

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(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 BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

UNAUDITED CONDENSED STATEMENTS OF FINANCIAL POSITION
AT 30 SEPTEMBER 2017

	Note	<i>Group</i>		<i>Bank</i>	
		30 Sep 2017 RM'000	31 Dec 2016 RM'000 (Restated)	30 Sep 2017 RM'000	31 Dec 2016 RM'000 (Restated)
Assets					
Cash and short-term funds	12	5,363,094	16,804,114	4,482,071	14,999,888
Securities purchased under resale agreements		1,725,044	6,162,230	1,725,044	6,162,230
Deposits and placements with banks and other financial institutions	13	610,001	1,861,400	3,807,049	3,875,486
Financial assets held-for-trading	14	4,221,806	2,266,452	4,221,308	2,265,964
Financial investments available-for-sale	15	13,745,541	6,558,044	11,793,359	5,189,470
Loans, advances and financing	16	49,841,355	46,894,834	36,428,907	35,151,571
Derivative financial assets	34	1,939,271	2,988,954	1,937,823	3,089,446
Other assets	18	693,619	261,639	780,493	267,107
Statutory deposits with Bank Negara Malaysia	19	985,131	1,118,360	620,670	792,898
Investments in subsidiary companies	20	-	-	660,021	660,021
Property and equipment		355,131	364,324	349,423	357,087
Intangible assets		49,186	58,731	49,186	58,731
Tax recoverable		35,671	57,235	20,850	46,950
Deferred tax assets		58,683	28,258	51,620	17,863
Total assets		79,623,533	85,424,575	66,927,824	72,934,712
Liabilities					
Deposits from customers	20	56,472,576	57,711,534	47,253,400	48,985,012
Deposits and placements from banks and other financial institutions	21	4,208,281	6,571,193	3,438,852	6,542,777
Bills and acceptances payable		298,082	326,305	284,216	302,673
Derivative financial liabilities	34	1,970,784	3,127,028	1,984,082	3,132,513
Other liabilities	22	5,171,099	5,554,326	4,649,516	4,454,700
Provision for taxation		59,184	-	59,184	-
Multi-Currency Sukuk Programme	23	1,252,612	1,756,001	-	-
Subordinated liabilities	24	1,109,407	1,648,824	1,109,407	1,648,824
Total liabilities		70,542,025	76,695,211	58,778,657	65,066,499
Equity					
Share capital		1,045,875	114,500	1,045,875	114,500
Reserves		8,035,633	8,614,864	7,103,292	7,753,713
Total equity attributable to owner of the Bank		9,081,508	8,729,364	8,149,167	7,868,213
Total liabilities and equity		79,623,533	85,424,575	66,927,824	72,934,712
Commitments and contingencies	33	186,738,841	173,191,009	177,907,679	166,087,429

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and Bank for the financial year ended 31 December 2016 and the accompanying explanatory notes on pages 9 to 41 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 27 October 2017.

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

**UNAUDITED CONDENSED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017**

	<i>Note</i>	<i>Group</i>			
		Third Quarter		Nine Months Ended	
		30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
		RM'000	RM'000	RM'000	RM'000
Interest income	25	565,470	566,387	1,691,728	1,725,752
Interest expense	25	(202,192)	(205,896)	(617,744)	(655,935)
Net interest income	25	363,278	360,491	1,073,984	1,069,817
Fee and commission income	26	119,588	114,870	349,929	339,720
Fee and commission expense	26	(27,829)	(21,545)	(59,671)	(61,682)
Net fee and commission income	26	91,759	93,325	290,258	278,038
Net trading income	27	198,962	116,904	593,653	467,348
Income from Islamic banking operations	28	105,237	160,570	285,413	416,928
Other operating income	29	7,382	22,210	24,250	51,343
Operating income before impairment losses		766,618	753,500	2,267,558	2,283,474
Loans/financing impairment charges and other credit risk provisions	30	(80,462)	(49,338)	(220,645)	(97,761)
Net operating income		686,156	704,162	2,046,913	2,185,713
Other operating expenses	31	(381,581)	(358,099)	(1,128,440)	(1,093,912)
Profit before tax		304,575	346,063	918,473	1,091,801
Tax expense		(71,661)	(85,163)	(222,832)	(269,677)
Profit for the period		232,914	260,900	695,641	822,124
Other comprehensive income/(expense)					
<i>Items that will subsequently be reclassified to profit or loss when specific conditions are met</i>					
Own credit reserve:					
Change in fair value		(312)	-	6,450	-
Income tax effect		75	-	(1,548)	-
Available-for-sale reserve:					
Change in fair value		13,914	42,399	67,011	247,303
Net amount transferred to profit or loss		(1,162)	(24,947)	(7,350)	(72,837)
Income tax effect		(3,061)	(4,189)	(14,319)	(41,872)
Other comprehensive income for the financial period, net of income tax		9,454	13,263	50,244	132,594
Total comprehensive income for the period		242,368	274,163	745,885	954,718
Profit attributable to owner of the Bank		232,914	260,900	695,641	822,124
Total comprehensive income attributable to owner of the Bank		242,368	274,163	745,885	954,718
Basic earnings per RM0.50 ordinary share		101.7 sen	113.9 sen	303.8 sen	359 sen
Dividends per RM0.50 ordinary share (net)					
- interim dividend paid in respect of the period		87.3 sen	87.3 sen	87.3 sen	87.3 sen
- final dividend paid in respect of prior period		87.3 sen	-	87.3 sen	-

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and Bank for the financial year ended 31 December 2016 and the accompanying explanatory notes on pages 9 to 41 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 27 October 2017.

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

**UNAUDITED CONDENSED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017**

	<i>Note</i>	<i>Bank</i>			
		Third Quarter		Nine Months Ended	
		30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
		RM'000	RM'000	RM'000	RM'000
Interest income	25	586,757	582,554	1,748,673	1,782,384
Interest expense	25	(202,192)	(205,896)	(617,744)	(655,935)
Net interest income	25	384,565	376,658	1,130,929	1,126,449
Fee and commission income	26	119,588	114,900	349,929	339,750
Fee and commission expense	26	(27,829)	(21,545)	(59,671)	(61,682)
Net fee and commission income	26	91,759	93,355	290,258	278,068
Net trading income	27	147,695	136,911	441,598	464,305
Other operating income	29	37,523	55,249	116,387	151,305
Operating income before impairment losses		661,542	662,173	1,979,172	2,020,127
Loans impairment (charges)/release and other credit risk provisions	30	(25,889)	(33,127)	(92,034)	(7,250)
Net operating income		635,653	629,046	1,887,138	2,012,877
Other operating expenses	31	(352,500)	(333,288)	(1,041,826)	(1,012,807)
Profit before tax		283,153	295,758	845,312	1,000,070
Tax expense		(67,927)	(72,954)	(209,363)	(249,126)
Profit for the period		215,226	222,804	635,949	750,944
Other comprehensive income/(expense)					
<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		50,228	36,808	58,328	235,923
Net amount transferred to profit or loss		(8,901)	(21,150)	(7,350)	(65,985)
Income tax effect		(9,919)	(3,758)	(12,235)	(40,785)
Other comprehensive income for the financial period, net of income tax		31,408	11,900	38,743	129,153
Total comprehensive income for the period		246,634	234,704	674,692	880,097
Profit attributable to owner of the Bank		215,226	222,804	635,949	750,944
Total comprehensive income attributable to owner of the Bank		246,634	234,704	674,692	880,097
Basic earnings per RM0.50 ordinary share		94.0 sen	97.3 sen	277.7 sen	327.9 sen
Dividends per RM0.50 ordinary share (net)					
- interim dividend paid in respect of the period		87.3 sen	87.3 sen	87.3 sen	87.3 sen
- final dividend paid in respect of prior period		87.3 sen	-	87.3 sen	-

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and Bank for the financial year ended 31 December 2016 and the accompanying explanatory notes on pages 9 to 41 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 27 October 2017.

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017

Group (RM'000)

	Share capital	Share premium	Statutory reserve ^[1]	Revaluation reserve	Capital redemption reserve	Available-for-sale reserve	Own Credit Reserve ^[2]	Capital contribution reserve	Regulatory reserve	Retained profit	Total equity
2017											
Balance at 1 January	114,500	741,375	164,500	216,229	190,000	81,157	-	83,841	284,000	6,853,762	8,729,364
- Effects on adopting MFRS 9 on 1 January 2017 ^[2]	-	-	-	-	-	-	(1,846)	-	-	1,846	-
As restated	114,500	741,375	164,500	216,229	190,000	81,157	(1,846)	83,841	284,000	6,855,608	8,729,364
Total comprehensive income for the financial period											
Profit for the financial period	-	-	-	-	-	-	-	-	-	695,641	695,641
Other comprehensive income, net of income tax											
Revaluation reserve:											
Transfer to retained profit upon realisation of depreciation	-	-	-	(1,759)	-	-	-	-	-	1,759	-
Available-for-sale reserve:											
Net change in fair value	-	-	-	-	-	50,928	4,902	-	-	-	55,830
Net amount transferred to profit or loss	-	-	-	-	-	(5,586)	-	-	-	-	(5,586)
<i>Total other comprehensive income</i>	-	-	-	(1,759)	-	45,342	4,902	-	-	1,759	50,244
Total comprehensive income for the financial period	-	-	-	(1,759)	-	45,342	4,902	-	-	697,400	745,885
Transition to no par value regime on 31 January 2017 ^[3]	931,375	(741,375)	-	-	(190,000)	-	-	-	-	-	-
Transfer in accordance with BNM's requirement ^[1]	-	-	(164,500)	-	-	-	-	-	-	164,500	-
Transactions with the owner, recorded directly in equity											
Share based payment transactions	-	-	-	-	-	-	-	6,662	-	(403)	6,259
Dividends paid to owner - 2017 interim	-	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Dividends paid to owner - 2016 final	-	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 30 September	1,045,875	-	-	214,470	-	126,499	3,056	90,503	284,000	7,317,105	9,081,508

^[1] With effect from 3 May 2017, The Group is no longer required to maintain statutory reserve pursuant to Bank Negara Malaysia's guideline on Capital Funds.

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

^[3] 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 RM741k and capital redemption reserves of RM190k become part of the Group'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.

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 9 to 41 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 27 October 2017.

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017 (Cont'd)

Group (RM'000)

	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available- for-sale reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profit</i>	<i>Total equity</i>
2016										
Balance at 1 January	114,500	741,375	164,500	186,962	190,000	18,569	95,953	284,000	6,052,662	7,848,521
Total comprehensive income for the financial period										
Profit for the financial period	-	-	-	-	-	-	-	-	822,124	822,124
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profit upon realisation of depreciation	-	-	-	(1,562)	-	-	-	-	1,562	-
Available-for-sale reserve:										
Net change in fair value	-	-	-	-	-	187,950	-	-	-	187,950
Net amount transferred to profit or loss	-	-	-	-	-	(55,356)	-	-	-	(55,356)
<i>Total other comprehensive income</i>	-	-	-	(1,562)	-	132,594	-	-	1,562	132,594
Total comprehensive income for the financial period	-	-	-	(1,562)	-	132,594	-	-	823,686	954,718
Transactions with the owner, recorded directly in equity										
Share based payment transactions	-	-	-	-	-	-	(2,473)	-	1,948	(525)
Balance at 30 September	114,500	741,375	164,500	185,400	190,000	151,163	93,480	284,000	6,878,296	8,802,714

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 9 to 41 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 27 October 2017.

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017 (Cont'd)

Bank (RM'000)	<i>Non-distributable</i>							<i>Distributable</i>		<i>Total equity</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve^[1]</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available-for-sale reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profit</i>	
2017										
Balance at 1 January	114,500	741,375	114,500	216,229	190,000	87,704	83,438	250,000	6,070,467	7,868,213
Total comprehensive income for the financial period										
Profit for the financial period	-	-	-	-	-	-	-	-	635,949	635,949
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profit upon realisation of depreciation	-	-	-	(1,759)	-	-	-	-	1,759	-
Available-for-sale reserve:										
Net change in fair value	-	-	-	-	-	44,329	-	-	-	44,329
Net amount transferred to profit or loss	-	-	-	-	-	(5,586)	-	-	-	(5,586)
<i>Total other comprehensive income</i>	-	-	-	(1,759)	-	38,743	-	-	1,759	38,743
Total comprehensive income for the financial period	-	-	-	(1,759)	-	38,743	-	-	637,708	674,692
Transition to no par value regime on 31 January 2017 ^[2]	931,375	(741,375)	-	-	(190,000)	-	-	-	-	-
Transfer in accordance with BNM's requirement ^[1]	-	-	(114,500)	-	-	-	-	-	114,500	-
Transactions with the owner, recorded directly in equity										
Share based payment transactions	-	-	-	-	-	-	6,665	-	(403)	6,262
Dividends paid to owner - 2017 interim	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Dividends paid to owner - 2016 final	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 30 September	1,045,875	-	-	214,470	-	126,447	90,103	250,000	6,422,272	8,149,167

^[1] With effect from 3 May 2017, the Bank is no longer required to maintain statutory reserve pursuant to Bank Negara Malaysia's guideline on Capital Funds.

^[2] 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 RM741k and capital redemption reserves of RM190k 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.

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 9 to 41 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 27 October 2017.

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017 (Cont'd)

Bank (RM'000)	<i>Non-distributable</i>							<i>Distributable</i>		<i>Total equity</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Revaluation reserve</i>	<i>Capital redemption reserve</i>	<i>Available-for-sale reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profit</i>	
2016										
Balance at 1 January	114,500	741,375	114,500	186,962	190,000	13,623	94,895	250,000	5,350,760	7,056,615
Total comprehensive income for the financial period										
Profit for the financial period	-	-	-	-	-	-	-	-	750,944	750,944
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profit upon realisation of depreciation	-	-	-	(1,562)	-	-	-	-	1,562	-
Available-for-sale reserve:										
Net change in fair value	-	-	-	-	-	179,301	-	-	-	179,301
Net amount transferred to profit or loss	-	-	-	-	-	(50,148)	-	-	-	(50,148)
<i>Total other comprehensive income</i>	-	-	-	(1,562)	-	129,153	-	-	1,562	129,153
Total comprehensive income for the financial period	-	-	-	(1,562)	-	129,153	-	-	752,506	880,097
Transactions with the owner, recorded directly in equity										
Share based payment transactions	-	-	-	-	-	-	(1,832)	-	1,948	116
Balance at 30 September	114,500	741,375	114,500	185,400	190,000	142,776	93,063	250,000	6,105,214	7,936,828

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 9 to 41 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 27 October 2017.

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

**UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017**

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Profit before tax	918,473	1,091,801	845,312	1,000,070
Adjustments for non-operating and non-cash items	668,368	407,409	664,605	288,068
Operating profit before working capital changes	1,586,841	1,499,210	1,509,917	1,288,138
Changes in working capital:				
Net changes in operating assets	881,387	2,380,807	1,424,597	2,878,060
Net changes in operating liabilities	(5,080,468)	(9,518,848)	(5,775,712)	(7,454,450)
Income tax paid	(188,375)	(242,878)	(170,071)	(224,036)
Net cash used in operations	(2,800,615)	(5,881,709)	(3,011,269)	(3,512,288)
Net cash (used in)/generated from investing activities	(7,148,609)	278,681	(6,572,028)	(106,257)
Net cash used in financing activity	(1,491,796)	(94,570)	(934,520)	(34,368)
	(8,640,405)	184,111	(7,506,548)	(140,625)
Net changes in cash and cash equivalents	(11,441,020)	(5,697,598)	(10,517,817)	(3,652,913)
Cash and cash equivalents at 1 January	16,804,114	18,251,909	14,999,888	14,318,083
Cash and cash equivalents at 30 September	5,363,094	12,554,311	4,482,071	10,665,170
Analysis of cash and cash equivalents				
Cash and short-term funds	5,363,094	12,554,311	4,482,071	10,665,170
Cash and cash equivalents comprise the following:				
Cash and short-term funds	5,363,094	12,554,311	4,482,071	10,665,170
Adjustment for cash collateral	(116,375)	(817,512)	(141,375)	(1,167,512)
Cash and cash equivalents	5,246,719	11,736,799	4,340,696	9,497,658

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and Bank for the financial year ended 31 December 2016 and the accompanying explanatory notes on pages 9 to 41 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 27 October 2017.

HSBC BANK MALAYSIA BERHAD
(Company No. 127776-V)
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

HSBC Bank Malaysia Berhad (the Bank) is principally engaged in the provision of banking and other related financial services. The subsidiaries of the Bank are principally engaged in the businesses of Islamic Banking and nominee services. Islamic Banking operations refer generally to the acceptance of deposits and granting of financing under the principles of Shariah. The Bank and its subsidiaries are collectively known as "the Group".

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 the ultimate holding company during the financial period are The Hongkong and Shanghai Banking Corporation Limited (HBAP) and HSBC Holdings plc, respectively.

The financial statements were approved and authorised for issue by the Board of Directors on 27 October 2017.

2 Basis of Preparation

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). The unaudited condensed interim financial statements incorporate those activities relating to Islamic Banking which have been undertaken by the Bank's Islamic subsidiary.

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 Group and 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 Group and 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 Group and the Bank

The new accounting standards and amendments to published standards that are effective and applicable to the Group and 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)

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

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 meets, 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 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.

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 income statement, unless this creates an accounting mismatch. With effect from 1 January 2017, the Group 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 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)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank 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' 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 Group and the Bank 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 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.

4 Auditors' Report On Preceding Annual Financial Statements

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

5 Seasonality or Cyclical Factors

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

6 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 Group and Bank for the financial period ended 30 September 2017.

7 Changes in Estimates

The preparation of financial information requires the use of estimates. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from those reported. Management believes that critical accounting policies where judgement is necessarily applied are those which relate to impairment allowances for loans, advances and financing, 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 Group and Bank for the financial period ended 30 September 2017.

8 Debt and Equity Securities

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

9 Dividend

Since the end of the previous financial year, the Bank paid a final dividend of RM0.87 per ordinary share amounting to RM200 million. The dividend was paid on 11 May 2017.

An interim dividend of RM0.87 per ordinary share amounting to RM200 million in respect of the current financial period was paid on 20 September 2017.

10 Carrying Amount of Revalued Assets

Property and equipment are stated at cost/valuation less accumulated depreciation and impairment losses (if any) except for freehold land which is stated at professional valuation. There was no change in the valuation of property and equipment that was brought forward from the previous audited financial statements for the financial period ended 30 September 2017.

11 Significant and Subsequent Events

On 15 June 2017, the Bank entered into sale and purchase agreement with a third party to acquire a piece of land for the construction of the Bank's future headquarters at the upcoming international financial district Tun Razak Exchange (TRX). The Bank is expected to invest up to USD250 million over the next few years for the development of the said headquarters.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Cash and Short Term Funds

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000	30 Sep 2017 RM'000	31 Dec 2016 RM'000
Cash and balances with banks and other financial institutions	802,293	1,121,507	664,521	931,916
Money at call and interbank placements maturing within one month	4,560,801	15,682,607	3,817,550	14,067,972
	5,363,094	16,804,114	4,482,071	14,999,888

Included in cash and short term funds of the Group and the Bank are cash collateral pledged on derivative contracts subject to an enforceable master netting arrangement amounting to RM116.4 million (31 December 2016: RM1,079.0 million) and RM141.4 million (31 December 2016: RM1,429.0 million) respectively.

13 Deposits and Placements with Banks and Other Financial Institutions

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000	30 Sep 2017 RM'000	31 Dec 2016 RM'000
Licensed banks	260,001	425,000	3,457,049	2,439,086
Bank Negara Malaysia	350,000	1,436,400	350,000	1,436,400
	610,001	1,861,400	3,807,049	3,875,486

Included in Deposits and Placements with Banks and Other Financial Institutions of the Bank are placements with the Bank's wholly owned subsidiary, HSBC Amanah Malaysia Berhad (HBMS) of RM3,197.0 million (31 December 2016: RM2,014.1 million).

14 Financial Assets Held-for-Trading

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000	30 Sep 2017 RM'000	31 Dec 2016 RM'000
At fair value				
Money market instruments:				
Malaysian Government treasury bills	637,526	128,792	637,526	128,792
Islamic treasury bills	367,303	29,620	367,303	29,620
Bank Negara Malaysia bills and notes	-	147,681	-	147,681
Malaysian Government securities	1,242,347	1,601,737	1,242,347	1,601,737
Malaysian Government Islamic bonds	1,895,549	249,154	1,895,051	248,666
Islamic fixed rate bonds	8,995	8,895	8,995	8,895
Cagamas bonds and notes	2,479	2,452	2,479	2,452
	4,154,199	2,168,331	4,153,701	2,167,843
Unquoted:				
Corporate bonds and Sukuk	67,607	98,121	67,607	98,121
	4,221,806	2,266,452	4,221,308	2,265,964

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Financial Investments Available-for-Sale

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
At fair value	RM'000	RM'000	RM'000	RM'000
Money market instruments:				
Malaysian Government securities	9,810,951	2,666,063	9,810,951	2,666,063
Malaysian Government Islamic bonds	2,596,677	2,133,363	768,498	764,789
Malaysian Government Islamic treasury bills	49,491	-	49,491	-
Islamic fixed rate Sukuk	514,233	504,449	514,233	504,449
Islamic treasury bills	24,746	-	-	-
Cagamas bonds and notes	404,674	414,397	404,674	414,397
Negotiable instruments of deposit	99,257	-	-	-
China Government bond	6,368	-	6,368	-
US treasury bond	-	671,742	-	671,742
Bankers' acceptance and Islamic accepted bills	54,949	-	54,949	-
	13,561,346	6,390,014	11,609,164	5,021,440
Unquoted:				
Shares	177,407	167,559	177,407	167,559
Corporate bonds	6,788	471	6,788	471
	184,195	168,030	184,195	168,030
	13,745,541	6,558,044	11,793,359	5,189,470

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

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Maturing within one year	8,009,997	895,867	7,288,986	715,643
More than one year to three years	3,112,528	2,808,372	1,962,302	2,075,923
More than three years to five years	2,438,821	1,744,117	2,357,876	1,308,271
Over five years	-	941,658	-	921,603
	13,561,346	6,390,014	11,609,164	5,021,440

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Loans, Advances and Financing

(i) By type

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
At amortised cost	RM'000	RM'000	RM'000	RM'000
Overdrafts/cash line	1,004,735	1,224,214	919,917	1,126,374
Term loans/financing:				
Housing loans/financing	19,411,330	19,496,554	15,014,024	15,139,920
Syndicated term loans/financing	4,206,666	2,409,157	2,272,549	1,758,891
Factoring receivables	216,171	224,757	216,171	224,757
Hire purchase receivables	176,052	208,921	-	-
Lease receivables	1,650	2,738	-	-
Other term loans/financing ⁽¹⁾	9,451,578	10,502,925	5,685,794	6,635,422
Bills receivable	2,424,153	1,100,284	2,315,984	990,012
Trust receipts	2,303,763	2,104,186	1,392,401	1,641,951
Claims on customers under acceptance credits	1,760,762	1,869,112	1,323,052	1,364,737
Staff loans/financing	114,539	135,101	109,479	128,908
Credit/charge cards	3,201,221	3,154,850	2,336,539	2,367,140
Revolving credit	6,367,769	5,152,622	5,312,280	4,202,461
Other loans/financing	9,986	9,018	8,669	7,831
Gross loans, advances and financing	50,650,375	47,594,439	36,906,859	35,588,404
Less: Allowance for impaired loans, advances and financing				
- Collectively assessed	(523,546)	(469,565)	(291,114)	(269,550)
- Individually assessed	(285,474)	(230,040)	(186,838)	(167,283)
Total net loans, advances and financing	49,841,355	46,894,834	36,428,907	35,151,571

⁽¹⁾ Included in the loans, advances and financing of the Bank at 30 September 2017 are financing which are disclosed as "Asset under Management" in the financial statements of HBMS. These details are as follows:

	<i>Bank</i>	
	30 Sep 2017	31 Dec 2016
	RM'000	RM'000
Other term loans/financing	1,930,492	832,087

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Loans, Advances and Financing (Cont'd)

(i) By type (Cont'd)

Syndicated Investment Account for Financing/Investment Agency Account (SIAF/IAA) arrangement is with the Bank's wholly owned subsidiary, HBMS, and the contract is based on the Wakalah principle where the Bank, solely or together with other financial institutions provide the funds, whilst the assets are managed by HBMS (as the Wakeel or agent). However, in the arrangement, the profits of the underlying assets are recognised by the Bank proportionately in relation to the funding it provides in the syndication arrangement. At the same time, risks on the financing are also proportionately borne by the Bank. Hence, the underlying assets and allowances for impairment arising thereon, if any, are proportionately recognised and accounted for by the Bank.

The recognition and derecognition treatments of the above are in accordance to Note 3(f) on financial instruments in the audited financial statements of the Group and the Bank for the financial year ended 31 December 2016.

(ii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Domestic non-bank financial institutions	655,895	638,263	-	-
Domestic business enterprises:				
Small medium enterprises	7,215,627	7,130,268	5,234,168	5,309,204
Others	14,527,711	12,872,728	10,856,560	10,474,991
Government and statutory bodies	7,997	10,316	-	-
Individuals	22,428,112	22,589,526	16,386,331	16,687,675
Other domestic entities	5,524	6,305	4,138	4,839
Foreign entities	5,809,509	4,347,033	4,425,662	3,111,695
	50,650,375	47,594,439	36,906,859	35,588,404

(iii) By residual contractual maturity

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Maturity within one year	22,441,064	18,127,142	16,551,610	13,770,956
More than one year to three years	2,601,903	3,515,403	1,654,837	2,860,890
More than three years to five years	2,690,052	2,475,446	1,744,444	1,363,990
More than five years	22,917,356	23,476,448	16,955,968	17,592,568
	50,650,375	47,594,439	36,906,859	35,588,404

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Loans, Advances and Financing (Cont'd)

(iv) By interest/profit rate sensitivity

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000	30 Sep 2017 RM'000	31 Dec 2016 RM'000
Fixed rate:				
Housing loans/financing	565	1,341	472	943
Hire purchase receivables	176,053	208,921	-	-
Other fixed rate loans/financing	11,920,290	9,628,558	8,666,084	6,844,259
Variable rate:				
BR/BLR/BFR plus	23,380,965	24,077,415	17,933,574	18,606,188
Cost-plus	15,172,502	13,678,204	10,306,729	10,137,014
	50,650,375	47,594,439	36,906,859	35,588,404

(v) By sector

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000	30 Sep 2017 RM'000	31 Dec 2016 RM'000
Agricultural, hunting, forestry and fishing	1,046,150	1,176,579	941,930	1,040,207
Mining and quarrying	398,926	384,706	157,643	166,512
Manufacturing	6,632,462	6,351,035	4,861,510	5,163,094
Electricity, gas and water	46,194	48,252	12,978	15,345
Construction	2,628,440	2,468,451	2,258,624	2,113,806
Real estate	3,543,398	3,098,856	2,508,728	2,277,002
Wholesale & retail trade and restaurants & hotels	3,819,908	3,760,487	2,805,860	2,944,164
Transport, storage and communication	1,385,781	373,579	816,663	186,858
Finance, insurance and business services	2,350,738	2,479,650	1,445,547	1,549,936
Household-retail	25,861,533	26,017,506	19,191,110	19,480,811
Others	2,936,845	1,435,338	1,906,266	650,669
	50,650,375	47,594,439	36,906,859	35,588,404

(vi) By purpose

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000	30 Sep 2017 RM'000	31 Dec 2016 RM'000
Purchase of property:				
Residential	19,484,078	19,586,996	15,084,594	15,227,147
Non residential	1,555,914	1,669,618	745,517	816,610
Purchase of securities	5,239	5,831	5,239	5,831
Purchase of transport vehicles	27,447	30,798	25,658	28,951
Purchase of fixed assets excluding land & building	2,592	4,068	2,592	3,702
Consumption credit	5,835,684	5,851,404	3,834,261	3,957,812
Construction	2,332,726	1,943,074	1,955,282	1,599,631
Working capital	19,013,768	17,567,239	13,623,991	13,624,119
Other purpose	2,392,927	935,411	1,629,725	324,601
	50,650,375	47,594,439	36,906,859	35,588,404

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Loans, Advances and Financing (Cont'd)

(vii) By geographical distribution

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Northern Region	6,504,380	6,651,438	5,088,813	5,246,198
Southern Region	6,208,239	6,692,390	4,683,165	5,122,978
Central Region	35,343,645	31,441,394	24,990,785	22,875,491
Eastern Region	2,594,111	2,809,217	2,144,096	2,343,737
	50,650,375	47,594,439	36,906,859	35,588,404

Concentration by location for loans, advances and financing is based on the location of the borrower.

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 state 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.

17 Impaired Loans, Advances and Financing

(i) Movements in impaired loans, advances and financing

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	1,026,953	941,081	723,427	705,802
Classified as impaired during the financial period/year	869,492	1,113,363	540,432	754,657
Reclassified as performing	(389,533)	(503,968)	(266,867)	(381,139)
Amount recovered	(203,074)	(290,068)	(151,143)	(240,237)
Amount written off	(208,678)	(233,455)	(107,321)	(115,656)
Balance at 30 September/31 December	1,095,160	1,026,953	738,528	723,427

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Impaired Loans, Advances and Financing (Cont'd)

(ii) Movements in allowances for impaired loans, advances and financing

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000	30 Sep 2017 RM'000	31 Dec 2016 RM'000
Collective allowance for impairment				
Balance at 1 January	469,565	444,234	269,550	303,970
Made during the financial period/year	302,734	402,500	145,617	191,013
Amount released	(76,565)	(186,755)	(44,062)	(128,491)
Amount written off	(172,188)	(190,414)	(79,991)	(96,942)
Balance at 30 September/31 December	523,546	469,565	291,114	269,550

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000	30 Sep 2017 RM'000	31 Dec 2016 RM'000
Individual allowance for impairment				
Balance at 1 January	230,040	230,297	167,283	161,650
Made during the financial period/year	120,701	110,361	75,001	80,320
Amount released	(74,479)	(80,987)	(52,241)	(62,872)
Amount reinstated/(written off)	9,212	(29,631)	(3,205)	(11,815)
Balance at 30 September/31 December	285,474	230,040	186,838	167,283

(iii) By sector

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000	30 Sep 2017 RM'000	31 Dec 2016 RM'000
Agricultural, hunting, forestry and fishing	59,659	63,410	59,659	63,410
Manufacturing	60,460	58,611	42,096	54,573
Construction	27,646	52,877	27,646	52,673
Real estate	1,214	1,548	1,214	1,548
Wholesale & retail trade, restaurants & hotels	39,152	44,973	31,100	32,664
Transport, storage and communication	20,933	3,950	17,814	285
Finance, insurance and business services	31,955	25,796	2,170	2,450
Household-retail	850,815	774,858	556,494	515,512
Others	3,326	930	335	312
	1,095,160	1,026,953	738,528	723,427

(iv) By purpose

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000	30 Sep 2017 RM'000	31 Dec 2016 RM'000
Purchase of property:				
Residential	535,718	480,942	379,774	345,875
Non residential	28,601	20,968	17,384	10,081
Purchase of transport vehicles	371	552	277	406
Purchase of fixed assets excluding land & building	-	358	-	-
Consumption credit	300,923	283,385	166,685	162,168
Construction	36,144	52,766	33,297	52,562
Working capital	193,240	187,954	140,948	152,307
Other purpose	163	28	163	28
	1,095,160	1,026,953	738,528	723,427

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Impaired Loans, Advances and Financing (Cont'd)

(v) By geographical distribution

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Northern Region	192,621	183,825	134,187	136,112
Southern Region	111,400	100,367	76,335	69,761
Central Region	628,049	580,344	378,346	367,701
Eastern Region	163,090	162,417	149,660	149,853
	1,095,160	1,026,953	738,528	723,427

18 Other Assets

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Settlements	334,513	7,097	334,513	7,097
Interest/profit receivable	159,768	112,285	147,432	103,218
Income receivable	27,208	31,209	20,789	25,150
Deposits and prepayments	25,935	3,136	24,448	3,064
Amount due from subsidiary company	-	-	132,848	36,472
Other receivables	146,195	107,912	120,463	92,106
	693,619	261,639	780,493	267,107

19 Statutory Deposits with Bank Negara Malaysia

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia (BNM) 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	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000 (Restated)	30 Sep 2017 RM'000	31 Dec 2016 RM'000 (Restated)
At amortised cost				
Demand deposits	19,277,322	19,695,534	17,420,065	17,793,237
Savings deposits	13,087,855	13,182,399	11,352,329	11,555,217
Fixed/Investment deposits	23,627,528	24,355,592	18,067,605	19,218,332
Repurchase agreements	66,470	59,783	-	-
Wholesale money market deposits	413,401	418,226	413,401	418,226
	56,472,576	57,711,534	47,253,400	48,985,012

The maturity structure of fixed/investment deposits is as follows:

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000 (Restated)	30 Sep 2017 RM'000	31 Dec 2016 RM'000 (Restated)
Due within six months	18,844,433	19,249,230	14,116,697	14,872,456
More than six months to one year	4,482,702	4,932,802	3,746,677	4,197,644
More than one year to three years	235,464	139,760	162,398	120,050
More than three years to five years	64,929	33,800	41,833	28,182
	23,627,528	24,355,592	18,067,605	19,218,332

(ii) By type of customer	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000 (Restated)	30 Sep 2017 RM'000	31 Dec 2016 RM'000 (Restated)
Government and statutory bodies	16,379	14,607	10,705	8,178
Business enterprises	19,852,684	20,111,837	17,692,024	18,085,693
Individuals	24,214,332	25,214,947	19,322,079	20,631,064
Others	12,389,181	12,370,143	10,228,592	10,260,077
	56,472,576	57,711,534	47,253,400	48,985,012

21 Deposits and Placements from Banks and Other Financial Institutions

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000	30 Sep 2017 RM'000	31 Dec 2016 RM'000
Licensed banks	392,548	774,180	392,549	774,180
Bank Negara Malaysia	29,060	63,486	1,950	35,070
Other financial institutions	3,786,673	5,733,527	3,044,353	5,733,527
	4,208,281	6,571,193	3,438,852	6,542,777

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

22 Other Liabilities

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
		(Restated)		(Restated)
At amortised cost				
Settlements	370,847	71,943	320,361	71,943
Interest/profit payable	216,292	252,014	169,299	190,475
Deferred income	107,185	102,972	96,485	91,686
Marginal deposit	63,587	74,375	52,707	51,614
Amount due to subsidiary company	-	-	41	45,132
Accrued expenses	577,823	363,332	548,873	337,097
Other creditors	617,992	594,717	563,091	541,189
	1,953,726	1,459,353	1,750,857	1,329,136
At fair value				
Structured products ^[1]	3,217,373	4,094,973	2,898,659	3,125,564
	5,171,099	5,554,326	4,649,516	4,454,700

^[1] Structured products are measured at fair value over the life of the instruments. Structured products are deposits with embedded derivatives, of which both interest/profit paid and fair valuation on the structured products are recorded in net trading income, as per accounting policy in Note 3(i), and respective fair value on trading liabilities is shown in Note 5(b) in the financial statements of the Group and the Bank for the financial year ended 31 December 2016.

23 Multi-Currency Sukuk Programme

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

HSBC Amanah Malaysia Berhad, a subsidiary of the Bank, issued the following series of 5-year Sukuk under its RM3 billion MCSP:

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

Movement in MCSP

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24 Subordinated Liabilities

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Subordinated Liabilities	1,109,407	1,648,824	1,109,407	1,648,824
(i) Subordinated liabilities, at par				
- First tranche issued on 28 June 2007 ^[1]	-	500,000	-	500,000
- Second tranche issued on 2 November 2007 ^[2]	500,000	500,000	500,000	500,000
Fair value changes arising from fair value hedge	959	2,559	959	2,559
	500,959	1,002,559	500,959	1,002,559

^[1] 4.35% coupon rate for RM500 million due 2022 callable with a 100 bp step up coupon in 2017. On 28 June 2017, the Bank has exercised its option to early redeem the RM500 million (first tranche of the subordinated liabilities).

^[2] 5.05% coupon rate for RM500 million due 2027 callable with a 100 bp step up coupon in 2022

The unsecured subordinated liabilities qualify as a component of Tier 2 capital of the Bank. Under the Capital Adequacy Framework (Capital Components), the par value of the subordinated liabilities are amortised on a straight line basis, with 10% of the par value phased out each year, with effect from 2013 for regulatory capital base purposes.

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
(ii) Subordinated term loan				
- First tranche issued on 25 June 2014	328,115	348,508	328,115	348,508
- Second tranche issued on 30 June 2015	280,333	297,757	280,333	297,757
	608,448	646,265	608,448	646,265

The subordinated term loans comprised two tranches of Basel III compliant Tier 2 subordinated loans of USD equivalent of RM250 million each from the Bank's immediate holding company, HBAP. The tenor for both the subordinated term loans is 10 years from the utilisation date with interest payable quarterly in arrears.

The subordinated term loans constitute direct, unsecured and subordinated obligations of the Bank. The Bank further invested a similar amount into HBMS.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Net Interest Income

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	402,310	394,224	1,183,221	1,211,094
- Interest income recognised from impaired loans	9,665	10,022	28,431	31,314
Money at call and deposit placements with financial institutions	42,989	109,787	199,206	324,611
Financial investments available-for-sale	110,506	52,354	280,870	158,733
	565,470	566,387	1,691,728	1,725,752
Interest expense				
Deposits and placements of banks and other financial institutions	(12,494)	(9,225)	(37,834)	(32,746)
Deposits from customers	(175,894)	(178,513)	(528,650)	(568,678)
Subordinated liabilities	(11,022)	(15,354)	(42,916)	(46,100)
Others	(2,782)	(2,804)	(8,344)	(8,411)
	(202,192)	(205,896)	(617,744)	(655,935)
Net interest income	363,278	360,491	1,073,984	1,069,817

	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	402,310	394,224	1,183,221	1,211,094
- Interest income recognised from impaired loans	9,665	10,022	28,431	31,314
Money at call and deposit placements with financial institutions	64,276	125,954	256,151	381,243
Financial investments available-for-sale	110,506	52,354	280,870	158,733
	586,757	582,554	1,748,673	1,782,384
Interest expense				
Deposits and placements of banks and other financial institutions	(12,494)	(9,225)	(37,834)	(32,746)
Deposits from customers	(175,894)	(178,513)	(528,650)	(568,678)
Subordinated liabilities	(11,022)	(15,354)	(42,916)	(46,100)
Others	(2,782)	(2,804)	(8,344)	(8,411)
	(202,192)	(205,896)	(617,744)	(655,935)
Net interest income	384,565	376,658	1,130,929	1,126,449

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

26 Net Fee and Commission Income

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Fee and commission income				
Credit cards	36,736	37,055	112,591	110,345
Service charges and fees	32,938	33,450	95,501	105,013
Fees on credit facilities	14,080	14,842	43,394	43,269
Agency fee	27,226	22,286	75,655	55,237
Others	8,608	7,237	22,788	25,856
	119,588	114,870	349,929	339,720
Fee and commission expense				
Debit/credit cards	(23,474)	(16,245)	(42,821)	(45,995)
Interbank and clearing fees	(290)	(235)	(1,066)	(1,005)
Brokerage	(365)	(502)	(1,319)	(1,418)
Cash management	(481)	(614)	(2,100)	(2,199)
Others	(3,219)	(3,949)	(12,365)	(11,065)
	(27,829)	(21,545)	(59,671)	(61,682)
Net fee and commission income	91,759	93,325	290,258	278,038
	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Fee and commission income				
Credit cards	36,736	37,055	112,591	110,345
Service charges and fees	32,938	33,450	95,501	105,013
Fees on credit facilities	14,080	14,842	43,394	43,269
Agency fee	27,226	22,286	75,655	55,237
Others	8,608	7,267	22,788	25,886
	119,588	114,900	349,929	339,750
Fee and commission expense				
Debit/credit cards	(23,474)	(16,245)	(42,821)	(45,995)
Interbank and clearing fees	(290)	(235)	(1,066)	(1,005)
Brokerage	(365)	(502)	(1,319)	(1,418)
Cash management	(481)	(614)	(2,100)	(2,199)
Others	(3,219)	(3,949)	(12,365)	(11,065)
	(27,829)	(21,545)	(59,671)	(61,682)
Net fee and commission income	91,759	93,355	290,258	278,068

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Net Trading Income

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Realised gains on financial assets/liabilities held-for-trading and other financial instruments	11,044	28,302	30,826	77,611
Net interest income/(expense) from financial assets held-for-trading	22,967	751	58,294	(1,284)
Net unrealised gains/(losses) on revaluation of financial assets held-for-trading	3,147	(1,011)	16,572	(11,040)
Net realised gains arising from dealing in foreign currency	315,318	169,841	718,361	632,557
Net unrealised losses from dealing in foreign currency	(167,589)	(84,308)	(242,891)	(237,388)
Net realised (losses)/gains arising from dealing in derivatives	(33,206)	(24,702)	164,165	(28,533)
Net unrealised gains/(losses) on revaluation of derivatives	47,333	30,440	(151,645)	38,156
Losses arising from fair value hedges	(52)	(2,409)	(29)	(2,731)
	198,962	116,904	593,653	467,348

	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Realised gains on financial assets/liabilities held-for-trading and other financial instruments	8,988	28,302	28,770	77,611
Net interest income/(expense) from financial assets held-for-trading	22,967	751	58,294	(1,284)
Net unrealised gains/(losses) on revaluation of financial assets held-for-trading	2,083	(1,011)	15,508	(11,040)
Net realised gains arising from dealing in foreign currency	314,959	169,394	720,878	635,671
Net unrealised losses from dealing in foreign currency	(213,225)	(61,120)	(390,841)	(268,921)
Net (losses)/gains realised gains arising from dealing in derivatives	(37,318)	(23,539)	165,371	(27,465)
Net unrealised gains/(losses) on revaluation of derivatives	49,293	26,543	(156,353)	62,464
Losses arising from fair value hedges	(52)	(2,409)	(29)	(2,731)
	147,695	136,911	441,598	464,305

28 Income from Islamic Banking operations

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositor funds and others	133,254	190,024	372,115	519,151
Income derived from investment of shareholders funds ^[1]	40,124	38,776	106,664	111,326
Income attributable to the depositors	(68,141)	(68,230)	(193,366)	(213,549)
Income from Islamic Banking operations	105,237	160,570	285,413	416,928

^[1] Included in income derived from investment of shareholders funds of the Group at 30 September are net (losses)/gains on financial instruments designated at fair value through profit or loss.

(591) 14,615

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 Other Operating Income

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Disposal of financial investments available-for-sale	1,275	16,479	2,023	33,097
Dividend income from financial investments available-for-sale				
- Unquoted in Malaysia	-	210	1,143	1,140
Rental income	2,067	1,572	5,788	4,611
Net gains/(losses) on disposal of property and equipment	77	7	73	21
Other operating income	3,963	3,942	15,223	12,474
	7,382	22,210	24,250	51,343

	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Disposal of financial investments available-for-sale	1,275	16,479	2,023	33,097
Dividend income from financial investments available-for-sale				
- Unquoted in Malaysia	-	210	1,143	1,140
Rental income	2,067	1,572	5,788	4,611
Net gains/(losses) on disposal of property and equipment	77	7	73	21
Income recharges from subsidiary	30,141	33,039	92,137	99,962
Other operating income	3,963	3,942	15,223	12,474
	37,523	55,249	116,387	151,305

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Other Operating Expenses

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Personnel expenses	181,204	175,485	551,418	528,737
Promotion and marketing related expenses	11,435	6,879	47,192	43,282
Establishment related expenses	34,443	36,078	104,958	110,034
General administrative expenses	154,499	139,657	424,872	411,859
	381,581	358,099	1,128,440	1,093,912
Personnel expenses				
Salaries, allowances and bonuses	142,687	135,539	419,896	408,586
Employees Provident Fund contributions	24,057	22,629	69,872	67,423
Others	14,460	17,317	61,650	52,728
	181,204	175,485	551,418	528,737
Promotion and marketing related expenses	11,435	6,879	47,192	43,282
Establishment related expenses				
Depreciation of property and equipment	5,453	6,764	17,120	20,850
Amortisation of intangible assets	5,554	5,669	16,357	17,046
Intangible asset written off	587	-	587	-
Information technology costs	5,605	5,270	13,780	13,301
Hire of equipment	1,859	2,169	6,033	7,259
Rental of premises	9,191	9,490	27,150	28,501
Property and equipment written off	42	-	63	5
Others	6,152	6,716	23,868	23,072
	34,443	36,078	104,958	110,034
General administrative expenses				
Group recharges	101,564	92,364	287,168	274,124
Others	52,935	47,293	137,704	137,735
	154,499	139,657	424,872	411,859

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Other Operating Expenses (Cont'd)

	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Personnel expenses	169,114	164,970	515,814	497,625
Promotion and marketing related expenses	8,823	5,361	39,085	35,060
Establishment related expenses	30,180	31,557	90,570	95,741
General administrative expenses	144,383	131,400	396,357	384,381
	352,500	333,288	1,041,826	1,012,807
Personnel expenses				
Salaries, allowances and bonuses	132,648	127,266	391,994	383,986
Employees Provident Fund contributions	22,324	21,193	65,042	63,137
Others	14,142	16,511	58,778	50,502
	169,114	164,970	515,814	497,625
Promotion and marketing related expenses	8,823	5,361	39,085	35,060
Establishment related expenses				
Depreciation of property and equipment	4,482	5,526	13,901	17,004
Amortisation of intangible assets	5,554	5,669	16,357	17,046
Intangible asset written off	587	-	587	-
Information technology costs	4,994	4,482	11,760	11,368
Hire of equipment	1,859	2,169	6,033	7,255
Rental of premises	7,354	7,560	21,413	22,423
Property and equipment written off	42	-	63	5
Others	5,308	6,151	20,456	20,640
	30,180	31,557	90,570	95,741
General administrative expenses				
Group recharges	100,554	92,138	285,305	273,333
Others	43,829	39,262	111,052	111,048
	144,383	131,400	396,357	384,381

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Capital Adequacy

	<i>Group</i>	
	30 Sep 2017	31 Dec 2016
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	1,045,875	114,500
Share premium	-	741,375
Retained profits (including proposed dividend)	7,084,191	6,853,762
Other reserves	791,892	1,078,361
Regulatory adjustments	(848,864)	(804,852)
Total Common Equity Tier 1 (CET 1) and Tier 1 capital	8,073,094	7,983,146
Tier 2 capital		
Subordinated liabilities	500,000	600,000
Subordinated term loan	608,448	646,265
Collective impairment allowance (unimpaired portion) & regulatory reserves	593,019	583,984
Regulatory adjustments	111,114	112,156
Total Tier 2 capital	1,812,581	1,942,405
Capital base	9,885,675	9,925,551
<u>Inclusive of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	14.762%	14.344%
Total Capital ratio	18.077%	17.834%
<u>Net of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	14.762%	13.985%
Total Capital ratio	18.077%	17.475%

The total capital and capital adequacy ratios of the Group have been computed based on Standardised Approach in accordance with the Capital Adequacy Framework (Capital Components).

For HBMS a wholly owned subsidiary of the Bank, the total capital and capital adequacy ratios have been computed in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB). HBMS has adopted Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

Breakdown of risk-weighted assets (RWA) in the various categories of risk-weights:

	<i>Group</i>	
	30 Sep 2017	31 Dec 2016
	RM'000	RM'000
Total RWA for credit risk	47,441,531 ^[1]	48,857,558 ^[1]
Total RWA for market risk	1,437,235	1,004,081
Total RWA for operational risk	5,808,775	5,793,257
Total RWA	54,687,541	55,654,896

^[1] The risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 15(i) for more details) are as follows:

	<i>Group</i>	
	30 Sep 2017	31 Dec 2016
	RM'000	RM'000
Under SIAF/IAA arrangement	2,154,936	931,474

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Capital Adequacy (Cont'd)

	<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000
Tier 1 capital		
Paid-up ordinary share capital	1,045,875	114,500
Share premium	-	741,375
Retained profits (including proposed dividend)	6,207,047	6,070,467
Other reserves	753,401	1,002,572
Regulatory adjustments	<u>(1,326,483)</u>	<u>(1,153,887)</u>
Total Common Equity Tier 1 (CET1) and Tier 1 capital	<u>6,679,840</u>	<u>6,775,027</u>
Tier 2 capital		
Subordinated liabilities	500,000	600,000
Subordinated term loan	608,448	646,265
Collective impairment allowance (unimpaired portion) & regulatory reserves	450,642	448,723
Regulatory adjustments	<u>(629,338)</u>	<u>(798,117)</u>
Total Tier 2 capital	<u>929,752</u>	<u>896,871</u>
Capital base	<u>7,609,592</u>	<u>7,671,898</u>
<u>Inclusive of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	15.639%	15.083%
Total Capital ratio	17.815%	17.079%
<u>Net of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	15.639%	14.638%
Total Capital ratio	17.815%	16.634%

The total capital and capital adequacy ratios have been computed based on Standardised Approach in accordance with the Capital Adequacy Framework (Capital Components).

Breakdown of RWA in the various categories of risk-weights:

	<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000
Total RWA for credit risk	36,051,368 ^[1]	38,698,597 ^[1]
Total RWA for market risk	1,426,188	992,685
Total RWA for operational risk	5,236,360	5,227,510
	<u>42,713,916</u>	<u>44,918,792</u>

^[1] The risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 15(i) for more details) are as follows:

	<i>Bank</i>	
	30 Sep 2017 RM'000	31 Dec 2016 RM'000
Under SIAF/IAA arrangement	<u>2,154,936</u>	<u>931,474</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Commitments and Contingencies

The table below shows the contracts or underlying principal amounts, 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 Group and of the Bank.

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2017	31 Dec 2016	30 Sep 2017	31 Dec 2016
Principal amount	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	2,676,936	2,540,306	2,124,248	2,004,489
Transaction-related contingent items	8,495,342	9,087,444	7,295,589	7,974,454
Short-term self-liquidating trade-related contingencies	307,346	496,518	244,723	385,490
Formal standby facilities and credit lines				
- Maturity not exceeding one year	6,578,114	18,304,774	5,084,925	14,619,766
- Maturity exceeding one year	12,152,236	12,855,434	9,922,341	10,814,187
Other unconditionally cancellable	14,202,537	-	11,879,335	-
Unutilised credit card lines	11,231,053	9,788,741	8,346,538	7,536,799
Foreign exchange related contracts:				
- Less than one year	74,340,868	54,971,901	74,504,370	55,011,906
- Over one year to less than five years	7,451,675	11,415,043	7,450,784	11,415,044
- Over five years	1,839,549	1,806,757	1,839,549	1,806,757
Interest/profit rate related contracts:				
- Less than one year	15,122,704	11,487,221	15,232,705	11,577,221
- Over one year to less than five years	29,533,324	34,218,507	31,049,361	35,847,951
- Over five years	1,615,940	3,057,912	1,615,940	3,057,912
Gold and other precious metals contracts:				
- Less than one year	10,044	10,905	10,044	10,905
Equity related contracts:				
- Less than one year	333,593	2,339,593	371,012	3,104,829
- Over one year to less than five years	847,580	809,953	936,215	919,719
	186,738,841	173,191,009	177,907,679	166,087,429

of which the amount related to SIAF/IAA arrangement (refer Note 15(i) for more detail) are as below:

Formal standby facilities and credit lines:

- Maturity not exceeding one year	31,254	496,933	31,254	496,933
- Maturity exceeding one year	646,482	-	646,482	-
	677,736	496,933	677,736	496,933

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

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

Group At 30 Sep 2017	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
Trading derivatives:												
Foreign exchange contracts												
- Forwards	65,134,048	513,307	-	65,647,355	594,611	6,559	-	601,170	766,220	6,261	-	772,481
- Swaps	8,805,139	6,771,239	1,839,549	17,415,927	425,156	511,053	220,053	1,156,262	645,134	345,292	31,406	1,021,832
- Options	401,681	167,129	-	568,810	15,124	1,412	-	16,536	1,158	1,435	-	2,593
Interest/profit rate related contracts												
- Options	168,027	729,662	-	897,689	896	2,499	1,283	4,678	2,524	215	-	2,739
- Swaps	14,274,677	27,261,145	1,615,940	43,151,762	11,749	110,245	14,218	136,212	16,926	99,083	38,911	154,920
Equity related contracts												
- Options	333,593	847,580	-	1,181,173	572	22,535	-	23,107	-	3,748	-	3,748
Precious metal contracts												
- Options	10,044	-	-	10,044	-	-	-	-	31	-	-	31
Sub- total	89,127,209	36,290,062	3,455,489	128,872,760	1,048,108	654,303	235,554	1,937,965	1,431,993	456,034	70,317	1,958,344
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	680,000	1,542,517	-	2,222,517	1,211	95	-	1,306	796	11,644	-	12,440
Sub- total	680,000	1,542,517	-	2,222,517	1,211	95	-	1,306	796	11,644	-	12,440
Total	89,807,209	37,832,579	3,455,489	131,095,277	1,049,319	654,398	235,554	1,939,271	1,432,789	467,678	70,317	1,970,784

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (Cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (Cont'd):

Group	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
At 31 Dec 2016	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	45,321,748	816,497	-	46,138,245	925,268	27,097	-	952,365	719,265	18,986	-	738,251
- Swaps	8,985,879	10,425,948	1,806,757	21,218,584	782,840	691,078	350,891	1,824,809	518,246	1,010,652	211,712	1,740,610
- Options	664,274	172,598	-	836,872	27,388	1,807	-	29,195	7,297	3,066	-	10,363
Interest/profit rate related contracts												
- Options	361,548	428,684	-	790,232	4,951	4,114	-	9,065	1,999	662	-	2,661
- Swaps	11,035,673	31,974,719	2,637,912	45,648,304	20,583	128,076	19,577	168,236	9,221	129,049	36,052	174,322
Equity related contracts												
- Options	2,339,593	809,953	-	3,149,546	27	2	-	29	442,143	10,120	-	452,263
Precious metal contracts												
- Options	10,905	-	-	10,905	24	-	-	24	101	-	-	101
Sub- total	68,719,620	44,628,399	4,444,669	117,792,688	1,761,081	852,174	370,468	2,983,723	1,698,272	1,172,535	247,764	3,118,571
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	90,000	1,815,104	420,000	2,325,104	-	5,231	-	5,231	-	5,894	2,563	8,457
Sub- total	90,000	1,815,104	420,000	2,325,104	-	5,231	-	5,231	-	5,894	2,563	8,457
Total	68,809,620	46,443,503	4,864,669	120,117,792	1,761,081	857,405	370,468	2,988,954	1,698,272	1,178,429	250,327	3,127,028

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (Cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (Cont'd):

Bank At 30 Sep 2017	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
Trading derivatives:												
Foreign exchange contracts												
- Forwards	65,296,659	513,307	-	65,809,966	595,198	6,559	-	601,757	766,153	6,261	-	772,414
- Swaps	8,805,139	6,771,239	1,839,549	17,415,927	425,156	508,651	220,053	1,153,860	645,134	345,292	31,406	1,021,832
- Options	402,572	166,238	-	568,810	15,124	1,412	-	16,536	1,158	1,435	-	2,593
Interest rate related contracts												
- Options	168,028	915,699	-	1,083,727	896	2,499	1,283	4,678	2,524	3,689	-	6,213
- Swaps	14,494,677	28,671,145	1,615,940	44,781,762	12,024	110,640	13,810	136,474	17,201	106,553	38,911	162,665
Equity related contracts												
- Options	371,012	936,215	-	1,307,227	601	22,611	-	23,212	-	6,700	-	6,700
Precious metal contracts												
- Options	10,044	-	-	10,044	-	-	-	-	31	-	-	31
Sub- total	89,548,131	37,973,843	3,455,489	130,977,463	1,048,999	652,372	235,146	1,936,517	1,432,201	469,930	70,317	1,972,448
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	570,000	1,462,517	-	2,032,517	1,211	95	-	1,306	521	11,113	-	11,634
Sub- total	570,000	1,462,517	-	2,032,517	1,211	95	-	1,306	521	11,113	-	11,634
Total	90,118,131	39,436,360	3,455,489	133,009,980	1,050,210	652,467	235,146	1,937,823	1,432,722	481,043	70,317	1,984,082

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (Cont'd):

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (Cont'd):

Bank	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
At 31 Dec 2016	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	45,361,753	816,497	-	46,178,250	924,445	27,097	-	951,542	717,254	18,986	-	736,240
- Swaps	8,985,879	10,425,948	1,806,757	21,218,584	782,840	694,212	350,891	1,827,943	518,246	1,010,652	211,712	1,740,610
- Options	664,274	172,599	-	836,873	27,388	1,807	-	29,195	7,297	3,066	-	10,363
Interest rate related contracts												
- Future	-	-	-	-	-	-	-	-	-	-	-	-
- Options	361,548	618,128	-	979,676	4,951	4,248	-	9,199	1,999	3,206	-	5,205
- Swaps	11,215,673	33,604,719	2,637,912	47,458,304	20,556	128,794	19,577	168,927	9,221	133,974	36,052	179,247
Equity related contracts												
- Options	3,104,829	919,719	-	4,024,548	95,203	2,182	-	97,385	442,170	10,120	-	452,290
Precious metal contracts												
- Options	10,905	-	-	10,905	24	-	-	24	101	-	-	101
Sub- total	69,704,861	46,557,610	4,444,669	120,707,140	1,855,407	858,340	370,468	3,084,215	1,696,288	1,180,004	247,764	3,124,056
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	-	1,625,104	420,000	2,045,104	-	5,231	-	5,231	-	5,894	2,563	8,457
Sub- total	-	1,625,104	420,000	2,045,104	-	5,231	-	5,231	-	5,894	2,563	8,457
Total	69,704,861	48,182,714	4,864,669	122,752,244	1,855,407	863,571	370,468	3,089,446	1,696,288	1,185,898	250,327	3,132,513

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

	Group		Bank	
	30 Sep 2017	30 Sep 2016	30 Sep 2017	30 Sep 2016
	RM'000	RM'000	RM'000	RM'000
Losses on hedging instruments	(6,955)	(34,389)	(6,955)	(34,389)
Gains on the hedged items attributable to the hedged risk	6,926	31,658	6,926	31,658
	(29)	(2,731)	(29)	(2,731)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Business Prospects

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 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 Group 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 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 reflects HSBC long term commitment to its Malaysia franchise.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Performance Review

The Group recorded a profit before tax of RM918.5 million for the financial period ended 30 September 2017, a decrease of RM173.3 million compared to the corresponding period in 2016.

In tandem with the growth in customer advances, net interest income increased by RM4.2m. Trading income has increased by 27.0% mainly due to higher income from foreign exchange portfolio and held for trading portfolio. Overall, the operating income was lower by RM15.9 million.

The net loan/financing impairment charges for the financial period ended 30 September 2017 were RM122.9 million higher than history, mainly due to higher allowance made on net individual impairment on mortgage and corporates advances as well as higher net collective impairment made in lieu of higher expected loss on corporate advances and credit card.

The Group continues to place high importance in managing its operating expenses to ensure that the resources are spent in a sustainable manner. For the period ended 30 September 2017, the overall costs base only increased marginally by 3.2% against history where savings were recorded in establishment related expenses. Increase in personnel expenses were in line with Group's commitment to invest in people for both growth and control agenda.

Total balance sheet size at 30 September 2017 stood at RM79.6 billion, RM5.8 billion lower compared against 31 December 2016 (RM85.4 billion). However, the Group has recorded an annualised growth of 8.56% (or RM3.1 billion) in customer advances to RM50.7 billion as at 30 September 2017. The Group's capital and liquidity ratios continues to remain strong and well above regulatory requirements.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Comparative Figures

The presentation and classification of items in the financial statements are consistent with the previous financial year except those listed below. Comparatives for deposits from customers and other liabilities were restated as structured products are not to be considered as deposits in accordance with latest BNM's guideline. There was no significant impact to the financial performance and ratios in relation to the financial period ended 30 September 2017. The Group's and the Bank's prior year profit and loss and retained profits brought forward are not affected by these reclassifications.

<u>Statement of Financial Position</u> 31 Dec 2016	<i>Group</i>		<i>Bank</i>	
	RM'000 As restated	RM'000 As previously stated	RM'000 As restated	RM'000 As previously stated
a) Deposits from Customers	57,711,534	60,837,098	48,985,012	52,110,576
<i>(of which the affected components are disclosed below):</i>				
<u>By type of deposit</u>				
<i>At amortised cost</i>				
Negotiable instruments of deposit	-	641,776	-	641,776
<i>At fair value</i>				
Structured investments	-	2,483,788	-	2,483,788
The maturity structure of fixed/investment deposits is as follows:				
Due within six months	19,249,230	19,400,668	14,872,456	15,023,894
More than six months to one year	4,932,802	5,155,699	4,197,644	4,420,541
More than one year to three years	139,760	327,056	120,050	307,346
More than three years to five years	33,800	113,945	28,182	108,327
<u>By type of customer</u>				
Government and statutory bodies	14,607	26,145	8,178	19,716
Business enterprises	20,111,837	20,114,260	18,085,693	18,088,116
Individuals	25,214,947	27,629,617	20,631,064	23,045,734
Others	12,370,143	13,067,076	10,260,077	10,957,010
b) Other liabilities	5,554,326	2,428,762	4,454,700	1,329,136
<i>(of which the affected components are disclosed below):</i>				
<i>At fair value</i>				
Structured products	4,094,973	969,409	3,125,564	-