

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
30 JUNE 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 JUNE 2018

	<i>Note</i>	30 Jun 2018	31 Dec 2017
		RM'000	RM'000
Assets			
Cash and short-term funds	12	2,582,836	1,465,919
Financial investments available-for-sale	13	-	2,221,044
Financial investments at fair value through other comprehensive income (FVOCI)	14	2,336,486	-
Financing and advances	15	13,565,303	13,383,803
Derivative financial assets	18	219,115	278,472
Other assets	19	139,928	43,359
Statutory deposits with Bank Negara Malaysia	20	378,362	361,362
Equipment		5,890	5,520
Deferred tax assets		10,245	8,637
Tax recoverable		-	7,624
Total assets		19,238,165	17,775,740
Liabilities			
Deposits from customers	21	12,487,693	10,034,525
Deposits and placements from banks and other financial institutions	22	2,268,480	3,361,939
Financial liabilities designated as fair value through profit or loss (FVTPL)	23	461,052	-
Bills payable		17,068	16,678
Derivative financial liabilities	18	204,133	265,402
Other liabilities	24	220,378	644,441
Provision for taxation		20,289	-
Multi-Currency Sukuk Programme	25	1,251,599	1,252,829
Subordinated Commodity Murabahah Financing	26	581,653	583,598
Total liabilities		17,512,345	16,159,412
Equity			
Share capital		660,000	660,000
Reserves		1,065,820	956,328
Total equity attributable to owner of the Bank		1,725,820	1,616,328
Total liabilities and equity		19,238,165	17,775,740
Restricted investment accounts ^[1]		4,153,033	6,007,289
Total Islamic Banking asset ^[1]		23,391,198	23,783,029
Commitments and contingencies	34	19,839,019	20,501,738

^[1] 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 41 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 18 July 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 JUNE 2018**

	Note	Second Quarter		Six Months Ended	
		30 Jun 2018 RM'000	30 Jun 2017 RM'000	30 Jun 2018 RM'000	30 Jun 2017 RM'000
Income derived from investment of depositors' funds and others	27	208,825	174,183	400,930	339,649
Income derived from investment of shareholder's funds	28	35,564	33,390	72,947	67,970
Impairment allowance/provision	29	(16,464)	(34,898)	(42,183)	(74,038)
Total distributable income		227,925	172,675	431,694	333,581
Income attributable to depositors	30	(111,979)	(83,161)	(209,846)	(160,883)
Total net income		115,946	89,514	221,848	172,698
Operating expenses	31	(61,660)	(60,659)	(124,412)	(120,959)
Profit before tax		54,286	28,855	97,436	51,739
Tax expense		(11,060)	(4,477)	(19,972)	(9,735)
Profit for the financial period		43,226	24,378	77,464	42,004
Other comprehensive income/(expense)					
<i>Items that will not be reclassified to profit or loss</i>					
Own credit reserves:					
Change in fair value		3,226	6,516	1,271	6,762
Income tax effect		(774)	(1,564)	(305)	(1,623)
<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		-	4,150	-	5,845
Income tax effect		-	(996)	-	(1,403)
Financial investment at FVOCI					
Change in fair value		(2,060)	-	(5,189)	-
Net amount transferred to profit or loss		70	-	370	-
Impairment release		19	-	(13)	-
Income tax effect		477	-	1,156	-
Other comprehensive income/(expense) for the financial period, net of tax		958	8,106	(2,710)	9,581
Total comprehensive income for the financial period		44,184	32,484	74,754	51,585
Profit attributable to the owner of the Bank		43,226	24,378	77,464	42,004
Total comprehensive income attributable to the owner of the Bank		44,184	32,484	74,754	51,585
Basic earnings per RM0.50 ordinary share		43.2 sen	24.4 sen	77.5 sen	42.0 sen

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 41 attached to the unaudited condensed interim financial statements.

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

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 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>	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018								
Balance at 1 January	660,000	179	-	230	408	34,000	921,511	1,616,328
Effects of adopting MFRS 9 on 1 January 2018	-	(179)	305	476	-	-	44,024	44,626
As restated	660,000	-	305	706	408	34,000	965,535	1,660,954
Total comprehensive income for the financial period								
Profit for the financial period	-	-	-	-	-	-	77,464	77,464
Other comprehensive income, net of tax								
Financial investments at FVOCI/Own Credit reserve								
Net change in fair value	-	-	(3,944)	966	-	-	-	(2,978)
Net amount transferred to profit or loss	-	-	281	-	-	-	-	281
Impairment release	-	-	(13)	-	-	-	-	(13)
<i>Total other comprehensive income</i>	-	-	(3,676)	966	-	-	-	(2,710)
Total comprehensive income for the financial period	-	-	(3,676)	966	-	-	77,464	74,754
Transfer relating to regulatory reserves	-	-	-	-	-	16,000	(16,000)	-
Transactions with the owner, recorded directly in equity								
Share based payment transactions	-	-	-	-	103	-	9	112
Dividends paid to owner - 2017 final	-	-	-	-	-	-	(10,000)	(10,000)
Balance at 30 June	660,000	-	(3,371)	1,672	511	50,000	1,017,008	1,725,820

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 41 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 18 July 2018.

HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018 (Cont'd)

	<i>Non-distributable</i>						<i>Distributable</i>		<i>Total</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve^[1]</i>	<i>Available-for-sale reserve</i>	<i>Own Credit Reserve^[2]</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profits</i>	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017									
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 ^[2]	-	-	-	-	(1,846)	-	-	1,846	-
As restated	50,000	610,000	50,000	(6,547)	(1,846)	403	34,000	785,141	1,521,151
Total comprehensive income for the financial period									
Profit for the financial period	-	-	-	-	-	-	-	42,004	42,004
Other comprehensive income, net of tax									
Available-for-sale reserve:									
Net change in fair value	-	-	-	4,442	5,139	-	-	-	9,581
<i>Total other comprehensive income</i>	-	-	-	4,442	5,139	-	-	-	9,581
Total comprehensive income for the financial period	-	-	-	4,442	5,139	-	-	42,004	51,585
Transfer in accordance to Section 618(2) of the Companies Act 2016	610,000	(610,000)	-	-	-	-	-	-	-
Transfer in accordance with BNM's requirement ^[1]	-	-	(50,000)	-	-	-	-	50,000	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	(7)	-	-	(7)
Balance at 30 June	660,000	-	-	(2,105)	3,293	396	34,000	877,145	1,572,729

^[1] 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.

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

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2017 and the accompanying explanatory notes on pages 7 to 41 attached to the unaudited condensed interim financial statements.

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HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018

	30 Jun 2018	30 Jun 2017
	RM'000	RM'000
Profit before tax	97,436	51,739
Adjustments for non-operating and non-cash items	61,946	62,670
Operating profit before working capital changes	159,382	114,409
Changes in working capital:		
Net changes in operating assets	(219,421)	(1,417,942)
Net changes in operating liabilities	1,349,894	1,078,318
Income tax paid	(6,788)	(11,440)
Net cash used in operating activities	1,283,067	(236,655)
Net cash used in investing activities	(120,627)	(389,652)
Net cash used in financing activities	(45,523)	(43,073)
	(166,150)	(432,725)
Net changes in cash and cash equivalents	1,116,917	(669,380)
Cash and cash equivalents at 1 January	1,465,919	2,359,591
Cash and cash equivalents at 30 June	2,582,836	1,690,211
Analysis of cash and cash equivalents		
Cash and short-term funds	2,582,836	1,690,211

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 41 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 18 July 2018.

HSBC AMANAH MALAYSIA BERHAD
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**UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018**

Changes in liabilities arising from financing activities

Cash Flows from Financing Activities

2018	At 1 Jan RM'000	Cash outflow RM'000	Foreign exchange adjustment RM'000	Fair value movement RM'000	Profit accrual RM'000	At 30 Jun RM'000
Multi-Currency Sukuk Programme	1,252,829	-	-	(1,230)	-	1,251,599
Subordinated Commodity Murabahah Financing	583,598	-	(1,945)	-	-	581,653
Other Liabilities of which:						
Profits paid on Multi-Currency Sukuk Programme	12,815	(24,656)	-	-	24,598	12,757
Profits paid on Subordinated Commodity Murabahah Financing	2,371	(10,867)	-	-	11,614	3,118
Dividend paid	-	(10,000)	-	-	-	-
	1,851,613	(45,523)	(1,945)	(1,230)	36,212	1,849,127
2017						
Multi-Currency Sukuk Programme	1,756,001	-	-	(4,165)	-	1,751,836
Subordinated Commodity Murabahah Financing	646,265	-	(9,076)	-	-	637,189
Other Liabilities of which:						
Profits paid on Multi-Currency Sukuk Programme	17,637	(33,057)	-	-	33,000	17,580
Profits paid on Subordinated Commodity Murabahah Financing	204	(10,016)	-	-	10,001	189
	2,420,107	(43,073)	(9,076)	(4,165)	43,001	2,406,794

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 41 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 18 July 2018.

HSBC AMANAH MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS

1 General Information

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

There were no significant changes in these activities during the financial 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 18 July 2018.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 30 June 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 June 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)

(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 'Financial Instruments' will replace MFRS 139 'Financial Instruments: Recognition and Measurement', and 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)

(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)

(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)

(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
<u>Financial assets</u>				
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) ^[1]	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) ^[2]	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
Total financial assets		17,753,959		17,815,471
<u>Financial liabilities</u>				
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	16,678	Amortised cost	16,678
Derivative financial liabilities	FVTPL(Held-for-trading)	265,402	FVTPL	265,402
Other liabilities	Amortised cost	644,441	Amortised cost	367,199
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
Total financial liabilities		16,159,412		16,162,145

^[1] Fair Value through Other Comprehensive Income

^[2] Fair Value through Profit and Loss

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
Assets					
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)
Total change to financial asset balances, reclassification and remeasurement at 1 January 2018	17,770,220	-	47,509	17,817,729	47,509
Liabilities					
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	16,678	-	-	16,678	-
Derivative financial liabilities	265,402	-	-	265,402	-
Other liabilities	644,441	(279,975)	2,733	367,199	2,733
Multi-Currency Sukuk Programme	1,252,829	-	-	1,252,829	-
Subordinated Commodity Murabahah Financing	583,598	-	-	583,598	-
Total change to financial liabilities balances, reclassification and remeasurement at 1 January 2018	16,159,412	-	2,733	16,162,145	2,733

(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
Total	355,807	-	(58,653)	297,154

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 Functional and Presentation of Currency

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

5 Auditors' Report On Preceding Annual Financial Statements

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

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

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

8 Changes in Estimates

There were no material changes in estimates of amounts reported in prior financial years that have a material effect on the financial results and position of the Bank for the financial period ended 30 June 2018.

9 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 June 2018.

10 Dividend

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 dividend during the financial period ended 30 June 2018.

11 Significant and Subsequent Events

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Cash and Short-Term Funds

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Cash and balances with banks and other financial institutions	162,835	215,919
Money at call and interbank placements maturing within one month	2,420,001	1,250,000
	2,582,836	1,465,919

13 Financial Investments Available-For-Sale

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

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
	-	2,221,044

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

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Debt securities		
At fair value		
Money market instruments:		
Malaysian Government Islamic Sukuk	2,140,544	-
Islamic Treasury Bill	195,942	-
	2,336,486	-

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

Maturing within one year	906,918	-
More than one year to three years	1,399,371	-
More than three years to five years	30,197	-
	2,336,486	-

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 Jun 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	85,367	-	-	-	-	-	-	85,367
Term financing:								
House financing	-	-	-	-	-	4,364,916	-	4,364,916
Hire purchase receivables	-	-	-	-	171,032	-	-	171,032
Lease receivables	-	-	-	960	-	-	-	960
Syndicated term financing	1,368,005	-	-	-	-	-	-	1,368,005
Other term financing	3,145,503	113	76	-	-	970,689	-	4,116,381
Trust receipts	798,722	-	-	-	-	-	-	798,722
Claims on customers under acceptance credits	457,547	-	-	-	-	-	-	457,547
Bills receivables	217,634	-	-	-	-	-	-	217,634
Staff financing-i	1,787	-	65	-	-	1,723	-	3,575
Credit cards-i	-	-	-	-	-	-	935,385	935,385
Revolving financing	1,354,829	-	-	-	-	-	-	1,354,829
Other financing	-	-	-	-	-	2,288	-	2,288
Gross financing and advances	7,429,394	113	141	960	171,032	5,339,616	935,385	13,876,641
Less: Impairment allowance ⁽¹⁾								(311,338)
Total net financing and advances								13,565,303

⁽¹⁾ 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	2,140,665	-	-	-	-	-	-	2,140,665
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	566,256	-	-	-	-	-	-	566,256
Other financing	-	-	-	-	-	1,648	-	1,648
Gross financing and advances	7,247,409	1,199	196	1,379	169,852	5,394,158	925,417	13,739,610
Less: Allowance for impaired financing								
Collective impairment allowance								(240,908)
Individual impairment allowance								(114,899)
Total net financing and advances								13,383,803

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Financing and Advances (Cont'd)

(ii) By type of customer

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Domestic non-bank financial institutions	598,543	564,529
Domestic business enterprises:		
Small medium enterprises	1,920,587	1,962,425
Others	3,535,890	3,614,426
Government and statutory bodies	5,830	7,222
Individuals	6,113,944	6,117,218
Other domestic entities	3,419	14,641
Foreign entities	1,698,428	1,459,149
	<u>13,876,641</u>	<u>13,739,610</u>

(iii) By profit rate sensitivity

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Fixed rate:		
House financing	-	22
Hire purchase receivables	171,032	169,852
Other financing	3,303,703	3,105,126
Variable rate:		
BR/BFR plus	5,407,668	5,457,354
Cost-plus	4,994,238	5,007,256
	<u>13,876,641</u>	<u>13,739,610</u>

(iv) By residual contractual maturity

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Maturing within one year	5,805,695	5,850,745
More than one year to three years	1,551,761	982,143
More than three years to five years	568,481	901,874
Over five years	5,950,704	6,004,848
	<u>13,876,641</u>	<u>13,739,610</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Financing and Advances (Cont'd)

(v) By sector

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Agriculture, hunting, forestry & fishing	50,242	97,418
Mining and quarrying	212,703	96,376
Manufacturing	1,600,817	1,665,790
Electricity, gas and water	123,578	63,270
Construction	560,899	432,133
Real estate	623,302	1,073,840
Wholesale & retail trade, restaurants & hotels	1,082,372	904,765
Transport, storage and communication	146,996	549,382
Finance, takaful and business services	1,371,964	993,604
Household - Retail	6,685,179	6,738,960
Others	1,418,589	1,124,072
	13,876,641	13,739,610

(vi) By purpose

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Purchase of landed property:		
Residential	4,366,639	4,403,810
Non-residential	801,626	817,328
Purchase of transport vehicles	1,433	1,644
Consumption credit	2,067,650	2,070,438
Construction	543,363	346,798
Working capital	4,962,907	5,254,963
Other purpose	1,133,023	844,629
	13,876,641	13,739,610

(vii) By geographical distribution

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Northern Region	1,464,219	1,496,470
Southern Region	1,425,524	1,506,660
Central Region	10,575,303	10,295,163
Eastern Region	411,595	441,317
	13,876,641	13,739,610

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.

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Total gross financing and advances	3,359,677	4,722,591
Less: Impairment allowance	(1,394)	-
Total net financing and advances	3,358,283	4,722,591
<i>Maturity not exceeding one year</i>	794,750	1,047,532
<i>Maturity exceeding one year</i>	-	237,166
Total commitments and contingencies	794,750	1,284,698
Risk weighted assets (RWA)	2,917,097	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**

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Balance at 1 January	382,049	303,526
Restated for adoption of MFRS 9	(382,049)	-
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 June/31 December	<u>-</u>	<u>382,049</u>

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

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

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

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:**

	30 Jun 2018
	RM'000
Gross carrying amount as at 1 January 2018	-
Restated for adoption of MFRS 9	322,683
Transfer within stages	87,086
Net remeasurement due to changes in credit risk	(5,495)
Asset written-off	(68,630)
Others	23,142
Gross carrying amount as at 30 June 2018	<u>358,786</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Impaired Financing (Cont'd)

(iv) By contract

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Ijarah Thumma Al-Bai (AITAB) (<i>hire purchase</i>)	7,463	9,841
Murabahah (<i>cost-plus</i>)	202,824	168,021
Musharakah (<i>profit and loss sharing</i>)	138,912	184,393
Bai Al-Inah (<i>sell and buy back</i>)	34	3
Ujrah (<i>fee-based</i>)	9,553	19,791
	358,786	382,049

(v) By sector

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Mining and quarrying	720	765
Manufacturing	13,093	17,811
Wholesale & retail trade, restaurants & hotels	10,473	9,410
Transport, storage and communication	4,267	4,549
Finance, takaful and business services	28,683	29,310
Household - Retail	300,054	318,716
Others	1,496	1,488
	358,786	382,049

(vi) By purpose

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Purchase of landed property:		
Residential	121,340	162,963
Non-residential	13,689	12,805
Purchase of transport vehicles	84	3
Consumption credit	172,269	151,582
Construction	2,679	2,786
Working capital	48,725	51,910
	358,786	382,049

(vii) By geographical distribution

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Northern Region	42,709	58,913
Southern Region	36,359	39,334
Central Region	271,022	271,572
Eastern Region	8,696	12,230
	358,786	382,049

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 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	22,862	(17,727)	(5,135)	-	-	-
- Transferred to Stage 2	(7,564)	13,955	(6,391)	-	-	-
- Transferred to Stage 3	(34)	(26,163)	26,197	-	-	-
New financial assets originated or purchased	14,419	-	-	-	-	14,419
Net remeasurement due to changes in credit risk	(42,036)	39,062	52,178	-	-	49,204
Asset written-off	-	-	(68,637)	-	-	(68,637)
Others	(3,263)	(1,269)	26,503	-	-	21,971
Balance at 30 June 2018	46,358	79,678	185,302	-	-	311,338

(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 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	258	(258)	-	-
- Transferred to Stage 2	(32)	32	-	-
- Transferred to Stage 3	(1)	(1)	2	-
New financial assets originated or purchased	291	-	-	291
Net remeasurement due to changes in credit risk	(1,333)	(359)	784	(908)
Asset written-off	-	-	-	-
Others	791	65	106	962
Balance at 30 June 2018	827	1,359	892	3,078

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 Jun 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
Trading derivatives:												
Foreign exchange contracts												
- Forwards	3,404,215	-	-	3,404,215	47,107	-	-	47,107	48,935	-	-	48,935
- Swaps	902,959	1,416,425	-	2,319,384	101,997	45,298	-	147,295	100,177	45,953	-	146,130
- Options	72,090	254,806	-	326,896	1,217	1,114	-	2,331	1,217	1,114	-	2,331
Profit rate related contracts												
- Swaps	756,116	2,267,026	253,904	3,277,046	3,663	3,610	331	7,604	3,574	2,040	-	5,614
- Options	-	181,068	-	181,068	-	3,225	-	3,225	-	-	-	-
Equity related contracts												
- Options purchased	9,412	278,424	-	287,836	156	11,396	-	11,552	-	959	-	959
Sub- total	5,144,792	4,397,749	253,904	9,796,445	154,140	64,643	331	219,114	153,903	50,066	-	203,969
Hedging Derivatives:												
Fair Value Hedge												
Profit rate related contracts												
- Swaps	160,000	-	-	160,000	1	-	-	1	164	-	-	164
Sub- total	160,000	-	-	160,000	1	-	-	1	164	-	-	164
Total	5,304,792	4,397,749	253,904	9,956,445	154,141	64,643	331	219,115	154,067	50,066	-	204,133

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
Trading derivatives:												
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	<u>3,549,628</u>	<u>5,839,918</u>	<u>253,904</u>	<u>9,643,450</u>	<u>102,268</u>	<u>175,822</u>	<u>382</u>	<u>278,472</u>	<u>102,619</u>	<u>162,292</u>	<u>-</u>	<u>264,911</u>
Hedging Derivatives:												
Fair Value Hedge												
Profit rate related contracts												
- Swaps	<u>110,000</u>	<u>80,000</u>	<u>-</u>	<u>190,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>156</u>	<u>335</u>	<u>-</u>	<u>491</u>
Sub- total	<u>110,000</u>	<u>80,000</u>	<u>-</u>	<u>190,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>156</u>	<u>335</u>	<u>-</u>	<u>491</u>
Total	<u>3,659,628</u>	<u>5,919,918</u>	<u>253,904</u>	<u>9,833,450</u>	<u>102,268</u>	<u>175,822</u>	<u>382</u>	<u>278,472</u>	<u>102,775</u>	<u>162,627</u>	<u>-</u>	<u>265,402</u>

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

	30 Jun 2018 RM'000	30 Jun 2017 RM'000
Gains on hedging instruments	<u>199</u>	<u>72</u>
(Losses)/Gains on the hedged items attributable to the hedged risk	<u>(228)</u>	<u>361</u>
Net gains from fair value hedges	<u>(29)</u>	<u>433</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Other Assets

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Income receivable	4,236	7,631
Profit receivable	18,343	17,197
Prepayments	3,470	334
Amount due from holding company	88,150	988
Other receivables	25,729	17,209
	<u>139,928</u>	<u>43,359</u>

20 Statutory Deposits with Bank Negara Malaysia

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Deposits From Customers

(i) By type of deposit

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
At amortised cost		
Non-Mudharabah Fund		
Demand deposits		
- Qard	1,933,881	-
- Wadiah	-	2,114,167
Savings deposits		
- Qard	1,691,075	-
- Wadiah	-	1,644,028
Term deposits		
- Commodity Murabahah	8,763,794	6,195,246
- Qard	98,943	81,084
	12,487,693	10,034,525

The maturity structure of term deposits is as follows:

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Due within six months	7,642,405	4,897,455
More than six months to one year	1,023,621	1,239,371
More than one year to three years	143,706	110,069
More than three years to five years	53,005	29,435
	8,862,737	6,276,330

(ii) By type of customer

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Government and statutory bodies	5,793	5,623
Business enterprises	3,980,350	2,220,541
Individuals	6,080,635	5,411,494
Others	2,420,915	2,396,867
	12,487,693	10,034,525

22 Deposits and Placements from Banks and Other Financial Institutions

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Non-Mudharabah Fund		
Licensed banks	459,373	2,441,124
Bank Negara Malaysia	17,917	26,557
Other financial institutions	1,791,190	894,258
	2,268,480	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 RM0.5 billion (31 Dec 2017: RM2.4 billion).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Financial Liabilities Designated as Fair Value

At fair value	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Structured products ^[1]		
- Wakalah with Commodity Wa'ad	269,876	-
- Tawarruq	191,176	-
	<u>461,052</u>	<u>-</u>

^[1] 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

At amortised cost	Note	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Settlements		-	2,945
Amounts due to holding company		10,843	169,489
Profit payable		88,810	74,428
Deferred income		11,173	10,716
Marginal deposit		4,305	13,092
Accrued expenses		26,750	29,044
Other creditors	(a)	75,419	64,752
Provision on financing and credit related commitments		3,078	-
		<u>220,378</u>	<u>364,466</u>
At fair value			
Structured products			
- Wakalah with Commodity Wa'ad ^[1]		-	279,975
		<u>220,378</u>	<u>644,441</u>

^[1] Structured products are now measured as Financial Liabilities Designated at Fair Value through Profit of 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

Source of charity funds	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Balance at 1 January	1	4
Shariah non-compliant income for the financial period/year ^[2]	11	13
Use of charity funds		
Contribution to non-profit organisations	-	(16)
Balance at 30 June/31 December	<u>12</u>	<u>1</u>

^[2] Income received from transactions via Nostro Accounts.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Multi-Currency Sukuk Programme

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	1,251,599	1,252,829

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

	Nominal Value	Issue Date	Maturity Date	Carrying Value	
				30 Jun 2018	31 Dec 2017
<u>Issuance under MCSP</u>	RM'000			RM'000	RM'000
At fair value					
2nd series	500,000	16 Oct 2014	16 Oct 2019	500,823	501,201
3rd series	750,000	27 Mar 2015	27 Mar 2020	750,776	751,628
	1,250,000			1,251,599	1,252,829

Movement in MCSP

	2nd series		3rd series	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	501,201	502,835	751,628	753,166
Change in fair value other than from own credit risk	(1,188)	(504)	(188)	64
Change in fair value from own credit risk	810	(1,130)	(664)	(1,602)
Balance at 30 June/31 December	500,823	501,201	750,776	751,628

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk	146	(2,732)

26 Subordinated Commodity Murabahah Financing

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	313,665	314,714
- Second tranche issued on 30 June 2015	267,988	268,884
	581,653	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

	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of:				
(i) general investment deposits	131,346	109,938	258,789	212,509
(ii) specific investment deposits	26,544	12,160	43,429	20,590
(iii) others	50,935	52,085	98,712	106,550
	208,825	174,183	400,930	339,649
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	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	100,885	90,329	199,211	174,372
- Recoveries from impaired financing	4,409	2,848	8,931	5,585
Financial investments at FVOCI	12,754	8,956	25,285	16,928
Money at call and deposit with financial institutions	12,773	5,449	19,927	11,342
	130,821	107,582	253,354	208,227
<u>Other operating income</u>				
Realised gains from dealing in foreign currency	6,013	3,356	6,400	9,134
Unrealised (losses)/gains from dealing in foreign currency	(2,606)	495	905	(673)
Gains from sale of financial assets designated as FVTPL and other financial instruments	710	-	446	-
Unrealised (losses)/gains from revaluation of financial assets designated as FVTPL	(450)	179	(145)	(147)
Net profit paid for financial assets designated as FVTPL and other financial instruments	-	(3,477)	-	(8,075)
Realised gains from trading in derivatives	1,014	1,061	1,142	1,227
Unrealised (losses)/gains from trading in derivatives	(1,104)	733	(242)	2,557
Net expenses from financial instruments designated at fair value	(1,878)	-	(3,051)	-
Other (expense)/income	(1)	9	(20)	259
	1,698	2,356	5,435	4,282
	132,519	109,938	258,789	212,509

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	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	22,912	11,940	39,571	20,247
Money at call and deposit with financial institutions	2,889	-	3,075	-
	25,801	11,940	42,646	20,247
<u>Other operating income</u>				
Fees and commission	203	137	363	293
Realised gains from dealing in foreign currency	540	83	421	50
Unrealised losses from dealing in foreign currency	-	-	(1)	-
	743	220	783	343
	26,544	12,160	43,429	20,590
The above fees and commissions were derived from the following major contributors:				
Guarantee fees	-	2	-	3
Service charges and fees	148	133	282	289
(iii) Income derived from investment of others				
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	37,716	42,802	75,987	87,429
- Recoveries from impaired financing	1,646	1,347	3,406	2,800
Financial investments at FVOCI	4,767	4,254	9,645	8,487
Money at call and deposit with financial institutions	4,817	2,558	7,601	5,687
	48,946	50,961	96,639	104,403
<u>Other operating income</u>				
Realised gains from dealing in foreign currency	2,290	1,512	2,441	4,580
Unrealised (losses)/gains from dealing in foreign currency	(1,021)	283	345	(337)
Gains from sale of financial assets designated as FVTPL and other financial instruments	273	-	170	-
Unrealised (losses)/gains from revaluation of financial assets at FVTPL	(174)	99	(55)	(74)
Net profit paid from financial assets designated as FVTPL and other financial instruments	-	(1,607)	-	(4,049)
Realised gains from trading in derivatives	386	527	436	615
Unrealised (losses)/gains from trading in derivatives	(428)	313	(92)	1,282
Net expenses from financial instruments designated at fair value	(965)	-	(1,164)	-
Other (expense)/income	(1)	(3)	(8)	130
	360	1,124	2,073	2,147
	49,306	52,085	98,712	106,550

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Income Derived from Investment of Shareholder's Funds

	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	15,404	14,956	32,089	29,962
- Recoveries from impaired financing	672	471	1,439	960
Financial investments at FVOCI	1,947	1,486	4,073	2,909
Money at call and deposit with financial institutions	1,996	897	3,210	1,949
	20,019	17,810	40,811	35,780
<u>Other operating income</u>				
Fees and commission	14,679	14,509	29,882	30,215
Realised gains from dealing in foreign currency	965	537	1,031	1,569
Unrealised (losses)/gains from dealing in foreign currency	(450)	93	146	(116)
Gains from sale of financial assets designated as FVTPL and other financial instruments	117	-	72	-
Unrealised (losses)/gains from revaluation of financial assets FVTPL	(75)	33	(23)	(25)
Net profit paid from financial assets designated as FVTPL and other financial instruments	-	(567)	-	(1,388)
Realised gains from trading in derivatives	162	181	184	211
Unrealised (losses)/gains from trading in derivatives	(185)	113	(39)	439
Shared-service fees from holding company	602	694	1,255	1,430
Net income/(expenses) from financial instruments designated at fair value	178	(31)	(376)	(231)
Other income	8	18	4	86
	16,001	15,580	32,136	32,190
	36,020	33,390	72,947	67,970
The above fees and commissions were derived from the following major contributors:				
Service charges and fees	3,960	4,871	8,022	9,635
Credit cards	6,820	5,561	13,595	13,399
Agency fees	2,596	2,505	5,439	4,621

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 Impairment Allowance/Provisions

	Second Quarter		Six Months Ended	
	30 Jun 2018 RM'000	30 Jun 2017 RM'000	30 Jun 2018 RM'000	30 Jun 2017 RM'000
New and increased allowance/provisions (net of releases)	26,287	37,333	62,993	86,284
Recoveries of specific allowance/provisions	(9,853)	(8,124)	(20,840)	(16,456)
Written off	30	5,689	30	4,210
Total charge to the income statement	16,464	34,898	42,183	74,038

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)	25,236	37,333	63,623	86,284
Recoveries of allowance/provisions	(9,853)	(8,124)	(20,840)	(16,456)
Written off	30	5,689	30	4,210
Total charge to the income statement	15,383	34,898	42,813	74,038

(ii) Financing commitments and contingencies

New and increased provisions (net of releases)	1,032	-	(617)	-
Total charge to the income statement	1,032	-	(617)	-

(iii) Financial investment at FVOCI

New and increased allowance (net of releases)	19	-	(13)	-
Total charge to the income statement	19	-	(13)	-

30 Income Attributable to Depositors

	Second Quarter		Six Months Ended	
	30 Jun 2018 RM'000	30 Jun 2017 RM'000	30 Jun 2018 RM'000	30 Jun 2017 RM'000
<u>Non-Mudharabah Fund</u>				
- Deposits from customers	76,016	44,242	134,692	88,858
- Deposits and placements of banks and other financial institutions	15,178	15,141	35,729	26,177
- Others	20,785	23,778	39,425	45,848
	111,979	83,161	209,846	160,883

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Operating Expenses

	Second Quarter		Six Months Ended	
	30 Jun 2018 RM'000	30 Jun 2017 RM'000	30 Jun 2018 RM'000	30 Jun 2017 RM'000
Personnel expenses	12,310	12,116	23,849	23,514
Promotion and marketing related expenses	2,206	2,948	7,039	5,495
Establishment related expenses	4,235	5,421	8,277	10,125
General administrative expenses	8,267	8,260	17,536	17,546
Intercompany expenses	34,642	31,914	67,711	64,279
	61,660	60,659	124,412	120,959
Personnel expenses				
Salaries, allowances and bonuses	9,491	9,519	18,828	17,863
Employees Provident Fund contributions	1,687	1,651	3,353	3,097
Share based payment	35	47	65	47
Other staff related costs	1,097	899	1,603	2,507
	12,310	12,116	23,849	23,514
Promotion and marketing related expenses	2,206	2,948	7,039	5,495
Establishment related expenses				
Depreciation of equipment	560	1,124	1,226	2,248
Information technology costs	595	669	1,364	1,409
Rental of premises	2,217	1,967	4,085	3,900
Utilities	515	1,158	1,035	1,158
Others	348	503	567	1,410
	4,235	5,421	8,277	10,125
General administrative expenses	8,267	8,260	17,536	17,546
Intercompany charges	34,642	31,914	67,711	64,279
Of which by:				
Type of service				
- Information technology related cost	1,799	2,058	3,315	4,250
- Non information technology related cost	32,843	29,856	64,396	60,029
Geographical distribution				
- Inside Malaysia	34,539	31,825	67,503	64,423
- Outside Malaysia	103	89	208	(144)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Credit exposure to connected parties

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

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Aggregate value of outstanding credit exposures to connected parties	912,231	945,354
As a percentage of total credit exposures	5.3%	5.5%
Aggregate value of outstanding credit exposures to connected parties which is non-performing or in default	-	-
As a percentage of total credit exposures	-	-

33 Capital Adequacy

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	660,000	660,000
Retained profits	1,017,007	921,511
Other reserves	48,240	34,945
Regulatory adjustments	(62,758)	(47,023)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	1,662,489	1,569,433
Tier 2 capital		
Subordinated Commodity Murabahah financing	581,653	583,598
Impairment allowance (unimpaired portion) & regulatory reserves	145,589	149,254
Total Tier 2 capital	727,242	732,852
Capital base	2,389,731	2,302,285
<u>Inclusive of proposed dividend</u>		
CET1 and Tier 1 Capital ratio	13.176%	12.203%
Total Capital ratio	18.939%	17.902%
<u>Net of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	13.176%	12.125%
Total Capital ratio	18.939%	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:

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Total RWA for credit risk	11,641,653	11,940,340
Total RWA for market risk	46,594	9,450
Total RWA for operational risk	929,685	910,994
	12,617,932	12,860,784

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 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.

Principal amount	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Direct credit substitutes	539,639	494,387
Transaction-related contingent items	961,294	996,770
Short-term self-liquidating trade-related contingencies	46,684	49,645
Formal standby facilities and credit lines		
- Maturity not exceeding one year	1,167,035	1,739,249
- Maturity exceeding one year	1,980,680	2,130,614
Other unconditionally cancellable	1,865,122	2,233,191
Unutilised credit card lines	3,322,120	3,024,432
Equity related contracts		
- Less than one year	9,412	2,945
- One year to less than five years	278,424	85,394
Profit rate related contracts		
- Less than one year	916,116	344,703
- One year to less than five years	2,448,094	3,193,730
- Over five years	253,904	253,904
Foreign exchange related contracts		
- Less than one year	4,379,264	3,311,980
- One year to less than five years	1,671,231	2,640,794
	19,839,019	20,501,738

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Profit Rate Risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The following table summarises the Bank's exposure to the profit rates risk. The assets and liabilities at carrying amount are allocated to time bands by reference to the earlier of the next contractual repricing dates and maturity dates.

30 Jun 2018	Non-trading book					Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
ASSETS									
Cash and short-term funds	2,490,533	-	-	-	-	92,303	-	2,582,836	3.35
Financial investments at FVOCI	-	250,207	656,711	1,429,568	-	-	-	2,336,486	3.48
Financing and advances									
- performing	4,295,417	7,930,245	341,985	592,455	357,753	-	-	13,517,855	5.46
- impaired ^[1]	-	-	-	-	-	358,786	-	358,786	-
- Impairment allowance	-	-	-	-	-	(311,338)	-	(311,338)	-
Derivative financial assets	-	-	-	-	-	-	219,115	219,115	-
Other assets	-	-	-	-	-	114,198	8,497	122,695	-
Total Financial Assets	6,785,950	8,180,452	998,696	2,022,023	357,753	253,949	227,612	18,826,435	
LIABILITIES									
Deposits from customers	6,555,909	2,031,161	3,066,564	201,979	-	632,080	-	12,487,693	2.59
Deposits and placements from banks and other financial institutions	273,539	320,687	-	1,660,004	-	14,250	-	2,268,480	2.37
Financial liabilities designated as FVTPL	-	-	-	-	-	-	461,052	461,052	3.33
Bills payable	-	-	-	-	-	17,068	-	17,068	-
Multi-Currency Sukuk Programme	-	-	-	1,251,599	-	-	-	1,251,599	3.96
Subordinated Commodity Murabahah Financing	-	-	-	-	581,653	-	-	581,653	4.13
Derivative financial liabilities	-	20	144	-	-	-	203,969	204,133	-
Other liabilities	-	-	-	-	-	139,652	-	139,652	-
- provision for commitments and contingencies	-	-	-	-	-	46	-	46	-
Total Financial Liabilities	6,829,448	2,351,868	3,066,708	3,113,582	581,653	803,096	665,021	17,411,376	
Total profit sensitivity gap	(43,498)	5,828,584	(2,068,012)	(1,091,559)	(223,900)	(549,147)	(437,409)	1,415,059	

^[1] This is arrived at after deducting Stage 3 credit impaired allowances from impaired financing.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Profit Rate Risk (Cont'd)

31 Dec 2017	Non-trading book					Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
ASSETS									
Cash and short-term funds	1,363,980	-	-	-	-	101,939	-	1,465,919	3.00
Financial investments available-for-sale	-	174,019	512,989	1,534,036	-	-	-	2,221,044	3.41
Financing and advances									
- performing	4,077,736	8,130,322	180,810	610,954	357,739	-	-	13,357,561	5.22
- impaired ^[1]	-	-	-	-	-	267,150	-	267,150	-
- collective allowance	-	-	-	-	-	(240,908)	-	(240,908)	-
Derivative financial assets	-	-	-	-	-	-	278,472	278,472	-
Other assets	-	-	-	-	-	26,150	-	26,150	-
Total Financial Assets	5,441,716	8,304,341	693,799	2,144,990	357,739	154,331	278,472	17,375,388	
LIABILITIES									
Deposits from customers	5,518,050	1,727,319	1,932,894	140,466	-	715,796	-	10,034,525	2.28
Deposits and placements from banks and other financial institutions	35,005	1,193,434	1,184,845	925,880	-	22,775	-	3,361,939	2.28
Bills payable	-	-	-	-	-	16,678	-	16,678	-
Multi-Currency Sukuk Programme	-	-	-	1,252,829	-	-	-	1,252,829	3.80
Subordinated Commodity Murabahah Financing	-	-	-	-	583,598	-	-	583,598	3.31
Derivative financial liabilities	-	26	130	335	-	-	264,911	265,402	-
Other liabilities	-	-	-	-	-	296,360	282,920	579,280	2.30
Total Financial Liabilities	5,553,055	2,920,779	3,117,869	2,319,510	583,598	1,051,609	547,831	16,094,251	
Total profit sensitivity gap	(111,339)	5,383,562	(2,424,070)	(174,520)	(225,859)	(897,278)	(269,359)	1,281,137	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Liquidity risk

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

30 Jun 2018	Non-trading book						Trading book	Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	1 - 5 years	Over 5 years	Non-specific maturity		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS								
Cash and short-term funds	2,582,836	-	-	-	-	-	-	2,582,836
Financial investments at FVOCI	-	250,207	656,711	1,429,568	-	-	-	2,336,486
Financing and advances	3,293,913	1,821,457	628,073	2,078,400	5,743,460	-	-	13,565,303
Derivative financial assets	-	-	-	-	-	-	219,115	219,115
Others	88,578	3,253	3,018	11,643	-	419,436	8,497	534,425
Total Assets	5,965,327	2,074,917	1,287,802	3,519,611	5,743,460	419,436	227,612	19,238,165
LIABILITIES AND EQUITY								
Deposits from customers	7,187,989	2,031,161	3,066,564	201,979	-	-	-	12,487,693
Deposits and placements from banks and other financial institutions	287,789	320,687	-	1,660,004	-	-	-	2,268,480
Financial liabilities designated as FVTPL	-	-	-	-	-	-	461,052	461,052
Bills payable	17,068	-	-	-	-	-	-	17,068
Multi-Currency Sukuk Programme	-	-	-	1,251,599	-	-	-	1,251,599
Subordinated Commodity Murabahah								
Financing	-	-	-	-	581,653	-	-	581,653
Derivative financial liabilities	-	20	144	-	-	-	203,969	204,133
Others	33,151	14,375	34,530	19,981	3,118	135,512	-	240,667
Total Liabilities	7,525,997	2,366,243	3,101,238	3,133,563	584,771	135,512	665,021	17,512,345
Equity	-	-	-	-	-	1,725,820	-	1,725,820
Total Liabilities and Equity	7,525,997	2,366,243	3,101,238	3,133,563	584,771	1,861,332	665,021	19,238,165
Net maturity mismatches	(1,560,670)	(291,326)	(1,813,436)	386,048	5,158,689	(1,441,896)	(437,409)	-
Off balance sheet liabilities	9,028,361	1,006,144	4,479,762	5,055,421	269,331	-	-	19,839,019

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Liquidity risk (Cont'd)

31 Dec 2017	Non-trading book						Trading book	Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	1 - 5 years	Over 5 years	Non-specific maturity		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS								
Cash and short-term funds	1,465,919	-	-	-	-	-	-	1,465,919
Financial investments available-for-sale	-	174,019	512,989	1,534,036	-	-	-	2,221,044
Financing and advances	2,823,275	2,319,783	635,314	1,835,313	5,770,118	-	-	13,383,803
Derivative financial assets	-	-	-	-	-	-	278,472	278,472
Others	1,296	-	5,070	11,820	-	408,316	-	426,502
Total Assets	4,290,490	2,493,802	1,153,373	3,381,169	5,770,118	408,316	278,472	17,775,740
LIABILITIES AND EQUITY								
Deposits from customers	6,233,846	1,727,319	1,932,894	140,466	-	-	-	10,034,525
Deposits and placements from banks and other financial institutions	57,780	1,193,434	1,184,845	925,880	-	-	-	3,361,939
Bills payable	16,678	-	-	-	-	-	-	16,678
Multi-Currency Sukuk Programme	-	-	-	1,252,829	-	-	-	1,252,829
Subordinated Commodity Murabahah Financing	-	-	-	-	583,598	-	-	583,598
Derivative financial liabilities	-	26	130	335	-	-	264,911	265,402
Others	197,429	18,854	22,660	16,693	2,371	103,514	282,920	644,441
Total Liabilities	6,505,733	2,939,633	3,140,529	2,336,203	585,969	103,514	547,831	16,159,412
Equity	-	-	-	-	-	1,616,328	-	1,616,328
Total Liabilities and Equity	6,505,733	2,939,633	3,140,529	2,336,203	585,969	1,719,842	547,831	17,775,740
Net maturity mismatches	(2,215,243)	(445,831)	(1,987,156)	1,044,966	5,184,149	(1,311,526)	(269,359)	-
Off balance sheet liabilities	8,854,088	1,185,687	3,636,501	6,568,024	257,438	-	-	20,501,738

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Business Prospects

Malaysia's real Gross Domestic Product (GDP) expanded by 5.4% in 1Q 2018 (2017: 5.9%). The positive trend is forecasted to follow through for the remaining 2018 with annual growth anticipated to be in the range of 5.5% - 6.0%, with domestic demand being the main anchor of growth, underpinned by private sector activities with additional impetus from net exports.

The emergence of trade tariff spat between the US and China poses downside risk that may affect sentiments and weight on trade, investment and consumption globally. However, the proposed tariff measures are estimated to have minimal impact on Malaysia.

The strength of the Ringgit during 1Q 2018 was driven mainly by non-resident portfolio inflows as investors viewed the 25 basis points increase in overnight policy rate (OPR) to 3.25% in January 2018 reflects Bank Negara Malaysia (BNM) positive outlook on economy growth.

Headline inflation was 1.8% in 1Q 2018 (2017: 3.7%). Effective 1 June 2018 the goods and services tax (GST) rate has been reduced from 6% to 0% and sales and service tax (SST) is set to be reintroduced again. These measures are expected to boost private consumption and benefit domestic businesses in the near term.

Malaysian onshore financial markets remain stable and orderly, and continue to function in an effective manner, facilitating smooth intermediation activities among market participants. The outlook for the Malaysian banking system is continued to be stable over the next 12 to 18 months.

As Malaysia moves into a high value-added and high income economy, the banking sector will continue to assume an enhanced role to support the transformation. Ongoing and future initiatives would focus on extending the financial services outreach to create more meaningful access to a wider segment of the population and developing innovative financing solutions for the small and medium enterprises (SMEs).

From funding perspective, the banking system liquidity is expected to remain robust and sufficient to facilitate financial intermediation. However, competition among banks for deposits is foreseen to increase as the banks are required to comply with the upcoming Basel III's Net Stable Funding Ratio measure which will be implemented no earlier than 1 January 2019.

In its recent presentation to its investors, HSBC Group has committed to invest USD15-USD17 billion in the next three years in areas including technology and China. Malaysia is a scalable market and an important footprint for the HSBC Group within ASEAN. 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 Bank will also focus on expanding customers' base to increase market share where it has comparative advantage.

38 Performance Review

Profit before tax (PBT) of RM97.4 million increased by RM45.7 million or 88.3% against history due to higher income derived from investment of depositors' funds and others (+RM60.8 million) and lower impairment allowance (+RM 31.9 million), partially offset by higher income attribute to depositors (-RM49.0 million).

Operating expenses increased from RM120.9 million to RM124.4 million or by 2.9% mainly due to higher intercompany expenses (+RM3.4 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 47.1% compared to 49.0% in prior corresponding period.

Total balance sheet at 30 June 2018 stood at RM19.2 billion, RM1.4 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.