

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
31 MARCH 2018

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

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

UNAUDITED CONDENSED STATEMENTS OF FINANCIAL POSITION
AT 31 MARCH 2018

| | Note | <i>Group</i> | | <i>Bank</i> | |
|---|------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| Assets | | | | | |
| Cash and short-term funds | 13 | 8,260,590 | 10,313,776 | 6,258,526 | 8,879,053 |
| Securities purchased under resale agreements | | 2,477,275 | 1,964,930 | 2,477,275 | 1,964,930 |
| Deposits and placements with banks and other financial institutions | 14 | 1,948,390 | 709,999 | 3,990,872 | 3,703,498 |
| Financial assets held-for-trading | 15 | - | 1,988,719 | - | 1,988,719 |
| Financial assets at fair value through profit and loss (FVTPL) | 16 | 2,958,871 | - | 2,958,871 | - |
| Financial investments available-for-sale | 17 | - | 9,780,405 | - | 7,559,361 |
| Financial investments at fair value through other comprehensive income (FVOCI) | 18 | 8,449,744 | - | 6,212,437 | - |
| Loans, advances and financing | 19 | 51,024,383 | 51,979,654 | 37,809,159 | 38,595,851 |
| Derivative financial assets | 38 | 1,780,851 | 2,045,225 | 1,783,333 | 2,045,005 |
| Other assets | 21 | 766,722 | 331,500 | 766,018 | 472,398 |
| Statutory deposits with Bank Negara Malaysia | 22 | 1,264,939 | 1,084,888 | 911,077 | 723,526 |
| Investments in subsidiary companies | | - | - | 660,021 | 660,021 |
| Property and equipment | | 387,613 | 371,259 | 381,508 | 365,739 |
| Intangible assets | | 43,612 | 46,573 | 43,612 | 46,573 |
| Tax recoverable | | 20,850 | 28,474 | 20,850 | 20,850 |
| Deferred tax assets | | 110,018 | 103,105 | 98,916 | 94,468 |
| Total assets | | 79,493,858 | 80,748,507 | 64,372,475 | 67,119,992 |
| Liabilities | | | | | |
| Deposits from customers | 23 | 55,997,908 | 56,551,151 | 45,266,295 | 46,516,647 |
| Deposits and placements from banks and other financial institutions | 24 | 3,776,869 | 5,353,609 | 2,178,995 | 4,432,767 |
| Bills payable | | 273,208 | 318,009 | 260,671 | 301,331 |
| Derivative financial liabilities | 38 | 1,873,681 | 2,096,405 | 1,881,860 | 2,109,255 |
| Financial liabilities designated at fair value through profit and loss | 25 | 3,063,569 | - | 2,732,524 | - |
| Other liabilities | 26 | 2,341,618 | 4,682,041 | 2,185,529 | 4,221,857 |
| Provision for taxation | | 143,922 | 74,400 | 128,256 | 74,400 |
| Multi-Currency Sukuk Programme | 27 | 1,252,944 | 1,252,829 | - | - |
| Subordinated liabilities | 28 | 1,056,514 | 1,083,903 | 1,056,514 | 1,083,903 |
| Total liabilities | | 69,780,233 | 71,412,347 | 55,690,644 | 58,740,160 |
| Equity | | | | | |
| Share capital | | 1,045,875 | 1,045,875 | 1,045,875 | 1,045,875 |
| Reserves | | 8,667,750 | 8,290,285 | 7,635,956 | 7,333,957 |
| Total equity attributable to owner of the Bank | | 9,713,625 | 9,336,160 | 8,681,831 | 8,379,832 |
| Total liabilities and equity | | 79,493,858 | 80,748,507 | 64,372,475 | 67,119,992 |
| Commitments and contingencies | 37 | 180,864,530 | 182,591,144 | 173,179,725 | 173,673,824 |

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2017 and the accompanying explanatory notes on pages 11 to 46 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 27 April 2018.

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 31 MARCH 2018

| | <i>Note</i> | Group | | Bank | |
|--|-------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | 31 Mar 2018 RM'000 | 31 Mar 2017 RM'000 | 31 Mar 2018 RM'000 | 31 Mar 2017 RM'000 |
| Interest income | 29 | 581,287 | 566,081 | 601,547 | 582,003 |
| Interest expense | 29 | (184,212) | (206,305) | (184,212) | (206,305) |
| Net interest income | 29 | 397,075 | 359,776 | 417,335 | 375,698 |
| Fee and commission income | 30 | 120,804 | 116,245 | 120,804 | 116,245 |
| Fee and commission expense | 30 | (21,745) | (21,243) | (21,745) | (21,243) |
| Net fee and commission income | 30 | 99,059 | 95,002 | 99,059 | 95,002 |
| Net trading income | 31 | 139,648 | 193,818 | 148,123 | 136,469 |
| Income from Islamic banking operations | 32 | 159,703 | 80,161 | - | - |
| Net expenses from financial investments designated at fair value | | (14,953) | - | (14,953) | - |
| Other operating income | 33 | 12,155 | 7,347 | 43,796 | 38,856 |
| Operating income before impairment losses | | 792,687 | 736,104 | 693,360 | 646,025 |
| Impairment allowance/provisions | 34 | (40,855) | (81,269) | (15,136) | (42,129) |
| Net operating income | | 751,832 | 654,835 | 678,224 | 603,896 |
| Other operating expenses | 35 | (363,619) | (361,434) | (333,161) | (333,379) |
| Profit before tax | | 388,213 | 293,401 | 345,063 | 270,517 |
| Tax expense | | (87,482) | (73,708) | (78,570) | (68,450) |
| Profit for the financial period | | 300,731 | 219,693 | 266,493 | 202,067 |

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UNAUDITED CONDENSED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018 (Cont'd)

| | Note | Group | | Bank | |
|--|------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | 31 Mar 2018 RM'000 | 31 Mar 2017 RM'000 | 31 Mar 2018 RM'000 | 31 Mar 2017 RM'000 |
| Other comprehensive income/(expense) | | | | | |
| <i>Items that will not be reclassified to profit or loss</i> | | | | | |
| Own credit reserve: | | | | | |
| Change in fair value | | (3,700) | 246 | (1,745) | - |
| Income tax effect | | 888 | (59) | 419 | - |
| <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 | | - | 9,795 | - | 8,100 |
| Amount transferred to profit or loss | | - | 1,551 | - | 1,551 |
| Income tax effect | | - | (2,723) | - | (2,316) |
| Fair value through other comprehensive income reserve: | | | | | |
| Change in fair value | | (14,859) | - | (11,730) | - |
| Amount transferred to profit or loss | | (2,872) | - | (3,172) | - |
| Impairment releases | | (112) | - | (70) | - |
| Income tax effect | | 4,282 | - | 3,593 | - |
| Other comprehensive income for the financial period, net of income tax | | (16,373) | 8,810 | (12,705) | 7,335 |
| Total comprehensive income for the financial period | | 284,358 | 228,503 | 253,788 | 209,402 |
| Profit attributable to the owner of the Bank | | 300,731 | 219,693 | 266,493 | 202,067 |
| Total comprehensive income attributable to the owner of the Bank | | 284,358 | 228,503 | 253,788 | 209,402 |
| Basic earnings per RM0.50 ordinary share | 37 | 131.3 sen | 95.9 sen | 116.4 sen | 88.2 sen |

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HSBC BANK MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018

Group (RM'000)

| | <i>Share capital</i> | <i>Revaluation reserve</i> | <i>Available-for-sale reserve</i> | <i>FVOCI reserve</i> | <i>Own credit reserve</i> | <i>Capital contribution reserve</i> | <i>Regulatory reserve</i> | <i>Retained profits</i> | <i>Total equity</i> |
|---|----------------------|----------------------------|-----------------------------------|----------------------|---------------------------|-------------------------------------|---------------------------|-------------------------|---------------------|
| 2018 | | | | | | | | | |
| Balance at 1 January | 1,045,875 | 216,937 | 131,657 | - | 230 | 94,583 | 284,000 | 7,562,878 | 9,336,160 |
| Effects of adopting MFRS 9 on 1 January 2018 | - | - | (131,657) | 132,183 | 893 | - | - | 98,671 | 100,090 |
| As restated | 1,045,875 | 216,937 | - | 132,183 | 1,123 | 94,583 | 284,000 | 7,661,549 | 9,436,250 |
| Total comprehensive income for the financial period | | | | | | | | | |
| Profit for the financial period | - | - | - | - | - | - | - | 300,731 | 300,731 |
| Other comprehensive income, net of income tax | | | | | | | | | |
| Revaluation reserve: | | | | | | | | | |
| Transfer to retained profits upon realisation of depreciation | - | (609) | - | - | - | - | - | 609 | - |
| Fair value through other comprehensive income reserve: | | | | | | | | | |
| Net change in fair value | - | - | - | (11,293) | (2,812) | - | - | - | (14,105) |
| Net amount transferred to profit or loss | - | - | - | (2,183) | - | - | - | - | (2,183) |
| Impairment release | - | - | - | (85) | - | - | - | - | (85) |
| <i>Total other comprehensive income</i> | - | (609) | - | (13,561) | (2,812) | - | - | 609 | (16,373) |
| Total comprehensive income for the financial period | - | (609) | - | (13,561) | (2,812) | - | - | 301,340 | 284,358 |
| Transfer relating to regulatory reserves | - | - | - | - | - | - | 161,000 | (161,000) | - |
| Transactions with the owner, recorded directly in equity | | | | | | | | | |
| Share based payment transactions | - | - | - | - | - | (3,298) | - | (3,685) | (6,983) |
| Balance at 31 March | 1,045,875 | 216,328 | - | 118,622 | (1,689) | 91,285 | 445,000 | 7,798,204 | 9,713,625 |

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HSBC BANK MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018 (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>Own credit reserve</i> | <i>Capital contribution reserve</i> | <i>Regulatory reserve</i> | <i>Retained profits</i> | <i>Total equity</i> |
|---|----------------------|----------------------|--------------------------|----------------------------|-----------------------------------|-----------------------------------|---------------------------|-------------------------------------|---------------------------|-------------------------|---------------------|
| 2017 | | | | | | | | | | | |
| Balance at 1 January | 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 | - | - | - | - | - | - | - | - | - | 219,693 | 219,693 |
| Other comprehensive income, net of income tax | | | | | | | | | | | |
| Revaluation reserve: | | | | | | | | | | | |
| Transfer to retained profits upon realisation of depreciation | - | - | - | (586) | - | - | - | - | - | 586 | - |
| Available-for-sale reserve: | | | | | | | | | | | |
| Net change in fair value | - | - | - | - | - | 7,444 | 187 | - | - | - | 7,631 |
| Net amount transferred to profit or loss | - | - | - | - | - | 1,179 | - | - | - | - | 1,179 |
| <i>Total other comprehensive income</i> | - | - | - | (586) | - | 8,623 | 187 | - | - | 586 | 8,810 |
| Total comprehensive income for the financial period | - | - | - | (586) | - | 8,623 | 187 | - | - | 220,279 | 228,503 |
| Transition to no par value regime on 31 January 2017 ^[1] | 931,375 | (741,375) | - | - | (190,000) | - | - | - | - | - | - |
| Transactions with the owner, recorded directly in equity | | | | | | | | | | | |
| Share based payment transactions | - | - | - | - | - | - | - | 10,179 | - | (1,277) | 8,902 |
| Balance at 31 March | <u>1,045,875</u> | <u>-</u> | <u>164,500</u> | <u>215,643</u> | <u>-</u> | <u>89,780</u> | <u>(1,659)</u> | <u>94,020</u> | <u>284,000</u> | <u>7,074,610</u> | <u>8,966,769</u> |

^[1] 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 RM741m and capital redemption reserves of RM190m became part of the Group's share capital pursuant to the transitional provisions set out in Section 618(2) of the Act. There was 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 Group and the Bank for the financial year ended 31 December 2017 and the accompanying explanatory notes on pages 11 to 46 attached to the unaudited condensed interim financial statements.

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018 (Cont'd)

| Bank (RM'000) | Non-distributable | | | | | | Distributable | | Total equity |
|---|-------------------|---------------------|----------------------------|----------------|--------------------|------------------------------|--------------------|------------------|------------------|
| | Share capital | Revaluation reserve | Available-for-sale reserve | FVOCI reserve | Own credit reserve | Capital contribution reserve | Regulatory reserve | Retained profits | |
| 2018 | | | | | | | | | |
| Balance at 1 January | 1,045,875 | 216,937 | 131,478 | - | - | 94,175 | 250,000 | 6,641,367 | 8,379,832 |
| Effects of adopting MFRS 9 on 1 January 2018 | - | - | (131,478) | 131,878 | 267 | - | - | 54,647 | 55,314 |
| As restated | 1,045,875 | 216,937 | - | 131,878 | 267 | 94,175 | 250,000 | 6,696,014 | 8,435,146 |
| Total comprehensive income for the financial period | | | | | | | | | |
| Profit for the financial period | - | - | - | - | - | - | - | 266,493 | 266,493 |
| Other comprehensive income, net of income tax | | | | | | | | | |
| Revaluation reserve: | | | | | | | | | |
| Transfer to retained profits upon realisation of depreciation | - | (609) | - | - | - | - | - | 609 | - |
| Fair value through other comprehensive income reserve: | | | | | | | | | |
| Net change in fair value | - | - | - | (8,915) | (1,326) | - | - | - | (10,241) |
| Net amount transferred to profit or loss | - | - | - | (2,411) | - | - | - | - | (2,411) |
| Impairment release | - | - | - | (53) | - | - | - | - | (53) |
| <i>Total other comprehensive income</i> | - | (609) | - | (11,379) | (1,326) | - | - | 609 | (12,705) |
| Total comprehensive income for the financial period | - | (609) | - | (11,379) | (1,326) | - | - | 267,102 | 253,788 |
| Transfer relating to regulatory reserves | - | - | - | - | - | - | 150,000 | (150,000) | - |
| Transactions with the owner, recorded directly in equity | | | | | | | | | |
| Share based payment transactions | - | - | - | - | - | (3,409) | - | (3,694) | (7,103) |
| Balance at 31 March | 1,045,875 | 216,328 | - | 120,499 | (1,059) | 90,766 | 400,000 | 6,809,422 | 8,681,831 |

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018 (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 profits</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 | - | - | - | - | - | - | - | - | 202,067 | 202,067 |
| Other comprehensive income, net of income tax | | | | | | | | | | |
| Revaluation reserve: | | | | | | | | | | |
| Transfer to retained profits upon realisation of depreciation | - | - | - | (586) | - | - | - | - | 586 | - |
| Available-for-sale reserve: | | | | | | | | | | |
| Net change in fair value | - | - | - | - | - | 6,156 | - | - | - | 6,156 |
| Net amount transferred to profit or loss | - | - | - | - | - | 1,179 | - | - | - | 1,179 |
| <i>Total other comprehensive income</i> | - | - | - | (586) | - | 7,335 | - | - | 586 | 7,335 |
| Total comprehensive income for the financial period | - | - | - | (586) | - | 7,335 | - | - | 202,653 | 209,402 |
| Transition to no par value regime on 31 January 2017 ^[1] | 931,375 | (741,375) | - | - | (190,000) | - | - | - | - | - |
| Transactions with the owner, recorded directly in equity | | | | | | | | | | |
| Share based payment transactions | - | - | - | - | - | - | 10,178 | - | (1,277) | 8,901 |
| Balance at 31 March | 1,045,875 | - | 114,500 | 215,643 | - | 95,039 | 93,616 | 250,000 | 6,271,843 | 8,086,516 |

^[1] 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 RM741m and capital redemption reserves of RM190m became part of the Bank's share capital pursuant to the transitional provisions set out in Section 618(2) of the Act. There was 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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HSBC BANK MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018

| | <i>Group</i> | | <i>Bank</i> | |
|---|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Mar 2017 | 31 Mar 2018 | 31 Mar 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Profit before tax | 388,213 | 293,401 | 345,063 | 270,517 |
| Adjustments for non-operating and non-cash items | 178,887 | 252,495 | 129,787 | 259,649 |
| Operating profit before working capital changes | 567,100 | 545,896 | 474,850 | 530,166 |
| Changes in working capital: | | | | |
| Net changes in operating assets | (2,160,108) | 1,271,820 | (1,277,762) | 1,430,722 |
| Net changes in operating liabilities | (1,701,248) | (827,588) | (3,093,863) | (978,441) |
| Income tax paid | (43,461) | (47,104) | (42,507) | (42,528) |
| Net cash used in operations | (3,337,717) | 943,024 | (3,939,282) | 939,919 |
| Net cash generated from/(used in) investing activities | 1,306,331 | (9,428,646) | 1,325,949 | (9,049,448) |
| Net cash used in financing activity | (21,800) | (28,085) | (7,194) | (4,297) |
| | 1,284,531 | (9,456,731) | 1,318,755 | (9,053,745) |
| Net changes in cash and cash equivalents | (2,053,186) | (8,513,707) | (2,620,527) | (8,113,826) |
| Cash and cash equivalents at 1 January | 10,313,776 | 16,804,114 | 14,999,888 | 14,999,888 |
| Cash and cash equivalents at 31 March | 8,260,590 | 8,290,407 | 12,379,361 | 6,886,062 |
| Analysis of cash and cash equivalents | | | | |
| Cash and short-term funds | 8,260,590 | 8,290,407 | 6,258,526 | 6,886,062 |
| Cash and cash equivalents comprise the following: | | | | |
| Cash and short-term funds | 8,260,590 | 8,290,407 | 6,258,526 | 6,886,062 |
| Adjustment for cash collateral | (171,964) | (714,770) | (196,964) | (739,770) |
| Cash and cash equivalents | 8,088,626 | 7,575,637 | 6,061,562 | 6,146,292 |

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UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018 (Cont'd)

Change in liabilities arising from financing activities

Group (RM'000)

Cash Flows from Financing Activities

| 2018 | At 1 Jan | Cash flow | Foreign exchange adjustment | Fair value movement | Interest/ Profit accrual | At 31 Mar |
|--|------------------|------------------|--|--------------------------------|---|------------------|
| Multi-Currency Sukuk Programme | 1,252,829 | - | - | 115 | - | 1,252,944 |
| Subordinated liabilities | 1,083,903 | - | (27,389) | - | - | 1,056,514 |
| Other liabilities of which: | | | | | | |
| Interest paid on Multi-Currency Sukuk Programme | 12,815 | (14,606) | - | - | 11,881 | 10,090 |
| Interest paid on Subordinated liabilities | 6,521 | (7,194) | - | - | 11,335 | 10,663 |
| | 2,356,068 | (21,800) | (27,389) | 115 | 23,216 | 2,330,211 |
| 2017 | | | | | | |
| Multi-Currency Sukuk Programme | 1,756,001 | - | - | (984) | - | 1,755,017 |
| Subordinated liabilities | 1,648,824 | - | (9,590) | - | - | 1,639,234 |
| Other liabilities of which: | | | | | | |
| Interest paid on Multi-Currency Sukuk Programme | 17,637 | (23,788) | - | - | 16,388 | 10,237 |
| Interest paid on Subordinated liabilities | 4,593 | (4,297) | - | - | 15,893 | 16,189 |
| | 3,427,055 | (28,085) | (9,590) | (984) | 32,281 | 3,420,677 |

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UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2018 (Cont'd)

Change in liabilities arising from financing activities (Cont'd)

Bank (RM'000)

Cash Flows from Financing Activities

| | At 1 Jan | Cash flow | Foreign exchange adjustment | Fair value movement | Interest/ Profit accrual | At 31 Mar |
|---|------------------|------------------|--|--------------------------------|---|------------------|
| 2018 | | | | | | |
| Subordinated liabilities | 1,083,903 | - | (27,389) | - | - | 1,056,514 |
| Other liabilities of which: | | | | | | |
| Interest paid on Subordinated liabilities | 6,521 | (7,194) | - | - | 11,335 | 10,663 |
| | <u>1,090,424</u> | <u>(7,194)</u> | <u>(27,389)</u> | <u>-</u> | <u>11,335</u> | <u>1,067,177</u> |
| | | | | | | |
| 2017 | | | | | | |
| Subordinated liabilities | 1,648,824 | - | (9,590) | - | - | 1,639,234 |
| Other liabilities of which: | | | | | | |
| Interest paid on Subordinated liabilities | 4,593 | (4,297) | - | - | 15,893 | 16,189 |
| | <u>1,653,417</u> | <u>(4,297)</u> | <u>(9,590)</u> | <u>-</u> | <u>15,893</u> | <u>1,655,423</u> |

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2017 and the accompanying explanatory notes on pages 11 to 46 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 27 April 2018.

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 unaudited condensed interim financial statements were approved and authorised for issue by the Board of Directors on 27 April 2018.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 31 March 2018 have been prepared under the historical cost convention except for the following assets and liabilities which are stated at fair values: financial assets at fair value through profit and loss, financial investments at fair value through other comprehensive income, derivative financial instruments, and financial liabilities designated at fair-valued through profit and loss.

The unaudited condensed interim financial statements for the financial period ended 31 March 2018 have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (MFRS) 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (MASB). 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 2017. The explanatory notes attached in the unaudited condensed interim financial statements provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Group and Bank since the financial year ended 31 December 2017.

All significant accounting policies and methods of computation applied in the unaudited condensed interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the year ended 31 December 2017.

(i) Standards and amendments to published standards that are effective and applicable to the 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 2018 are as follows:

- Amendments to MFRS 140 'Classification on 'Change in Use' – Assets transferred to, or from, Investment Properties' clarify that to transfer to, or from investment properties there must be a change in use. A change in use would involve an assessment of whether a property 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

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

- 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'.

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

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

Classification and measurement

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

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

Impairment

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

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

Hedge accounting

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

Transitional impact

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

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

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

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

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

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

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

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

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

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

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

IC Interpretation 23 will be applied retrospectively.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies

(i) Classification and measurement of financial instruments

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

| Group | MFRS 139 | | MFRS 9 | |
|--|---|---------------------------|----------------------|---------------------------|
| | Measurement category | Carrying amount RM'000 | Measurement category | Carrying amount RM'000 |
| <u>Financial assets</u> | | | | |
| Cash and short term funds | Amortised cost (Loans and receivables) | 10,313,776 | Amortised cost | 10,313,776 |
| Securities purchased under resale agreements | Amortised cost (Loans and receivables) | 1,964,930 | Amortised cost | 1,964,930 |
| Deposits and placements with banks and other financial institutions | Amortised cost (Loans and receivables) | 709,999 | Amortised cost | 709,999 |
| Financial assets held-for-trading | FVTPL (Held-for-trading) ^[1] | 1,988,719 | Not applicable | - |
| Financial assets at fair value through profit and loss (FVTPL) | Not applicable | - | FVTPL | 1,988,719 |
| Financial investments available-for-sale | FVOCI (Available-for-sale) ^[2] | 9,780,405 | Not applicable | - |
| Financial investments at fair value through other comprehensive income (FVOCI) | Not applicable | - | FVOCI | 9,602,998 |
| Financial investments at fair value through other comprehensive income (FVOCI) | Not applicable | - | FVOCI (Designated) | 177,407 |
| Loans, advances and financing | Amortised cost (Loans and receivables) | 51,979,654 | Amortised cost | 52,120,500 |
| Derivative financial assets | FVTPL (Held-for-trading) | 2,045,225 | FVTPL | 2,045,225 |
| Statutory deposits with Bank Negara Malaysia | Amortised cost (Loans and receivables) | 1,084,888 | Amortised cost | 1,084,888 |
| Others | Amortised cost (Loans and receivables) | 331,500 | Amortised cost | 331,500 |
| Total financial assets | | 80,199,096 | | 80,339,942 |
| <u>Financial liabilities</u> | | | | |
| Deposits from customers | Amortised cost | 56,551,151 | Amortised cost | 56,551,151 |
| Deposits and placements from banks and other financial institutions | Amortised cost | 5,353,609 | Amortised cost | 5,353,609 |
| Bills payable | Amortised cost | 318,009 | Amortised cost | 318,009 |
| Multi-Currency Sukuk Programme | FVTPL (Designated) | 1,252,829 | FVTPL (Designated) | 1,252,829 |
| Subordinated liabilities | Amortised cost | 1,083,903 | Amortised cost | 1,083,903 |
| Derivative financial liabilities | FVTPL (Held-for-trading) | 2,096,405 | FVTPL | 2,096,405 |
| Financial liabilities designated at fair value through profit and loss | FVTPL | - | FVTPL | 2,850,034 |
| Other liabilities | Amortised cost | 4,682,041 | Amortised cost | 1,832,007 |
| Total financial liabilities | | 71,337,947 | | 71,337,947 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies

(i) Classification and measurement of financial instruments (Cont'd)

| | <i>MFRS 139</i> | | <i>MFRS 9</i> | |
|--|--|---------------------------|----------------------|---------------------------|
| | Measurement category | Carrying amount RM'000 | Measurement category | Carrying amount RM'000 |
| Bank | | | | |
| <u>Financial assets</u> | | | | |
| Cash and short term funds | Amortised cost (Loans and receivables) | 8,879,053 | Amortised cost | 8,879,053 |
| Securities purchased under resale agreements | Amortised cost (Loans and receivables) | 1,964,930 | Amortised cost | 1,964,930 |
| Deposits and placements with banks and other financial institutions | Amortised cost (Loans and receivables) | 3,703,498 | Amortised cost | 3,703,498 |
| Financial assets held-for-trading | FVTPL (Held-for-trading) | 1,988,719 | Not applicable | - |
| Financial assets at fair value through profit and loss (FVTPL) | Not applicable | - | FVTPL | 1,988,719 |
| Financial investments available-for-sale | FVOCI (Available-for-sale) | 7,559,361 | Not applicable | - |
| Financial investments at fair value through other comprehensive income (FVOCI) | Not applicable | - | FVOCI | 7,381,954 |
| Financial investments at fair value through other comprehensive income (FVOCI) | Not applicable | - | FVOCI (Designated) | 177,407 |
| Loans, advances and financing | Amortised cost (Loans and receivables) | 38,595,851 | Amortised cost | 38,675,271 |
| Derivative financial assets | FVTPL (Held-for-trading) | 2,045,005 | FVTPL | 2,045,005 |
| Statutory deposits with Bank Negara Malaysia | Amortised cost (Loans and receivables) | 723,526 | Amortised cost | 723,526 |
| Others | Amortised cost (Loans and receivables) | 472,398 | Amortised cost | 472,398 |
| Total financial assets | | <u>65,932,341</u> | | <u>66,011,761</u> |
| <u>Financial liabilities</u> | | | | |
| Deposits from customers | Amortised cost | 46,516,647 | Amortised cost | 46,516,647 |
| Deposits and placements from banks and other financial institutions | Amortised cost | 4,432,767 | Amortised cost | 4,432,767 |
| Bills payable | Amortised cost | 301,331 | Amortised cost | 301,331 |
| Subordinated liabilities | Amortised cost | 1,083,903 | Amortised cost | 1,083,903 |
| Derivative financial liabilities | FVTPL (Held-for-trading) | 2,109,255 | FVTPL | 2,109,255 |
| Financial liabilities designated at fair value through profit and loss | FVTPL | - | FVTPL | 2,570,059 |
| Other liabilities | Amortised cost | 4,221,857 | Amortised cost | 1,651,798 |
| Total financial liabilities | | <u>58,665,760</u> | | <u>58,665,760</u> |

[1] FVTPL - Fair Value through Profit and Loss

[2] FVOCI - Fair Value through Other Comprehensive Income

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies (Cont'd)

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

The following table is a reconciliation of the carrying amount in the Group and the Bank's Statement of Financial Position from MFRS 139 to MFRS 9 as at 1 January 2018:

| Group | MFRS 139 carrying | Reclassification | Remeasurement | MFRS 9 carrying | Retained profits |
|---|----------------------------------|------------------|----------------|--------------------------------|------------------|
| | amount as at 31 December 2017 | | | amount as at 1 January 2018 | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Assets | | | | | |
| Cash and short term funds | 10,313,776 | - | 86 | 10,313,862 | 86 |
| Securities purchased under resale agreements | 1,964,930 | - | - | 1,964,930 | - |
| Deposits and placements with banks and other financial institutions | 709,999 | - | 64 | 710,063 | 64 |
| Financial assets held-for-trading | 1,988,719 | (1,988,719) | - | - | - |
| Financial assets at fair value through profit and loss (FVTPL) | - | 1,988,719 | - | 1,988,719 | - |
| Financial investments available-for-sale | 9,780,405 | (9,780,405) | - | - | - |
| Financial investments at fair value through own comprehensive income (FVOCI) | - | 9,780,405 | - | 9,780,405 | - |
| Loans, advances and financing | 51,979,654 | - | 140,846 | 52,120,500 | 140,846 |
| Derivative financial assets | 2,045,225 | - | - | 2,045,225 | - |
| Statutory deposits with Bank Negara Malaysia | 1,084,888 | - | - | 1,084,888 | - |
| Others | 331,500 | - | - | 331,500 | - |
| Tax Recoverable | 28,474 | - | (13,823) | 14,651 | (13,823) |
| Deferred tax assets | 103,105 | - | (340) | 102,765 | (340) |
| Total change to financial asset balances, reclassification and remeasurement at 1 January 2018 | 80,330,675 | - | 126,833 | 80,457,508 | 126,833 |
| Liabilities | | | | | |
| Deposits from customers | 56,551,151 | - | - | 56,551,151 | - |
| Deposits and placements from banks and other financial institutions | 5,353,609 | - | - | 5,353,609 | - |
| Bills payable | 318,009 | - | - | 318,009 | - |
| Multi-Currency Sukuk Programme | 1,252,829 | - | - | 1,252,829 | - |
| Subordinated liabilities | 1,083,903 | - | - | 1,083,903 | - |
| Derivative financial liabilities | 2,096,405 | - | - | 2,096,405 | - |
| Financial liabilities designated at fair value through profit and loss | - | 2,850,034 | - | 2,850,034 | - |
| Other liabilities | 4,682,041 | (2,850,034) | 9,486 | 1,841,493 | 9,486 |
| Provision for taxation | 74,400 | - | 17,257 | 91,657 | 17,257 |
| Total change to financial liabilities balances, reclassification and remeasurement at 1 January 2018 | 71,412,347 | - | 26,743 | 71,439,090 | 26,743 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies (Cont'd)

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

| Bank | MFRS 139 carrying | Reclassification | Remeasurement | MFRS 9 carrying | Retained profits impact as at 1 January 2018 |
|---|----------------------------------|------------------|---------------|--------------------------------|--|
| | amount as at 31 December 2017 | | | amount as at 1 January 2018 | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Assets | | | | | |
| Cash and short term funds | 8,879,053 | - | - | 8,879,053 | - |
| Securities purchased under resale agreements | 1,964,930 | - | - | 1,964,930 | - |
| Deposits and placements with banks and other financial institutions | 3,703,498 | - | 64 | 3,703,562 | 64 |
| Financial assets held-for-trading | 1,988,719 | (1,988,719) | - | - | - |
| Financial assets at fair value through profit and loss (FVPL) | - | 1,988,719 | - | 1,988,719 | - |
| Financial investments available-for-sale | 7,559,361 | (7,559,361) | - | - | - |
| Financial investments at fair value through own comprehensive income (FVOCI) | - | 7,559,361 | - | 7,559,361 | - |
| Loans, advances and financing | 38,595,851 | - | 79,420 | 38,675,271 | 79,420 |
| Derivative financial assets | 2,045,005 | - | - | 2,045,005 | - |
| Statutory deposits with Bank Negara Malaysia | 723,526 | - | - | 723,526 | - |
| Others | 472,398 | - | - | 472,398 | - |
| Deferred tax assets | 94,468 | - | (160) | 94,308 | (160) |
| Total change to financial asset balances, reclassification and remeasurement at 1 January 2018 | 66,026,809 | - | 79,324 | 66,106,133 | 79,324 |
| Liabilities | | | | | |
| Deposits from customers | 46,516,647 | - | - | 46,516,647 | - |
| Deposits and placements from banks and other financial institutions | 4,432,767 | - | - | 4,432,767 | - |
| Bills payable | 301,331 | - | - | 301,331 | - |
| Subordinated liabilities | 1,083,903 | - | - | 1,083,903 | - |
| Derivative financial liabilities | 2,109,255 | - | - | 2,109,255 | - |
| Financial liabilities designated at fair value through profit and loss | - | 2,570,059 | - | 2,570,059 | - |
| Other liabilities | 4,221,857 | (2,570,059) | 6,753 | 1,658,551 | 6,753 |
| Provision for taxation | 74,400 | - | 17,257 | 91,657 | 17,257 |
| Total change to financial liabilities balances, reclassification and remeasurement at 1 January 2018 | 58,740,160 | - | 24,010 | 58,764,170 | 24,010 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies (Cont'd)

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

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

| | Impairment allowances under MFRS 139 RM'000 | Reclassification RM'000 | Remeasurement RM'000 | Impairment allowances under MFRS 9 RM'000 |
|--|--|----------------------------|-------------------------|--|
| Group | | | | |
| <u>Amortised cost (Loans and receivables) (MFRS 139)/</u> | | | | |
| <u>Amortised cost (MFRS 9)</u> | | | | |
| Cash and short term funds | - | - | (86) | (86) |
| Loans, advances and financing | 814,375 | - | (140,846) | 673,529 |
| | <u>814,375</u> | <u>-</u> | <u>(140,932)</u> | <u>673,443</u> |
| <u>Amortised cost (MFRS 139/MFRS 9)</u> | | | | |
| Deposits and placements with banks and other financial institutions | - | - | (64) | (64) |
| Other liabilities | - | - | 9,486 | 9,486 |
| | <u>-</u> | <u>-</u> | <u>9,422</u> | <u>9,422</u> |
| <u>FVOCI (MFRS 139/MFRS 9)</u> | | | | |
| FVOCI reserve | - | - | 526 | 526 |
| Total | <u>814,375</u> | <u>-</u> | <u>(130,984)</u> | <u>683,391</u> |
| Bank | | | | |
| <u>Amortised cost (Loans and receivables) (MFRS 139)/</u> | | | | |
| <u>Amortised cost (MFRS 9)</u> | | | | |
| Loans, advances and financing | 458,568 | - | (79,420) | 379,148 |
| <u>Amortised cost (MFRS 139/MFRS 9)</u> | | | | |
| Deposits and placements with banks and other financial institutions | - | - | (64) | (64) |
| Other liabilities | - | - | 6,753 | 6,753 |
| | <u>-</u> | <u>-</u> | <u>6,689</u> | <u>6,689</u> |
| <u>FVOCI (MFRS 139/MFRS 9)</u> | | | | |
| FVOCI reserve | - | - | 400 | 400 |
| Total | <u>458,568</u> | <u>-</u> | <u>(72,331)</u> | <u>386,237</u> |

NOTES TO THE FINANCIAL STATEMENTS

4 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.

5 Auditors' Report On Preceding Annual Financial Statements

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

6 Seasonality or Cyclical Factors

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

7 Unusual Items due to Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group and Bank for the financial period ended 31 March 2018.

8 Changes in Estimates

There were no material changes in estimates of amounts reported in prior financial years that have a material effect on the financial results and position of the Group and Bank for the financial period ended 31 March 2018.

9 Debt and Equity Securities

There were no other issuances, cancellations, repurchases, resale or repayment of debt and equity securities during the financial period ended 31 March 2018.

10 Dividend

No interim dividend was declared nor paid during the financial period ended 31 March 2018.

11 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 31 March 2018.

12 Significant and Subsequent Events

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

13 Cash and Short-Term Funds

| | <i>Group</i> | | <i>Bank</i> | |
|--|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Cash and balances with banks and other financial institutions | 781,684 | 772,911 | 610,696 | 556,992 |
| Money at call and interbank placements maturing within one month | 7,478,906 | 9,540,865 | 5,647,830 | 8,322,061 |
| | 8,260,590 | 10,313,776 | 6,258,526 | 8,879,053 |

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 RM172.0 million (31 December 2017: RM91.7 million) and RM197.0 million (31 December 2017: RM116.7 million) respectively.

For money at call and interbank placements maturing within one month, all balances are within Stage 1 allocation (12 -months ECL) with no impairment allowance as at 31 March 2018.

14 Deposits and Placements with Banks and Other Financial Institutions

| | <i>Group</i> | | <i>Bank</i> | |
|---|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Licensed banks | 489,506 | 9,999 | 2,531,988 | 3,003,498 |
| Bank Negara Malaysia | 1,458,900 | 700,000 | 1,458,900 | 700,000 |
| Gross deposit and placements | 1,948,406 | 709,999 | 3,990,888 | 3,703,498 |
| Less: impairment allowance ⁽¹⁾ | (16) | - | (16) | - |
| Net deposit and placements | 1,948,390 | 709,999 | 3,990,872 | 3,703,498 |

⁽¹⁾ Adoption of the MFRS 9

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 RM2,042.5 million (31 December 2017: RM2,993.5 million).

For deposits and placements with banks and other financial institutions, all balances are within Stage 1 allocation (12 -months ECL) with RM15,997 impairment allowance as at 31 March 2018.

15 Financial Assets Held-for-Trading

| | <i>Group</i> | | <i>Bank</i> | |
|-------------------------------------|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| At fair value | RM'000 | RM'000 | RM'000 | RM'000 |
| Money market instruments: | | | | |
| Malaysian Government treasury bills | - | 20,238 | - | 20,238 |
| Islamic treasury bills | - | 100,279 | - | 100,279 |
| Malaysian Government securities | - | 977,129 | - | 977,129 |
| Malaysian Government Islamic Sukuk | - | 755,313 | - | 755,313 |
| Cagamas bonds and notes | - | 2,476 | - | 2,476 |
| | - | 1,855,435 | - | 1,855,435 |
| Unquoted: | | | | |
| Corporate bonds and Sukuk | - | 133,284 | - | 133,284 |
| | - | 1,988,719 | - | 1,988,719 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Financial Assets at Fair Value through Profit and Loss (FVTPL)

| | <i>Group</i> | | <i>Bank</i> | |
|-------------------------------------|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| At fair value | RM'000 | RM'000 | RM'000 | RM'000 |
| Money market instruments: | | | | |
| Malaysian Government treasury bills | 751,538 | - | 751,538 | - |
| Islamic treasury bills | 270,041 | - | 270,041 | - |
| Malaysian Government securities | 1,225,585 | - | 1,225,585 | - |
| Malaysian Government Islamic Sukuk | 660,112 | - | 660,112 | - |
| Cagamas bonds and notes | 2,474 | - | 2,474 | - |
| | 2,909,750 | - | 2,909,750 | - |
| Unquoted: | | | | |
| Corporate bonds and Sukuk | 49,121 | - | 49,121 | - |
| | 2,958,871 | - | 2,958,871 | - |

17 Financial Investments Available-For-Sale

| | <i>Group</i> | | <i>Bank</i> | |
|---|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Debt instruments | | | | |
| Money market instruments: | | | | |
| Bank Negara Malaysia bills and notes | - | 817,246 | - | 817,246 |
| Malaysian Government securities | - | 4,186,864 | - | 4,186,864 |
| Malaysian Government Islamic Sukuk | - | 3,501,536 | - | 1,454,511 |
| Malaysian Government Islamic treasury bills | - | 74,808 | - | 49,872 |
| Cagamas bonds and notes | - | 374,792 | - | 374,792 |
| Negotiable instruments of deposit | - | 279,089 | - | 130,006 |
| US treasury bond | - | 362,090 | - | 362,090 |
| | - | 9,596,425 | - | 7,375,381 |
| Unquoted: | | | | |
| Corporate bonds and Sukuk | - | 6,573 | - | 6,573 |
| Equity instruments | | | | |
| Unquoted: | | | | |
| Shares | - | 177,407 | - | 177,407 |
| | - | 9,780,405 | - | 7,559,361 |

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

| | <i>Group</i> | | <i>Bank</i> | |
|-------------------------------------|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Maturing within one year | - | 2,069,078 | - | 1,382,070 |
| More than one year to three years | - | 4,397,960 | - | 2,970,157 |
| More than three years to five years | - | 3,129,387 | - | 3,023,154 |
| | - | 9,596,425 | - | 7,375,381 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

| | <i>Group</i> | | <i>Bank</i> | |
|--|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Debt instruments | | | | |
| Money market instruments: | | | | |
| Bank Negara Malaysia bills and notes | 851,449 | - | 851,449 | - |
| Malaysian Government securities | 2,703,548 | - | 2,703,548 | - |
| Malaysian Government Islamic Sukuk | 3,290,205 | - | 1,247,300 | - |
| Malaysian Government Islamic treasury bills | 194,402 | - | - | - |
| Cagamas bonds and notes | 429,371 | - | 429,371 | - |
| Negotiable instruments of deposit | 30,005 | - | 30,005 | - |
| US treasury bond | 610,540 | - | 610,540 | - |
| Bankers' acceptance and Islamic accepted bills | 156,239 | - | 156,239 | - |
| | 8,265,759 | - | 6,028,452 | - |
| Unquoted: | | | | |
| Corporate bonds and Sukuk | 6,578 | - | 6,578 | - |
| Equity instruments | | | | |
| Unquoted: | | | | |
| Shares | 177,407 | - | 177,407 | - |
| | 8,449,744 | - | 6,212,437 | - |

For financial investments at fair value through other comprehensive income (FVOCI), all balances are within Stage 1 allocation (12 -months ECL) with impairment allowance release for the Group and the Bank presented within FVOCI reserves amounted to RM441,387 and RM347,127 respectively as at 31 March 2018.

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

| | <i>Group</i> | | <i>Bank</i> | |
|-------------------------------------|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Maturing within one year | 2,178,437 | - | 1,472,188 | - |
| More than one year to three years | 4,495,034 | - | 3,070,083 | - |
| More than three years to five years | 1,592,288 | - | 1,486,181 | - |
| | 8,265,759 | - | 6,028,452 | - |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Loans, Advances and Financing

(i) By type

| | <i>Group</i> | | <i>Bank</i> | |
|---|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| At amortised cost | RM'000 | RM'000 | RM'000 | RM'000 |
| Overdrafts/cash line | 790,621 | 876,611 | 705,492 | 794,428 |
| Term loans/financing: | | | | |
| Housing loans/financing | 19,173,274 | 19,381,681 | 14,784,303 | 14,980,106 |
| Syndicated term loans/financing | 5,488,159 | 6,385,123 | 3,823,094 | 4,244,458 |
| Factoring receivables | 199,221 | 236,319 | 199,221 | 236,319 |
| Hire purchase receivables | 163,332 | 169,852 | - | - |
| Lease receivables | 1,164 | 1,379 | - | - |
| Other term loans/financing ^[1] | 9,376,865 | 9,380,633 | 5,468,727 | 5,208,706 |
| Bills receivable | 2,293,029 | 2,524,261 | 2,173,320 | 2,415,196 |
| Trust receipts | 2,207,926 | 2,280,046 | 1,428,702 | 1,537,964 |
| Claims on customers under acceptance credits | 2,029,213 | 2,020,837 | 1,568,608 | 1,597,923 |
| Staff loans/financing | 101,043 | 107,280 | 97,057 | 102,633 |
| Credit/charge cards | 3,292,348 | 3,374,281 | 2,378,766 | 2,448,864 |
| Revolving credit | 6,586,463 | 6,044,928 | 5,553,178 | 5,478,672 |
| Other loans/financing | 11,542 | 10,798 | 9,564 | 9,150 |
| Gross loans, advances and financing | 51,714,200 | 52,794,029 | 38,190,032 | 39,054,419 |
| Less: - Impairment allowances (MFRS 9) ^[2] | (689,817) | - | (380,873) | - |
| - Collective impairment allowances | - | (518,836) | - | (277,928) |
| - Individual impairment allowances | - | (295,539) | - | (180,640) |
| Total net loans, advances and financing | 51,024,383 | 51,979,654 | 37,809,159 | 38,595,851 |

^[1] Included in the loans, advances and financing of the Bank at 31 March 2018 are financing which are disclosed as "Asset under Management" in the financial statements of HBMS. These details are as follows:

| | <i>Bank</i> | |
|---|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 |
| Syndicated term loans/financing | 3,198,564 | 3,547,160 |
| Less: Impairment allowance ^[2] | (386) | - |
| | 3,198,178 | 3,547,160 |

^[2] Adoption of the MFRS 9

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 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 2017.

(ii) By type of customer

| | <i>Group</i> | | <i>Bank</i> | |
|--|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Domestic non-bank financial institutions | 658,406 | 564,529 | 89,251 | - |
| Domestic business enterprises: | | | | |
| Small medium enterprises | 6,291,668 | 6,958,173 | 4,365,195 | 4,995,748 |
| Others | 16,170,311 | 16,224,147 | 12,818,006 | 12,609,721 |
| Government and statutory bodies | 6,485 | 7,222 | - | - |
| Individuals | 22,343,086 | 22,558,828 | 16,236,738 | 16,441,610 |
| Other domestic entities | 6,837 | 18,522 | 3,689 | 3,881 |
| Foreign entities | 6,237,407 | 6,462,608 | 4,677,153 | 5,003,459 |
| | 51,714,200 | 52,794,029 | 38,190,032 | 39,054,419 |

(iii) By residual contractual maturity

| | <i>Group</i> | | <i>Bank</i> | |
|-------------------------------------|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Maturity within one year | 23,352,683 | 24,408,799 | 17,755,412 | 18,558,054 |
| More than one year to three years | 3,211,015 | 2,911,213 | 1,831,651 | 1,929,070 |
| More than three years to five years | 2,304,560 | 2,559,820 | 1,743,897 | 1,657,946 |
| More than five years | 22,845,942 | 22,914,197 | 16,859,072 | 16,909,349 |
| | 51,714,200 | 52,794,029 | 38,190,032 | 39,054,419 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Loans, Advances and Financing (Cont'd)

(iv) By interest/profit rate sensitivity

| | <i>Group</i> | | <i>Bank</i> | |
|----------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| Fixed rate: | | | | |
| Housing loans/financing | 448 | 479 | 448 | 457 |
| Hire purchase receivables | 163,332 | 169,852 | - | - |
| Other fixed rate loans/financing | 12,860,076 | 13,236,201 | 9,686,657 | 10,131,075 |
| Variable rate: | | | | |
| BR/BLR/BFR plus | 22,830,828 | 23,264,364 | 17,393,446 | 17,807,010 |
| Cost-plus | 15,859,516 | 16,123,133 | 11,109,481 | 11,115,877 |
| | 51,714,200 | 52,794,029 | 38,190,032 | 39,054,419 |

(v) By sector

| | <i>Group</i> | | <i>Bank</i> | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| Agricultural, hunting, forestry and fishing | 850,558 | 985,426 | 785,671 | 888,008 |
| Mining and quarrying | 336,668 | 240,735 | 123,988 | 144,359 |
| Manufacturing | 6,800,156 | 6,579,585 | 5,149,953 | 4,913,795 |
| Electricity, gas and water | 93,311 | 72,969 | 13,816 | 9,699 |
| Construction | 2,911,989 | 2,997,007 | 2,423,347 | 2,564,874 |
| Real estate | 4,089,940 | 4,035,514 | 3,094,430 | 2,961,674 |
| Wholesale & retail trade and restaurants & hotels | 3,852,871 | 3,898,913 | 2,889,931 | 2,994,148 |
| Transport, storage and communication | 410,755 | 1,104,049 | 278,916 | 554,667 |
| Finance, insurance and business services | 3,119,865 | 3,171,660 | 2,128,754 | 2,178,056 |
| Household-retail | 25,632,356 | 26,004,009 | 18,936,771 | 19,265,049 |
| Others | 3,615,731 | 3,704,162 | 2,364,455 | 2,580,090 |
| | 51,714,200 | 52,794,029 | 38,190,032 | 39,054,419 |

(vi) By purpose

| | <i>Group</i> | | <i>Bank</i> | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| Purchase of property: | | | | |
| Residential | 19,239,147 | 19,450,388 | 14,848,199 | 15,046,578 |
| Non residential | 1,511,705 | 1,552,966 | 707,022 | 735,638 |
| Purchase of securities | 4,879 | 5,101 | 4,879 | 5,101 |
| Purchase of transport vehicles | 23,504 | 25,144 | 21,905 | 23,500 |
| Purchase of fixed assets excluding land & building | 1,851 | 2,222 | 1,851 | 2,222 |
| Consumption credit | 5,888,762 | 6,028,667 | 3,840,095 | 3,958,229 |
| Construction | 2,648,080 | 2,626,789 | 2,151,954 | 2,279,991 |
| Working capital | 19,433,891 | 20,069,341 | 14,629,248 | 14,814,378 |
| Other purpose | 2,962,381 | 3,033,411 | 1,984,879 | 2,188,782 |
| | 51,714,200 | 52,794,029 | 38,190,032 | 39,054,419 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Loans, Advances and Financing (Cont'd)

(vii) By geographical distribution

| | <i>Group</i> | | <i>Bank</i> | |
|-----------------|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Northern Region | 6,631,663 | 6,681,364 | 5,172,397 | 5,184,894 |
| Southern Region | 6,329,206 | 6,413,866 | 4,874,747 | 4,907,206 |
| Central Region | 36,336,182 | 37,097,724 | 26,157,070 | 26,802,561 |
| Eastern Region | 2,417,149 | 2,601,075 | 1,985,818 | 2,159,758 |
| | 51,714,200 | 52,794,029 | 38,190,032 | 39,054,419 |

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.

(viii) By stage allocation

| | <i>Group</i> | | <i>Bank</i> | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Gross carrying value | Impairment allowance | Gross carrying value | Impairment allowance |
| | 31 Mar 2018 | 31 Mar 2018 | 31 Mar 2018 | 31 Mar 2018 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Stage 1 (12-months ECL; non credit impaired) | 44,438,706 | 97,790 | 32,540,589 | 53,415 |
| Stage 2 (Lifetime ECL; non credit impaired) | 6,298,269 | 173,493 | 5,028,977 | 98,552 |
| Stage 3 (Lifetime ECL; credit impaired) | 977,225 | 418,534 | 620,466 | 228,906 |
| | 51,714,200 | 689,817 | 38,190,032 | 380,873 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Impaired Loans, Advances and Financing

(i) Movements in impaired loans, advances and financing

| | <i>Group</i> | | <i>Bank</i> | |
|--|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Balance at 1 January | 1,093,678 | 1,026,953 | 711,629 | 723,427 |
| Restated for adoption of MFRS 9 | (1,093,678) | - | (711,629) | - |
| Classified as impaired during the financial year | - | 1,158,562 | - | 721,988 |
| Reclassified as performing | - | (533,030) | - | (377,514) |
| Amount recovered | - | (282,822) | - | (216,817) |
| Amount written off | - | (275,985) | - | (139,455) |
| Balance at 31 March/31 December | - | 1,093,678 | - | 711,629 |

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

| | <i>Group</i> | | <i>Bank</i> | |
|--|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Collective allowance for impairment | | | | |
| Balance at 1 January | 518,836 | 469,565 | 277,928 | 269,550 |
| Restated for adoption of MFRS 9 | (518,836) | - | (277,928) | - |
| Made during the financial year | - | 393,301 | - | 185,470 |
| Amount released | - | (114,775) | - | (70,801) |
| Amount written off | - | (229,255) | - | (106,291) |
| Balance at 31 March/31 December | - | 518,836 | - | 277,928 |

| | <i>Group</i> | | <i>Bank</i> | |
|--|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Individual allowance for impairment | | | | |
| Balance at 1 January | 295,539 | 230,040 | 180,640 | 167,283 |
| Restated for adoption of MFRS 9 | (295,539) | - | (180,640) | - |
| Made during the financial year | - | 145,899 | - | 88,599 |
| Amount released | - | (110,779) | - | (85,033) |
| Amount reinstated | - | 30,379 | - | 9,791 |
| Balance at 31 March/31 December | - | 295,539 | - | 180,640 |

The impairment allowance by stage allocation upon adoption of MFRS 9 with effect from 1 January 2018 is discussed in Note 19 (viii).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

| (iii) By sector | <i>Group</i> | | <i>Bank</i> | |
|--|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Agricultural, hunting, forestry and fishing | - | 58,208 | - | 58,208 |
| Mining and quarrying | 741 | 765 | - | - |
| Manufacturing | 42,340 | 58,786 | 27,578 | 40,975 |
| Construction | 8,920 | 10,306 | 8,920 | 10,306 |
| Real estate | 2,299 | 1,108 | 2,299 | 1,108 |
| Wholesale & retail trade, restaurants & hotels | 39,475 | 41,829 | 26,591 | 32,419 |
| Transport, storage and communication | 22,129 | 22,363 | 17,814 | 17,814 |
| Finance, insurance and business services | 35,360 | 38,692 | 6,379 | 9,382 |
| Household-retail | 824,313 | 859,867 | 530,733 | 541,151 |
| Others | 1,648 | 1,754 | 152 | 266 |
| | 977,225 | 1,093,678 | 620,466 | 711,629 |

| (iv) By purpose | <i>Group</i> | | <i>Bank</i> | |
|--------------------------------|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Purchase of property: | | | | |
| Residential | 442,018 | 523,396 | 318,203 | 360,433 |
| Non residential | 25,377 | 34,609 | 14,355 | 21,804 |
| Purchase of transport vehicles | 122 | 264 | 87 | 261 |
| Consumption credit | 375,568 | 322,678 | 208,799 | 171,096 |
| Construction | 13,976 | 13,955 | 11,255 | 11,169 |
| Working capital | 120,164 | 198,695 | 67,767 | 146,785 |
| Other purpose | - | 81 | - | 81 |
| | 977,225 | 1,093,678 | 620,466 | 711,629 |

| (v) By geographical distribution | <i>Group</i> | | <i>Bank</i> | |
|----------------------------------|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Northern Region | 157,289 | 188,043 | 114,044 | 129,130 |
| Southern Region | 109,332 | 118,574 | 76,230 | 79,240 |
| Central Region | 654,055 | 631,951 | 382,297 | 360,379 |
| Eastern Region | 56,549 | 155,110 | 47,895 | 142,880 |
| | 977,225 | 1,093,678 | 620,466 | 711,629 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Other Assets

| | <i>Group</i> | | <i>Bank</i> | |
|------------------------------------|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Settlements | 272,223 | 45,317 | 272,223 | 45,317 |
| Interest/profit receivable | 90,292 | 135,795 | 77,074 | 132,378 |
| Income receivable | 36,075 | 34,886 | 27,514 | 27,255 |
| Deposits and prepayments | 25,042 | 21,120 | 24,737 | 20,786 |
| Amount due from subsidiary company | - | - | 57,764 | 169,489 |
| Other receivables | 343,090 | 94,382 | 306,706 | 77,173 |
| | 766,722 | 331,500 | 766,018 | 472,398 |

22 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)

23 Deposits from Customers

| | <i>Group</i> | | <i>Bank</i> | |
|---------------------------------|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| (i) By type of deposit | | | | |
| At amortised cost | | | | |
| Demand deposits | 19,438,438 | 20,264,702 | 17,648,539 | 18,150,556 |
| Savings deposits | 12,737,683 | 12,846,713 | 11,042,538 | 11,202,685 |
| Fixed/Investment deposits | 23,821,787 | 23,436,236 | 16,575,218 | 17,159,906 |
| Wholesale money market deposits | - | 3,500 | - | 3,500 |
| | 55,997,908 | 56,551,151 | 45,266,295 | 46,516,647 |

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

| | <i>Group</i> | | <i>Bank</i> | |
|-------------------------------------|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Due within six months | 18,424,671 | 18,261,293 | 12,699,718 | 13,363,838 |
| More than six months to one year | 4,992,547 | 4,849,544 | 3,639,486 | 3,610,173 |
| More than one year to three years | 288,463 | 244,641 | 158,592 | 134,572 |
| More than three years to five years | 116,106 | 80,758 | 77,422 | 51,323 |
| | 23,821,787 | 23,436,236 | 16,575,218 | 17,159,906 |

| | <i>Group</i> | | <i>Bank</i> | |
|---------------------------------|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| (ii) By type of customer | | | | |
| Government and statutory bodies | 26,841 | 33,830 | 20,473 | 28,207 |
| Business enterprises | 20,880,544 | 20,625,420 | 17,905,210 | 18,404,900 |
| Individuals | 23,848,580 | 24,074,294 | 18,291,419 | 18,662,800 |
| Others | 11,241,943 | 11,817,607 | 9,049,193 | 9,420,740 |
| | 55,997,908 | 56,551,151 | 45,266,295 | 46,516,647 |

24 Deposits and Placements from Banks and Other Financial Institutions

| | <i>Group</i> | | <i>Bank</i> | |
|------------------------------|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Licensed banks | 557,622 | 231,646 | 1,095 | 231,619 |
| Bank Negara Malaysia | 35,725 | 28,507 | 1,950 | 1,950 |
| Other financial institutions | 3,183,522 | 5,093,456 | 2,175,950 | 4,199,198 |
| | 3,776,869 | 5,353,609 | 2,178,995 | 4,432,767 |

25 Financial Liabilities Designated at Fair Value through Profit or Loss

| | <i>Group</i> | | <i>Bank</i> | |
|------------------------------------|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Structured products ⁽¹⁾ | 3,063,569 | - | 2,732,524 | - |

⁽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 income/(expense) from financial investments designated at fair value.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

26 Other Liabilities

| | <i>Group</i> | | <i>Bank</i> | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| At amortised cost | | | | |
| Settlements | 272,673 | 74,224 | 272,673 | 71,279 |
| Interest/profit payable | 223,912 | 221,250 | 161,692 | 160,602 |
| Deferred income | 104,975 | 110,228 | 95,937 | 99,512 |
| Marginal deposit | 61,813 | 70,610 | 47,723 | 57,518 |
| Amount due to subsidiary company | - | - | 30,288 | 988 |
| Accrued expenses | 631,969 | 687,383 | 606,197 | 658,339 |
| Other creditors | 1,040,160 | 668,312 | 966,933 | 603,560 |
| Provisions on loan and credit related commitments; and financial guarantees | 6,116 | - | 4,086 | - |
| | 2,341,618 | 1,832,007 | 2,185,529 | 1,651,798 |
| At fair value | | | | |
| Structured products ^[1] | - | 2,850,034 | - | 2,570,059 |
| | 2,341,618 | 4,682,041 | 2,185,529 | 4,221,857 |

[1] Structured products are now measured as Financial Liabilities Designated at Fair Value through Profit of Loss with effect from 1 January 2018. Please refer to Note 25.

27 Multi-Currency Sukuk Programme

| | <i>Group</i> | |
|---------------------------------------|-----------------------|-----------------------|
| | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| Multi-Currency Sukuk Programme (MCSP) | 1,252,944 | 1,252,829 |

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) | |
|----------------------------|---------------------------|---------------|------------------|-------------------------|-------------|
| | | | | 31 Mar 2018 | 31 Dec 2017 |
| At fair value | | | | | |
| Second series | 500,000 | 16 Oct 2014 | 16 Oct 2019 | 501,208 | 501,201 |
| Third series | 750,000 | 27 Mar 2015 | 27 Mar 2020 | 751,736 | 751,628 |
| | <u>1,250,000</u> | | | 1,252,944 | 1,252,829 |
| Total | <u>1,250,000</u> | | | 1,252,944 | 1,252,829 |

Movement in MCSP

| | 2nd series | | 3rd series | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| Balance at 1 January | 501,201 | 502,835 | 751,628 | 753,166 |
| Change in fair value other than from own credit risk | (799) | (504) | (712) | 64 |
| Change in fair value from own credit risk | 806 | (1,130) | 820 | (1,602) |
| Balance at 31 March/31 December | 501,208 | 501,201 | 751,736 | 751,628 |

| | <i>Group</i> | |
|--|-----------------------|-----------------------|
| | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| The cumulative change in fair value due to changes in own credit risk | 1,626 | (2,732) |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Subordinated Liabilities

| | <i>Group</i> | | <i>Bank</i> | |
|---|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Subordinated Liabilities | 1,056,514 | 1,083,903 | 1,056,514 | 1,083,903 |
| (i) Subordinated liabilities, at par | | | | |
| - Second tranche issued on 2 November 2007 ^[1] | 500,000 | 500,000 | 500,000 | 500,000 |
| Fair value changes arising from fair value hedge | - | 305 | - | 305 |
| | 500,000 | 500,305 | 500,000 | 500,305 |

^[1] 5.05% coupon rate for RM500 million due 2027 callable with a 100 basis point 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> | |
|---|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Dec 2017 | 31 Mar 2018 | 31 Dec 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| (ii) Subordinated term loan | | | | |
| - First tranche issued on 25 June 2014 | 300,109 | 314,714 | 300,109 | 314,714 |
| - Second tranche issued on 30 June 2015 | 256,405 | 268,884 | 256,405 | 268,884 |
| | 556,514 | 583,598 | 556,514 | 583,598 |

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)

29 Net Interest Income

| | Group | | Bank | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | 31 Mar 2018 RM'000 | 31 Mar 2017 RM'000 | 31 Mar 2018 RM'000 | 31 Mar 2017 RM'000 |
| Interest income | | | | |
| Loans and advances | | | | |
| - Interest income other than from impaired loans | 433,971 | 386,930 | 433,971 | 386,930 |
| - Interest income recognised from impaired loans | 18,107 | 8,604 | 18,107 | 8,604 |
| Money at call and deposit placements with financial institutions | 71,960 | 112,627 | 92,220 | 128,549 |
| Financial investments at FVOCI | 57,249 | 57,920 | 57,249 | 57,920 |
| | 581,287 | 566,081 | 601,547 | 582,003 |
| Interest expense | | | | |
| Deposits and placements of banks and other financial institutions | (9,658) | (12,790) | (9,658) | (12,790) |
| Deposits from customers | (160,437) | (174,820) | (160,437) | (174,820) |
| Subordinated liabilities | (11,335) | (15,893) | (11,335) | (15,893) |
| Others | (2,782) | (2,802) | (2,782) | (2,802) |
| | (184,212) | (206,305) | (184,212) | (206,305) |
| Net interest income | 397,075 | 359,776 | 417,335 | 375,698 |

30 Net Fee and Commission Income

| | Group | | Bank | |
|--------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 31 Mar 2018 RM'000 | 31 Mar 2017 RM'000 | 31 Mar 2018 RM'000 | 31 Mar 2017 RM'000 |
| Fee and commission income | | | | |
| Credit cards | 35,196 | 39,556 | 35,196 | 39,556 |
| Service charges | 34,843 | 32,384 | 34,843 | 32,384 |
| Credit facilities | 15,165 | 13,852 | 15,165 | 13,852 |
| Agency | 27,567 | 22,911 | 27,567 | 22,911 |
| Others | 8,033 | 7,542 | 8,033 | 7,542 |
| | 120,804 | 116,245 | 120,804 | 116,245 |
| Fee and commission expense | | | | |
| Debit/credit cards | (16,967) | (14,803) | (16,967) | (14,803) |
| Interbank and clearing | (515) | (329) | (515) | (329) |
| Brokerage | (546) | (425) | (546) | (425) |
| Cash management | (1,044) | (887) | (1,044) | (887) |
| Others | (2,673) | (4,799) | (2,673) | (4,799) |
| | (21,745) | (21,243) | (21,745) | (21,243) |
| Net fee and commission income | 99,059 | 95,002 | 99,059 | 95,002 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Net Trading Income

| | <i>Group</i> | | <i>Bank</i> | |
|---|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Mar 2017 | 31 Mar 2018 | 31 Mar 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Realised gains on financial assets/liabilities at FVTPL and other financial instruments | 4,709 | 4,735 | 5,120 | 4,735 |
| Net interest income from financial assets at FVTPL | 21,439 | 8,534 | 21,439 | 8,534 |
| Net unrealised (losses)/gains on revaluation of financial assets at FVTPL | (1,421) | 10,366 | (1,896) | 10,366 |
| Net realised gains arising from dealing in foreign currency | 115,785 | 172,088 | 111,546 | 173,510 |
| Net unrealised (losses)/gains from dealing in foreign currency | (18,222) | (2,499) | 2,947 | (58,323) |
| Net realised gains arising from dealing in derivatives | 119,279 | 147,136 | 121,810 | 150,486 |
| Net unrealised losses on revaluation of derivatives | (101,102) | (146,529) | (112,024) | (152,825) |
| Losses arising from fair value hedges | (819) | (14) | (819) | (14) |
| | 139,648 | 193,818 | 148,123 | 136,469 |

32 Income from Islamic Banking operations

| | <i>Group</i> | |
|---|--------------------|-------------|
| | 31 Mar 2018 | 31 Mar 2017 |
| | RM'000 | RM'000 |
| Income derived from investment of depositor funds and others | 200,580 | 108,117 |
| Income derived from investment of shareholders funds ⁽¹⁾ | 36,730 | 33,844 |
| Income attributable to the depositors | (77,607) | (61,800) |
| | 159,703 | 80,161 |

⁽¹⁾ Included in the following funds are net losses on financial instruments designated at fair value through profit or loss for the period ending 31 March:

| | | |
|--|----------------|-------|
| Income derived from investment of depositors' funds and others | (1,828) | - |
| Income derived from investment of shareholder's funds | (98) | (200) |

33 Other Operating Income

| | <i>Group</i> | | <i>Bank</i> | |
|--|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Mar 2017 | 31 Mar 2018 | 31 Mar 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Disposal of financial investments at FVOCI | 6,308 | - | 6,308 | - |
| Rental income | 1,849 | 1,699 | 1,849 | 1,699 |
| Net loss on disposal of property and equipment | - | (4) | - | (4) |
| Income recharges from subsidiary | - | - | 31,641 | 31,509 |
| Other operating income | 3,998 | 5,652 | 3,998 | 5,652 |
| | 12,155 | 7,347 | 43,796 | 38,856 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Impairment Allowance/Provisions

| | <i>Group</i> | | <i>Bank</i> | |
|--|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Mar 2017 | 31 Mar 2018 | 31 Mar 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| New and increased allowance/provisions (net of releases/written off) | 71,136 | 102,221 | 34,430 | 54,749 |
| Recoveries of specific allowance/provisions | (30,281) | (20,952) | (19,294) | (12,620) |
| Total charge to the income statement | 40,855 | 81,269 | 15,136 | 42,129 |

Breakdown of the impairment allowance/provisions by financial instruments type.

(i) Loan, advances and financing

| | <i>Group</i> | | <i>Bank</i> | |
|---|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Mar 2017 | 31 Mar 2018 | 31 Mar 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| New and increased allowance (net of releases/written off) | 75,486 | 102,221 | 37,099 | 54,749 |
| Recoveries of specific allowance | (30,281) | (20,952) | (19,294) | (12,620) |
| Total charge to the income statement | 45,205 | 81,269 | 17,805 | 42,129 |

(ii) Deposits and placements with banks and other financial institutions

| | <i>Group</i> | | <i>Bank</i> | |
|---|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Mar 2017 | 31 Mar 2018 | 31 Mar 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| New and increased allowance (net of releases) | (30) | - | (30) | - |
| Total charge to the income statement | (30) | - | (30) | - |

(iii) Debt securities - FVOCI

| | <i>Group</i> | | <i>Bank</i> | |
|---|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Mar 2017 | 31 Mar 2018 | 31 Mar 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| New and increased allowance (net of releases) | (84) | - | (52) | - |
| Total charge to the income statement | (84) | - | (52) | - |

(iv) Loans, financing and credit related commitments; and financial guarantees

| | <i>Group</i> | | <i>Bank</i> | |
|--|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Mar 2017 | 31 Mar 2018 | 31 Mar 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| New and increased provisions (net of releases) | (4,236) | - | (2,587) | - |
| Total charge to the income statement | (4,236) | - | (2,587) | - |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Other Operating Expenses

| | <i>Group</i> | | <i>Bank</i> | |
|---|--------------------|-------------|--------------------|-------------|
| | 31 Mar 2018 | 31 Mar 2017 | 31 Mar 2018 | 31 Mar 2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Personnel expenses | 185,342 | 181,472 | 173,803 | 170,074 |
| Promotion and marketing related expenses | 21,804 | 14,166 | 16,971 | 11,619 |
| Establishment related expenses | 37,109 | 33,498 | 33,067 | 28,794 |
| General administrative expenses | 37,636 | 42,980 | 28,367 | 33,694 |
| Intercompany charges | 81,728 | 89,318 | 80,953 | 89,198 |
| | 363,619 | 361,434 | 333,161 | 333,379 |
| Personnel expenses | | | | |
| Salaries, allowances and bonuses | 145,599 | 139,078 | 136,262 | 130,734 |
| Employees Provident Fund contributions | 23,780 | 22,438 | 22,114 | 20,992 |
| Share based payment | 3,170 | 3,733 | 3,140 | 3,714 |
| Others | 12,793 | 16,223 | 12,287 | 14,634 |
| | 185,342 | 181,472 | 173,803 | 170,074 |
| Promotion and marketing related expenses | 21,804 | 14,166 | 16,971 | 11,619 |
| Establishment related expenses | | | | |
| Depreciation of property and equipment | 5,364 | 5,858 | 4,698 | 4,734 |
| Amortisation of intangible assets | 5,676 | 5,253 | 5,676 | 5,253 |
| Information technology costs | 6,174 | 3,485 | 5,405 | 2,745 |
| Hire of equipment | 2,493 | 2,201 | 2,493 | 2,201 |
| Rental of premises | 9,283 | 8,523 | 7,415 | 6,590 |
| Property and equipment written off | 4 | 3 | 4 | 3 |
| General repairs and maintenance | 2,232 | 3,162 | 2,232 | 3,162 |
| Utilities | 3,906 | 3,090 | 3,386 | 2,747 |
| Others | 1,977 | 1,923 | 1,758 | 1,359 |
| | 37,109 | 33,498 | 33,067 | 28,794 |
| General administrative expenses | 37,636 | 42,980 | 28,367 | 33,694 |
| Intercompany charges | 81,728 | 89,318 | 80,953 | 89,198 |
| Of which by: | | | | |
| Type of service | | | | |
| - Information technology related cost | 31,460 | 28,900 | 31,479 | 28,900 |
| - Non information technology related cost | 50,268 | 60,418 | 49,474 | 60,298 |
| Geographical distribution | | | | |
| - Inside Malaysia | 15,176 | 14,409 | 14,506 | 13,320 |
| - Outside Malaysia | 66,552 | 74,909 | 66,447 | 75,878 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Capital Adequacy

| | <i>Group</i> | |
|--|------------------------------|-----------------------|
| | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| Tier 1 capital | | |
| Paid-up ordinary share capital | 1,045,875 | 1,045,875 |
| Retained profits | 7,297,473 | 7,562,878 |
| Other reserves | 939,366 | 802,284 |
| Regulatory adjustments | (1,040,045) | (893,678) |
| Total Common Equity Tier 1 (CET 1) and Tier 1 capital | 8,242,669 | 8,517,359 |
| Tier 2 capital | | |
| Subordinated liabilities | 400,000 | 500,000 |
| Subordinated term loan | 556,514 | 583,598 |
| Collective impairment allowance (unimpaired portion) & regulatory reserves | 611,787 | 611,812 |
| Regulatory adjustments | 112,214 | 112,575 |
| Total Tier 2 capital | 1,680,515 | 1,807,985 |
| Capital base | 9,923,184 | 10,325,344 |
| <u>Inclusive of proposed dividend</u> | | |
| CET 1 and Tier 1 Capital ratio | 14.774% | 15.188% |
| Total Capital ratio | 17.786% | 18.412% |
| <u>Net of proposed dividend</u> | | |
| CET 1 and Tier 1 Capital ratio | 14.774% | 14.831% |
| Total Capital ratio | 17.786% | 18.055% |

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> | |
|--------------------------------|----------------------------------|---------------------------|
| | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| Total RWA for credit risk | 48,942,998 ^[1] | 48,944,965 ^[1] |
| Total RWA for market risk | 1,090,444 | 1,347,442 |
| Total RWA for operational risk | 5,758,891 | 5,787,374 |
| | 55,792,334 | 56,079,781 |

^[1] The risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 19(i) for more details) are as follows:

| | <i>Group</i> | |
|----------------------------|------------------------------|-----------------------|
| | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| Under SIAF/IAA arrangement | 2,646,810 | 3,137,175 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Capital Adequacy (Cont'd)

| | <i>Bank</i> | |
|--|-----------------------|-----------------------|
| | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| Tier 1 capital | | |
| Paid-up ordinary share capital | 1,045,875 | 1,045,875 |
| Retained profits | 6,342,929 | 6,641,367 |
| Other reserves | 897,180 | 767,339 |
| Regulatory adjustments | <u>(1,644,181)</u> | <u>(1,374,672)</u> |
| Total Common Equity Tier 1 (CET1) and Tier 1 capital | <u>6,641,803</u> | <u>7,079,909</u> |
| Tier 2 capital | | |
| Subordinated liabilities | 400,000 | 500,000 |
| Subordinated term loan | 556,514 | 583,598 |
| Collective impairment allowance (unimpaired portion) & regulatory reserves | 477,691 | 443,739 |
| Regulatory adjustments | <u>(444,300)</u> | <u>(603,027)</u> |
| Total Tier 2 capital | <u>989,905</u> | <u>924,310</u> |
| Capital base | <u>7,631,708</u> | <u>8,004,219</u> |
| <u>Inclusive of proposed dividend</u> | | |
| CET 1 and Tier 1 Capital ratio | 14.937% | 15.957% |
| Total Capital ratio | 17.164% | 18.040% |
| <u>Net of proposed dividend</u> | | |
| CET 1 and Tier 1 Capital ratio | 14.937% | 15.506% |
| Total Capital ratio | 17.164% | 17.590% |

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> | |
|--------------------------------|---------------------------|---------------------------|
| | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| Total RWA for credit risk | 38,215,314 ^[1] | 37,826,954 ^[1] |
| Total RWA for market risk | 1,082,344 | 1,337,992 |
| Total RWA for operational risk | 5,166,380 | 5,203,610 |
| | <u>44,464,038</u> | <u>44,368,556</u> |

^[1] The risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 19(i) for more details) are as follows:

| | <i>Bank</i> | |
|----------------------------|-----------------------|-----------------------|
| | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| Under SIAF/IAA arrangement | <u>2,646,810</u> | <u>3,137,175</u> |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 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> | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 | 31 Mar 2018 RM'000 | 31 Dec 2017 RM'000 |
| Principal amount | | | | |
| Direct credit substitutes | 2,507,697 | 2,573,868 | 2,025,628 | 2,079,481 |
| Transaction-related contingent items | 9,339,185 | 9,489,136 | 8,388,348 | 8,492,366 |
| Short-term self-liquidating trade-related contingencies | 350,180 | 318,326 | 287,703 | 268,681 |
| Formal standby facilities and credit lines | | | | |
| - Maturity not exceeding one year | 7,784,658 | 7,101,221 | 6,328,290 | 5,361,972 |
| - Maturity exceeding one year | 11,677,904 | 11,947,738 | 9,691,167 | 9,817,124 |
| Other unconditionally cancellable | 12,211,713 | 13,519,711 | 10,444,735 | 11,286,520 |
| Unutilised credit card lines | 12,062,366 | 11,587,852 | 8,880,181 | 8,563,420 |
| Foreign exchange related contracts: | | | | |
| - Less than one year | 73,443,949 | 71,276,730 | 73,917,772 | 71,325,986 |
| - Over one year to less than five years | 7,489,057 | 7,500,859 | 7,479,399 | 7,488,345 |
| - Over five years | 1,746,033 | 1,605,588 | 1,746,033 | 1,605,588 |
| Interest/profit rate related contracts: | | | | |
| - Less than one year | 12,827,115 | 14,999,855 | 13,433,437 | 15,109,855 |
| - Over one year to less than five years | 26,742,139 | 28,024,913 | 27,727,292 | 29,540,800 |
| - Over five years | 1,515,716 | 1,534,977 | 1,515,716 | 1,534,977 |
| Gold and other precious metals contracts: | | | | |
| - Less than one year | 11,120 | 6,618 | 11,120 | 6,618 |
| Equity related contracts: | | | | |
| - Less than one year | 351,010 | 268,827 | 351,010 | 271,772 |
| - Over one year to less than five years | 804,688 | 834,925 | 951,894 | 920,319 |
| | 180,864,530 | 182,591,144 | 173,179,725 | 173,673,824 |

of which the amount related to SIAF/IAA arrangement (refer Note 19(i) for more detail) are as below:

Formal standby facilities and credit lines:

| | | | | |
|-----------------------------------|----------------|------------------|----------------|------------------|
| - Maturity not exceeding one year | 929,955 | 1,047,532 | 929,955 | 1,047,532 |
| - Maturity exceeding one year | - | 237,166 | - | 237,166 |
| | 929,955 | 1,284,698 | 929,955 | 1,284,698 |

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

| | <i>Group</i> | | <i>Bank</i> | |
|--|---|-------------------------------------|---|-------------------------------------|
| | Gross carrying value 31 Mar 2018 RM'000 | Provisions 31 Dec 2017 RM'000 | Gross carrying value 31 Mar 2018 RM'000 | Provisions 31 Mar 2018 RM'000 |
| Stage 1 (12-months ECL; non credit impaired) | 53,969,062 | 2,174 | 44,461,699 | 1,714 |
| Stage 2 (Lifetime ECL; non credit impaired) | 1,943,606 | 3,050 | 1,566,075 | 2,371 |
| Stage 3 (Lifetime ECL; credit impaired) | 21,035 | 892 | 18,278 | 1 |
| | 55,933,703 | 6,116 | 46,046,052 | 4,086 |

Certain allowance for drawn amount and provisions for the undrawn commitments are not able to be split, and in accordance to MFRS 7 Financial Instruments disclosure, the provisions for the loans, financing and other credit related commitments are presented together with the allowance for the drawn loans, advances and financing in Note 19(iii).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 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 | 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 Mar 2018 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trading derivatives: | | | | | | | | | | | | |
| Foreign exchange contracts | | | | | | | | | | | | |
| - Forwards | 67,427,643 | 481,644 | - | 67,909,287 | 779,241 | 1,035 | - | 780,276 | 1,023,592 | 28,153 | - | 1,051,745 |
| - Swaps | 4,990,809 | 6,864,813 | 1,746,033 | 13,601,655 | 173,311 | 466,253 | 192,568 | 832,132 | 342,583 | 270,247 | 42,703 | 655,533 |
| - Options | 1,025,497 | 142,600 | - | 1,168,097 | 7,863 | 2,695 | - | 10,558 | 1,997 | - | - | 1,997 |
| Interest/profit rate related contracts | | | | | | | | | | | | |
| - Options | 138,905 | 835,427 | - | 974,332 | 1,445 | 3,182 | - | 4,627 | 2,519 | 703 | - | 3,222 |
| - Swaps | 12,488,210 | 24,646,712 | 1,515,716 | 38,650,638 | 13,106 | 106,578 | 11,347 | 131,031 | 15,865 | 98,590 | 29,214 | 143,669 |
| Equity related contracts | | | | | | | | | | | | |
| - Options | 351,010 | 804,688 | - | 1,155,698 | 950 | 19,949 | - | 20,899 | 2,191 | 10,269 | - | 12,460 |
| Precious metal contracts | | | | | | | | | | | | |
| - Options | 11,120 | - | - | 11,120 | 2 | - | - | 2 | 100 | - | - | 100 |
| Sub- total | 86,433,194 | 33,775,884 | 3,261,749 | 123,470,827 | 975,918 | 599,692 | 203,915 | 1,779,525 | 1,388,847 | 407,962 | 71,917 | 1,868,726 |
| Hedging Derivatives: | | | | | | | | | | | | |
| Fair Value Hedge | | | | | | | | | | | | |
| Interest/profit rate related contracts | | | | | | | | | | | | |
| - Swaps | 200,000 | 1,260,000 | - | 1,460,000 | - | 1,326 | - | 1,326 | 27 | 4,928 | - | 4,955 |
| Sub- total | 200,000 | 1,260,000 | - | 1,460,000 | - | 1,326 | - | 1,326 | 27 | 4,928 | - | 4,955 |
| Total | 86,633,194 | 35,035,884 | 3,261,749 | 124,930,827 | 975,918 | 601,018 | 203,915 | 1,780,851 | 1,388,874 | 412,890 | 71,917 | 1,873,681 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 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 2017 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Trading derivatives: | | | | | | | | | | | | |
| Foreign exchange contracts | | | | | | | | | | | | |
| - Forwards | 65,044,140 | 526,159 | - | 65,570,299 | 984,092 | 6,025 | - | 990,117 | 1,243,933 | 13,227 | - | 1,257,160 |
| - Swaps | 5,832,336 | 6,826,894 | 1,605,588 | 14,264,818 | 219,132 | 474,113 | 193,880 | 887,125 | 371,643 | 285,305 | 35,457 | 692,405 |
| - Options | 400,254 | 147,806 | - | 548,060 | 6,718 | 1,109 | - | 7,827 | 1,003 | 141 | - | 1,144 |
| Interest/profit rate related contracts | | | | | | | | | | | | |
| - Options | 92,720 | 771,986 | - | 864,706 | 508 | 3,753 | - | 4,261 | 2,736 | 250 | - | 2,986 |
| - Swaps | 14,227,135 | 25,718,682 | 1,534,977 | 41,480,794 | 13,756 | 95,590 | 12,903 | 122,249 | 13,536 | 86,288 | 29,939 | 129,763 |
| Equity related contracts | | | | | | | | | | | | |
| - Options | 268,827 | 834,925 | - | 1,103,752 | 962 | 29,175 | - | 30,137 | 193 | 3,527 | - | 3,720 |
| Precious metal contracts | | | | | | | | | | | | |
| - Options | 6,618 | - | - | 6,618 | - | - | - | - | 44 | - | - | 44 |
| Sub- total | 85,872,030 | 34,826,452 | 3,140,565 | 123,839,047 | 1,225,168 | 609,765 | 206,783 | 2,041,716 | 1,633,088 | 388,738 | 65,396 | 2,087,222 |
| Hedging Derivatives: | | | | | | | | | | | | |
| Fair Value Hedge | | | | | | | | | | | | |
| Interest/profit rate related contracts | | | | | | | | | | | | |
| - Swaps | 680,000 | 1,534,245 | - | 2,214,245 | 1,221 | 2,288 | - | 3,509 | 450 | 8,733 | - | 9,183 |
| Sub- total | 680,000 | 1,534,245 | - | 2,214,245 | 1,221 | 2,288 | - | 3,509 | 450 | 8,733 | - | 9,183 |
| Total | 86,552,030 | 36,360,697 | 3,140,565 | 126,053,292 | 1,226,389 | 612,053 | 206,783 | 2,045,225 | 1,633,538 | 397,471 | 65,396 | 2,096,405 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 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 31 Mar 2018 | 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 | 67,891,808 | 481,644 | - | 68,373,452 | 783,816 | 1,035 | - | 784,851 | 1,022,264 | 28,153 | - | 1,050,417 |
| - Swaps | 4,990,809 | 6,864,813 | 1,746,033 | 13,601,655 | 173,311 | 463,652 | 192,568 | 829,531 | 342,583 | 270,245 | 42,703 | 655,531 |
| - Options | 1,035,155 | 132,942 | - | 1,168,097 | 7,863 | 2,695 | - | 10,558 | 1,997 | - | - | 1,997 |
| Interest rate related contracts | | | | | | | | | | | | |
| - Options | 138,905 | 1,016,902 | - | 1,155,807 | 1,445 | 3,182 | - | 4,627 | 2,519 | 4,628 | - | 7,147 |
| - Swaps | 13,254,532 | 25,450,390 | 1,515,716 | 40,220,638 | 13,280 | 106,587 | 11,314 | 131,181 | 15,921 | 100,057 | 29,537 | 145,515 |
| Equity related contracts | | | | | | | | | | | | |
| - Options | 351,010 | 951,894 | - | 1,302,904 | 950 | 20,307 | - | 21,257 | 2,191 | 14,007 | - | 16,198 |
| Precious metal contracts | | | | | | | | | | | | |
| - Options | 11,120 | - | - | 11,120 | 2 | - | - | 2 | 100 | - | - | 100 |
| Sub- total | 87,673,339 | 34,898,585 | 3,261,749 | 125,833,673 | 980,667 | 597,458 | 203,882 | 1,782,007 | 1,387,575 | 417,090 | 72,240 | 1,876,905 |
| Hedging Derivatives: | | | | | | | | | | | | |
| Fair Value Hedge | | | | | | | | | | | | |
| Interest rate related contracts | | | | | | | | | | | | |
| - Swaps | 40,000 | 1,260,000 | - | 1,300,000 | - | 1,326 | - | 1,326 | 27 | 4,928 | - | 4,955 |
| Sub- total | 40,000 | 1,260,000 | - | 1,300,000 | - | 1,326 | - | 1,326 | 27 | 4,928 | - | 4,955 |
| Total | 87,713,339 | 36,158,585 | 3,261,749 | 127,133,673 | 980,667 | 598,784 | 203,882 | 1,783,333 | 1,387,602 | 422,018 | 72,240 | 1,881,860 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 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 31 Dec 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 | 65,080,882 | 526,159 | - | 65,607,041 | 985,036 | 6,025 | - | 991,061 | 1,244,445 | 13,227 | - | 1,257,672 |
| - Swaps | 5,832,336 | 6,826,894 | 1,605,588 | 14,264,818 | 219,132 | 472,709 | 193,880 | 885,721 | 371,643 | 285,305 | 35,457 | 692,405 |
| - Options | 412,768 | 135,292 | - | 548,060 | 6,854 | 973 | - | 7,827 | 1,139 | 5 | - | 1,144 |
| Interest rate related contracts | | | | | | | | | | | | |
| - Options | 92,720 | 957,873 | - | 1,050,593 | 508 | 3,753 | - | 4,261 | 2,736 | 3,699 | - | 6,435 |
| - Swaps | 14,447,135 | 27,128,682 | 1,534,977 | 43,110,794 | 13,912 | 95,792 | 12,678 | 122,382 | 13,773 | 89,743 | 30,096 | 133,612 |
| Equity related contracts | | | | | | | | | | | | |
| - Options | 271,772 | 920,319 | - | 1,192,091 | 962 | 29,282 | - | 30,244 | 193 | 9,058 | - | 9,251 |
| Precious metal contracts | | | | | | | | | | | | |
| - Options | 6,618 | - | - | 6,618 | - | - | - | - | 44 | - | - | 44 |
| Sub- total | 86,144,231 | 36,495,219 | 3,140,565 | 125,780,015 | 1,226,404 | 608,534 | 206,558 | 2,041,496 | 1,633,973 | 401,037 | 65,553 | 2,100,563 |
| Hedging Derivatives: | | | | | | | | | | | | |
| Fair Value Hedge | | | | | | | | | | | | |
| Interest rate related contracts | | | | | | | | | | | | |
| - Swaps | 570,000 | 1,454,245 | - | 2,024,245 | 1,221 | 2,288 | - | 3,509 | 294 | 8,398 | - | 8,692 |
| Sub- total | 570,000 | 1,454,245 | - | 2,024,245 | 1,221 | 2,288 | - | 3,509 | 294 | 8,398 | - | 8,692 |
| Total | 86,714,231 | 37,949,464 | 3,140,565 | 127,804,260 | 1,227,625 | 610,822 | 206,558 | 2,045,005 | 1,634,267 | 409,435 | 65,553 | 2,109,255 |
| | | | | | | | | | <i>Group</i> | | <i>Bank</i> | |
| | | | | | | | | | 31 Mar 2018 | 31 Mar 2017 | 31 Mar 2018 | 31 Mar 2017 |
| | | | | | | | | | RM'000 | RM'000 | RM'000 | RM'000 |
| Included in the net non-profit income is the net gains/(losses) arising from fair value hedges during the financial period as follows: | | | | | | | | | | | | |
| Gains on hedging instruments | | | | | | | | | 2,773 | 1,023 | 2,773 | 1,023 |
| Losses on the hedged items attributable to the hedged risk | | | | | | | | | (3,592) | (1,037) | (3,592) | (1,037) |
| Net gains from fair value hedges | | | | | | | | | (819) | (14) | (819) | (14) |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39 Business Prospects

Malaysia's real Gross Domestic Product (GDP) expanded 5.9% in 2017 (2016: 4.2%). The positive trend is forecasted to follow through to 2018 with growth anticipated to be in the range of 5.5% - 6.0%, with domestic demand being the main anchor of growth, underpinned by private sector activities.

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

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

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

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

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

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

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

40 Performance Review

The Group recorded a profit before tax of RM388.2 million for the financial period ended 31 March 2018, an increase of RM94.8 million compared to the corresponding period in 2017. The increase was mainly contributed by higher net interest income (RM37.3m), higher net fee income (RM4.1m) and higher income from Islamic banking operations (RM79.5m). It was partially offset by lower net trading income (RM54.2m).

The Group and the Bank adopted MFRS 9 with effect from 1 January 2018. MFRS 9 introduces the Expected Credit Loss (ECL) model on impairment that replaces the incurred loss model used in MFRS 139. The impairment allowance/provisions in current period is lower by RM40.4m.

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 31 March 2018, the overall costs base increased marginally by 0.6% against history. 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 31 March 2018 stood at RM79.5 billion, RM1.2 billion lower compared against 31 December 2017 (RM80.7 billion). The Group's capital and liquidity ratios continue to remain strong and well above regulatory requirements.