,529</b>	-
Bills payable		<b>33,982</b>	19,528
Derivative financial liabilities	18	<b>229,022</b>	265,402
Other liabilities	24	<b>237,605</b>	641,591
Provision for taxation		<b>37,154</b>	-
Multi-Currency Sukuk Programme	25	<b>1,752,928</b>	1,252,829
Subordinated Commodity Murabahah Financing	26	<b>595,915</b>	583,598
<b>Total liabilities</b>		<b>17,809,717</b>	16,159,412
<b>Equity</b>			
Share capital		<b>660,000</b>	660,000
Reserves		<b>1,097,448</b>	956,328
<b>Total equity attributable to owner of the Bank</b>		<b>1,757,448</b>	1,616,328
<b>Total liabilities and equity</b>		<b>19,567,165</b>	17,775,740
<b>Restricted investment accounts</b> <sup>[1]</sup>		<b>4,169,698</b>	6,007,289
<b>Total Islamic Banking asset</b> <sup>[1]</sup>		<b>23,736,863</b>	23,783,029
<b>Commitments and contingencies</b>	33	<b>21,323,873</b>	20,501,738

<sup>[1]</sup> The disclosure is in accordance with the requirements of Bank Negara Malaysia's Guideline on Financial Reporting for Islamic Banking Institutions dated 2 February 2018.

*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 2017 and the accompanying explanatory notes on pages 7 to 37 attached to the unaudited condensed interim financial statements.*

*The unaudited condensed interim financial statements were approved by the Board of Directors on 30 October 2018.*

**HSBC AMANAH MALAYSIA BERHAD**  
(Company No. 807705-X)  
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**UNAUDITED CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018**

	Note	Third Quarter		Nine Months Ended	
		30 Sep 2018 RM'000	30 Sep 2017 RM'000	30 Sep 2018 RM'000	30 Sep 2017 RM'000
Income derived from investment of depositors' funds and others	27	209,017	184,521	609,947	524,170
Income derived from investment of shareholder's funds	28	35,601	40,817	108,548	108,787
Impairment allowance/provision	29	(14,395)	(54,573)	(56,578)	(128,611)
Total distributable income		230,223	170,765	661,917	504,346
Income attributable to depositors	30	(115,027)	(89,428)	(324,873)	(250,311)
Total net income		115,196	81,337	337,044	254,035
Operating expenses	31	(62,043)	(59,915)	(186,455)	(180,874)
Profit before tax		53,153	21,422	150,589	73,161
Tax expense		(22,977)	(3,734)	(42,949)	(13,469)
<b>Profit for the financial period</b>		<b>30,176</b>	<b>17,688</b>	<b>107,640</b>	<b>59,692</b>
<b>Other comprehensive income/(expense)</b>					
<i>Items that will not be reclassified to profit or loss</i>					
Own credit reserves:					
Change in fair value		(3,164)	(312)	(1,893)	6,450
Income tax effect		759	75	454	(1,548)
<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		-	2,838	-	8,683
Income tax effect		-	(681)	-	(2,084)
Financial investment at FVOCI					
Change in fair value		4,881	-	(308)	-
Net amount transferred to profit or loss		70	-	439	-
Impairment release		45	-	32	-
Income tax effect		(1,187)	-	(31)	-
Other comprehensive income/(expense) for the financial period, net of tax		1,404	1,920	(1,307)	11,501
<b>Total comprehensive income for the financial period</b>		<b>31,580</b>	<b>19,608</b>	<b>106,333</b>	<b>71,193</b>
Profit attributable to the owner of the Bank		30,176	17,688	107,640	59,692
Total comprehensive income attributable to the owner of the Bank		31,580	19,608	106,333	71,193
Basic earnings per RM0.50 ordinary share		30.2 sen	17.7 sen	107.6 sen	59.7sen

*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 2017 and the accompanying explanatory notes on pages 7 to 37 attached to the unaudited condensed interim financial statements.*

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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 SEPTEMBER 2018**

	<i>Non-distributable</i>					<i>Distributable</i>		<i>Total</i>
	<i>Share capital</i>	<i>Available-for-sale reserve</i>	<i>Financial investment at FVOCI</i>	<i>Own credit reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profits</i>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2018</b>								
Balance at 1 January	<b>660,000</b>	<b>179</b>	<b>-</b>	<b>230</b>	<b>408</b>	<b>34,000</b>	<b>921,511</b>	<b>1,616,328</b>
Effects of adopting MFRS 9 on 1 January 2018	<b>-</b>	<b>(179)</b>	<b>305</b>	<b>476</b>	<b>-</b>	<b>-</b>	<b>44,024</b>	<b>44,626</b>
As restated	<b>660,000</b>	<b>-</b>	<b>305</b>	<b>706</b>	<b>408</b>	<b>34,000</b>	<b>965,535</b>	<b>1,660,954</b>
<b>Total comprehensive income for the financial period</b>								
Profit for the financial period	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>107,640</b>	<b>107,640</b>
<b>Other comprehensive income, net of tax</b>								
Financial investments at FVOCI/Own Credit reserve								
Net change in fair value	<b>-</b>	<b>-</b>	<b>(234)</b>	<b>(1,439)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,673)</b>
Net amount transferred to profit or loss	<b>-</b>	<b>-</b>	<b>334</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>334</b>
Impairment release	<b>-</b>	<b>-</b>	<b>32</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32</b>
<i>Total other comprehensive income</i>	<b>-</b>	<b>-</b>	<b>132</b>	<b>(1,439)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,307)</b>
Total comprehensive income for the financial period	<b>-</b>	<b>-</b>	<b>132</b>	<b>(1,439)</b>	<b>-</b>	<b>-</b>	<b>107,640</b>	<b>106,333</b>
Transfer relating to regulatory reserves	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,000</b>	<b>(14,000)</b>	<b>-</b>
<b>Transactions with the owner, recorded directly in equity</b>								
Share based payment transactions	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>152</b>	<b>-</b>	<b>9</b>	<b>161</b>
Dividends paid to owner - 2017 final	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(10,000)</b>	<b>(10,000)</b>
Balance at 30 September	<b>660,000</b>	<b>-</b>	<b>437</b>	<b>(733)</b>	<b>560</b>	<b>48,000</b>	<b>1,049,184</b>	<b>1,757,448</b>

*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 2017 and the accompanying explanatory notes on pages 7 to 37 attached to the unaudited condensed interim financial statements.*

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**UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018 (Cont'd)**

	<i>Non-distributable</i>						<i>Distributable</i>		<i>Total</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve<sup>(1)</sup></i>	<i>Available-for-sale reserve</i>	<i>Own Credit Reserve<sup>(2)</sup></i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profits</i>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2017</b>									
Balance at 1 January	50,000	610,000	50,000	(6,547)	-	403	34,000	783,295	1,521,151
Effects of adopting MFRS 9 on 1 January 2017 <sup>(2)</sup>	-	-	-	-	(1,846)	-	-	1,846	-
As restated	50,000	610,000	50,000	(6,547)	(1,846)	403	34,000	785,141	1,521,151
<b>Total comprehensive income for the financial period</b>									
Profit for the financial period	-	-	-	-	-	-	-	59,692	59,692
<b>Other comprehensive income, net of tax</b>									
Available-for-sale reserve:									
Net change in fair value	-	-	-	6,599	4,902	-	-	-	11,501
<i>Total other comprehensive income</i>	-	-	-	6,599	4,902	-	-	-	11,501
Total comprehensive income for the financial period	-	-	-	6,599	4,902	-	-	59,692	71,193
Transfer in accordance to Section 618(2) of the Companies Act 2016	610,000	(610,000)	-	-	-	-	-	-	-
Transfer in accordance with BNM's requirement <sup>(1)</sup>	-	-	(50,000)	-	-	-	-	50,000	-
<b>Transactions with the owner, recorded directly in equity</b>									
Share based payment transactions	-	-	-	-	-	(3)	-	-	(3)
Balance at 30 September	660,000	-	-	52	3,056	400	34,000	894,833	1,592,341

<sup>(1)</sup> With effect from 3 May 2017, the Bank is no longer required to maintain statutory reserve pursuant to Bank Negara Malaysia's guideline on Capital Funds for Islamic banks.

<sup>(2)</sup> With effect from 1 January 2017, the Group has early applied the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss in paragraph 5.7.1(c), 5.7.7-5.7.9, 7.2.14 and B5.7.5-B5.7.20 of MFRS 9 Financial Instruments, without applying the other requirements of MFRS 9. The early adoption is applied prospectively.

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**UNAUDITED CONDENSED CASH FLOW STATEMENT**  
**FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018**

	<b>30 Sep 2018</b>	30 Sep 2017
	<b>RM'000</b>	RM'000
Profit before tax	<b>150,589</b>	73,161
Adjustments for non-operating and non-cash items	<b>111,306</b>	114,559
Operating profit before working capital changes	<b>261,895</b>	187,720
Changes in working capital:		
Net changes in operating assets	<b>(980,102)</b>	(1,698,900)
Net changes in operating liabilities	<b>1,135,051</b>	1,290,461
Income tax paid	<b>(12,910)</b>	(18,304)
<b>Net cash generated from/(used in) operating activities</b>	<b>403,934</b>	(239,023)
<b>Net cash used in investing activities</b>	<b>(733,404)</b>	(576,581)
<b>Net cash generated from/(used in) financing activities</b>	<b>432,291</b>	(570,285)
	<b>(301,113)</b>	(1,146,866)
<b>Net changes in cash and cash equivalents</b>	<b>102,821</b>	(1,385,889)
<b>Cash and cash equivalents at 1 January</b>	<b>1,465,919</b>	2,359,591
<b>Cash and cash equivalents at 30 September</b>	<b>1,568,740</b>	973,702
<b>Analysis of cash and cash equivalents</b>		
Cash and short-term funds	<b>1,568,740</b>	973,702

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**UNAUDITED CONDENSED CASH FLOW STATEMENT**  
**FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018**

**Changes in liabilities arising from financing activities**

<b>2018</b>	<b>At 1 Jan</b>	<b>Cash inflow/ (outflow)</b>	<b>Foreign exchange adjustment</b>	<b>Fair value movement</b>	<b>Profit accrual</b>	<b>At 30 Sep</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Multi-Currency Sukuk Programme	1,252,829	500,000	-	99	-	1,752,928
Subordinated Commodity Murabahah Financing	583,598	-	12,317	-	-	595,915
Other Liabilities of which:						
Profits paid on Multi-Currency Sukuk Programme	12,815	(40,242)	-	-	37,487	10,060
Profits paid on Subordinated Commodity Murabahah Financing	2,371	(17,467)	-	-	18,250	3,154
Dividend paid	-	(10,000)	-	-	-	-
	<b>1,851,613</b>	<b>432,291</b>	<b>12,317</b>	<b>99</b>	<b>55,737</b>	<b>2,362,057</b>
<b>2017</b>						
Multi-Currency Sukuk Programme	1,756,001	(500,000)	-	(3,389)	-	1,252,612
Subordinated Commodity Murabahah Financing	646,265	-	(37,817)	-	-	608,448
Other Liabilities of which:						
Profits paid on Multi-Currency Sukuk Programme	17,637	(57,276)	-	-	49,641	10,002
Profits paid on Subordinated Commodity Murabahah Financing	204	(13,009)	-	-	15,279	2,474
	<b>2,420,107</b>	<b>(570,285)</b>	<b>(37,817)</b>	<b>(3,389)</b>	<b>64,920</b>	<b>1,873,536</b>

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## **NOTES TO THE FINANCIAL STATEMENTS**

### **1 General Information**

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

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

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

The immediate parent bank and ultimate holding company during the financial period are HSBC Bank Malaysia Berhad (HBMY) and HSBC Holdings Plc, respectively.

The unaudited condensed interim financial statements were approved and authorised for issue by the Board of Directors on 30 October 2018.

### **2 Basis of Preparation**

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The unaudited condensed interim financial statements for the financial period ended 30 September 2018 have been prepared under the historical cost convention except for the following assets and liabilities which are stated at fair values: financial investments at fair value through other comprehensive income, derivative financial instruments and financial liabilities designated at fair valued through profit and loss.

The unaudited condensed interim financial statements for the financial period ended 30 September 2018 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 (BNM) 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 2017. 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 2017.

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 2017.

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

The new accounting standards and amendments to published accounts that are effective and applicable to the Bank for the financial year beginning on 1 January 2018 are as follows:

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### **2 Basis of Preparation (Cont'd)**

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

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

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

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

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

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

The Bank have adopted MFRS 9 as issued by the MASB in November 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

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

#### Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (i.e. the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with MFRS 139.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch. With effect from 1 January 2017, the Bank had early applied this requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss without applying the other requirements of MFRS 9. The early adoption was applied retrospectively against the opening retained profits at the date of initial application, with no requirements to restate comparative periods.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 2 Basis of Preparation (Cont'd)

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

Impairment

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

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables and certain financing commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'. The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However, they do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, MFRS 9 includes an accounting policy choice to remain with MFRS 139 hedge accounting.

Transitional impact

With effect from 1 January 2017, the Bank have early applied this requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss without applying the other requirements of MFRS 9. The early adoption is applied retrospectively against the opening retained profits at the date of initial application, with no requirements to restate comparative periods.

As permitted by the transitional provisions of MFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Bank has also elected to continue to apply the hedge accounting requirements of MFRS 139 on adoption of MFRS 9.

Consequently, for notes disclosures, the consequential amendments to MFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of MFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'. Please refer to Note 3.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 2 Basis of Preparation (Cont'd)

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#### (i) Standards and amendments to published standards that are effective and applicable to the Bank (Cont'd)

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

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

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

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

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- The adoption of MFRS15 did not have a material impact on the financial statements of the Bank on the current period or any prior period and is not likely to affect the future periods.

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

##### a. Financial year beginning on/after 1 January 2019:

- MFRS 16 'Leases' supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 2 Basis of Preparation (Cont'd)

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

##### a. Financial year beginning on/after 1 January 2019 (Cont'd):

- IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with MFRS 139 and MFRS 9 at 1 January 2018 are compared as follows:

	<i>MFRS 139</i>		<i>MFRS 9</i>	
	Measurement category	Carrying amount RM'000	Measurement category	Carrying amount RM'000
<b>Financial assets</b>				
Cash and short-term funds	Amortised cost (Financing and receivables)	1,465,919	Amortised cost	1,466,005
Financial investments available-for-sale (AFS)	FVOCI (AFS) <sup>(1)</sup>	2,221,044	Not applicable	-
Financial investments at fair value through other comprehensive income (FVOCI)	Not applicable	-	FVOCI	2,221,044
Financing and advances	Amortised cost (Financing and receivables)	13,383,803	Amortised cost	13,445,229
Derivative financial assets	FVTPL(Held-for-trading) <sup>(2)</sup>	278,472	FVTPL	278,472
Other assets	Amortised cost (Financing and receivables)	43,359	Amortised cost	43,359
Statutory deposits with Bank Negara Malaysia	Amortised cost (Financing and receivables)	361,362	Amortised cost	361,362
<b>Total financial assets</b>		<b>17,753,959</b>		<b>17,815,471</b>
<b>Financial liabilities</b>				
Deposits from customers	Amortised cost	10,034,525	Amortised cost	10,034,525
Deposits and placements from banks and other financial institutions	Amortised cost	3,361,939	Amortised cost	3,361,939
Financial liabilities designated as fair value	Not applicable	-	FVTPL	279,975
Bills payable	Amortised cost	19,528	Amortised cost	19,528
Derivative financial liabilities	FVTPL(Held-for-trading)	265,402	FVTPL	265,402
Other liabilities	Amortised cost	641,591	Amortised cost	364,349
Multi-Currency Sukuk Programme	FVTPL(Designated)	1,252,829	FVTPL(Designated)	1,252,829
Subordinated Commodity Murabahah Financing	Amortised cost	583,598	Amortised cost	583,598
<b>Total financial liabilities</b>		<b>16,159,412</b>		<b>16,162,145</b>

<sup>(1)</sup> Fair Value through Other Comprehensive Income

<sup>(2)</sup> Fair Value through Profit and Loss

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**3 Changes in accounting policies (Cont'd)**

(ii) Reconciliation of statement of financial position balances from MFRS 139 to MFRS 9

The following table is a reconciliation of the carrying amount in the Bank's statement of financial position from MFRS 139 to MFRS 9 as at 1 January 2018:

	MFRS 139 carrying amount as at 31 December 2017 RM'000	Reclassification RM'000	Remeasurement RM'000	MFRS 9 carrying amount as at 1 January 2018 RM'000	Retained profits impact as at 1 January 2018 RM'000
<b>Assets</b>					
Cash and short-term funds	1,465,919	-	86	1,466,005	86
Financial investments available-for-sale	2,221,044	(2,221,044)	-	-	-
Financial investments at fair value through other comprehensive income (FVOCI)	-	2,221,044	-	2,221,044	-
Financing and advances	13,383,803	-	61,426	13,445,229	61,426
Derivative financial assets	278,472	-	-	278,472	-
Other assets	43,359	-	-	43,359	-
Statutory deposits with Bank Negara Malaysia	361,362	-	-	361,362	-
Deferred tax assets	8,637	-	(180)	8,457	(180)
Tax recoverable	7,624	-	(13,823)	(6,199)	(13,823)
<b>Total change to financial asset balances, reclassification and remeasurement at 1 January 2018</b>	<b>17,770,220</b>	<b>-</b>	<b>47,509</b>	<b>17,817,729</b>	<b>47,509</b>
<b>Liabilities</b>					
Deposits from customers	10,034,525	-	-	10,034,525	-
Deposits and placements from banks and other financial institutions	3,361,939	-	-	3,361,939	-
Financial liabilities designated as fair value	-	279,975	-	279,975	-
Bills payable	19,528	-	-	19,528	-
Derivative financial liabilities	265,402	-	-	265,402	-
Other liabilities	641,591	(279,975)	2,733	364,349	2,733
Multi-Currency Sukuk Programme	1,252,829	-	-	1,252,829	-
Subordinated Commodity Murabahah Financing	583,598	-	-	583,598	-
<b>Total change to financial liabilities balances, reclassification and remeasurement at 1 January 2018</b>	<b>16,159,412</b>	<b>-</b>	<b>2,733</b>	<b>16,162,145</b>	<b>2,733</b>

(iii) Reconciliation of impairment allowance balance from MFRS 139 to MFRS 9

The following table reconciles the prior year's closing impairment allowance for the Bank measured in accordance with the MFRS 139 incurred loss model to the new impairment allowance measured in accordance with the MFRS 9 expected loss model at 1 January 2018:

	Impairment allowance under MFRS 139 RM'000	Reclassification RM'000	Remeasurement RM'000	Impairment allowance under MFRS 9 RM'000
<u>Amortised cost (Financing and receivables) (MFRS 139)/ Amortised cost (MFRS 9)</u>				
Financing and advances	355,807	-	(61,426)	294,381
<u>Amortised cost (MFRS 139/MFRS 9)</u>				
Cash and short-term funds	-	-	(86)	(86)
Other liabilities	-	-	2,733	2,733
<u>FVOCI (MFRS 139/MFRS 9)</u>				
Financial investment at FVOCI	-	-	126	126
<b>Total</b>	<b>355,807</b>	<b>-</b>	<b>(58,653)</b>	<b>297,154</b>

## **NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

### **4 Functional and Presentation of Currency**

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

### **5 Auditors' Report On Preceding Annual Financial Statements**

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The audit report on the audited financial statements for the financial year ended 31 December 2017 was not subject to any qualification.

### **6 Seasonality or Cyclical Factors**

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

### **7 Unusual Items Due to Their Nature, Size or Incidence**

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There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Bank for the financial period ended 30 September 2018.

### **8 Changes in Estimates**

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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 2018.

### **9 Debt and Equity Securities**

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There were no other issuances, cancellations, repurchases, resale or repayment of other debt or equity securities during the financial period ended 30 September 2018, other than those disclosed in Note 25.

### **10 Dividend**

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Since the end of the previous financial year, the Bank paid a final dividend of RM0.10 per ordinary share amounting to RM10 million. The dividend was paid on 3 May 2018.

The Directors do not recommend interim dividend during the financial period ended 30 September 2018.

### **11 Significant and Subsequent Events**

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

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**12 Cash and Short-Term Funds**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Cash and balances with banks and other financial institutions	<b>168,741</b>	215,919
Money at call and interbank placements maturing within one month	<b>1,399,999</b>	1,250,000
	<b><u>1,568,740</u></b>	<u>1,465,919</u>

**13 Financial Investments Available-For-Sale**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Debt securities		
<b>At fair value</b>		
Money market instruments:		
Malaysian Government Islamic Sukuk	-	2,047,025
Negotiable instruments of deposit	-	149,083
Islamic Treasury Bill	-	24,936
	<u>-</u>	<u>2,221,044</u>

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

Maturing within one year	-	687,008
More than one year to three years	-	1,427,803
More than three years to five years	-	106,233
	<u>-</u>	<u>2,221,044</u>

**14 Financial Investments at Fair Value through Other Comprehensive Income (FVOCI)**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Debt securities		
<b>At fair value</b>		
Money market instruments:		
Malaysian Government Islamic Sukuk	<b>2,657,154</b>	-
Negotiable instruments of deposit	<b>99,786</b>	-
Islamic Treasury Bill	<b>197,662</b>	-
	<b><u>2,954,602</u></b>	<u>-</u>

The maturity structure of money market instruments held as FVOCI is as follows:

Maturing within one year	<b>1,108,847</b>	-
More than one year to three years	<b>1,694,610</b>	-
More than three years to five years	<b>151,145</b>	-
	<b><u>2,954,602</u></b>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Financing and Advances

(i) By type and Shariah contracts

At amortised cost	Sale-based contracts			Lease-based contracts		Equity-based contracts	Ujrah	Total
	Commodity Murabahah	Bai Bithaman Ajil	Bai Al-Inah	Ijarah	Ijarah Thumma Al-Bai	Diminishing Musharakah		
30 Sep 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	69,718	-	-	-	-	-	-	69,718
Term financing:								
House financing	-	-	-	-	-	4,349,060	-	4,349,060
Hire purchase receivables	-	-	-	-	176,314	-	-	176,314
Lease receivables	-	-	-	752	-	-	-	752
Syndicated term financing	1,353,692	-	-	-	-	-	-	1,353,692
Other term financing	3,240,456	25	70	-	-	997,775	-	4,238,326
Trust receipts	729,005	-	-	-	-	-	-	729,005
Claims on customers under acceptance credits	422,941	-	-	-	-	-	-	422,941
Bills receivables	397,025	-	-	-	-	-	-	397,025
Staff financing-i	1,676	-	57	-	-	1,583	-	3,316
Credit cards-i	-	-	-	-	-	-	999,493	999,493
Revolving financing	1,405,020	-	-	-	-	-	-	1,405,020
Other financing	-	-	-	-	-	2,800	-	2,800
Gross financing and advances	<b>7,619,533</b>	<b>25</b>	<b>127</b>	<b>752</b>	<b>176,314</b>	<b>5,351,218</b>	<b>999,493</b>	<b>14,147,462</b>
Less: Impairment allowance <sup>(1)</sup>								<b>(321,803)</b>
Total net financing and advances								<b>13,825,659</b>

<sup>(1)</sup> Adoption of the MFRS 9

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**15 Financing and Advances (Cont'd)**

**(i) By type and Shariah contracts (Cont'd)**

	Sale-based contracts			Lease-based contracts		Equity-based contracts	Ujrah	Total
	Commodity Murabahah	Bai Bithaman Ajil	Bai Al-Inah	Ijarah	Ijarah Thumma Al-Bai	Diminishing Musharakah		
31 Dec 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	82,183	-	-	-	-	-	-	82,183
Term financing:								
House financing	-	22	-	-	-	4,401,553	-	4,401,575
Hire purchase receivables	-	-	-	-	169,852	-	-	169,852
Lease receivables	-	-	-	1,379	-	-	-	1,379
Syndicated term financing	1,889,969	-	-	-	-	-	-	1,889,969
Other term financing	3,181,937	1,177	89	-	-	988,724	-	4,171,927
Trust receipts	742,082	-	-	-	-	-	-	742,082
Claims on customers under acceptance credits	422,914	-	-	-	-	-	-	422,914
Bills receivables	109,065	-	-	-	-	-	-	109,065
Staff financing-i	2,307	-	107	-	-	2,233	-	4,647
Credit cards-i	-	-	-	-	-	-	925,417	925,417
Revolving financing	816,952	-	-	-	-	-	-	816,952
Other financing	-	-	-	-	-	1,648	-	1,648
<b>Gross financing and advances</b>	<b>7,247,409</b>	<b>1,199</b>	<b>196</b>	<b>1,379</b>	<b>169,852</b>	<b>5,394,158</b>	<b>925,417</b>	<b>13,739,610</b>
Less: Allowance for impaired financing								
Collective impairment allowance								(240,908)
Individual impairment allowance								(114,899)
<b>Total net financing and advances</b>								<b>13,383,803</b>

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**15 Financing and Advances (Cont'd)**

**(ii) By type of customer**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Domestic non-bank financial institutions	<b>599,093</b>	564,529
Domestic business enterprises:		
Small medium enterprises	<b>2,013,536</b>	1,962,425
Others	<b>3,600,045</b>	3,614,426
Government and statutory bodies	<b>5,177</b>	7,222
Individuals	<b>6,187,085</b>	6,117,218
Other domestic entities	<b>5,084</b>	14,641
Foreign entities	<b>1,737,442</b>	1,459,149
	<b><u>14,147,462</u></b>	<u>13,739,610</u>

**(iii) By profit rate sensitivity**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Fixed rate:		
Hire purchase receivables	<b>176,314</b>	169,852
Other financing	<b>3,446,209</b>	3,105,148
Variable rate:		
BR/BFR plus	<b>5,403,431</b>	5,457,354
Cost-plus	<b>5,121,508</b>	5,007,256
	<b><u>14,147,462</u></b>	<u>13,739,610</u>

**(iv) By residual contractual maturity**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Maturing within one year	<b>5,939,086</b>	5,850,745
More than one year to three years	<b>1,571,388</b>	982,143
More than three years to five years	<b>666,284</b>	901,874
Over five years	<b>5,970,704</b>	6,004,848
	<b><u>14,147,462</u></b>	<u>13,739,610</u>

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**15 Financing and Advances (Cont'd)**

**(v) By sector**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Agriculture, hunting, forestry & fishing	35,367	97,418
Mining and quarrying	212,181	96,376
Manufacturing	1,532,214	1,665,790
Electricity, gas and water	138,334	63,270
Construction	595,617	432,133
Real estate	955,107	1,073,840
Wholesale & retail trade, restaurants & hotels	1,266,418	904,765
Transport, storage and communication	201,168	549,382
Finance, takaful and business services	1,003,868	993,604
Household - Retail	6,752,597	6,738,960
Others	1,454,591	1,124,072
	<b>14,147,462</b>	<b>13,739,610</b>

**(vi) By purpose**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Purchase of landed property:		
Residential	4,350,643	4,403,810
Non-residential	822,111	817,328
Purchase of transport vehicles	1,407	1,644
Consumption credit	2,149,706	2,070,438
Construction	552,608	346,798
Working capital	5,093,880	5,254,963
Other purpose	1,177,107	844,629
	<b>14,147,462</b>	<b>13,739,610</b>

**(vii) By geographical distribution**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Northern Region	1,477,594	1,496,470
Southern Region	1,473,955	1,506,660
Central Region	10,790,425	10,295,163
Eastern Region	405,488	441,317
	<b>14,147,462</b>	<b>13,739,610</b>

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

The Northern region consists of the states of Perlis, Kedah, Penang, Perak, Pahang, Kelantan and Terengganu.

The Southern region consists of the states of Johor, Malacca and Negeri Sembilan.

The Central region consists of the states of Selangor, Federal Territory of Kuala Lumpur and Federal Territory of Putrajaya.

The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**15 Financing and Advances (Cont'd)**

**(viii) Assets under Management**

The details of assets under management in respect of the 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.

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Total gross financing and advances	<b>3,376,017</b>	4,722,591
Less: Impairment allowance	<b>(1,069)</b>	-
Total net financing and advances	<b>3,374,948</b>	4,722,591
<i>Maturity not exceeding one year</i>	<b>794,750</b>	1,047,532
<i>Maturity exceeding one year</i>	-	237,166
Total commitments and contingencies	<b>794,750</b>	1,284,698
Risk weighted assets (RWA)	<b>2,933,755</b>	4,312,606

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

The recognition and derecognition treatments of the above are in accordance to Note 3(e) on financial instruments in the audited financial statements of the Bank for the financial year ended 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**16 Impaired Financing**

**(i) Movements in impaired financing and advances**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Balance at 1 January	<b>382,049</b>	303,526
Restated for adoption of MFRS 9	<b>(382,049)</b>	-
Classified as impaired during the financial year	-	436,574
Reclassified as performing	-	(155,516)
Amount recovered	-	(66,005)
Amount written off	-	(136,530)
Balance at 30 September/31 December	<b>-</b>	<b>382,049</b>

**(ii) Movements in allowance for impaired financing**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
<b>Collective allowance for impairment</b>		
Balance at 1 January	<b>240,908</b>	200,015
Restated for adoption of MFRS 9	<b>(240,908)</b>	-
Made during the financial year	-	207,831
Amount released	-	(43,974)
Amount written off	-	(122,964)
Balance at 30 September/31 December	<b>-</b>	<b>240,908</b>

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
<b>Individual allowance for impairment</b>		
Balance at 1 January	<b>114,899</b>	62,757
Restated for adoption of MFRS 9	<b>(114,899)</b>	-
Made during the financial year	-	57,300
Amount released	-	(25,746)
Amount reinstated	-	20,588
Balance at 30 September/31 December	<b>-</b>	<b>114,899</b>

The impairment allowance by stage allocation upon adoption of MFRS 9 with effect from 1 January 2018 is disclosed in Note 18 (i).

**(iii) Gross carrying amount movement of financing and advances classified as credit impaired:**

	<b>30 Sep 2018</b>
	<b>RM'000</b>
Gross carrying amount as at 1 January 2018	-
Restated for adoption of MFRS 9	<b>322,683</b>
Transfer within stages	<b>69,949</b>
Net remeasurement due to changes in credit risk	<b>78,039</b>
Asset written-off	<b>(99,976)</b>
Others	<b>41,090</b>
<b>Gross carrying amount as at 30 September 2018</b>	<b>411,785</b>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**16 Impaired Financing (Cont'd)**

(iv) By contract

	30 Sep 2018 RM'000	31 Dec 2017 RM'000
Ijarah Thumma Al-Bai (AITAB) ( <i>hire purchase</i> )	6,800	9,841
Murabahah ( <i>cost-plus</i> )	253,689	168,021
Musharakah ( <i>profit and loss sharing</i> )	143,871	184,393
Bai Al-Inah ( <i>sell and buy back</i> )	35	3
Ujrah ( <i>fee-based</i> )	7,390	19,791
	<b>411,785</b>	<b>382,049</b>

(v) By sector

	30 Sep 2018 RM'000	31 Dec 2017 RM'000
Mining and quarrying	702	765
Manufacturing	12,607	17,811
Wholesale & retail trade, restaurants & hotels	11,450	9,410
Transport, storage and communication	4,146	4,549
Finance, takaful and business services	28,506	29,310
Household - Retail	328,507	318,716
Others	25,867	1,488
	<b>411,785</b>	<b>382,049</b>

(vi) By purpose

	30 Sep 2018 RM'000	31 Dec 2017 RM'000
Purchase of landed property:		
Residential	129,263	162,963
Non-residential	10,479	12,805
Purchase of transport vehicles	35	3
Consumption credit	196,990	151,582
Construction	2,640	2,786
Working capital	47,559	51,910
Others	24,819	-
	<b>411,785</b>	<b>382,049</b>

(vii) By geographical distribution

	30 Sep 2018 RM'000	31 Dec 2017 RM'000
Northern Region	40,913	58,913
Southern Region	33,522	39,334
Central Region	330,090	271,572
Eastern Region	7,260	12,230
	<b>411,785</b>	<b>382,049</b>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Expected credit losses allowance charges (ECL)

(i) Movements in ECL allowances for financing and advances

The following table shows reconciliation from the opening to the closing balance of the ECL allowance for financing and advances:

	Stage 1	Stage 2	Stage 3			
	12- month ECL not credit impaired RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Lifetime ECL credit impaired Specific provision RM'000	Collective provision RM'000	Total RM'000
Balance at 1 January 2018	-	-	-	114,899	240,908	355,807
Restated for adoption of MFRS 9	61,974	71,820	160,587	(114,899)	(240,908)	(61,426)
Restated opening balance at 1 January 2018	61,974	71,820	160,587	-	-	294,381
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	12,558	(10,786)	(1,772)	-	-	-
- Transferred to Stage 2	(4,760)	11,240	(6,480)	-	-	-
- Transferred to Stage 3	(624)	(5,756)	6,380	-	-	-
New financial assets originated or purchased	14,633	-	-	-	-	14,633
Net remeasurement due to changes in credit risk	(36,191)	12,647	96,540	-	-	72,996
Asset written-off	-	-	(99,983)	-	-	(99,983)
Others	(4,785)	(1,548)	46,109	-	-	39,776
<b>Balance at 30 September 2018</b>	<b>42,805</b>	<b>77,617</b>	<b>201,381</b>	<b>-</b>	<b>-</b>	<b>321,803</b>

(ii) Movements in ECL allowances for loan commitments and contingencies

The following table shows reconciliation from the opening to the closing balance of the ECL allowance for loan commitments:

	Stage 1	Stage 2	Stage 3	
	12- month ECL not credit impaired RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
Balance at 1 January 2018	-	-	-	-
Restated for adoption of MFRS 9	853	1,880	-	2,733
Restated opening balance at 1 January 2018	853	1,880	-	2,733
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	159	(159)	-	-
- Transferred to Stage 2	(38)	38	-	-
- Transferred to Stage 3	(1)	-	1	-
New financial assets originated or purchased	147	-	-	147
Net remeasurement due to changes in credit risk	(2,057)	353	821	(883)
Others	1,644	(674)	-	970
<b>Balance at 30 September 2018</b>	<b>707</b>	<b>1,438</b>	<b>822</b>	<b>2,967</b>

Certain allowance for drawn amount and provisions for the undrawn commitments are not able to be split, and in accordance to MFRS 7 Financial Instruments disclosure, the provisions for the financing and other credit related commitments are presented together with the allowance for the drawn financing and advances in Note 17(i).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**18 Derivative Financial Instruments**

Details of derivative financial instruments outstanding are as follows:

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

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
	Up to 1 Year	>1 - 5 Years	> 5 Years	Total	Up to 1 Year	>1 - 5 Years	> 5 Years	Total	Up to 1 Year	>1 - 5 Years	> 5 Years	Total
30 Sep 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Trading derivatives:</b>												
Foreign exchange contracts												
- Forwards	4,106,006	-	-	4,106,006	46,738	-	-	46,738	47,911	-	-	47,911
- Swaps	1,340,085	1,009,933	-	2,350,018	117,696	56,641	-	174,337	117,447	55,775	-	173,222
- Options	72,090	257,776	-	329,866	956	605	-	1,561	956	605	-	1,561
Profit rate related contracts												
- Swaps	647,975	2,269,813	743,325	3,661,113	2,435	3,822	306	6,563	2,443	2,139	170	4,752
- Options	-	282,364	-	282,364	-	2,479	-	2,479	-	1,023	-	1,023
Equity related contracts												
- Options purchased	63,807	312,125	-	375,932	1,570	11,524	-	13,094	-	455	-	455
Sub- total	6,229,963	4,132,011	743,325	11,105,299	169,395	75,071	306	244,772	168,757	59,997	170	228,924
<b>Hedging Derivatives:</b>												
<b>Fair Value Hedge</b>												
Profit rate related contracts												
- Swaps	80,000	-	-	80,000	-	-	-	-	98	-	-	98
Sub- total	80,000	-	-	80,000	-	-	-	-	98	-	-	98
<b>Total</b>	<b>6,309,963</b>	<b>4,132,011</b>	<b>743,325</b>	<b>11,185,299</b>	<b>169,395</b>	<b>75,071</b>	<b>306</b>	<b>244,772</b>	<b>168,855</b>	<b>59,997</b>	<b>170</b>	<b>229,022</b>

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**18 Derivative Financial Instruments (Cont'd)**

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
	Up to 1 Year	>1 - 5 Years	> 5 Years	Total	Up to 1 Year	>1 - 5 Years	> 5 Years	Total	Up to 1 Year	>1 - 5 Years	> 5 Years	Total
31 Dec 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Trading derivatives:</b>												
Foreign exchange contracts												
- Forwards	3,275,446	-	-	3,275,446	101,206	-	-	101,206	101,638	-	-	101,638
- Swaps	-	2,345,181	-	2,345,181	-	156,798	-	156,798	-	155,394	-	155,394
- Options	36,534	295,613	-	332,147	736	1,114	-	1,850	736	1,114	-	1,850
Profit rate related contracts												
- Swaps	234,703	2,927,843	253,904	3,416,450	326	8,930	382	9,638	245	5,677	-	5,922
- Options	-	185,887	-	185,887	-	3,449	-	3,449	-	-	-	-
Equity related contracts												
- Options purchased	2,945	85,394	-	88,339	-	5,531	-	5,531	-	107	-	107
Sub- total	3,549,628	5,839,918	253,904	9,643,450	102,268	175,822	382	278,472	102,619	162,292	-	264,911
<b>Hedging Derivatives:</b>												
<b>Fair Value Hedge</b>												
Profit rate related contracts												
- Swaps	110,000	80,000	-	190,000	-	-	-	-	156	335	-	491
Sub- total	110,000	80,000	-	190,000	-	-	-	-	156	335	-	491
Total	3,659,628	5,919,918	253,904	9,833,450	102,268	175,822	382	278,472	102,775	162,627	-	265,402

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

	30 Sep 2018 RM'000	30 Sep 2017 RM'000
Gains on hedging instruments	307	169
(Losses)/Gains on the hedged items attributable to the hedged risk	(334)	280
Net gains from fair value hedges	(27)	449

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**19 Other Assets**

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	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Settlements	<b>504,231</b>	-
Income receivable	<b>5,085</b>	7,631
Profit receivable	<b>30,356</b>	17,197
Prepayments	<b>1,956</b>	334
Amount due from holding company	<b>11,946</b>	988
Other receivables	<b>20,297</b>	17,209
	<b><u>573,871</u></b>	<u>43,359</u>

**20 Statutory Deposits with Bank Negara Malaysia**

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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)**

**21 Deposits From Customers**

**(i) By type of deposit**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
<b>At amortised cost</b>		
Non-Mudharabah Fund		
Demand deposits		
- Qard	<b>1,638,613</b>	-
- Wadiah	-	2,114,167
Savings deposits		
- Qard	<b>1,648,190</b>	-
- Wadiah	-	1,644,028
Term deposits		
- Commodity Murabahah	<b>8,292,469</b>	6,195,246
- Qard	<b>188,189</b>	81,084
	<b>11,767,461</b>	10,034,525

The maturity structure of term deposits is as follows:

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Due within six months	<b>7,422,938</b>	4,897,455
More than six months to one year	<b>847,543</b>	1,239,371
More than one year to three years	<b>145,555</b>	110,069
More than three years to five years	<b>64,622</b>	29,435
	<b>8,480,658</b>	6,276,330

**(ii) By type of customer**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Government and statutory bodies	<b>5,117</b>	5,623
Business enterprises	<b>2,693,699</b>	2,220,541
Individuals	<b>6,339,455</b>	5,411,494
Others	<b>2,729,190</b>	2,396,867
	<b>11,767,461</b>	10,034,525

**22 Deposits and Placements from Banks and Other Financial Institutions**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Non-Mudharabah Fund		
Licensed banks	<b>384,497</b>	2,441,124
Bank Negara Malaysia	<b>9,527</b>	26,557
Other financial institutions	<b>2,120,097</b>	894,258
	<b>2,514,121</b>	3,361,939

Included in deposits and placements from banks and other financial institutions are placements from the Bank's parent company, HSBC Bank Malaysia Berhad, of RM0.4 billion (31 Dec 2017: RM2.4 billion).

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**23 Financial Liabilities Designated as Fair Value**

<b>At fair value</b>	<b>30 Sep 2018</b> <b>RM'000</b>	31 Dec 2017 RM'000
Structured products <sup>[1]</sup>		
- Wakalah with Commodity Wa'ad	227,187	-
- Tawarruq	414,342	-
	<u>641,529</u>	<u>-</u>

<sup>[1]</sup> 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 as net income/expense from financial instruments designated at fair value.

**24 Other Liabilities**

<b>At amortised cost</b>	Note	<b>30 Sep 2018</b> <b>RM'000</b>	31 Dec 2017 RM'000
Settlements		-	2,945
Amounts due to holding company		15,104	169,489
Profit payable		100,548	74,428
Deferred income		11,925	10,716
Marginal deposit		4,597	13,092
Accrued expenses		28,515	29,044
Other creditors	(a)	73,949	61,902
Provision on financing and credit related commitments		<u>2,967</u>	<u>-</u>
		<b>237,605</b>	361,616
<b>At fair value</b>			
Structured products			
- Wakalah with Commodity Wa'ad <sup>[1]</sup>		<u>-</u>	<u>279,975</u>
		<b>237,605</b>	<b>641,591</b>

<sup>[1]</sup> Structured products are now measured as Financial Liabilities Designated at Fair Value through Profit or Loss with effect from 1 January 2018. Please refer to Note 23.

(a) Other creditors and accruals

Included in other creditors and accruals is excess compensation balance and profit earned from inadvertent Shariah non-compliant activities. The contribution was distributed to the Non-Governmental Organisations approved by the Shariah Committee during the financial year. There had not been any case on Shariah non-compliant event during the financial period (2017: Nil).

**Source and use of charity funds**

<b>Source of charity funds</b>	<b>30 Sep 2018</b> <b>RM'000</b>	31 Dec 2017 RM'000
Balance at 1 January	1	4
Shariah non-compliant income for the financial period/year <sup>[2]</sup>	15	13
<b>Use of charity funds</b>		
Contribution to non-profit organisations	-	(16)
Tax expense on Shariah non-compliant income	<u>(3)</u>	<u>-</u>
Balance at 30 September/31 December	<u>13</u>	<u>1</u>

<sup>[2]</sup> Income received from transactions via Nostro Accounts.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**25 Multi-Currency Sukuk Programme**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Multi-Currency Sukuk Programme (MCSP)	<b>1,752,928</b>	1,252,829

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

<u>Issuance under MCSP</u>	<b>Nominal Value</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Carrying Value</b>	
				<b>30 Sep 2018</b>	31 Dec 2017
<b>At fair value</b>	<b>RM'000</b>			<b>RM'000</b>	RM'000
2nd series	500,000	16 Oct 2014	16 Oct 2019	<b>501,231</b>	501,201
3rd series	750,000	27 Mar 2015	27 Mar 2020	<b>751,756</b>	751,628
4th series	500,000	2 Oct 2018	2 Oct 2023	<b>499,941</b>	-
	<b>1,750,000</b>			<b>1,752,928</b>	1,252,829

Movement in MCSP

	<b>2nd series</b>	<b>3rd series</b>	<b>4th series</b>
	<b>30 Sep 2018</b>	<b>30 Sep 2018</b>	<b>30 Sep 2018</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>2018</u>			
Balance at 1 January	501,201	751,628	-
New issuance during the financial period	-	-	500,000
Change in fair value other than from own credit risk	(1,490)	322	(59)
Change in fair value from own credit risk	1,520	(194)	-
Balance at 30 September	<b>501,231</b>	<b>751,756</b>	<b>499,941</b>
	<b>2nd series</b>	<b>3rd series</b>	<b>4th series</b>
	31 Dec 2017	31 Dec 2017	31 Dec 2017
	RM'000	RM'000	RM'000
<u>2017</u>			
Balance at 1 January	502,835	753,166	-
Change in fair value other than from own credit risk	(504)	64	-
Change in fair value from own credit risk	(1,130)	(1,602)	-
Balance at 31 December	501,201	751,628	-
	<b>30 Sep 2018</b>	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	<b>RM'000</b>	RM'000
The cumulative change in fair value due to changes in own credit risk	<b>1,326</b>	<b>1,326</b>	(2,732)

**26 Subordinated Commodity Murabahah Financing**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	<b>321,356</b>	314,714
- Second tranche issued on 30 June 2015	<b>274,559</b>	268,884
	<b>595,915</b>	583,598

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**27 Income Derived from Investment of Depositors' Funds and Others**

	Third Quarter		Nine Months Ended	
	30 Sep 2018 RM'000	30 Sep 2017 RM'000	30 Sep 2018 RM'000	30 Sep 2017 RM'000
Income derived from investment of:				
(i) general investment deposits	139,225	115,425	398,014	327,934
(ii) specific investment deposits	20,520	15,951	63,949	36,541
(iii) others	49,272	53,145	147,984	159,695
	<b>209,017</b>	<b>184,521</b>	<b>609,947</b>	<b>524,170</b>
	Third Quarter		Nine Months Ended	
	30 Sep 2018 RM'000	30 Sep 2017 RM'000	30 Sep 2018 RM'000	30 Sep 2017 RM'000
(i) Income derived from investment of general investment deposits				
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	106,808	92,764	306,019	267,136
- Recoveries from impaired financing	4,664	3,266	13,595	8,851
Financial investments at FVOCI	17,079	9,465	42,364	26,393
Money at call and deposit with financial institutions	10,295	6,360	30,222	17,702
	<b>138,846</b>	<b>111,855</b>	<b>392,200</b>	<b>320,082</b>
<u>Other operating income</u>				
Realised gains from dealing in foreign currency	3,179	4,266	9,579	13,400
Unrealised (losses)/gains from dealing in foreign currency	(420)	(152)	485	(825)
Gains from sale of financial assets designated as FVTPL and other financial instruments	1,093	308	1,539	308
Unrealised (losses)/gains from revaluation of financial assets designated as FVTPL	(1,159)	22	(1,304)	(125)
Net profit paid for financial assets designated as FVTPL and other financial instruments	-	(1,975)	-	(10,050)
Realised gains from trading in derivatives	139	123	1,281	1,350
Unrealised (losses)/gains from trading in derivatives	(178)	967	(420)	3,524
Net expenses from financial instruments designated at fair value	(2,277)	-	(5,328)	-
Other income/(expenses)	2	11	(18)	270
	<b>379</b>	<b>3,570</b>	<b>5,814</b>	<b>7,852</b>
	<b>139,225</b>	<b>115,425</b>	<b>398,014</b>	<b>327,934</b>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	Third Quarter		Nine Months Ended	
	30 Sep 2018 RM'000	30 Sep 2017 RM'000	30 Sep 2018 RM'000	30 Sep 2017 RM'000
(ii) Income derived from investment of specific investment deposits				
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	18,391	15,528	57,962	35,775
Money at call and deposit with financial institutions	3,082	-	6,157	-
	<b>21,473</b>	<b>15,528</b>	<b>64,119</b>	<b>35,775</b>
<u>Other operating income</u>				
Fees and commission	181	161	544	454
Realised losses from dealing in foreign currency	(1,134)	(575)	(713)	(525)
Unrealised gains/(losses) from dealing in foreign currency	-	837	(1)	837
	<b>(953)</b>	<b>423</b>	<b>(170)</b>	<b>766</b>
	<b>20,520</b>	<b>15,951</b>	<b>63,949</b>	<b>36,541</b>
The above fees and commissions were derived from the following major contributors:				
Guarantee fees	-	3	-	6
Service charges and fees	180	158	462	447
(iii) Income derived from investment of others				
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	37,793	42,659	113,780	130,088
- Recoveries from impaired financing	1,649	1,510	5,055	4,310
Financial investments at FVOCI	6,106	4,366	15,751	12,853
Money at call and deposit with financial institutions	3,636	2,933	11,237	8,620
	<b>49,184</b>	<b>51,468</b>	<b>145,823</b>	<b>155,871</b>
<u>Other operating income</u>				
Realised gains from dealing in foreign currency	1,120	1,945	3,561	6,525
Unrealised (losses)/gains from dealing in foreign currency	(165)	(65)	180	(402)
Gains from sale of financial assets designated as FVTPL and other financial instruments	402	150	572	150
Unrealised (losses)/gains from revaluation of financial assets at FVTPL	(430)	13	(485)	(61)
Net profit paid from financial assets designated as FVTPL and other financial instruments	-	(845)	-	(4,894)
Realised gains from trading in derivatives	40	43	476	658
Unrealised (losses)/gains from trading in derivatives	(64)	434	(156)	1,716
Net expenses from financial instruments designated at fair value	(817)	-	(1,981)	-
Other income/(expenses)	2	2	(6)	132
	<b>88</b>	<b>1,677</b>	<b>2,161</b>	<b>3,824</b>
	<b>49,272</b>	<b>53,145</b>	<b>147,984</b>	<b>159,695</b>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**28 Income Derived from Investment of Shareholder's Funds**

	Third Quarter		Nine Months Ended	
	30 Sep 2018 RM'000	30 Sep 2017 RM'000	30 Sep 2018 RM'000	30 Sep 2017 RM'000
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	16,050	16,249	48,139	46,211
- Recoveries from impaired financing	700	571	2,139	1,531
Financial investments at FVOCI	2,591	1,657	6,664	4,566
Money at call and deposit with financial institutions	1,544	1,113	4,754	3,062
	<b>20,885</b>	<b>19,590</b>	<b>61,696</b>	<b>55,370</b>
<u>Other operating income</u>				
Fees and commission	14,312	20,259	44,194	50,474
Realised gains from dealing in foreign currency	476	749	1,507	2,318
Unrealised (losses)/gains from dealing in foreign currency	(70)	(27)	76	(143)
Gains from sale of financial assets designated as FVTPL and other financial instruments	170	53	242	53
Unrealised (losses)/gains from revaluation of financial assets FVTPL	(182)	3	(205)	(22)
Net profit paid from financial assets designated as FVTPL and other financial instruments	-	(350)	-	(1,738)
Realised gains from trading in derivatives	17	23	201	234
Unrealised (losses)/gains from trading in derivatives	(27)	171	(66)	610
Shared-service fees from holding company	579	693	1,834	2,123
Net expenses from financial instruments designated at fair value	(565)	(360)	(941)	(591)
Other income	6	13	10	99
	<b>14,716</b>	<b>21,227</b>	<b>46,852</b>	<b>53,417</b>
	<b>35,601</b>	<b>40,817</b>	<b>108,548</b>	<b>108,787</b>

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

Service charges and fees	4,036	9,503	12,058	19,138
Credit cards	6,944	5,857	20,539	19,256
Agency fees	2,282	3,170	7,721	7,791

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**29 Impairment Allowance/Provisions**

	Third Quarter		Nine Months Ended	
	30 Sep 2018 RM'000	30 Sep 2017 RM'000	30 Sep 2018 RM'000	30 Sep 2017 RM'000
New and increased allowance/provisions (net of releases)	23,930	61,792	86,923	148,076
Recoveries of specific allowance/provisions	(9,543)	(8,533)	(30,383)	(24,989)
Written off	8	1,314	38	5,524
<b>Total charge to the income statement</b>	<b>14,395</b>	<b>54,573</b>	<b>56,578</b>	<b>128,611</b>

Breakdown of the impairment allowance/provisions is disclosed by financial instruments type are as follow:

(i) Financing and advances

New and increased allowance (net of releases)	24,006	61,792	87,629	148,076
Recoveries of allowance/provisions	(9,543)	(8,533)	(30,383)	(24,989)
Written off	8	1,314	38	5,524
<b>Total charge to the income statement</b>	<b>14,463</b>	<b>54,573</b>	<b>57,284</b>	<b>128,611</b>

(ii) Money at call and interbank placements maturing within one month

New and increased provisions (net of releases)	(1)	-	(1)	-
<b>Total charge to the income statement</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>	<b>-</b>

(iii) Financing commitments and contingencies

New and increased provisions (net of releases)	(119)	-	(736)	-
<b>Total charge to the income statement</b>	<b>(119)</b>	<b>-</b>	<b>(736)</b>	<b>-</b>

(iv) Financial investment at FVOCI

New and increased allowance (net of releases)	44	-	31	-
<b>Total charge to the income statement</b>	<b>44</b>	<b>-</b>	<b>31</b>	<b>-</b>

**30 Income Attributable to Depositors**

	Third Quarter		Nine Months Ended	
	30 Sep 2018 RM'000	30 Sep 2017 RM'000	30 Sep 2018 RM'000	30 Sep 2017 RM'000
<u>Non-Mudharabah Fund</u>				
- Deposits from customers	80,000	47,294	214,692	136,152
- Deposits and placements of banks and other financial institutions	13,851	18,791	49,580	44,968
- Others	21,176	23,343	60,601	69,191
	<b>115,027</b>	<b>89,428</b>	<b>324,873</b>	<b>250,311</b>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**31 Operating Expenses**

	Third Quarter		Nine Months Ended	
	30 Sep 2018 RM'000	30 Sep 2017 RM'000	30 Sep 2018 RM'000	30 Sep 2017 RM'000
Personnel expenses	<b>12,184</b>	12,090	<b>36,033</b>	35,604
Promotion and marketing related expenses	<b>4,057</b>	2,612	<b>11,096</b>	8,107
Establishment related expenses	<b>4,635</b>	4,263	<b>12,912</b>	14,388
General administrative expenses	<b>6,680</b>	9,106	<b>24,216</b>	26,652
Intercompany expenses	<b>34,487</b>	31,844	<b>102,198</b>	96,123
	<b>62,043</b>	59,915	<b>186,455</b>	180,874
Personnel expenses				
Salaries, allowances and bonuses	<b>9,809</b>	10,039	<b>28,637</b>	27,902
Employees Provident Fund contributions	<b>1,742</b>	1,733	<b>5,095</b>	4,830
Share based payment	<b>31</b>	27	<b>96</b>	74
Other staff related costs	<b>602</b>	291	<b>2,205</b>	2,798
	<b>12,184</b>	12,090	<b>36,033</b>	35,604
Promotion and marketing related expenses	<b>4,057</b>	2,612	<b>11,096</b>	8,107
Establishment related expenses				
Depreciation of equipment	<b>560</b>	971	<b>1,786</b>	3,219
Information technology costs	<b>989</b>	611	<b>2,353</b>	2,020
Rental of premises	<b>2,041</b>	1,837	<b>6,126</b>	5,737
Utilities	<b>417</b>	458	<b>1,452</b>	1,616
Others	<b>628</b>	386	<b>1,195</b>	1,796
	<b>4,635</b>	4,263	<b>12,912</b>	14,388
General administrative expenses	<b>6,680</b>	9,106	<b>24,216</b>	26,652
Intercompany charges	<b>34,487</b>	31,844	<b>102,198</b>	96,123
Of which by:				
Type of service				
- Information technology related cost	<b>1,815</b>	812	<b>5,130</b>	5,062
- Non information technology related cost	<b>32,672</b>	31,032	<b>97,068</b>	91,061
Geographical distribution				
- Inside Malaysia	<b>34,365</b>	31,705	<b>101,868</b>	96,128
- Outside Malaysia	<b>122</b>	139	<b>330</b>	(5)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**32 Capital Adequacy**

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
<b>Tier 1 capital</b>		
Paid-up ordinary share capital	<b>660,000</b>	660,000
Retained profits	<b>1,019,007</b>	921,511
Other reserves	<b>48,121</b>	34,945
Regulatory adjustments	<b>(57,708)</b>	(47,023)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	<b>1,669,420</b>	1,569,433
<b>Tier 2 capital</b>		
Subordinated Commodity Murabahah financing	<b>595,915</b>	583,598
Impairment allowance (unimpaired portion) & regulatory reserves	<b>155,331</b>	149,254
Total Tier 2 capital	<b>751,246</b>	732,852
<b>Capital base</b>	<b>2,420,666</b>	2,302,285
<u>Inclusive of proposed dividend</u>		
CET1 and Tier 1 Capital ratio	<b>12.425%</b>	12.203%
Total Capital ratio	<b>18.017%</b>	17.902%
<u>Net of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	<b>12.425%</b>	12.125%
Total Capital ratio	<b>18.017%</b>	17.824%

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 RWA in the various categories of risk weights:

	<b>30 Sep 2018</b>	31 Dec 2017
	<b>RM'000</b>	RM'000
Total RWA for credit risk	<b>12,426,448</b>	11,940,340
Total RWA for market risk	<b>68,456</b>	9,450
Total RWA for operational risk	<b>940,843</b>	910,994
	<b>13,435,747</b>	12,860,784

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**

**33 Commitments and Contingencies**

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

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

<b>Principal amount</b>	<b>30 Sep 2018</b> <b>RM'000</b>	31 Dec 2017 RM'000
Direct credit substitutes	<b>570,778</b>	494,387
Transaction-related contingent items	<b>1,001,654</b>	996,770
Short-term self-liquidating trade-related contingencies	<b>43,982</b>	49,645
Formal standby facilities and credit lines		
- Maturity not exceeding one year	<b>1,286,991</b>	1,739,249
- Maturity exceeding one year	<b>2,185,338</b>	2,130,614
Other unconditionally cancellable	<b>1,641,141</b>	2,233,191
Unutilised credit card lines	<b>3,408,690</b>	3,024,432
Equity related contracts		
- Less than one year	<b>63,807</b>	2,945
- One year to less than five years	<b>312,125</b>	85,394
Profit rate related contracts		
- Less than one year	<b>727,975</b>	344,703
- One year to less than five years	<b>2,552,177</b>	3,193,730
- Over five years	<b>743,325</b>	253,904
Foreign exchange related contracts		
- Less than one year	<b>5,518,181</b>	3,311,980
- One year to less than five years	<b>1,267,709</b>	2,640,794
	<b>21,323,873</b>	20,501,738

Certain allowance for drawn amount and provisions for the undrawn commitments are not able to be split, and in accordance to MFRS 7 Financial Instruments disclosure, the provisions for the financing and other credit related commitments are presented together with the allowance for the drawn financing and advances in Note 15(viii).

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

### 34 Business Prospects

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Malaysia's real Gross Domestic Product (GDP) growth rate slowed to 4.5% in 2Q 2018 compared to 5.4% in 1Q 2018. However, the positive trend is forecasted to follow through for the remaining of 2018 with annual GDP growth anticipated to be in the range of 5.0%. The GDP growth continues to be anchored by domestic demand that is underpinned by private sector activities.

In the international arena, the global financial market volatility remained elevated during the year, as the tension of trade tariff spat between the US and China persisted throughout the period. Further escalation of the disagreement is likely to weight on trade and business sentiment in export related industries. Besides, capital outflows for emerging markets were also affected by higher interest rates in the United States of America, and a stronger US Dollar.

The Ringgit depreciation against the USD dollar was in line with regional currencies, partly due to the heightened trade tensions. Going forward, the Ringgit will continue to be influenced by external uncertainties, in particular the pace of monetary policy normalisation in the US and global trade tensions.

Headline inflation was 1.3% in 2Q 2018 (1Q 2018: 1.8%). Lower inflation during the quarter mainly reflected the zerorisation of the goods and services tax (GST) rate from 1 June 2018 to 31 August 2018, coupled with stronger consumer sentiments. Sales and service tax (SST) is reintroduced effective 1 September 2018. Overall headline inflation is expected to moderate in 2018 due to the changes in the consumption tax policy.

Malaysia's financial system is expected to remain resilient under severe macroeconomic and financial strains, with financial institutions maintaining capital buffers in excess of regulatory minima even under adverse scenarios. Both S&P Global Ratings and Moody Investors Service have recently maintained its stable outlook for Malaysia and the banking system this year in view of the continuous robust operating conditions in the country.

The domestic financial markets, including the foreign exchange market, bond market and equity market, were driven mainly by external developments, with movements in line with regional markets. Despite non-resident portfolio outflows during the quarter, liquidity conditions remained sufficient to facilitate financial intermediation, with sustained net financing growth. The positive domestic demand outlook, sound financial sector and improving current account surplus of the balance of payments will continue to support Malaysia's fundamentals.

Malaysia is identified as a scalable market and an important footprint for the HSBC Group within ASEAN. The Group and the Bank will continue to capture opportunities along the entire supply chain of foreign investment into Malaysia and outbound business of our customers. Leveraging on HSBC connectivity, we will explore business opportunity based on intra ASEAN corridors and ASEAN government initiatives. The Group and the Bank will also focus on expanding customers' base to increase market share where it has comparative advantage.

On the sustainable front, HSBC Malaysia continues to take active interest in generating positive and sustainable impact to the economy, community and environment where the HSBC operates. HSBC Amanah Malaysia Berhad, in embracing Bank Negara Malaysia's value-based intermediation (VBI) concept, took lead in issuing the world's first United Nations Sustainable Development Goals (SDG) sukuk, wherein the proceeds will be utilised to finance eligible businesses and projects in accordance with the internal HSBC SDG Bond Framework.

### 35 Performance Review

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Profit before tax (PBT) of RM150.6 million increased by RM77.4 million or 105.8% against history due to higher income derived from investment of depositors' funds and others (+RM85.8 million) and lower impairment allowance (+RM72.0 million), partially offset by higher income attribute to depositors (-RM74.6 million) and operating expenses (-RM5.6m).

Operating expenses increased from RM180.8 million to RM186.5 million or by 3.1% mainly due to higher intercompany expenses (+RM6.1 million). The Bank continues to leverage on its holding company to provide certain services under an embedded model to ensure costs efficiency and in a sustainable manner with cost income ratio stood at 47.4% compared to 47.3% in prior corresponding period.

Total balance sheet at 30 September 2018 stood at RM19.6 billion, RM1.8 billion higher compared against 31 December 2017 (RM17.8 billion). The Bank's capital and liquidity ratios continues to remain strong and well above the regulatory requirements.