

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
31 MARCH 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 31 MARCH 2018

	<i>Note</i>	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Assets			
Cash and short-term funds	12	2,186,198	1,465,919
Financial investments available-for-sale	13	-	2,221,044
Financial investments at fair value through other comprehensive income (FVOCI)	14	2,237,307	-
Financing and advances	15	13,215,224	13,383,803
Derivative financial assets	17	217,277	278,472
Other assets	18	99,022	43,359
Statutory deposits with Bank Negara Malaysia	19	353,862	361,362
Equipment		6,105	5,520
Deferred tax assets		11,102	8,637
Tax recoverable		-	7,624
Total assets		18,326,097	17,775,740
Liabilities			
Deposits from customers	20	10,731,634	10,034,525
Deposits and placements from banks and other financial institutions	21	3,267,976	3,361,939
Financial liabilities designated as fair value through profit or loss (FVTPL)	22	331,045	-
Bills payable		12,537	16,678
Derivative financial liabilities	17	211,580	265,402
Other liabilities	23	254,407	644,441
Provision for taxation		15,666	-
Multi-Currency Sukuk Programme	24	1,252,944	1,252,829
Subordinated Commodity Murabahah Financing	25	556,514	583,598
Total liabilities		16,634,303	16,159,412
Equity			
Share capital		660,000	660,000
Reserves		1,031,794	956,328
Total equity attributable to owner of the Bank		1,691,794	1,616,328
Total liabilities and equity		18,326,097	17,775,740
Restricted investment accounts ^[1]		5,248,492	6,007,289
Total Islamic Banking asset ^[1]		23,574,589	23,783,029
Commitments and contingencies	32	19,712,079	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 37 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 23 April 2018.

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

**UNAUDITED CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018**

	<i>Note</i>	31 Mar 2018 RM'000	31 Mar 2017 RM'000
Income derived from investment of depositors' funds and others	26	192,105	165,466
Income derived from investment of shareholder's funds	27	37,383	34,580
Impairment allowance/provision	28	(25,719)	(39,140)
Total distributable income		203,769	160,906
Income attributable to depositors	29	(97,867)	(77,722)
Total net income		105,902	83,184
Operating expenses	30	(62,752)	(60,300)
Profit before tax		43,150	22,884
Tax expense		(8,912)	(5,258)
Profit for the financial period		34,238	17,626
Other comprehensive income/(expense)			
<i>Items that will not be reclassified to profit or loss</i>			
Own credit reserves:			
Change in fair value		(1,955)	246
Income tax effect		469	(59)
<i>Items that will subsequently be reclassified to profit or loss when specific conditions are met:</i>			
Available-for-sale reserve:			
Change in fair value		-	1,695
Income tax effect		-	(407)
Financial investment at FVOCI			
Change in fair value		(3,129)	-
Net amount transferred to profit or loss		300	-
Impairment release		(32)	-
Income tax effect		679	-
Other comprehensive (expense)/income for the financial period, net of tax		(3,668)	1,475
Total comprehensive income for the financial period		30,570	19,101
Profit attributable to the owner of the Bank		34,238	17,626
Total comprehensive income attributable to the owner of the Bank		30,570	19,101
Basic earnings per RM0.50 ordinary share		34.2 sen	17.6 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 37 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 31 MARCH 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	626	-	-	44,024	44,776
As restated	660,000	-	305	856	408	34,000	965,535	1,661,104
Total comprehensive income for the financial period								
Profit for the financial period	-	-	-	-	-	-	34,238	34,238
Other comprehensive income, net of tax								
Financial investments at FVOCI/Own Credit reserve								
Net change in fair value	-	-	(2,378)	(1,486)	-	-	-	(3,864)
Net amount transferred to profit or loss	-	-	228	-	-	-	-	228
Impairment release	-	-	(32)	-	-	-	-	(32)
<i>Total other comprehensive income</i>	-	-	(2,182)	(1,486)	-	-	-	(3,668)
Total comprehensive income for the financial period	-	-	(2,182)	(1,486)	-	-	34,238	30,570
Transfer relating to regulatory reserves	-	-	-	-	-	11,000	(11,000)	-
Transactions with the owner, recorded directly in equity								
Share based payment transactions	-	-	-	-	111	-	9	120
Balance at 31 March	660,000	-	(1,877)	(630)	519	45,000	988,782	1,691,794

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 37 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 23 April 2018.

HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018 (Cont'd)

	<i>Non-distributable</i>						<i>Distributable</i>		<i>Total</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Available-for-sale reserve</i>	<i>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	RM'000
2017									
Balance at 1 January	50,000	610,000	50,000	(6,547)	-	403	34,000	783,295	1,521,151
Total comprehensive income for the financial period									
Profit for the financial period	-	-	-	-	-	-	-	17,626	17,626
Other comprehensive income, net of tax									
Available-for-sale reserve/Own credit reserve:									
Net change in fair value	-	-	-	1,288	187	-	-	-	1,475
<i>Total other comprehensive income</i>	-	-	-	1,288	187	-	-	-	1,475
Total comprehensive income for the financial period	-	-	-	1,288	187	-	-	17,626	19,101
Transfer relating to Companies Act 2016 ^[1]	610,000	(610,000)	-	-	-	-	-	-	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	1	-	-	1
Balance at 31 March	660,000	-	50,000	(5,259)	187	404	34,000	800,921	1,540,253

^[1] 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 37 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 23 April 2018.

HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
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UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018

	31 Mar 2018	31 Mar 2017
	RM'000	RM'000
Profit before tax	43,150	22,884
Adjustments for non-operating and non-cash items	2,648	39,174
	<hr/>	<hr/>
Operating profit before working capital changes	45,798	62,058
Changes in working capital:		
Net changes in operating assets	230,643	(883,742)
Net changes in operating liabilities	486,437	511,167
Income tax paid	(954)	(4,576)
	<hr/>	<hr/>
Net cash generated from/(used) in operating activities	761,924	(315,093)
Net cash used in investing activities	(19,618)	(379,198)
Net cash used in financing activities	(22,027)	(28,697)
	<hr/>	<hr/>
	(41,645)	(407,895)
	<hr/>	<hr/>
Net changes in cash and cash equivalents	720,279	(722,988)
Cash and cash equivalents at 1 January	1,465,919	2,359,591
	<hr/>	<hr/>
Cash and cash equivalents at 31 March	2,186,198	1,636,603
	<hr/>	<hr/>
Analysis of cash and cash equivalents		
Cash and short-term funds	2,186,198	1,636,603
	<hr/>	<hr/>

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 23 April 2018.

HSBC AMANAH MALAYSIA BERHAD
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**UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018**

Changes in liabilities arising from financing activities

Bank (RM'000)

Cash Flows from Financing Activities

2018	At 1 Jan	Cash inflow / (outflow)	Foreign exchange adjustment	Fair value movement	Profit accrual	At 31 Mar
Multi-Currency Sukuk Programme	1,252,829	-	-	115	-	1,252,944
Subordinated Commodity Murabahah Financing	583,598	-	(27,084)	-	-	556,514
Other Liabilities of which:						
Profits paid on Multi-Currency Sukuk Programme	12,815	(14,606)	-	-	11,881	10,090
Profits paid on Subordinated Commodity Murabahah Financing	2,371	(7,421)	-	-	5,336	286
	1,851,613	(22,027)	(27,084)	115	17,217	1,819,834
2017						
Multi-Currency Sukuk Programme	1,756,001	-	-	(984)	-	1,755,017
Subordinated Commodity Murabahah Financing	646,265	-	(9,076)	-	-	637,189
Other Liabilities of which:						
Profits paid on Multi-Currency Sukuk Programme	17,637	(23,788)	-	-	16,388	10,237
Profits paid on Subordinated Commodity Murabahah Financing	204	(4,909)	-	-	4,916	211
	2,420,107	(28,697)	(9,076)	(984)	21,304	2,402,654

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 23 April 2018.

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

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

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

There were no significant changes in these activities during the financial 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 23 April 2018.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 31 March 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 31 March 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.
- As with any new standard, there are also increased disclosures.

(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

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
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 31 March 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 31 March 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 31 March 2018.

10 Dividend

No interim dividend was declared nor paid during the financial period ended 31 March 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

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Cash and balances with banks and other financial institutions	170,988	215,919
Money at call and interbank placements maturing within one month	2,015,210	1,250,000
	2,186,198	1,465,919

For money at call and interbank placements maturing within one month, all balances are within Stage 1 allocation (12-months ECL) at 31 March 2018.

13 Financial Investments Available-For-Sale

	31 Mar 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)

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Debt securities		
At fair value		
Money market instruments:		
Malaysian Government Islamic Sukuk	2,042,905	-
Islamic Treasury Bill	194,402	-
	2,237,307	-

For financial investments at fair value through other comprehensive income (FVOCI), all balances are within Stage 1 allocation (12-months ECL) with impairment allowance release for the Bank presented within FVOCI reserves amounted to RM94,260 as at 31 March 2018.

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

Maturing within one year	706,249	-
More than one year to three years	1,424,951	-
More than three years to five years	106,107	-
	2,237,307	-

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		
31 Mar 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	85,129	-	-	-	-	-	-	85,129
Term financing:								
House financing	-	-	-	-	-	4,388,971	-	4,388,971
Hire purchase receivables	-	-	-	-	163,332	-	-	163,332
Lease receivables	-	-	-	1,164	-	-	-	1,164
Syndicated term financing	1,665,065	-	-	-	-	-	-	1,665,065
Other term financing	2,931,850	618	80	-	-	975,590	-	3,908,138
Trust receipts	779,224	-	-	-	-	-	-	779,224
Claims on customers under acceptance credits	460,605	-	-	-	-	-	-	460,605
Bills receivables	119,709	-	-	-	-	-	-	119,709
Staff financing-i	1,928	-	81	-	-	1,977	-	3,986
Credit cards-i	-	-	-	-	-	-	913,582	913,582
Revolving credit	1,033,285	-	-	-	-	-	-	1,033,285
Other financing	-	-	-	-	-	1,978	-	1,978
Gross financing and advances	7,076,795	618	161	1,164	163,332	5,368,516	913,582	13,524,168
Less: Impairment allowance ⁽¹⁾								(308,944)
Total net financing and advances								13,215,224

⁽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 credit	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

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Domestic non-bank financial institutions	569,155	564,529
Domestic business enterprises:		
Small medium enterprises	1,926,473	1,962,425
Others	3,352,305	3,614,426
Government and statutory bodies	6,485	7,222
Individuals	6,106,348	6,117,218
Other domestic entities	3,148	14,641
Foreign entities	1,560,254	1,459,149
	<u>13,524,168</u>	<u>13,739,610</u>

(iii) By profit rate sensitivity

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Fixed rate:		
House financing	-	22
Hire purchase receivables	163,332	169,852
Other financing	3,173,419	3,105,126
Variable rate:		
BR/BFR plus	5,437,382	5,457,354
Cost-plus	4,750,035	5,007,256
	<u>13,524,168</u>	<u>13,739,610</u>

(iv) By residual contractual maturity

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Maturing within one year	5,597,271	5,850,745
More than one year to three years	1,379,364	982,143
More than three years to five years	560,663	901,874
Over five years	5,986,870	6,004,848
	<u>13,524,168</u>	<u>13,739,610</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Financing and Advances (Cont'd)

(v) By sector

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Agriculture, hunting, forestry & fishing	64,887	97,418
Mining and quarrying	212,680	96,376
Manufacturing	1,650,203	1,665,790
Electricity, gas and water	79,495	63,270
Construction	488,642	432,133
Real estate	995,510	1,073,840
Wholesale & retail trade, restaurants & hotels	962,940	904,765
Transport, storage and communication	131,839	549,382
Finance, takaful and business services	991,111	993,604
Household - Retail	6,695,585	6,738,960
Others	1,251,276	1,124,072
	<u>13,524,168</u>	<u>13,739,610</u>

(vi) By purpose

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Purchase of landed property:		
Residential	4,390,948	4,403,810
Non-residential	804,683	817,328
Purchase of transport vehicles	1,599	1,644
Consumption credit	2,048,667	2,070,438
Construction	496,126	346,798
Working capital	4,804,643	5,254,963
Other purpose	977,502	844,629
	<u>13,524,168</u>	<u>13,739,610</u>

(vii) By geographical distribution

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Northern Region	1,459,266	1,496,470
Southern Region	1,454,459	1,506,660
Central Region	10,179,112	10,295,163
Eastern Region	431,331	441,317
	<u>13,524,168</u>	<u>13,739,610</u>

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Financing and Advances (Cont'd)

(viii) By stage allocation

	Gross carrying value 31 Mar 2018 RM'000	Impairment allowance 31 Mar 2018 RM'000
Stage 1 (12-months ECL; non credit impaired)	11,898,117	44,375
Stage 2 (Lifetime ECL; non credit impaired)	1,269,292	74,941
Stage 3 (Lifetime ECL; credit impaired)	356,759	189,628
	<u>13,524,168</u>	<u>308,944</u>

(ix) 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.

	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Total gross financing and advances	4,319,954	4,722,591
Less: Impairment allowance	<u>(1,417)</u>	<u>-</u>
Total net financing and advances	<u>4,318,537</u>	<u>4,722,591</u>
<i>Maturity not exceeding one year</i>	929,955	1,047,532
<i>Maturity exceeding one year</i>	<u>-</u>	<u>237,166</u>
Total commitments and contingencies	<u>929,955</u>	<u>1,284,698</u>
Risk weighted assets (RWA)	<u>3,768,200</u>	<u>4,312,606</u>

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**

	31 Mar 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 31 March/December	-	382,049

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

	31 Mar 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 31 March/December	-	240,908

	31 Mar 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 31 March/December	-	114,899

The impairment allowance by stage allocation upon adoption of MFRS 9 with effect from 1 January 2018 is disclosed in Note 15 (viii).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Impaired Financing (Cont'd)

(iii) By contract

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Ijarah Thumma Al-Bai (AITAB) (<i>hire purchase</i>)	9,070	9,841
Murabahah (<i>cost-plus</i>)	195,998	168,021
Musharakah (<i>profit and loss sharing</i>)	141,549	184,393
Bai Al-Inah (<i>sell and buy back</i>)	35	3
Ujrah (<i>fee-based</i>)	10,107	19,791
	<u>356,759</u>	<u>382,049</u>

(iv) By sector

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Mining and quarrying	741	765
Manufacturing	14,762	17,811
Wholesale & retail trade, restaurants & hotels	12,884	9,410
Transport, storage and communication	4,315	4,549
Finance, takaful and business services	28,981	29,310
Household - Retail	293,580	318,716
Others	1,496	1,488
	<u>356,759</u>	<u>382,049</u>

(v) By purpose

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Purchase of landed property:		
Residential	123,815	162,963
Non-residential	11,022	12,805
Purchase of transport vehicles	35	3
Consumption credit	166,769	151,582
Construction	2,721	2,786
Working capital	52,397	51,910
	<u>356,759</u>	<u>382,049</u>

(vi) By geographical distribution

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Northern Region	43,245	58,913
Southern Region	33,102	39,334
Central Region	271,758	271,572
Eastern Region	8,654	12,230
	<u>356,759</u>	<u>382,049</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

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

	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
31 Mar 2018												
Trading derivatives:												
Foreign exchange contracts												
- Forwards	3,468,154	-	-	3,468,154	91,376	-	-	91,376	97,279	-	-	97,279
- Swaps	-	2,261,452	-	2,261,452	-	105,912	-	105,912	-	103,313	-	103,313
- Options	41,308	285,199	-	326,507	1,426	2,647	-	4,073	1,426	2,647	-	4,073
Profit rate related contracts												
- Swaps	767,198	2,258,533	253,904	3,279,635	4,336	3,553	356	8,245	4,204	2,095	-	6,299
- Options	-	181,475	-	181,475	-	3,925	-	3,925	-	-	-	-
Equity related contracts												
- Options purchased	-	147,206	-	147,206	-	3,738	-	3,738	-	358	-	358
Sub- total	4,276,660	5,133,865	253,904	9,664,429	97,138	119,775	356	217,269	102,909	108,413	-	211,322
Hedging Derivatives:												
Fair Value Hedge												
Profit rate related contracts												
- Swaps	160,000	-	-	160,000	8	-	-	8	258	-	-	258
Sub- total	160,000	-	-	160,000	8	-	-	8	258	-	-	258
Total	4,436,660	5,133,865	253,904	9,824,429	97,146	119,775	356	217,277	103,167	108,413	-	211,580

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 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	3,549,628	5,839,918	253,904	9,643,450	102,268	175,822	382	278,472	102,619	162,292	-	264,911
Hedging Derivatives:												
Fair Value Hedge												
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:

	31 Mar 2018	31 Mar 2017
	RM'000	RM'000
Gains on hedging instruments	199	166
(Losses)/Gains on the hedged items attributable to the hedged risk	(228)	262
Net (losses)/gains from fair value hedges	(29)	428

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Other Assets

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Income receivable	8,561	7,631
Profit receivable	23,484	17,197
Prepayments	305	334
Amount due from holding company	30,288	988
Other receivables	36,384	17,209
	99,022	43,359

19 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)

20 Deposits From Customers

(i) By type of deposit

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
At amortised cost		
Non-Mudharabah Fund		
Demand deposits		
- Wadiah	1,789,920	2,114,167
Savings deposits		
- Wadiah	1,695,145	1,644,028
Term deposits		
- Murabahah	7,162,587	6,195,246
- Qard	83,982	81,084
	10,731,634	10,034,525

The maturity structure of term deposits is as follows:

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Due within six months	5,724,953	4,897,455
More than six months to one year	1,353,061	1,239,371
More than one year to three years	129,871	110,069
More than three years to five years	38,684	29,435
	7,246,569	6,276,330

(ii) By type of customer

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Government and statutory bodies	6,368	5,623
Business enterprises	2,975,355	2,220,541
Individuals	5,557,161	5,411,494
Others	2,192,750	2,396,867
	10,731,634	10,034,525

21 Deposits and Placements from Banks and Other Financial Institutions

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Non-Mudharabah Fund		
Licensed banks	2,226,629	2,441,124
Bank Negara Malaysia	33,775	26,557
Other financial institutions	1,007,572	894,258
	3,267,976	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 RM2.2 billion (31 Dec 2017: RM2.4 billion).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

22 Financial Liabilities Designated as Fair Value

At fair value	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Structured products ^[1]		
- Wakalah with Commodity Wa'ad	270,890	-
- Tawarruq	60,155	-
	331,045	-

^[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.

23 Other Liabilities

At amortised cost	Note	31 Mar 2018	31 Dec 2017
		RM'000	RM'000
Settlements		-	2,945
Amounts due to holding company		57,764	169,489
Profit payable		72,486	74,428
Deferred income		9,038	10,716
Marginal deposit		14,090	13,092
Accrued expenses		25,772	29,044
Other creditors	(a)	73,227	64,752
Provision on financing and credit related commitments		2,030	-
		254,407	364,466
At fair value			
Structured products			
- Wakalah with Commodity Wa'ad ^[2]		-	279,975
		254,407	644,441

^[2] 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 22.

(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 year (2017: Nil).

Source and use of charity funds

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Source of charity funds		
Balance at 1 January	1	4
Shariah non-compliant income for the financial period/year ^[3]	8	13
Use of charity funds		
Contribution to non-profit organisations	-	(16)
Balance at 31 March/December	9	1

^[3] Income received from transactions via Nostro Accounts.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24 Multi-Currency Sukuk Programme

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	1,252,944	1,252,829

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

<u>Issuance under MCSP</u>	Nominal Value	Issue Date	Maturity Date	Carrying Value	
				31 Mar 2018	31 Dec 2017
At fair value	RM'000			RM'000	RM'000
2nd series	500,000	16 Oct 2014	16 Oct 2019	501,208	501,201
3rd series	750,000	27 Mar 2015	27 Mar 2020	751,736	751,628
	<u>1,250,000</u>			1,252,944	1,252,829
	<u>1,250,000</u>			1,252,944	1,252,829

Movement in MCSP

	2nd series		3rd series	
	31 Mar 2018	31 Dec 2017	31 Mar 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	(799)	(504)	(712)	64
Change in fair value from own credit risk	806	(1,130)	820	(1,602)
Balance at 31 March/December	501,208	501,201	751,736	751,628
			31 Mar 2018	31 Dec 2017
			RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk			1,626	(2,732)

25 Subordinated Commodity Murabahah Financing

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	300,109	314,714
- Second tranche issued on 30 June 2015	256,405	268,884
	556,514	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)

26 Income Derived from Investment of Depositors' Funds and Others

	31 Mar 2018	31 Mar 2017
	RM'000	RM'000
Income derived from investment of:		
(i) general investment deposits	127,443	102,571
(ii) specific investment deposits	16,885	8,430
(iii) others	47,777	54,465
	192,105	165,466
	31 Mar 2018	31 Mar 2017
	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	98,326	84,043
- Recoveries from impaired financing	4,522	2,737
Financial investments at FVOCI	12,531	7,972
Money at call and deposit with financial institutions	7,154	5,893
	122,533	100,645
<u>Other operating income</u>		
Realised gains from dealing in foreign currency	387	5,778
Unrealised gains/(losses) from dealing in foreign currency	3,511	(1,168)
Losses from sale of financial assets designated as FVTPL and other financial instruments	(264)	-
Unrealised gains/(losses) from revaluation of financial assets designated as FVTPL	305	(326)
Net profit paid for financial assets designated as FVTPL and other financial instruments	-	(4,598)
Realised gains from trading in derivatives	128	166
Unrealised gains from trading in derivatives	862	1,824
Other (expense)/income	(19)	250
	4,910	1,926
	127,443	102,571

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	31 Mar 2018	31 Mar 2017
	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	16,659	8,307
Money at call and deposit with financial institutions	186	-
	16,845	8,307
<u>Other operating income</u>		
Fees and commission	160	156
Realised losses from dealing in foreign currency	(119)	(33)
Unrealised losses from dealing in foreign currency	(1)	-
	40	123
	16,885	8,430
The above fees and commissions were derived from the following major contributors:		
Guarantee fees	-	618
Service charges and fees	134	156
(iii) Income derived from investment of others		
<u>Finance income:</u>		
Financing and advances		
- Profit earned other than recoveries from impaired financing	38,271	44,627
- Recoveries from impaired financing	1,760	1,453
Financial investments at FVOCI	4,878	4,233
Money at call and deposit with financial institutions	2,784	3,129
	47,693	53,442
<u>Other operating income</u>		
Realised gains from dealing in foreign currency	151	3,068
Unrealised gains/(losses) from dealing in foreign currency	1,366	(620)
Losses from sale of financial assets designated as FVTPL and other financial instruments	(103)	-
Unrealised gains/(losses) from revaluation of financial assets at FVTPL	119	(173)
Net profit paid from financial assets designated as FVTPL and other financial instruments	-	(2,442)
Realised gains from trading in derivatives	50	88
Unrealised gains from trading in derivatives	336	969
Net expenses from financial instruments designated at fair value	(1,828)	-
Other (expense)/income	(7)	133
	84	1,023
	47,777	54,465

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Income Derived from Investment of Shareholder's Funds

	31 Mar 2018	31 Mar 2017
	RM'000	RM'000
<u>Finance income:</u>		
Financing and advances		
- Profit earned other than recoveries from impaired financing	16,685	15,006
- Recoveries from impaired financing	767	489
Financial investments at FVOCI	2,126	1,423
Money at call and deposit with financial institutions	1,214	1,052
	20,792	17,970
<u>Other operating income</u>		
Fees and commission	15,203	15,706
Realised gains from dealing in foreign currency	66	1,032
Unrealised gains/(losses) from dealing in foreign currency	596	(209)
Losses from sale of financial assets designated as FVTPL and other financial instruments	(45)	-
Unrealised gains/(losses) from revaluation of financial assets FVTPL	52	(58)
Net profit paid from financial assets designated as FVTPL and other financial instruments	-	(821)
Realised gains from trading in derivatives	22	30
Unrealised gains from trading in derivatives	146	326
Shared-service fees from holding company	653	736
Net expenses from financial instruments designated at fair value	(98)	(200)
Other (expense)/income	(4)	68
	16,591	16,610
	37,383	34,580
The above fees and commissions were derived from the following major contributors:		
Service charges and fees	4,062	4,764
Cards	6,775	7,838
Agency fees	2,843	2,116

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Impairment Allowance/Provisions

	31 Mar 2018	31 Mar 2017
	RM'000	RM'000
New and increased allowance/provisions (net of releases/written off)	36,706	47,472
Recoveries of specific allowance/provisions	(10,987)	(8,332)
Total charge to the income statement	25,719	39,140

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/written off)	38,387	47,472
Recoveries of allowance/provisions	(10,987)	(8,332)
Total charge to the income statement	27,400	39,140

(ii) Financing commitments and contingencies

New and increased provisions (net of releases)	(1,649)	-
Total charge to the income statement	(1,649)	-

(iii) Financial investment at FVOCI

New and increased allowance (net of releases)	(32)	-
Total charge to the income statement	(32)	-

29 Income Attributable to Depositors

	31 Mar 2018	31 Mar 2017
	RM'000	RM'000
<u>Non-Mudharabah Fund</u>		
- Deposits from customers	58,676	44,616
- Deposits and placements of banks and other financial institutions	20,551	11,036
- Others	18,640	22,070
	97,867	77,722

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Operating Expenses

	31 Mar 2018	31 Mar 2017
	RM'000	RM'000
Personnel expenses	11,539	11,398
Promotion and marketing related expenses	4,833	2,547
Establishment related expenses	4,042	4,704
General administrative expenses	9,269	9,286
Intercompany expenses	33,069	32,365
	62,752	60,300
Personnel expenses		
Salaries, allowances and bonuses	9,337	8,344
Employees Provident Fund contributions	1,666	1,446
Share based payment	30	19
Other staff related costs	506	1,589
	11,539	11,398
Promotion and marketing related expenses	4,833	2,547
Establishment related expenses		
Depreciation of equipment	666	1,124
Information technology costs	769	740
Rental of premises	1,868	1,933
Utilities	520	343
Others	219	564
	4,042	4,704
General administrative expenses	9,269	9,286
Intercompany charges	33,069	32,365
Of which by:		
Type of service		
- Information technology related cost	1,516	2,192
- Non information technology related cost	31,553	30,173
Geographical distribution		
- Inside Malaysia	32,964	32,598
- Outside Malaysia	105	(233)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Capital Adequacy

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	660,000	660,000
Retained profits	944,544	921,511
Other reserves	42,186	34,945
Regulatory adjustments	(55,885)	(47,023)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	1,590,845	1,569,433
Tier 2 capital		
Subordinated Commodity Murabahah financing	556,514	583,598
Impairment allowance (unimpaired portion) & regulatory reserves	141,777	149,254
Total Tier 2 capital	698,291	732,852
Capital base	2,289,136	2,302,285
<u>Inclusive of proposed dividend</u>		
CET1 and Tier 1 Capital ratio	12.966%	12.203%
Total Capital ratio	18.658%	17.902%
<u>Net of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	12.966%	12.125%
Total Capital ratio	18.658%	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:

	31 Mar 2018	31 Dec 2017
	RM'000	RM'000
Total RWA for credit risk	11,342,171	11,940,340
Total RWA for market risk	8,100	9,450
Total RWA for operational risk	918,850	910,994
	12,269,121	12,860,784

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 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	31 Mar 2018 RM'000	31 Dec 2017 RM'000
Direct credit substitutes	482,069	494,387
Transaction-related contingent items	950,836	996,770
Short-term self-liquidating trade-related contingencies	62,477	49,645
Formal standby facilities and credit lines		
- Maturity not exceeding one year	1,456,368	1,739,249
- Maturity exceeding one year	1,986,737	2,130,614
Other unconditionally cancellable	1,766,978	2,233,191
Unutilised credit card lines	3,182,185	3,024,432
Equity related contracts		
- Less than one year	-	2,945
- One year to less than five years	147,206	85,394
Profit rate related contracts		
- Less than one year	927,198	344,703
- One year to less than five years	2,440,008	3,193,730
- Over five years	253,904	253,904
Foreign exchange related contracts		
- Less than one year	3,509,462	3,311,980
- One year to less than five years	2,546,651	2,640,794
	19,712,079	20,501,738

Breakdown of financing and other credit related commitments; and financial guarantees which the MFRS 9 are applied, and their respective stage allocation :

	Gross carrying value 31 Mar 2018 RM'000	Provisions 31 Mar 2018 RM'000
Stage 1 (12-months ECL; non credit impaired)	9,507,362	460
Stage 2 (Lifetime ECL; non credit impaired)	377,531	679
Stage 3 (Lifetime ECL; credit impaired)	2,757	891
	9,887,650	2,030

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(iii).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Business Prospects

Malaysia's real Gross Domestic Product (GDP) expanded 5.9% in 2017 (2016: 4.2%). The positive trend is forecasted to follow through to 2018 with 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.

Apart from domestic demand, GDP growth would be supported by favourable external demand conditions with both gross exports and imports forecast to grow at above average trends this year. Malaysia's 2018 gross exports are expected to grow 8.4% on favourable demand from major trading partners, continued expansion in the global technology upcycle and broadly sustained commodity prices. Global growth to expand at a faster pace in 2018, supported by continued growth in advance economies and improvements in emerging market economies.

Going forward, the Ringgit will continue to be driven by a confluence of external and domestic factors. This include the timing and pace of monetary policy normalisation by major central banks, global and local geopolitical development and the domestic economic performance. The Ringgit's strength in 2017 and 2018 is a reflection of renewed interest in Malaysia's assets following the robust domestic economic performance. The attractive valuation of the Ringgit make local assets such as bonds and equities attractive to foreign investors.

Headline inflation was 3.7% in 2017, but projected to moderate in 2018, averaging between 2%-3%, with expected smaller contribution from global energy and commodity prices.

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 lenders for deposits is foreseen to increase, with the upcoming Basel III's Net Stable Funding Ratio measure, to be implemented no earlier than 1 January 2019.

The Group and the Bank will continue to capitalise on infrastructure related opportunities, especially BRI related. The focus is to capture opportunities along the entire supply chain of Chinese investment into Malaysia infrastructure. Leveraging on HSBC connectivity, we will explore business opportunity based on intra ASEAN corridors and ASEAN government initiatives. The Amanah Platform will continue to be optimised to grow Islamic Commercial Banking business through growing share of wallet of existing clients and enhanced product offerings and services. The Group and the Bank will also focus on expanding customers' base to increase market share where it has comparative advantage.

Malaysia continues to be an identified priority market for HSBC Group and is an important footprint for the HSBC Group within ASEAN. The announcement to invest up to USD250 million in the construction of a new Malaysian head office in Tun Razak Exchange in 2017 reflects HSBC long term commitment to its Malaysia franchise.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Performance Review

Profit before tax (PBT) of RM43.2 million increased by RM20.3 million or 88.6% against history due to higher income derived from investment of depositors' funds and others(+RM28.5 million) and lower impairment allowance (+RM 13.4 million) offset by higher income attribute to depositors (-RM20.1 million).

Operating expenses increased from RM60.3 million to RM62.8 million or by 4.1% mainly due to higher promotion and marketing related expenses (RM2.3 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.

Total balance sheet at 31 March 2018 stood at RM18.3 billion, RM0.6 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.