

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

**UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**  
**30 SEPTEMBER 2017**

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

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

**UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2017**

	<i>Note</i>	<b>30 Sep 2017</b> <b>RM'000</b>	31 Dec 2016 RM'000
<b>Assets</b>			
Cash and short-term funds	11	973,702	2,359,591
Financial assets held-for-trading	12	498	488
Financial investments available-for-sale	13	1,952,182	1,368,574
Financing and advances	14	13,412,448	11,743,263
Derivative financial assets	16	266,878	395,748
Other assets	17	53,560	80,041
Statutory deposits with Bank Negara Malaysia	18	364,462	325,462
Equipment		5,708	7,237
Deferred tax assets		7,062	10,395
Tax recoverable		14,821	10,285
<b>Total assets</b>		<b>17,051,321</b>	<b>16,301,084</b>
<b>Liabilities</b>			
Deposits from customers	19	9,219,197	8,726,543
Deposits and placements from banks and other financial institutions	20	3,450,708	1,951,602
Bills and acceptances payable		13,866	23,632
Derivative financial liabilities	16	252,132	490,755
Other liabilities	21	662,017	1,185,135
Multi-Currency Sukuk Programme	22	1,252,612	1,756,001
Subordinated Commodity Murabahah Financing	23	608,448	646,265
<b>Total liabilities</b>		<b>15,458,980</b>	<b>14,779,933</b>
<b>Equity</b>			
Share capital		660,000	50,000
Reserves		932,341	1,471,151
<b>Total equity attributable to owner of the Bank</b>		<b>1,592,341</b>	<b>1,521,151</b>
<b>Total liabilities and equity</b>		<b>17,051,321</b>	<b>16,301,084</b>
<b>Restricted investment accounts</b> <sup>[1]</sup>		<b>3,833,486</b>	2,230,065
<b>Total Islamic Banking asset</b> <sup>[1]</sup>		<b>20,884,807</b>	18,531,149
<b>Commitments and contingencies</b>	30	<b>20,426,784</b>	22,149,853

<sup>[1]</sup> The disclosure is in accordance with the requirements of Bank Negara Malaysia's Guideline on Financial Reporting for Islamic Banking Institutions dated 5 February 2016.

*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 2016 and the accompanying explanatory notes on pages 6 to 33 attached to the unaudited condensed interim financial statements.*

*The unaudited condensed interim financial statements were approved by the Board of Directors on 25 October 2017.*

**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 30 SEPTEMBER 2017**

	Note	Third Quarter		Nine Months Ended	
		30 Sep 2017 RM'000	30 Sep 2016 RM'000	30 Sep 2017 RM'000	30 Sep 2016 RM'000
Income derived from investment of depositors' funds and others	24	184,521	170,017	524,170	522,194
Income derived from investment of shareholder's funds	25	40,817	39,471	108,787	113,597
Impairment losses on financing	26	(54,573)	(16,211)	(128,611)	(90,511)
<b>Total distributable income</b>		<b>170,765</b>	<b>193,277</b>	<b>504,346</b>	<b>545,280</b>
Income attributable to depositors	27	(89,428)	(84,397)	(250,311)	(270,181)
<b>Total net income</b>		<b>81,337</b>	<b>108,880</b>	<b>254,035</b>	<b>275,099</b>
Operating expenses	28	(59,915)	(58,575)	(180,874)	(183,368)
<b>Profit before tax</b>		<b>21,422</b>	<b>50,305</b>	<b>73,161</b>	<b>91,731</b>
Tax expense		(3,734)	(12,209)	(13,469)	(20,551)
<b>Profit for the financial period</b>		<b>17,688</b>	<b>38,096</b>	<b>59,692</b>	<b>71,180</b>
<b>Other comprehensive income/(expense)</b>					
<i>Items that will subsequently be reclassified to profit or loss when specific conditions are met:</i>					
Own credit reserves:					
Change in fair value		(312)	-	6,450	-
Income tax effect		75	-	(1,548)	-
Available-for-sale reserve:					
Change in fair value		2,838	5,592	8,683	11,381
Net amount transferred to profit or loss		-	(3,798)	-	(6,853)
Income tax effect		(681)	(431)	(2,084)	(1,087)
<b>Other comprehensive income for the financial period, net of tax</b>		<b>1,920</b>	<b>1,363</b>	<b>11,501</b>	<b>3,441</b>
<b>Total comprehensive income for the financial period</b>		<b>19,608</b>	<b>39,459</b>	<b>71,193</b>	<b>74,621</b>
Profit attributable to the owner of the Bank		17,688	38,096	59,692	71,180
Total comprehensive income attributable to the owner of the Bank		19,608	39,459	71,193	74,621
<b>Basic earnings per RM0.50 ordinary share</b>		<b>17.7 sen</b>	<b>38.1 sen</b>	<b>59.7 sen</b>	<b>71.2 sen</b>

*The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2016 and the accompanying explanatory notes on pages 6 to 33 attached to the unaudited condensed interim financial statements.*

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**HSBC AMANAH MALAYSIA BERHAD**  
**(Company No. 807705-X)**  
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**UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017**

	<i>Non-distributable</i>						<i>Distributable</i>		<i>Total</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve<sup>[1]</sup></i>	<i>Available-for-sale reserve</i>	<i>Own Credit Reserve<sup>[2]</sup></i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profits</i>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2017</b>									
Balance at 1 January	50,000	610,000	50,000	(6,547)	-	403	34,000	783,295	1,521,151
Effects of adopting MFRS 9 on 1 January 2017 <sup>[2]</sup>	-	-	-	-	(1,846)	-	-	1,846	-
As restated	<b>50,000</b>	<b>610,000</b>	<b>50,000</b>	<b>(6,547)</b>	<b>(1,846)</b>	<b>403</b>	<b>34,000</b>	<b>785,141</b>	<b>1,521,151</b>
<b>Total comprehensive income for the financial period</b>									
Profit for the financial period	-	-	-	-	-	-	-	59,692	59,692
<b>Other comprehensive income, net of tax</b>									
Available-for-sale reserve:									
Net change in fair value	-	-	-	6,599	4,902	-	-	-	11,501
<i>Total other comprehensive income</i>	-	-	-	6,599	4,902	-	-	-	11,501
Total comprehensive income for the financial period	-	-	-	6,599	4,902	-	-	59,692	71,193
Transition to no par value regime on 31 January 2017 <sup>[3]</sup>	610,000	(610,000)	-	-	-	-	-	-	-
Transfer in accordance with BNM's requirement <sup>[1]</sup>	-	-	(50,000)	-	-	-	-	50,000	-
<b>Transactions with the owner, recorded directly in equity</b>									
Share based payment transactions	-	-	-	-	-	(3)	-	-	(3)
Balance at 30 September	<b>660,000</b>	<b>-</b>	<b>-</b>	<b>52</b>	<b>3,056</b>	<b>400</b>	<b>34,000</b>	<b>894,833</b>	<b>1,592,341</b>

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

<sup>[2]</sup> With effect from 1 January 2017, the Bank 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.

<sup>[3]</sup> The new Companies Act 2016, which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amounts standing to the credit of the share premium account of RM610k become part of the Bank's share capital pursuant to the transitional provisions set out in Section 618(2) of the Act. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

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**UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017 (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>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profits</i>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
2016								
Balance at 1 January	50,000	610,000	50,000	4,946	1,058	34,000	701,902	1,451,906
<b>Total comprehensive income for the financial period</b>								
Profit for the financial period	-	-	-	-	-	-	71,180	71,180
<b>Other comprehensive income, net of tax</b>								
Available-for-sale reserve:								
Net change in fair value	-	-	-	8,649	-	-	-	8,649
Net amount transferred to profit or loss	-	-	-	(5,208)	-	-	-	(5,208)
<i>Total other comprehensive income</i>	-	-	-	3,441	-	-	-	3,441
Total comprehensive income for the financial period	-	-	-	3,441	-	-	71,180	74,621
<b>Transactions with the owner, recorded directly in equity</b>								
Share based payment transactions	-	-	-	-	(641)	-	-	(641)
Balance at 30 September	50,000	610,000	50,000	8,387	417	34,000	773,082	1,525,886

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**HSBC AMANAH MALAYSIA BERHAD**  
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**UNAUDITED CONDENSED CASH FLOW STATEMENT**  
**FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017**

	<b>30 Sep 2017</b>	<b>30 Sep 2016</b>
	<b>RM'000</b>	<b>RM'000</b>
Profit before tax	<b>73,161</b>	91,731
Adjustments for non-operating and non-cash items	<b>114,559</b>	107,970
	<hr/>	<hr/>
Operating profit before working capital changes	<b>187,720</b>	199,701
Changes in working capital:		
Net changes in operating assets	<b>(1,698,900)</b>	395,038
Net changes in operating liabilities	<b>1,290,461</b>	(3,198,603)
Income tax paid	<b>(18,304)</b>	(18,842)
	<hr/>	<hr/>
<b>Net cash used in operating activities</b>	<b>(239,023)</b>	(2,622,706)
<b>Net cash (used in)/generated from investing activities</b>	<b>(576,581)</b>	384,938
<b>Net cash used in financing activities</b>	<b>(570,285)</b>	(72,241)
	<hr/>	<hr/>
	<b>(1,146,866)</b>	312,697
<b>Net changes in cash and cash equivalents</b>	<b>(1,385,889)</b>	(2,310,009)
<b>Cash and cash equivalents at 1 January</b>	<b>2,359,591</b>	4,750,390
	<hr/>	<hr/>
<b>Cash and cash equivalents at 30 September</b>	<b>973,702</b>	2,440,381
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<b>Analysis of cash and cash equivalents</b>		
Cash and short-term funds	<b>973,702</b>	2,440,381
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**HSBC AMANAH MALAYSIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**1 General Information**

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

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

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

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

The financial statements were approved and authorised for issue by the Board of Directors on 25 October 2017.

**2 Basis of Preparation**

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The unaudited condensed interim financial statements for the financial period ended 30 September 2017 have been prepared under the historical cost convention except for the following assets and liabilities which are stated at fair values: financial instruments held-for-trading, financial investments available-for-sale, derivative financial instruments and financial instruments fair valued through profit and loss.

The unaudited condensed interim financial statements for the financial period ended 30 September 2017 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 2016. 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 2016.

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 2016.

(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 2017 are as follows:

- Amendments to MFRS 107 ‘Statement of Cash Flows – Disclosure Initiative’
- Amendments to MFRS 112 ‘Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses’
- Annual Improvements to MFRSs 2012 – 2014 Cycle: MFRS 12 ‘Disclosures of Interests in Other Entities’

The adoption of the Amendments to MFRS 107 has required additional disclosure of changes in liabilities arising from financing activities. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

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

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

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- (ii) Standards, amendments to published standards and interpretations to existing standards have been issued but not yet effective

The Bank will apply these standards, amendments to published standards from:

- a. Financial year beginning on/after 1 January 2018

- 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.

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'.

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 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 profit.

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 has 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 prospectively from 2017 and onwards.

MFRS 9 introduces an expected credit loss model on impairment for all financial assets 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.



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

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

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(ii) Standards, amendments to published standards and interpretations to existing standards have been issued but not yet effective (Cont'd)

a. Financial year beginning on/after 1 January 2018 (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.

b. Financial year beginning on/after 1 January 2019

- MFRS 16 'Leases'

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 profit expense recognised in the income statement.

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

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

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

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(ii) Standards, amendments to published standards and interpretations to existing standards have been issued but not yet effective (Cont'd)

b. 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, except for MFRS 9.

MFRS 9 replaces the guidance in MFRS 139 'Financial Instruments, Recognition and Measurement' on the classification and measurement of financial assets and financial liabilities, and on hedge accounting. The Bank is currently assessing the financial impact that may arise from the adoption of MFRS 9.

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

### 3 Functional and Presentation of Currency

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

### 4 Auditors' Report On Preceding Annual Financial Statements

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The audit report on the audited financial statements for the financial year ended 31 December 2016 was not subject to any qualification.

### 5 Seasonality or Cyclical Factors

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

### 6 Unusual Items Due to Their Nature, Size or Incidence

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There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Bank for the financial period ended 30 September 2017.

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

### **7 Changes in Estimates**

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

There were no material changes in estimates of amounts reported in prior financial years that have a material effect on the financial results and position of the Bank for the financial period ended 30 September 2017.

### **8 Debt and Equity Securities**

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There were no other issuances, cancellations, repurchases, resale or repayment of other debt or equity securities during the financial period ended 30 September 2017, except the maturity of first series of Multi-Currency Sukuk Programme (MCSP) measured at amortised cost amounted to RM500 million on 28 September 2017.

### **9 Dividend**

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No interim dividend was declared nor paid during the financial period ended 30 September 2017.

### **10 Significant and Subsequent Events**

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

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

**11 Cash and Short-Term Funds**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Cash and balances with banks and other financial institutions	137,772	189,591
Money at call and interbank placements maturing within one month	<u>835,930</u>	<u>2,170,000</u>
	<u><b>973,702</b></u>	<u><b>2,359,591</b></u>

**12 Financial Assets Held-for-Trading**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
<b>At fair value</b>		
Money market instruments:		
Malaysian Government Islamic bonds	<u>498</u>	<u>488</u>
	<u><b>498</b></u>	<u><b>488</b></u>

**13 Financial Investments Available-for-Sale**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
<b>At fair value</b>		
Money market instruments:		
Malaysian Government Islamic bonds	1,828,179	1,368,574
Negotiable instruments of deposit	99,257	-
Islamic Treasury Bill	<u>24,746</u>	<u>-</u>
	<u><b>1,952,182</b></u>	<u><b>1,368,574</b></u>

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

Maturing within one year	721,011	180,224
More than one year to three years	1,150,226	732,449
More than three years to five years	80,945	435,846
Over five years	-	20,055
	<u><b>1,952,182</b></u>	<u><b>1,368,574</b></u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances

(i) By type and Shariah contracts

At amortised cost	Sale-based contracts			Lease-based contracts		Equity-based contracts	Ujrah	Total
	Commodity Murabahah	Bai Bithaman Ajil	Bai Al-Inah	Ijarah	Ijarah Thumma Al-Bai	Diminishing Musharakah		
30 Sep 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	84,818	-	-	-	-	-	-	84,818
Term financing:								
House financing	-	93	-	-	-	4,397,213	-	4,397,306
Hire purchase receivables	-	-	-	-	176,052	-	-	176,052
Lease receivables	-	-	-	1,650	-	-	-	1,650
Syndicated term financing	1,934,117	-	-	-	-	-	-	1,934,117
Other term financing	2,782,995	3,640	76	-	-	979,073	-	3,765,784
Trust receipts	911,362	-	-	-	-	-	-	911,362
Claims on customers under acceptance credits	437,710	-	-	-	-	-	-	437,710
Bills receivables	108,169	-	-	-	-	-	-	108,169
Staff financing-i	2,715	-	166	-	-	2,179	-	5,060
Credit cards-i	-	-	-	-	-	-	864,682	864,682
Revolving credit	1,055,489	-	-	-	-	-	-	1,055,489
Other financing	-	-	-	-	-	1,317	-	1,317
Gross financing and advances	<b>7,317,375</b>	<b>3,733</b>	<b>242</b>	<b>1,650</b>	<b>176,052</b>	<b>5,379,782</b>	<b>864,682</b>	<b>13,743,516</b>
Less: Allowance for impaired financing								
Collective allowances for impairment								(232,432)
Individual allowances for impairment								(98,636)
Total net financing and advances								<b>13,412,448</b>

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

**14 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 2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	97,840	-	-	-	-	-	-	97,840
Term financing:								
House financing	-	404	-	-	-	4,356,230	-	4,356,634
Hire purchase receivables	-	-	-	-	208,921	-	-	208,921
Lease receivables	-	-	-	2,738	-	-	-	2,738
Syndicated term financing	650,266	-	-	-	-	-	-	650,266
Other term financing	2,834,338	8,115	350	-	-	1,024,700	-	3,867,503
Trust receipts	462,235	-	-	-	-	-	-	462,235
Claims on customers under acceptance credits	504,375	-	-	-	-	-	-	504,375
Bills receivables	110,272	-	-	-	-	-	-	110,272
Staff financing-i	2,617	-	361	-	-	3,215	-	6,193
Credit cards-i	-	-	-	-	-	-	787,710	787,710
Revolving credit	950,161	-	-	-	-	-	-	950,161
Other financing	-	-	-	-	-	1,187	-	1,187
<b>Gross financing and advances</b>	<b>5,612,104</b>	<b>8,519</b>	<b>711</b>	<b>2,738</b>	<b>208,921</b>	<b>5,385,332</b>	<b>787,710</b>	<b>12,006,035</b>
Less: Allowance for impaired financing								
Collective allowances for impairment								(200,015)
Individual allowances for impairment								(62,757)
<b>Total net financing and advances</b>								<b>11,743,263</b>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

**(ii) By type of customer**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Domestic non-bank financial institutions	655,895	638,263
Domestic business enterprises:		
Small medium enterprises	1,981,459	1,821,064
Others	3,671,151	2,397,737
Government and statutory bodies	7,997	10,316
Individuals	6,041,781	5,901,851
Other domestic entities	1,386	1,466
Foreign entities	1,383,847	1,235,338
	<b>13,743,516</b>	<b>12,006,035</b>

**(iii) By profit rate sensitivity**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Fixed rate:		
House financing	93	398
Hire purchase receivables	176,053	208,921
Other financing	3,254,206	2,784,299
Variable rate:		
BR/BFR plus	5,447,391	5,471,227
Cost-plus	4,865,773	3,541,190
	<b>13,743,516</b>	<b>12,006,035</b>

**(iv) By residual contractual maturity**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Maturing within one year	5,889,454	4,356,186
More than one year to three years	947,066	654,513
More than three years to five years	945,608	1,111,456
Over five years	5,961,388	5,883,880
	<b>13,743,516</b>	<b>12,006,035</b>

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

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

**(v) By sector**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Agriculture, hunting, forestry & fishing	104,220	136,372
Mining and quarrying	241,283	218,194
Manufacturing	1,770,952	1,187,941
Electricity, gas and water	33,216	32,907
Construction	369,816	354,645
Real estate	1,034,670	821,854
Wholesale & retail trade, restaurants & hotels	1,014,048	816,323
Transport, storage and communication	569,118	186,721
Finance, takaful and business services	905,191	929,714
Household - Retail	6,670,423	6,536,695
Others	1,030,579	784,669
	<b>13,743,516</b>	<b>12,006,035</b>

**(vi) By purpose**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Purchase of landed property:		
Residential	4,399,484	4,359,849
Non-residential	810,397	853,008
Purchase of transport vehicles	1,789	1,847
Purchase of fixed assets excluding land & building	-	366
Consumption credit	2,001,423	1,893,592
Construction	377,444	343,443
Working capital	5,389,777	3,943,120
Other purpose	763,202	610,810
	<b>13,743,516</b>	<b>12,006,035</b>

**(vii) By geographical distribution**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Northern Region	1,415,567	1,405,240
Southern Region	1,525,074	1,569,412
Central Region	10,352,860	8,565,903
Eastern Region	450,015	465,480
	<b>13,743,516</b>	<b>12,006,035</b>

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

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

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

The Central region consists of the states of Selangor 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)**

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

**(viii) Assets under Management**

The details of assets under management in respect of the Syndicated Investment Agency Financing (SIAF)/Investment Agency Account (IAA) financing are as below. The exposures and the corresponding risk weighted amount are reported in investors' financial statements.

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Total net financing and advances	<u><b>3,155,750</b></u>	<u>1,733,132</u>
Formal standby facilities and credit lines:		
<i>Maturity not exceeding one year</i>	<b>31,254</b>	496,933
<i>Maturity exceeding one year</i>	<u><b>646,482</b></u>	<u>-</u>
Total commitments and contingencies	<u><b>677,736</b></u>	<u>496,933</u>
Risk weighted assets (RWA)	<u><b>3,380,194</b></u>	<u>1,832,519</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 allowances 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 2016.

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

**15 Impaired Financing**

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

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Balance at 1 January	<b>303,526</b>	235,279
Classified as impaired during the financial period/year	<b>329,060</b>	358,706
Reclassified as performing	<b>(122,666)</b>	(122,829)
Amount recovered	<b>(51,931)</b>	(49,831)
Amount written off	<b>(101,357)</b>	(117,799)
Balance at 30 September/31 December	<b>356,632</b>	303,526

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

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
<b>Collective allowance for impairment</b>		
Balance at 1 January	<b>200,015</b>	140,264
Made during the financial period/year	<b>157,117</b>	211,487
Amount released	<b>(32,503)</b>	(58,264)
Amount written off	<b>(92,197)</b>	(93,472)
Balance at 30 September/31 December	<b>232,432</b>	200,015

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
<b>Individual allowance for impairment</b>		
Balance at 1 January	<b>62,757</b>	68,647
Made during the financial period/year	<b>45,700</b>	30,041
Amount released	<b>(22,238)</b>	(18,115)
Amount reinstated/(written off)	<b>12,417</b>	(17,816)
Balance at 30 September/31 December	<b>98,636</b>	62,757

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

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

**(iii) By contract**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Bai Bithaman Ajil ( <i>deferred payment sale</i> )	-	5
Ijarah Thumma Al-Bai (AITAB) ( <i>hire purchase</i> )	<b>8,947</b>	5,730
Murabahah ( <i>cost-plus</i> )	<b>153,744</b>	127,743
Musharakah ( <i>profit and loss sharing</i> )	<b>173,986</b>	152,729
Bai Al-Inah ( <i>sell and buy back</i> )	<b>40</b>	217
Ujrah ( <i>fee-based</i> )	<b>19,915</b>	17,102
	<b>356,632</b>	303,526

**(iv) By sector**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Manufacturing	<b>18,364</b>	4,038
Construction	-	204
Wholesale & retail trade, restaurants & hotels	<b>8,052</b>	12,309
Transport, storage and communication	<b>3,119</b>	3,665
Finance, takaful and business services	<b>29,785</b>	23,346
Household - Retail	<b>294,321</b>	259,346
Others	<b>2,991</b>	618
	<b>356,632</b>	303,526

**(v) By purpose**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Purchase of landed property:		
Residential	<b>155,944</b>	135,067
Non-residential	<b>11,217</b>	10,887
Purchase of transport vehicles	<b>94</b>	146
Purchase of fixed assets excluding land & building	-	358
Consumption credit	<b>134,238</b>	121,217
Construction	<b>2,847</b>	204
Working capital	<b>52,292</b>	35,647
	<b>356,632</b>	303,526

**(vi) By geographical distribution**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Northern Region	<b>58,434</b>	47,713
Southern Region	<b>35,065</b>	30,606
Central Region	<b>249,703</b>	212,643
Eastern Region	<b>13,430</b>	12,564
	<b>356,632</b>	303,526

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**16 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:

	<u>Contract / Notional Amount</u>				<u>Positive Fair Value</u>				<u>Negative Fair Value</u>			
	<u>Up to 1 Year</u>	<u>&gt;1 - 5 Years</u>	<u>&gt; 5 Years</u>	<u>Total</u>	<u>Up to 1 Year</u>	<u>&gt;1 - 5 Years</u>	<u>&gt; 5 Years</u>	<u>Total</u>	<u>Up to 1 Year</u>	<u>&gt;1 - 5 Years</u>	<u>&gt; 5 Years</u>	<u>Total</u>
30 Sep 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Trading derivatives:</b>												
Foreign exchange contracts												
- Forwards	3,239,034	-	-	3,239,034	49,743	-	-	49,743	50,397	-	-	50,397
- Swaps	-	2,058,194	-	2,058,194	-	194,340	-	194,340	-	191,938	-	191,938
- Options	7,937	334,258	-	342,195	898	2,844	-	3,742	898	2,844	-	3,742
Profit rate related contracts												
- Swaps	144,722	3,140,780	253,904	3,539,406	140	11,847	640	12,627	140	4,772	232	5,144
- Options	-	186,037	-	186,037	-	3,474	-	3,474	-	-	-	-
Equity related contracts												
- Options purchased	37,419	88,635	-	126,054	-	2,952	-	2,952	29	76	-	105
Sub- total	<u>3,429,112</u>	<u>5,807,904</u>	<u>253,904</u>	<u>9,490,920</u>	<u>50,781</u>	<u>215,457</u>	<u>640</u>	<u>266,878</u>	<u>51,464</u>	<u>199,630</u>	<u>232</u>	<u>251,326</u>
<b>Hedging Derivatives:</b>												
<b>Fair Value Hedge</b>												
Profit rate related contracts												
- Swaps	110,000	80,000	-	190,000	-	-	-	-	275	531	-	806
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>275</u>	<u>531</u>	<u>-</u>	<u>806</u>
<b>Total</b>	<u>3,539,112</u>	<u>5,887,904</u>	<u>253,904</u>	<u>9,680,920</u>	<u>50,781</u>	<u>215,457</u>	<u>640</u>	<u>266,878</u>	<u>51,739</u>	<u>200,161</u>	<u>232</u>	<u>252,132</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

31 Dec 2016	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
<b>Trading derivatives:</b>												
Foreign exchange contracts												
- Forwards	2,582,361	-	-	2,582,361	111,609	-	-	111,609	112,797	-	-	112,797
- Swaps	-	2,159,793	-	2,159,793	-	261,215	-	261,215	-	264,349	-	264,349
- Options	9,718	345,197	-	354,915	1,018	4,789	-	5,807	1,018	4,789	-	5,807
Profit rate related contracts												
- Swaps	1,200,000	4,770,174	-	5,970,174	470	14,075	-	14,545	384	8,906	-	9,290
- Options	-	189,444	-	189,444	-	2,545	-	2,545	-	135	-	135
Equity related contracts												
- Options purchased	765,236	109,766	-	875,002	27	-	-	27	95,176	2,180	-	97,356
Sub- total	4,557,315	7,574,374	-	12,131,689	113,124	282,624	-	395,748	209,375	280,359	-	489,734
<b>Hedging Derivatives:</b>												
<b>Fair Value Hedge</b>												
Profit rate related contracts												
- Swaps	90,000	190,000	-	280,000	-	-	-	-	59	962	-	1,021
Sub- total	90,000	190,000	-	280,000	-	-	-	-	59	962	-	1,021
Total	4,647,315	7,764,374	-	12,411,689	113,124	282,624	-	395,748	209,434	281,321	-	490,755

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

	30 Sep 2017 RM'000	30 Sep 2016 RM'000
Gains/(Losses) on hedging instruments	169	(2,250)
Gains on the hedged items attributable to the hedged risk	280	2,304
Net gains from fair value hedges	449	54

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

**17 Other Assets**

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	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Income receivable	<b>6,419</b>	6,059
Profit receivable	<b>19,880</b>	12,972
Prepayments	<b>1,487</b>	72
Amount due from holding company	<b>42</b>	45,132
Other receivables	<b>25,732</b>	15,806
	<b><u>53,560</u></b>	<u>80,041</u>

**18 Statutory deposits with Bank Negara Malaysia**

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

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

**19 Deposits From Customers**

**(i) By type of deposit**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
<b>At amortised cost</b>		
Non-Mudharabah Fund		
Demand deposits		
- Wadiah	<b>1,857,278</b>	1,902,318
Savings deposits		
- Wadiah	<b>1,735,526</b>	1,627,182
Term deposits		
- Murabahah	<b>5,333,747</b>	5,007,808
- Qard	<b>226,176</b>	129,452
Islamic repurchase agreements		
- Bai Al-Inah	<b>66,470</b>	59,783
	<b>9,219,197</b>	8,726,543

The maturity structure of term deposits is as follows:

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Due within six months	<b>4,727,736</b>	4,376,774
More than six months to one year	<b>736,025</b>	735,158
More than one year to three years	<b>73,066</b>	19,710
More than three years to five years	<b>23,096</b>	5,618
	<b>5,559,923</b>	5,137,260

**(ii) By type of customer**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Government and statutory bodies	<b>5,674</b>	6,429
Business enterprises	<b>2,160,681</b>	2,026,165
Individuals	<b>4,892,253</b>	4,583,883
Others	<b>2,160,589</b>	2,110,066
	<b>9,219,197</b>	8,726,543

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

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Non-Mudharabah Fund		
Licensed banks	<b>2,681,278</b>	1,923,186
Bank Negara Malaysia	<b>27,110</b>	28,416
Other financial institutions	<b>742,320</b>	-
	<b>3,450,708</b>	1,951,602

Included in deposits and placements from banks and other financial institutions are placements from the Bank's parent company, HSBC Bank Malaysia Berhad, of RM2.7 billion (31 Dec 2016: RM1.9 billion).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**21 Other Liabilities**

	Note	30 Sep 2017 RM'000	31 Dec 2016 RM'000
<b>At amortised cost</b>			
Settlements		50,486	-
Amounts due to holding company		132,849	36,472
Profit payable			
- Structured products		1,110	4,182
- Others		53,427	61,262
Deferred income		10,700	11,286
Marginal deposit		10,880	22,761
Accrued expenses		28,950	26,235
Other creditors	(a)	54,901	53,528
		<b>343,303</b>	<b>215,726</b>
<b>At fair value</b>			
Structured products, at fair value			
- Wakalah with Commodity Wa'ad		318,714	969,409
		<b>662,017</b>	<b>1,185,135</b>

Structured products are measured at fair value over the life of the instruments. Structured products are deposits with embedded derivatives, of which both profit paid and fair valuation on the structured products are recorded in other operating income, as per accounting policy in Note 3(h), and respective fair value on trading liabilities is shown in Note 5(b) in the audited financial statements of the Bank for the financial year ended 31 December 2016.

(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 period/year.

**Source and use of charity funds**

	30 Sep 2017 RM'000	31 Dec 2016 RM'000
<b>Source of charity funds</b>		
Balance at 1 January	4	70
Shariah non-compliant income for the financial period/year	13	114
<b>Use of charity funds</b>		
Contribution to non-profit organisations	(16)	(93)
Tax expense on Shariah non-compliant income	-	(87)
Balance at 30 September/31 December	<b>1</b>	<b>4</b>



NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**22 Multi-Currency Sukuk Programme**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Multi-Currency Sukuk Programme (MCSP)	<b>1,252,612</b>	1,756,001

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

	<b>Nominal Value</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Carrying Value</b>	
				<b>30 Sep 2017</b>	31 Dec 2016
<u>Issuance under MCSP</u>	<b>RM'000</b>			<b>RM'000</b>	RM'000
<b>At amortised cost</b>					
1st series at amortised cost	500,000	28 Sept 2012	28 Sept 2017	-	500,000
<b>At fair value</b>					
2nd series	500,000	16 Oct 2014	16 Oct 2019	<b>501,291</b>	502,835
3rd series	750,000	27 Mar 2015	27 Mar 2020	<b>751,321</b>	753,166
	<u>1,250,000</u>			<u>1,252,612</u>	<u>1,256,001</u>
	<u>1,750,000</u>			<u>1,252,612</u>	<u>1,756,001</u>

Movement in MCSP

	<b>2nd series</b>		<b>3rd series</b>	
	<b>30 Sep 2017</b>	31 Dec 2016	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Balance at 1 January	<b>502,835</b>	500,641	<b>753,166</b>	749,182
Change in fair value other than from own credit risk	<b>970</b>	4,282	<b>2,090</b>	7,565
Change in fair value from own credit risk	<b>(2,514)</b>	(2,088)	<b>(3,935)</b>	(3,581)
Balance at 30 September/31 December	<b>501,291</b>	502,835	<b>751,321</b>	753,166

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
The cumulative change in fair value due to changes in own credit risk	<b>(6,449)</b>	(5,669)

**23 Subordinated Commodity Murabahah Financing**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	<b>328,115</b>	348,508
- Second tranche issued on 30 June 2015	<b>280,333</b>	297,757
	<u><b>608,448</b></u>	<u>646,265</u>

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)

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

	Third Quarter		Nine Months Ended	
	30 Sep 2017 RM'000	30 Sep 2016 RM'000	30 Sep 2017 RM'000	30 Sep 2016 RM'000
Income derived from investment of:				
(i) general investment deposits	115,425	108,009	327,934	337,852
(ii) specific investment deposits	15,951	7,578	36,541	23,057
(iii) others	53,145	54,430	159,695	161,285
	<b>184,521</b>	<b>170,017</b>	<b>524,170</b>	<b>522,194</b>
	Third Quarter		Nine Months Ended	
	30 Sep 2017 RM'000	30 Sep 2016 RM'000	30 Sep 2017 RM'000	30 Sep 2016 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	92,764	87,182	267,136	264,967
- Recoveries from impaired financing	3,266	2,595	8,851	7,935
Financial investments available-for-sale	9,465	7,185	26,393	23,883
Money at call and deposit with financial institutions	6,360	11,451	17,702	43,889
	<b>111,855</b>	<b>108,413</b>	<b>320,082</b>	<b>340,674</b>
<u>Other operating income</u>				
Realised gains from dealing in foreign currency	4,266	1,525	13,400	16,085
Unrealised (losses)/gains from dealing in foreign currency	(152)	3,085	(825)	(4,566)
Gains/(losses) from sale of financial assets held-for-trading and other financial instruments	308	(10)	308	875
Unrealised gains/(losses) from revaluation of financial assets held-for-trading	22	189	(125)	121
Net profit paid for financial assets held-for-trading and other financial instruments	(1,975)	(5,553)	(10,050)	(19,005)
Realised gains from trading in derivatives	123	239	1,350	1,676
Unrealised gains from trading in derivatives	967	101	3,524	1,959
Other gains	11	20	270	33
	<b>3,570</b>	<b>(404)</b>	<b>7,852</b>	<b>(2,822)</b>
	<b>115,425</b>	<b>108,009</b>	<b>327,934</b>	<b>337,852</b>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	Third Quarter		Nine Months Ended	
	30 Sep 2017 RM'000	30 Sep 2016 RM'000	30 Sep 2017 RM'000	30 Sep 2016 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	<b>15,528</b>	6,786	<b>35,775</b>	19,870
	<b>15,528</b>	6,786	<b>35,775</b>	19,870
<u>Other operating income</u>				
Fees and commission	<b>161</b>	300	<b>454</b>	824
Realised (losses)/gains from dealing in foreign currency	<b>(575)</b>	461	<b>(525)</b>	2,416
Unrealised gains/(losses) from dealing in foreign currency	<b>837</b>	31	<b>837</b>	(53)
	<b>423</b>	792	<b>766</b>	3,187
	<b>15,951</b>	7,578	<b>36,541</b>	23,057
The above fees and commissions were derived from the following major contributors:				
Guarantee fees	<b>3</b>	75	<b>6</b>	307
Service charges and fees	<b>158</b>	107	<b>447</b>	397
(iii) Income derived from investment of others				
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	<b>42,659</b>	43,838	<b>130,088</b>	126,491
- Recoveries from impaired financing	<b>1,510</b>	1,305	<b>4,310</b>	3,788
Financial investments available-for-sale	<b>4,366</b>	3,638	<b>12,853</b>	11,401
Money at call and deposit with financial institutions	<b>2,933</b>	5,872	<b>8,620</b>	20,952
	<b>51,468</b>	54,653	<b>155,871</b>	162,632
<u>Other operating income</u>				
Realised gains from dealing in foreign currency	<b>1,945</b>	910	<b>6,525</b>	7,679
Unrealised (losses)/gains from dealing in foreign currency	<b>(65)</b>	1,377	<b>(402)</b>	(2,180)
Gains from sale of financial assets held-for-trading and other financial instruments	<b>150</b>	7	<b>150</b>	418
Unrealised gains/(losses) from revaluation of financial assets held-for-trading	<b>13</b>	89	<b>(61)</b>	58
Net profit paid from financial assets held-for-trading and other financial instruments	<b>(845)</b>	(2,819)	<b>(4,894)</b>	(9,073)
Realised gains from trading in derivatives	<b>43</b>	132	<b>658</b>	800
Unrealised gains from trading in derivatives	<b>434</b>	71	<b>1,716</b>	935
Other gains	<b>2</b>	10	<b>132</b>	16
	<b>1,677</b>	(223)	<b>3,824</b>	(1,347)
	<b>53,145</b>	54,430	<b>159,695</b>	161,285

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	Third Quarter		Nine Months Ended	
	30 Sep 2017 RM'000	30 Sep 2016 RM'000	30 Sep 2017 RM'000	30 Sep 2016 RM'000
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	16,249	13,820	46,211	39,276
- Recoveries from impaired financing	571	411	1,531	1,176
Financial investments available-for-sale	1,657	1,149	4,566	3,540
Money at call and deposit with financial institutions	1,113	1,862	3,062	6,506
	<b>19,590</b>	17,242	<b>55,370</b>	50,498
<u>Other operating income</u>				
Fees and commission	20,259	13,068	50,474	39,656
Realised gains from dealing in foreign currency	749	299	2,318	2,384
Unrealised (losses)/gains from dealing in foreign currency	(27)	419	(143)	(677)
Gains from sale of financial assets held-for-trading and other financial instruments	53	3	53	130
Unrealised gains/(losses) from revaluation of financial assets held-for-trading	3	28	(22)	18
Net profit paid from financial assets held-for-trading and other financial instruments	(350)	(891)	(1,738)	(2,817)
Realised gains from trading in derivatives	23	42	234	248
Unrealised gains from trading in derivatives	171	25	610	291
Shared-service fees from holding company	693	725	2,123	2,301
Net gains on disposal of financial assets available-for-sale	-	3,798	-	6,853
Net (losses)/gains on financial instruments designated at fair value through profit or losses	(360)	4,675	(591)	14,615
Other income	13	38	99	97
	<b>21,227</b>	22,229	<b>53,417</b>	63,099
	<b>40,817</b>	39,471	<b>108,787</b>	113,597
The above fees and commissions were derived from the following major contributors:				
Service charges and fees	9,503	4,391	19,138	14,681
Cards	5,857	5,377	19,256	16,549
Agency fees	3,170	1,894	7,791	5,382

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**26 Impairment Losses on Financing**

	Third Quarter		Nine Months Ended	
	30 Sep 2017 RM'000	30 Sep 2016 RM'000	30 Sep 2017 RM'000	30 Sep 2016 RM'000
Impairment charges on financing:				
(a) Individual impairment				
- Made during the financial period	12,144	1,979	45,700	19,208
- Written back during the financial period	(6,400)	(3,087)	(22,238)	(16,852)
(b) Collective impairment				
- Made during the financial period	61,468	38,904	157,117	158,873
- Written back during the financial period	(5,420)	(13,530)	(32,503)	(48,876)
Impaired financing				
- Recovered during the period	(8,533)	(8,415)	(24,989)	(24,070)
- Written back during the financial period	1,314	360	5,524	2,228
	<b>54,573</b>	<b>16,211</b>	<b>128,611</b>	<b>90,511</b>

**27 Income Attributable to Depositors**

	Third Quarter		Nine Months Ended	
	30 Sep 2017 RM'000	30 Sep 2016 RM'000	30 Sep 2017 RM'000	30 Sep 2016 RM'000
<u>Non-Mudharabah Fund</u>				
- Deposits from customers	47,294	49,993	136,152	156,607
- Deposits and placements of banks and other financial institutions	18,791	12,229	44,968	46,535
- Others	23,343	22,175	69,191	67,039
	<b>89,428</b>	<b>84,397</b>	<b>250,311</b>	<b>270,181</b>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**28 Operating Expenses**

	Third Quarter		Nine Months Ended	
	30 Sep 2017 RM'000	30 Sep 2016 RM'000	30 Sep 2017 RM'000	30 Sep 2016 RM'000
Personnel expenses	<b>12,090</b>	10,515	<b>35,604</b>	31,112
Promotion and marketing related expenses	<b>2,612</b>	1,518	<b>8,107</b>	8,222
Establishment related expenses	<b>4,263</b>	4,521	<b>14,388</b>	14,293
General administrative expenses	<b>40,950</b>	42,021	<b>122,775</b>	129,741
	<b>59,915</b>	58,575	<b>180,874</b>	183,368
Personnel expenses				
Salaries, allowances and bonuses	<b>10,039</b>	8,273	<b>27,902</b>	24,600
Employees Provident Fund contributions	<b>1,733</b>	1,436	<b>4,830</b>	4,286
Other staff related costs	<b>318</b>	806	<b>2,872</b>	2,226
	<b>12,090</b>	10,515	<b>35,604</b>	31,112
Promotion and marketing related expenses	<b>2,612</b>	1,518	<b>8,107</b>	8,222
Establishment related expenses				
Depreciation of equipment	<b>971</b>	1,238	<b>3,219</b>	3,846
Information technology costs	<b>611</b>	788	<b>2,020</b>	1,933
Rental of premises	<b>1,837</b>	1,930	<b>5,737</b>	6,078
Others	<b>844</b>	565	<b>3,412</b>	2,436
	<b>4,263</b>	4,521	<b>14,388</b>	14,293
General administrative expenses				
Group recharges	<b>31,844</b>	33,990	<b>96,123</b>	103,054
Others	<b>9,106</b>	8,031	<b>26,652</b>	26,687
	<b>40,950</b>	42,021	<b>122,775</b>	129,741

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

**29 Capital Adequacy**

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
<b>Tier 1 capital</b>		
Paid-up ordinary share capital	<b>660,000</b>	50,000
Share premium	-	610,000
Retained profits	<b>877,145</b>	783,296
Other reserves	<b>38,491</b>	75,789
Regulatory adjustments	<b>(50,398)</b>	(46,978)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	<b>1,525,238</b>	1,472,107
<b>Tier 2 capital</b>		
Subordinated Commodity Murabahah financing	<b>608,448</b>	646,265
Collective impairment allowance (unimpaired portion) & regulatory reserves	<b>153,075</b>	135,261
Total Tier 2 capital	<b>761,523</b>	781,526
<b>Capital base</b>	<b>2,286,761</b>	2,253,633
<b>CET1 and Tier 1 Capital ratio</b>	<b>11.591%</b>	12.553%
<b>Total Capital ratio</b>	<b>17.378%</b>	19.218%

The total capital and capital adequacy ratios have been computed based on the Standardised Approach in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB). The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

Breakdown of RWA in the various categories of risk weights:

	<b>30 Sep 2017</b>	31 Dec 2016
	<b>RM'000</b>	RM'000
Total RWA for credit risk	<b>12,246,012</b>	10,820,917
Total RWA for market risk	<b>11,047</b>	11,396
Total RWA for operational risk	<b>901,875</b>	894,490
	<b>13,158,934</b>	11,726,803

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

**30 Commitments and Contingencies**

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

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

<b>Principal amount</b>	<b>30 Sep 2017</b> <b>RM'000</b>	31 Dec 2016 RM'000
Direct credit substitutes	<b>552,687</b>	535,818
Transaction-related contingent items	<b>1,199,753</b>	1,113,122
Short-term self-liquidating trade-related contingencies	<b>62,624</b>	111,027
Formal standby facilities and credit lines		
- Maturity not exceeding one year	<b>1,493,188</b>	3,685,008
- Maturity exceeding one year	<b>2,229,895</b>	2,041,247
Other unconditionally cancellable	<b>2,323,202</b>	-
Unutilised credit card lines	<b>2,884,515</b>	2,251,942
Equity related contracts		
- Less than one year	<b>37,419</b>	765,236
- One year to less than five years	<b>88,635</b>	109,766
Profit rate related contracts		
- Less than one year	<b>254,722</b>	1,290,000
- One year to less than five years	<b>3,406,817</b>	5,149,618
- Over five years	<b>253,904</b>	-
Foreign exchange related contracts		
- Less than one year	<b>3,246,971</b>	2,592,079
- One year to less than five years	<b>2,392,452</b>	2,504,990
	<b>20,426,784</b>	22,149,853



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

### 31 Business Prospects

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The global economy continued to expand in 2Q 2017, with global recovery becoming more entrenched, supported by stronger investment in major economies. Broad based growth improvements in many economies around the world also provided tailwinds to global stock markets. Nevertheless, there were observations of temporary volatility in the global financial markets arising from the continuing geopolitical tension in the Middle-East region and the deepening political conflicts with North Korea.

Locally, the Malaysian economy recorded a stronger growth of 5.8% in 2Q 2017 (Q1 2017: 5.6%) and is expected to sustain throughout 2017. This is underpinned by statistics of businesses spending more and the outlook for exports firming up. Domestic demand continued as the main driver of growth, supported primarily by private sector spending. Consumer sentiments also improved, providing further impetus to household spending. Better than expected GDP and corporate earnings provided additional support to sentiments. However, investors remained cautious amid escalating geopolitical tensions. Over the next few months, the export growth is expected to stay on the positive course, supported by the favourable growth momentum in global trade and sustained demand from China.

During 2Q 2017, Ringgit was the best performing currency in the region during 2Q 2017, driven mainly by the continued weakness in the USD dollar arising from market uncertainties on the direction and implication of policies in the US. The introduction of Bank Negara Malaysia (BNM)'s foreign exchange market stabilisation measures at the end of 2016 had also contributed favourably to the balancing the Ringgit's supply and demand.

To ensure continuous domestic financial stability supported by healthy business activities, BNM continued to keep the Overnight Policy Rate (OPR) of 3.00% unchanged since July 2016, at the back of positive growth momentum and moderating headline inflation. The decline in inflation was due to lower domestic fuel prices, driven by lower global oil prices arising from stronger Ringgit during the quarter. However, the headline inflation is projected to moderate further in the range between 3.0% and 4.0% for the remaining of 2017 (Q1 2017: 4.3%).

As for the banking sector, challenges facing the industry include moderate loans growth, competition for deposits, potential rising costs of doing business including compliance and credit costs. However, the domestic financial institutions continue to demonstrate sound capacity and resilience in weathering these challenges while identifying opportunities to improve customer experience including ensuring security and speed of providing information as well as end-to-end services through infusion of the new wave of financial technology. The expansion of domestic Islamic financing continued to surpass conventional banking loans in 2016 and 2017 where strong regulatory backing and industry innovation have led to the considerable growth traction in recent years.

The substantial conclusion of Regional Comprehensive Economic Partnership (RCEP), a priority deliverable in 2017 which mark the 50th anniversary of the creation of Asean, will have the potential to shape the international trade agenda, offering opportunity for Malaysia to boost trade liberalisation and economic integration. Additionally, China's Belt and Road initiatives especially China's investment into Malaysia infrastructure projects will boost economic activities and financing/banking services requirements.

For 2017, the Group and the Bank will continue to capitalise on infrastructure related opportunities, trade corridors (led by China and intra-Asean) and the financial services needs of the rising middle class segment in Malaysia. The Bank will also focus on expanding customers' base to increase market share where it has comparative advantage.

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

**32 Performance Review**

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Profit before tax (PBT) of RM73.2 million decreased by RM18.6 million or 20.2% against history due to higher impairment charges on financing (+RM38.1m) and lower income derived from investment of of shareholder's funds (-RM4.8m), offset by lower income distribute to depositors (+RM19.9 million) and lower operating expenses (-RM2.5m).

With effect from 1 January 2017, the Bank early applied the requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss in accordance to MFRS 9 Financial Instruments, without applying the other requirements of MFRS 9. The early adoption was applied prospectively. Excluding the impact of RM15.9 million gain in prior year, the underlying PBT for YTD Sep17 decreased by RM2.7 million or 3.6% against history of RM75.8 million.

Operating expenses decreased from RM183.4 million to RM180.9 million or by 1.4% mainly due to lower general administrative expenses (-RM7.0 million), offset by higher personnel expenses (+RM4.5 million). The Bank continues to leverage on its holding company to provide certain services under an embedded model to ensure its costs are maintained at a sustainable level.

Total balance sheet size at 30 September 2017 stood at RM17.1 billion, RM0.8 billion higher compared against 31 December 2016 (RM16.3 billion). The Bank has recorded an annualised growth of 19.3% (RM1.7 billion) in customer advances to RM13.7 billion as at 30 September 2017. The Bank's capital and liquidity ratios continues to remain strong and well above regulatory requirements.