

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
30 JUNE 2018

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

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

UNAUDITED CONDENSED STATEMENTS OF FINANCIAL POSITION
AT 30 JUNE 2018

	Note	<i>Group</i>		<i>Bank</i>	
		30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
		RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	13	10,843,396	10,313,776	8,344,368	8,879,053
Securities purchased under resale agreements		270,361	1,964,930	270,361	1,964,930
Deposits and placements with banks and other financial institutions	14	1,413,095	709,999	2,370,299	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	2,506,061	-	2,506,061	-
Financial investments available-for-sale	17	-	9,780,405	-	7,559,361
Financial investments at fair value through other comprehensive income (FVOCI)	18	11,015,879	-	8,679,393	-
Loans, advances and financing	19	50,356,460	51,979,654	36,791,157	38,595,851
Derivative financial assets	40	1,689,959	2,045,225	1,688,950	2,045,005
Other assets	22	751,666	331,500	714,128	472,398
Statutory deposits with Bank Negara Malaysia	23	1,250,454	1,084,888	872,092	723,526
Investments in subsidiary companies		-	-	660,021	660,021
Property and equipment		423,564	371,259	417,674	365,739
Intangible assets		42,030	46,573	42,030	46,573
Tax recoverable		20,850	28,474	20,850	20,850
Deferred tax assets		150,213	103,105	139,968	94,468
Total assets		80,733,988	80,748,507	63,517,352	67,119,992
Liabilities					
Deposits from customers	24	56,557,332	56,551,151	44,069,660	46,516,647
Deposits and placements from banks and other financial institutions	25	3,860,725	5,353,609	2,051,604	4,432,767
Bills payable		234,503	318,009	217,435	301,331
Derivative financial liabilities	40	1,477,370	2,096,405	1,491,343	2,109,255
Financial liabilities designated at fair value through profit and loss	26	3,545,575	-	3,084,523	-
Other liabilities	27	2,719,700	4,682,041	2,601,712	4,221,857
Provision for taxation		206,222	74,400	185,933	74,400
Multi-Currency Sukuk Programme	28	1,251,599	1,252,829	-	-
Subordinated liabilities	29	1,081,653	1,083,903	1,081,653	1,083,903
Total liabilities		70,934,679	71,412,347	54,783,863	58,740,160
Equity					
Share capital		1,045,875	1,045,875	1,045,875	1,045,875
Reserves		8,753,434	8,290,285	7,687,614	7,333,957
Total equity attributable to owner of the Bank		9,799,309	9,336,160	8,733,489	8,379,832
Total liabilities and equity		80,733,988	80,748,507	63,517,352	67,119,992
Commitments and contingencies	39	189,541,818	182,591,144	182,067,526	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 13 to 63 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 25 July 2018.

HSBC BANK MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018

	<i>Note</i>	<i>Group</i>			
		Second Quarter		Six Months Ended	
		30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
		RM'000	RM'000	RM'000	RM'000
Interest income	30	584,172	560,177	1,165,459	1,126,258
Interest expense	30	(185,237)	(209,247)	(369,449)	(415,552)
Net interest income	30	398,935	350,930	796,010	710,706
Fee and commission income	31	117,789	114,096	238,593	230,341
Fee and commission expense	31	(13,673)	(10,599)	(35,418)	(31,842)
Net fee and commission income	31	104,116	103,497	203,175	198,499
Net trading income	32	72,142	200,873	211,790	394,691
Income from Islamic banking operations	33	207,365	100,015	367,068	180,176
Net expenses from Financial Investments Designated at Fair Value		(15,889)	-	(30,842)	-
Other operating income	34	9,685	9,521	21,840	16,868
Operating income before impairment losses		776,354	764,836	1,569,041	1,500,940
Loans/financing impairment charges and other credit risk provisions	35	(29,792)	(58,914)	(70,647)	(140,183)
Net operating income		746,562	705,922	1,498,394	1,360,757
Other operating expenses	36	(391,627)	(385,425)	(755,246)	(746,859)
Profit before tax		354,935	320,497	743,148	613,898
Tax expense		(91,496)	(77,463)	(178,978)	(151,171)
Profit for the period		263,439	243,034	564,170	462,727

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**UNAUDITED CONDENSED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018 (Cont'd)**

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018 RM'000	30 Jun 2017 RM'000	30 Jun 2018 RM'000	30 Jun 2017 RM'000
Other comprehensive income/(expense)				
<i>Items that will not be reclassified to profit or loss</i>				
Own credit reserve:				
Change in fair value	8,397	6,516	4,697	6,762
Income tax effect	(2,015)	(1,564)	(1,127)	(1,623)
<i>Items that will subsequently be reclassified to profit or loss when specific conditions are met</i>				
Available-for-sale reserve:				
Change in fair value	-	43,302	-	53,097
Net amount transferred to profit or loss	-	(7,739)	-	(6,188)
Income tax effect	-	(8,535)	-	(11,258)
Fair value through other comprehensive income reserve:				
Change in fair value	(4,200)	-	(19,059)	-
Amount transferred to profit or loss	(3,112)	-	(5,984)	-
Impairment	225	-	113	-
Income tax effect	1,701	-	5,983	-
Other comprehensive income for the financial period, net of income tax	996	31,980	(15,377)	40,790
Total comprehensive income for the period	264,435	275,014	548,793	503,517
Profit attributable to owner of the Bank	263,439	243,034	564,170	462,727
Total comprehensive income attributable to owner of the Bank	264,435	275,014	548,793	503,517
Basic earnings per RM0.50 ordinary share	115.0 sen	106.1 sen	246.4 sen	202.1 sen
Dividends per RM0.50 ordinary share (net)				
- interim dividend paid in respect of the period	87.3 sen	87.3 sen	87.3 sen	87.3 sen
- final dividend paid in respect of prior period	87.3 sen	-	87.3 sen	-

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UNAUDITED CONDENSED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018 (Cont'd)

	<i>Note</i>	<i>Bank</i>			
		Second Quarter		Six Months Ended	
		30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
		RM'000	RM'000	RM'000	RM'000
Interest income	30	595,696	579,913	1,197,243	1,161,916
Interest expense	30	(185,237)	(209,247)	(369,449)	(415,552)
Net interest income	30	410,459	370,666	827,794	746,364
Fee and commission income	31	117,789	114,096	238,593	230,341
Fee and commission expense	31	(13,673)	(10,599)	(35,418)	(31,842)
Net fee and commission income	31	104,116	103,497	203,175	198,499
Net trading income	32	136,175	157,434	284,298	293,903
Net expenses from Financial Investments Designated at Fair Value		(15,889)	-	(30,842)	-
Other operating income	34	52,128	40,008	95,924	78,864
Operating income before impairment losses		686,989	671,605	1,380,349	1,317,630
Loans impairment (charges)/release and other credit risk provisions	35	(13,328)	(24,016)	(28,464)	(66,145)
Net operating income		673,661	647,589	1,351,885	1,251,485
Other operating expenses	36	(363,012)	(355,947)	(696,173)	(689,326)
Profit before tax		310,649	291,642	655,712	562,159
Tax expense		(80,436)	(72,986)	(159,006)	(141,436)
Profit for the period		230,213	218,656	496,706	420,723

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**UNAUDITED CONDENSED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018 (Cont'd)**

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
Other comprehensive income/(expense)				
<i>Items that will not be reclassified to profit or loss</i>				
Own credit reserve:				
Change in fair value	5,171	-	3,426	-
Income tax effect	(1,241)	-	(822)	-
<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	-	39,152	-	47,252
Net amount transferred to profit or loss	-	(7,739)	-	(6,188)
Income tax effect	-	(7,539)	-	(9,855)
Fair value through other comprehensive income reserve:				
Change in fair value	(2,140)	-	(13,870)	-
Amount transferred to profit or loss	(3,182)	-	(6,354)	-
Impairment	200	-	130	-
Income tax effect	1,230	-	4,823	-
Other comprehensive income for the financial period, net of income tax	38	23,874	(12,667)	31,209
Total comprehensive income for the period	230,251	242,530	484,039	451,932
Profit attributable to owner of the Bank	230,213	218,656	496,706	420,723
Total comprehensive income attributable to owner of the Bank	230,251	242,530	484,039	451,932
Basic earnings per RM0.50 ordinary share	100.5 sen	95.5 sen	216.9 sen	183.7 sen
Dividends per RM0.50 ordinary share (net)				
- interim dividend paid in respect of the period	87.3 sen	87.3 sen	87.3 sen	87.3 sen
- final dividend paid in respect of prior period	87.3 sen	-	87.3 sen	-

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 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	679	-	-	98,671	99,876
As restated	<u>1,045,875</u>	<u>216,937</u>	<u>-</u>	<u>132,183</u>	<u>909</u>	<u>94,583</u>	<u>284,000</u>	<u>7,661,549</u>	<u>9,436,036</u>
Total comprehensive income for the financial period									
Profit for the financial period	-	-	-	-	-	-	-	564,170	564,170
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	-	(1,218)	-	-	-	-	-	1,218	-
Fair value through other comprehensive income reserve:									
Net change in fair value	-	-	-	(14,485)	3,570	-	-	-	(10,915)
Net amount transferred to profit or loss	-	-	-	(4,548)	-	-	-	-	(4,548)
Impairment release	-	-	-	86	-	-	-	-	86
<i>Total other comprehensive income</i>	-	(1,218)	-	(18,947)	3,570	-	-	1,218	(15,377)
Total comprehensive income for the financial period	-	(1,218)	-	(18,947)	3,570	-	-	565,388	548,793
Transfer relating to regulatory reserves	-	-	-	-	-	-	166,000	(166,000)	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	18,165	-	(3,685)	14,480
Dividends paid to owner - 2017 final	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 30 June	<u>1,045,875</u>	<u>215,719</u>	<u>-</u>	<u>113,236</u>	<u>4,479</u>	<u>112,748</u>	<u>450,000</u>	<u>7,857,252</u>	<u>9,799,309</u>

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 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	-	-	-	-	-	-	-	-	-	462,727	462,727
Other comprehensive income, net of income tax											
Revaluation reserve:											
Transfer to retained profits upon realisation of depreciation	-	-	-	(1,173)	-	-	-	-	-	1,173	-
Available-for-sale reserve:											
Net change in fair value	-	-	-	-	-	40,354	5,139	-	-	-	45,493
Net amount transferred to profit or loss	-	-	-	-	-	(4,703)	-	-	-	-	(4,703)
<i>Total other comprehensive income</i>	-	-	-	(1,173)	-	35,651	5,139	-	-	1,173	40,790
Total comprehensive income for the financial period	-	-	-	(1,173)	-	35,651	5,139	-	-	463,900	503,517
Transition to no par value regime on 31 January 2017 ^[1]	931,375	(741,375)	-	-	(190,000)	-	-	-	-	-	-
Transfer in accordance with BNM's requirement ^[2]	-	-	(164,500)	-	-	-	-	-	-	164,500	-
Transactions with the owner, recorded directly in equity											
Share based payment transactions	-	-	-	-	-	-	-	7,446	-	(952)	6,494
Dividends paid to owner - 2016 final	-	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 30 June	<u>1,045,875</u>	<u>-</u>	<u>-</u>	<u>215,056</u>	<u>-</u>	<u>116,808</u>	<u>3,293</u>	<u>91,287</u>	<u>284,000</u>	<u>7,283,056</u>	<u>9,039,375</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.

^[2] With effect from 3 May 2017, the Group was no longer required to maintain statutory reserve pursuant to Bank Negara Malaysia's guideline on Capital Funds.

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018 (Cont'd)

Bank (RM'000)	<i>Non-distributable</i>						<i>Distributable</i>		<i>Total equity</i>
	<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>	
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	203	-	-	54,647	55,250
As restated	1,045,875	216,937	-	131,878	203	94,175	250,000	6,696,014	8,435,082
Total comprehensive income for the financial period									
Profit for the financial period	-	-	-	-	-	-	-	496,706	496,706
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	-	(1,218)	-	-	-	-	-	1,218	-
Fair value through other comprehensive income reserve:									
Net change in fair value	-	-	-	(10,541)	2,604	-	-	-	(7,937)
Net amount transferred to profit or loss	-	-	-	(4,829)	-	-	-	-	(4,829)
Impairment release	-	-	-	99	-	-	-	-	99
<i>Total other comprehensive income</i>	-	(1,218)	-	(15,271)	2,604	-	-	1,218	(12,667)
Total comprehensive income for the financial period	-	(1,218)	-	(15,271)	2,604	-	-	497,924	484,039
Transfer relating to regulatory reserves	-	-	-	-	-	-	150,000	(150,000)	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	18,062	-	(3,694)	14,368
Dividends paid to owner - 2017 final	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 30 June	1,045,875	215,719	-	116,607	2,807	112,237	400,000	6,840,244	8,733,489

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 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	-	-	-	-	-	-	-	-	420,723	420,723
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profits upon realisation of depreciation	-	-	-	(1,173)	-	-	-	-	1,173	-
Available-for-sale reserve:										
Net change in fair value	-	-	-	-	-	35,912	-	-	-	35,912
Net amount transferred to profit or loss	-	-	-	-	-	(4,703)	-	-	-	(4,703)
<i>Total other comprehensive income</i>	-	-	-	(1,173)	-	31,209	-	-	1,173	31,209
Total comprehensive income for the financial period	-	-	-	(1,173)	-	31,209	-	-	421,896	451,932
Transition to no par value regime on 31 January 2017 ^[1]	931,375	(741,375)	-	-	(190,000)	-	-	-	-	-
Transfer in accordance with BNM's requirement ^[2]	-	-	(114,500)	-	-	-	-	-	114,500	-
Transactions with the owner, recorded directly in equity										
Share based payment transactions	-	-	-	-	-	-	7,453	-	(952)	6,501
Dividends paid to owner - 2016 final	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 30 June	1,045,875	-	-	215,056	-	118,913	90,891	250,000	6,405,911	8,126,646

^[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.

^[2] With effect from 3 May 2017, the Group was no longer required to maintain statutory reserve pursuant to Bank Negara Malaysia's guideline on Capital Funds.

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UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
Profit before tax	743,148	613,898	655,712	562,159
Adjustments for non-operating and non-cash items	(59,271)	443,371	(205,870)	459,333
Operating profit before working capital changes	683,877	1,057,269	449,842	1,021,492
Changes in working capital:				
Net changes in operating assets	2,078,164	1,923,349	4,549,092	2,418,589
Net changes in operating liabilities	(590,200)	(2,434,329)	(4,053,469)	(2,900,772)
Income tax paid	(113,050)	(117,730)	(106,262)	(106,290)
Net cash used in operations	2,058,791	428,559	839,203	433,019
Net cash used in investing activities	(1,281,359)	(8,782,027)	(1,150,732)	(8,392,374)
Net cash used in financing activity	(247,812)	(765,204)	(223,156)	(732,147)
	(1,529,171)	(9,547,231)	(1,373,888)	(9,124,521)
Net changes in cash and cash equivalents	529,620	(9,118,672)	(534,685)	(8,691,502)
Cash and cash equivalents at 1 January	10,313,776	16,804,114	8,879,053	14,999,888
Cash and cash equivalents at 30 June	10,843,396	7,685,442	8,344,368	6,308,386
Analysis of cash and cash equivalents				
Cash and short-term funds	10,843,396	7,685,442	8,344,368	6,308,386
Cash and cash equivalents comprise the following:				
Cash and short-term funds	10,843,396	7,685,442	8,344,368	6,308,386
Adjustment for cash collateral	(213,716)	(205,835)	(238,716)	(230,835)
Cash and cash equivalents	10,629,680	7,479,607	8,105,652	6,077,551

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 13 to 63 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 25 July 2018.

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

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2018 (Cont'd)

Change in liabilities arising from financing activities

Group (RM'000)

Cash Flows from Financing Activities

2018	At 1 Jan	Cash outflow	Foreign exchange adjustment	Fair value movement	Interest/ Profit accrual	At 30 Jun
Multi-Currency Sukuk Programme	1,252,829	-	-	(1,230)	-	1,251,599
Subordinated liabilities	1,083,903	-	(2,250)	-	-	1,081,653
Other liabilities of which:						
Profit paid on Multi-Currency Sukuk Programme	12,815	(24,656)	-	-	24,598	12,757
Interest paid on Subordinated liabilities	6,521	(23,156)	-	-	23,904	7,269
Dividend paid	-	(200,000)	-	-	-	-
	2,356,068	(247,812)	(2,250)	(1,230)	48,502	2,353,278
2017						
Multi-Currency Sukuk Programme	1,756,001	-	-	(4,165)	-	1,751,836
Subordinated liabilities	1,648,824	(500,000)	(28,429)	-	-	1,120,395
Other liabilities of which:						
Profit paid on Multi-Currency Sukuk Programme	17,637	(33,057)	-	-	16,388	968
Interest paid on Subordinated liabilities	4,593	(32,147)	-	-	31,894	4,340
Dividend paid	-	(200,000)	-	-	-	-
	3,427,055	(765,204)	(28,429)	(4,165)	48,282	2,877,539

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 13 to 63 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 25 July 2018.

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

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 outflow	Foreign exchange adjustment	Fair value movement	Interest/ Profit accrual	At 30 Jun
2018						
Subordinated liabilities	1,083,903	-	(2,250)	-	-	1,081,653
Other liabilities of which:						
Interest paid on Subordinated liabilities	6,521	(23,156)	-	-	23,904	7,269
Dividend paid	-	(200,000)	-	-	-	-
	1,090,424	(223,156)	(2,250)	-	23,904	1,088,922
2017						
Subordinated liabilities	1,648,824	(500,000)	(28,429)	-	-	1,120,395
Other liabilities of which:						
Interest paid on Subordinated liabilities	4,593	(32,147)	-	-	31,894	4,340
Dividend paid	-	(200,000)	-	-	-	-
	1,653,417	(732,147)	(28,429)	-	31,894	1,124,735

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 13 to 63 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 25 July 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 25 July 2018.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 30 June 2018 have been prepared under the historical cost convention except for the following assets and liabilities which are stated at fair values: financial 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 30 June 2018 have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (MFRS) 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (MASB). 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.

The adoption of MFRS 15 did not have a material impact on the financial statements of the Group and the Bank on the current period or any prior period and is not likely to affect the future periods.

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the 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
Financial assets				
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
Financial liabilities				
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		65,932,341		66,011,761
<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		58,665,760		58,665,760

[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)	9,484	1,841,491	9,484
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	-	26,741	71,439,088	26,741

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
	amount as at 31 December 2017			amount as at 1 January 2018	impact 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)	6,751	1,658,549	6,751
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	-	24,008	58,764,168	24,008

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	-	-	9,484	9,484
	<u>-</u>	<u>-</u>	<u>9,420</u>	<u>9,420</u>
 <u>FVOCI (MFRS 139/MFRS 9)</u>				
FVOCI reserve	-	-	526	526
Total	<u>814,375</u>	<u>-</u>	<u>(130,986)</u>	<u>683,389</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 30 June 2018.

8 Changes in Estimates

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

9 Debt and Equity Securities

There were no other issuances, cancellations, repurchases, resale or repayment of debt and equity securities during the financial period ended 30 June 2018.

10 Dividend

Since the end of the previous financial year, the Bank paid a final dividend of RM0.87 per ordinary share amounting to RM200 million. The dividend was paid on 3 May 2018.

The Directors do not recommend dividend during the financial period ended 30 June 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 30 June 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>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	836,141	772,911	673,306	556,992
Money at call and interbank placements maturing within one month	10,007,255	9,540,865	7,671,062	8,322,061
	10,843,396	10,313,776	8,344,368	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 RM213.7 million (31 December 2017: RM91.7 million) and RM238.7 million (31 December 2017: RM116.7 million) respectively.

14 Deposits and Placements with Banks and Other Financial Institutions

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Licensed banks	-	9,999	957,204	3,003,498
Bank Negara Malaysia	1,413,125	700,000	1,413,125	700,000
Gross deposit and placements	1,413,125	709,999	2,370,329	3,703,498
Less: impairment allowance ^[1]	(30)	-	(30)	-
Net deposit and placements	1,413,095	709,999	2,370,299	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).

15 Financial Assets Held-for-Trading

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 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>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
At fair value	RM'000	RM'000	RM'000	RM'000
Money market instruments:				
Malaysian Government treasury bills	441,967	-	441,967	-
Malaysian Government securities	1,435,217	-	1,435,217	-
Malaysian Government Islamic Sukuk	546,363	-	546,363	-
Cagamas bonds and notes	6,485	-	6,485	-
	2,430,032	-	2,430,032	-
Unquoted:				
Corporate bonds and Sukuk	76,029	-	76,029	-
	2,506,061	-	2,506,061	-

17 Financial Investments Available-For-Sale

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 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>	
	30 Jun 2018	31 Dec 2017	30 Jun 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>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Debt instruments				
Money market instruments:				
Bank Negara Malaysia bills and notes	659,392	-	659,392	-
Malaysian Government securities	5,205,317	-	5,205,317	-
Malaysian Government Islamic Sukuk	3,385,800	-	1,245,256	-
Malaysian Government Islamic treasury bills	195,942	-	-	-
Cagamas bonds and notes	429,132	-	429,132	-
Negotiable instruments of deposit	200,024	-	200,024	-
US treasury bond	635,751	-	635,751	-
Bankers' acceptance and Islamic accepted bills	110,401	-	110,401	-
	10,821,759	-	8,485,273	-
Unquoted:				
Corporate bonds and Sukuk	6,561	-	6,561	-
Equity instruments				
Unquoted:				
Shares	187,559	-	187,559	-
	11,015,879	-	8,679,393	-

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

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Maturing within one year	2,361,154	-	1,454,236	-
More than one year to three years	5,921,272	-	4,521,901	-
More than three years to five years	1,912,045	-	1,881,848	-
Over five years	627,288	-	627,288	-
	10,821,759	-	8,485,273	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Loans, Advances and Financing

(i) By type

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
At amortised cost				
Overdrafts/cash line	881,527	876,611	796,160	794,428
Term loans/financing:				
Housing loans/financing	18,982,320	19,381,681	14,617,404	14,980,106
Syndicated term loans/financing	3,728,262	6,385,123	2,360,257	4,244,458
Factoring receivables	208,459	236,319	208,459	236,319
Hire purchase receivables	171,032	169,852	-	-
Lease receivables	960	1,379	-	-
Other term loans/financing ⁽¹⁾	9,375,419	9,380,633	5,259,038	5,208,706
Bills receivable	2,094,353	2,524,261	1,876,719	2,415,196
Trust receipts	2,309,845	2,280,046	1,511,123	1,537,964
Claims on customers under acceptance credits	2,150,902	2,020,837	1,693,355	1,597,923
Staff loans/financing	96,887	107,280	93,312	102,633
Credit/charge cards	3,330,627	3,374,281	2,395,242	2,448,864
Revolving financing	7,705,078	6,044,928	6,350,249	5,478,672
Other loans/financing	11,491	10,798	9,203	9,150
Gross loans, advances and financing	51,047,162	52,794,029	37,170,521	39,054,419
Less: - Impairment allowances (MFRS 9) ^[2]	(690,702)	-	(379,364)	-
- Collective impairment allowances	-	(518,836)	-	(277,928)
- Individual impairment allowances	-	(295,539)	-	(180,640)
Total net loans, advances and financing	50,356,460	51,979,654	36,791,157	38,595,851

⁽¹⁾ Included in the loans, advances and financing of the Bank at 30 June 2018 are financing which are disclosed as "Asset under Management" in the financial statements of HBMS. These details are as follows:

	<i>Bank</i>	
	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Syndicated term loans/financing	1,818,027	3,547,160
Revolving financing	751,913	-
	2,569,940	3,547,160

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>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Domestic non-bank financial institutions	773,353	564,529	174,810	-
Domestic business enterprises:				
Small medium enterprises	6,175,052	6,958,173	4,254,465	4,995,748
Others	15,767,718	16,224,147	12,231,828	12,609,721
Government and statutory bodies	5,830	7,222	-	-
Individuals	22,205,106	22,558,828	16,091,162	16,441,610
Other domestic entities	7,159	18,522	3,740	3,881
Foreign entities	6,112,944	6,462,608	4,414,516	5,003,459
	51,047,162	52,794,029	37,170,521	39,054,419

(iii) By residual contractual maturity

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Maturity within one year	23,696,218	24,408,799	17,890,523	18,558,054
More than one year to three years	2,513,551	2,911,213	961,790	1,929,070
More than three years to five years	2,147,865	2,559,820	1,579,384	1,657,946
More than five years	22,689,528	22,914,197	16,738,824	16,909,349
	51,047,162	52,794,029	37,170,521	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>	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Fixed rate:				
Housing loans/financing	429	479	429	457
Hire purchase receivables	171,032	169,852	-	-
Other fixed rate loans/financing	12,898,891	13,236,201	9,595,188	10,131,075
Variable rate:				
BR/BLR/BFR plus	22,689,938	23,264,364	17,282,270	17,807,010
Cost-plus	15,286,872	16,123,133	10,292,634	11,115,877
	51,047,162	52,794,029	37,170,521	39,054,419

(v) By sector

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Agricultural, hunting, forestry and fishing	345,372	985,426	295,130	888,008
Mining and quarrying	330,954	240,735	118,251	144,359
Manufacturing	6,801,726	6,579,585	5,200,909	4,913,795
Electricity, gas and water	143,964	72,969	20,386	9,699
Construction	2,939,532	2,997,007	2,378,633	2,564,874
Real estate	3,335,993	4,035,514	2,712,691	2,961,674
Wholesale & retail trade and restaurants & hotels	3,926,297	3,898,913	2,843,925	2,994,148
Transport, storage and communication	431,742	1,104,049	284,746	554,667
Finance, insurance and business services	3,795,268	3,171,660	2,423,304	2,178,056
Household-retail	25,433,660	26,004,009	18,748,481	19,265,049
Others	3,562,654	3,704,162	2,144,065	2,580,090
	51,047,162	52,794,029	37,170,521	39,054,419

(vi) By purpose

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Purchase of property:				
Residential	19,045,525	19,450,388	14,678,886	15,046,578
Non residential	1,492,206	1,552,966	690,580	735,638
Purchase of securities	4,627	5,101	4,627	5,101
Purchase of transport vehicles	22,563	25,144	21,130	23,500
Purchase of fixed assets excluding land & building	1,481	2,222	1,481	2,222
Consumption credit	5,897,833	6,028,667	3,830,183	3,958,229
Construction	2,584,045	2,626,789	2,040,682	2,279,991
Working capital	19,098,366	20,069,341	14,135,459	14,814,378
Other purpose	2,900,516	3,033,411	1,767,493	2,188,782
	51,047,162	52,794,029	37,170,521	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>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Northern Region	6,561,670	6,681,364	5,097,451	5,184,894
Southern Region	6,348,477	6,413,866	4,922,953	4,907,206
Central Region	35,721,727	37,097,724	25,146,424	26,802,561
Eastern Region	2,415,288	2,601,075	2,003,693	2,159,758
	51,047,162	52,794,029	37,170,521	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, the Federal Territory of Kuala Lumpur and the Federal Territory of Putrajaya.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Impaired Loans, Advances and Financing

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

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 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 30 June/31 December	-	1,093,678	-	711,629

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

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Collective allowance for impairment	RM'000	RM'000	RM'000	RM'000
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 30 June/31 December	-	518,836	-	277,928

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Individual allowance for impairment	RM'000	RM'000	RM'000	RM'000
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 30 June/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 22 (i).

(iii) **Gross carrying amount movement of loans, advances and financing classified as credit impaired:**

	<i>Group</i>	<i>Bank</i>
	30 Jun 2018	30 Jun 2018
	RM'000	RM'000
Gross carrying amount as at 1 January 2018	-	-
Restated for adoption of MFRS 9	975,557	652,874
Transfer within stages	177,462	90,376
Net remeasurement due to changes in credit risk	(27,633)	(22,138)
Asset written-off	(144,681)	(76,051)
Others	35,044	11,902
Gross carrying amount as at 30 June 2018	1,015,749	656,963

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

(iv) By sector	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Agricultural, hunting, forestry and fishing	-	58,208	-	58,208
Mining and quarrying	720	765	-	-
Manufacturing	40,102	58,786	27,009	40,975
Construction	7,599	10,306	7,599	10,306
Real estate	14,155	1,108	14,155	1,108
Wholesale & retail trade, restaurants & hotels	37,891	41,829	27,418	32,419
Transport, storage and communication	22,081	22,363	17,814	17,814
Finance, insurance and business services	34,515	38,692	5,832	9,382
Household-retail	850,764	859,867	550,710	541,151
Others	7,922	1,754	6,426	266
	1,015,749	1,093,678	656,963	711,629

(v) By purpose	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Purchase of property:				
Residential	435,365	523,396	314,025	360,433
Non residential	64,458	34,609	50,769	21,804
Purchase of transport vehicles	188	264	104	261
Consumption credit	379,999	322,678	207,730	171,096
Construction	6,389	13,955	3,710	11,169
Working capital	129,350	198,695	80,625	146,785
Other purpose	-	81	-	81
	1,015,749	1,093,678	656,963	711,629

(vi) By geographical distribution	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Northern Region	158,332	188,043	115,623	129,130
Southern Region	117,684	118,574	81,325	79,240
Central Region	663,340	631,951	392,318	360,379
Eastern Region	76,393	155,110	67,697	142,880
	1,015,749	1,093,678	656,963	711,629

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 ECL allowances

(i) Movements in ECL allowances for loans, advances and financing

The following table shows reconciliation from the opening to the closing balance of the ECL allowance for customer loan and advances:

	Stage 1	Stage 2	Stage 3			Total
	12-month ECL RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Lifetime ECL credit impaired Specific provision RM'000	Collective provision RM'000	Total RM'000
Group						
Balance at 1 January 2018	-	-	-	295,539	518,836	814,375
Restated for adoption of MFRS 9	139,738	151,676	382,115	(295,539)	(518,836)	(140,846)
Restated opening balance at 1 January 2018	139,738	151,676	382,115	-	-	673,529
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	65,767	(52,021)	(13,746)	-	-	-
- Transferred to Stage 2	(18,429)	36,096	(17,667)	-	-	-
- Transferred to Stage 3	(85)	(44,239)	44,324	-	-	-
New financial assets originated or purchased	26,614	-	-	-	-	26,614
Net remeasurement due to changes in credit risk	(117,496)	95,901	123,236	-	-	101,641
Asset written-off	-	-	(144,670)	-	-	(144,670)
Others	630	(1,300)	34,258	-	-	33,588
Balance at 30 June 2018	96,739	186,113	407,850	-	-	690,702
Bank						
Balance at 1 January 2018	-	-	-	180,640	277,928	458,568
Restated for adoption of MFRS 9	77,764	79,856	221,528	(180,640)	(277,928)	(79,420)
Restated opening balance at 1 January 2018	77,764	79,856	221,528	-	-	379,148
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	42,905	(34,294)	(8,611)	-	-	-
- Transferred to Stage 2	(10,865)	22,141	(11,276)	-	-	-
- Transferred to Stage 3	(51)	(18,076)	18,127	-	-	-
New financial assets originated or purchased	12,195	-	-	-	-	12,195
Net remeasurement due to changes in credit risk	(75,460)	56,839	71,058	-	-	52,437
Asset written-off	-	-	(76,033)	-	-	(76,033)
Others	3,893	(31)	7,755	-	-	11,617
Balance at 30 June 2018	50,381	106,435	222,548	-	-	379,364

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 ECL allowances movement (Cont'd)

(ii) Movements in ECL allowances for loan commitments and contingencies

The following table shows reconciliation from the opening to the closing balance of the ECL allowance for loan commitments:

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	
	RM'000	RM'000	RM'000	RM'000
Group				
Balance at 1 January 2018	-	-	-	-
Restated for adoption of MFRS 9	3,857	5,618	9	9,484
Restated opening balance at 1 January 2018	3,857	5,618	9	9,484
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	585	(585)	-	-
- Transferred to Stage 2	(184)	184	-	-
- Transferred to Stage 3	(1)	(6)	7	-
New financial assets originated or purchased	1,365	-	-	1,365
Net remeasurement due to changes in credit risk	(2,100)	840	775	(485)
Asset written-off	-	-	-	-
Others	815	15	101	931
Balance at 30 June 2018	4,337	6,066	892	11,295
Bank				
Balance at 1 January 2018	-	-	-	-
Restated for adoption of MFRS 9	3,004	3,738	9	6,751
Restated opening balance at 1 January 2018	3,004	3,738	9	6,751
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	327	(327)	-	-
- Transferred to Stage 2	(152)	152	-	-
- Transferred to Stage 3	-	(5)	5	-
New financial assets originated or purchased	1,074	-	-	1,074
Net remeasurement due to changes in credit risk	(767)	1,199	(9)	423
Asset written-off	-	-	-	-
Others	24	(50)	(5)	(31)
Balance at 30 June 2018	3,510	4,707	-	8,217

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 21(i).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

22 Other Assets

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Settlements	256,833	45,317	256,833	45,317
Interest/profit receivable	119,966	135,795	105,020	132,378
Income receivable	29,573	34,886	25,337	27,255
Deposits and prepayments	31,729	21,120	28,259	20,786
Amount due from subsidiary company	-	-	10,843	169,489
Other receivables	313,565	94,382	287,836	77,173
	751,666	331,500	714,128	472,398

23 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)

24 Deposits from Customers

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
(i) By type of deposit				
At amortised cost				
Demand deposits	18,775,795	20,264,702	16,841,935	18,150,556
Savings deposits	12,537,292	12,846,713	10,846,217	11,202,685
Fixed/Investment deposits	25,244,245	23,436,236	16,381,508	17,159,906
Wholesale money market deposits	-	3,500	-	3,500
	56,557,332	56,551,151	44,069,660	46,516,647

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

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Due within six months	20,141,879	18,261,293	12,499,474	13,363,838
More than six months to one year	4,648,141	4,849,544	3,624,520	3,610,173
More than one year to three years	307,743	244,641	164,037	134,572
More than three years to five years	146,482	80,758	93,477	51,323
	25,244,245	23,436,236	16,381,508	17,159,906

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
(ii) By type of customer				
Government and statutory bodies	28,380	33,830	22,587	28,207
Business enterprises	20,899,927	20,625,420	16,919,598	18,404,900
Individuals	23,898,107	24,074,294	17,817,472	18,662,800
Others	11,730,918	11,817,607	9,310,003	9,420,740
	56,557,332	56,551,151	44,069,660	46,516,647

25 Deposits and Placements from Banks and Other Financial Institutions

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Licensed banks	1,393	231,646	1,379	231,619
Bank Negara Malaysia	19,267	28,507	1,350	1,950
Other financial institutions	3,840,065	5,093,456	2,048,875	4,199,198
	3,860,725	5,353,609	2,051,604	4,432,767

26 Financial Liabilities Designated at Fair Value through Profit or Loss

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Structured products ⁽¹⁾	3,545,575	-	3,084,523	-

⁽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)

27 Other Liabilities

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
At amortised cost				
Settlements	632,063	74,224	632,063	71,279
Interest/profit payable	247,857	221,250	162,444	160,602
Deferred income	109,273	110,228	98,100	99,512
Marginal deposit	46,309	70,610	42,004	57,518
Amount due to subsidiary company	-	-	88,150	988
Accrued expenses	785,850	687,383	759,100	658,339
Other creditors	887,053	668,312	811,634	603,560
Provisions on loan and credit related commitments; and financial guarantees	11,295	-	8,217	-
	2,719,700	1,832,007	2,601,712	1,651,798
At fair value				
Structured products ^[1]	-	2,850,034	-	2,570,059
	2,719,700	4,682,041	2,601,712	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 26.

28 Multi-Currency Sukuk Programme

	<i>Group</i>	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Multi-Currency Sukuk Programme (MCSP)	1,251,599	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)	
				30 Jun 2018	31 Dec 2017
At fair value					
Second series	500,000	16 Oct 2014	16 Oct 2019	500,823	501,201
Third series	750,000	27 Mar 2015	27 Mar 2020	750,776	751,628
	1,250,000			1,251,599	1,252,829
Total	1,250,000			1,251,599	1,252,829

Movement in MCSP

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 Subordinated Liabilities

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Subordinated Liabilities	1,081,653	1,083,903	1,081,653	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>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
(ii) Subordinated term loan				
- First tranche issued on 25 June 2014	313,665	314,714	313,665	314,714
- Second tranche issued on 30 June 2015	267,988	268,884	267,988	268,884
	581,653	583,598	581,653	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)

30 Net Interest Income

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	442,764	393,981	876,735	780,911
- Interest income recognised from impaired loans	10,110	10,162	28,217	18,766
Money at call and deposit placements with financial institutions	71,995	43,590	143,955	156,217
Financial investments at FVOCI	59,303	112,444	116,552	170,364
	584,172	560,177	1,165,459	1,126,258
Interest expense				
Deposits and placements of banks and other financial institutions	(8,392)	(12,550)	(18,050)	(25,340)
Deposits from customers	(161,700)	(177,936)	(322,137)	(352,756)
Subordinated liabilities	(12,569)	(16,001)	(23,904)	(31,894)
Others	(2,576)	(2,760)	(5,358)	(5,562)
	(185,237)	(209,247)	(369,449)	(415,552)
Net interest income	398,935	350,930	796,010	710,706
	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	442,764	393,981	876,735	780,911
- Interest income recognised from impaired loans	10,110	10,162	28,217	18,766
Money at call and deposit placements with financial institutions	83,519	63,326	175,739	191,875
Financial investments at FVOCI	59,303	112,444	116,552	170,364
	595,696	579,913	1,197,243	1,161,916
Interest expense				
Deposits and placements of banks and other financial institutions	(8,392)	(12,550)	(18,050)	(25,340)
Deposits from customers	(161,700)	(177,936)	(322,137)	(352,756)
Subordinated liabilities	(12,569)	(16,001)	(23,904)	(31,894)
Others	(2,576)	(2,760)	(5,358)	(5,562)
	(185,237)	(209,247)	(369,449)	(415,552)
Net interest income	410,459	370,666	827,794	746,364

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Net Fee and Commission Income

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018 RM'000	30 Jun 2017 RM'000	30 Jun 2018 RM'000	30 Jun 2017 RM'000
Fee and commission income				
Credit cards	35,456	36,299	70,652	75,855
Service charges and fees	30,749	30,179	65,592	62,563
Fees on credit facilities	14,316	15,462	29,481	29,314
Agency fee	30,022	25,518	57,589	48,429
Others	7,246	6,638	15,279	14,180
	117,789	114,096	238,593	230,341
Fee and commission expense				
Debit/credit cards	(9,609)	(4,544)	(26,576)	(19,347)
Interbank and clearing fees	(341)	(447)	(856)	(776)
Brokerage	(322)	(529)	(868)	(954)
Cash management	(105)	(732)	(1,149)	(1,619)
Others	(3,296)	(4,347)	(5,969)	(9,146)
	(13,673)	(10,599)	(35,418)	(31,842)
Net fee and commission income	104,116	103,497	203,175	198,499

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018 RM'000	30 Jun 2017 RM'000	30 Jun 2018 RM'000	30 Jun 2017 RM'000
Fee and commission income				
Credit cards	35,456	36,299	70,652	75,855
Service charges and fees	30,749	30,179	65,592	62,563
Fees on credit facilities	14,316	15,462	29,481	29,314
Agency fee	30,022	25,518	57,589	48,429
Others	7,246	6,638	15,279	14,180
	117,789	114,096	238,593	230,341
Fee and commission expense				
Debit/credit cards	(9,609)	(4,544)	(26,576)	(19,347)
Interbank and clearing fees	(341)	(447)	(856)	(776)
Brokerage	(322)	(529)	(868)	(954)
Cash management	(105)	(732)	(1,149)	(1,619)
Others	(3,296)	(4,347)	(5,969)	(9,146)
	(13,673)	(10,599)	(35,418)	(31,842)
Net fee and commission income	104,116	103,497	203,175	198,499

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Net Trading Income

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
Realised (losses)/gains on financial assets/liabilities at FVTPL and other financial instruments	(6,588)	15,047	(1,879)	19,782
Net interest income from financial assets at FVTPL	25,826	26,793	47,265	35,327
Net unrealised (losses)/gains on revaluation of financial assets at FVTPL	(5,797)	3,059	(7,218)	13,425
Net realised (losses)/gains arising from dealing in foreign currency	(86,572)	230,955	29,213	403,043
Net unrealised gains/(losses) from dealing in foreign currency	128,031	(72,803)	109,809	(75,302)
Net realised (losses)/gains arising from dealing in derivatives	(196,955)	50,235	(77,676)	197,371
Net unrealised gains/(losses) on revaluation of derivatives	215,045	(52,450)	113,943	(198,978)
(Losses)/gains arising from fair value hedges	(848)	37	(1,667)	23
	72,142	200,873	211,790	394,691

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
Realised (losses)/gains on financial assets/liabilities at FVTPL and other financial instruments	(7,687)	15,047	(2,567)	19,782
Net interest income from financial assets at FVTPL	25,826	26,793	47,265	35,327
Net unrealised (losses)/gains on revaluation of financial assets at FVTPL	(5,098)	3,059	(6,994)	13,425
Net realised (losses)/gains arising from dealing in foreign currency	(83,758)	232,409	27,788	405,919
Net unrealised gains/(losses) from dealing in foreign currency	193,115	(119,293)	196,062	(177,616)
Net (losses)/gains realised gains arising from dealing in derivatives	(197,265)	52,203	(75,455)	202,689
Net unrealised gains/(losses) on revaluation of derivatives	211,890	(52,821)	99,866	(205,646)
(Losses)/gains arising from fair value hedges	(848)	37	(1,667)	23
	136,175	157,434	284,298	293,903

33 Income from Islamic Banking operations

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositor funds and others ^[1]	272,858	130,744	473,438	238,861
Income derived from investment of shareholders funds ^[1]	34,962	32,696	71,692	66,540
Income attributable to the depositors	(100,455)	(63,425)	(178,062)	(125,225)
Income from Islamic Banking operations	207,365	100,015	367,068	180,176

^[1] Included in the following funds are net losses on financial instruments designated at fair value through profit or loss for the period ending 30 June:

Income derived from investment of depositors' funds and others	(4,215)	-
Income derived from investment of shareholder's funds	(376)	(231)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Other Operating Income

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
Disposal of financial investments at FVOCI	2,027	748	8,335	748
Dividend income from financial investments at FVOCI				
- Unquoted in Malaysia	930	1,142	930	1,142
Rental income	2,106	2,022	3,955	3,721
Other operating income	4,622	5,609	8,620	11,261
	9,685	9,521	21,840	16,868
	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
Disposal of financial investments at FVOCI	2,027	748	8,335	748
Dividend income from financial investments at FVOCI				
- Unquoted in Malaysia	930	1,142	930	1,142
Dividend income from subsidiary	10,000	-	10,000	-
Rental income	2,106	2,022	3,955	3,721
Net losses on disposal of property and equipment	-	-	-	(4)
Income recharges from subsidiary	32,443	30,487	64,084	61,996
Other operating income	4,622	5,609	8,620	11,261
	52,128	40,008	95,924	78,864

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Loans/financing Impairment Charges and Other Credit Risk Provisions

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance/provisions (net of releases)	58,069	76,046	129,203	174,142
Recoveries of specific provisions	(28,422)	(22,311)	(58,703)	(43,263)
Written off	145	5,179	147	9,304
Total charge to the income statement	29,792	58,914	70,647	140,183

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance/provisions (net of releases)	31,782	35,755	66,210	87,858
Recoveries of specific provisions	(18,569)	(14,187)	(37,863)	(26,807)
Written off	115	2,448	117	5,094
Total charge to the income statement	13,328	24,016	28,464	66,145

Breakdown of the expected credit losses allowance by financial instruments type:

(i) Loan, advances and financing

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	52,771	76,046	128,255	174,142
Recoveries of specific provisions	(28,422)	(22,311)	(58,703)	(43,263)
Written off	145	5,179	147	9,304
Total charge to the income statement	24,494	58,914	69,699	140,183

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	27,535	35,755	64,632	87,858
Recoveries of specific provisions	(18,569)	(14,187)	(37,863)	(26,807)
Written off	115	2,448	117	5,094
Total charge to the income statement	9,081	24,016	26,886	66,145

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

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	11	-	(19)	-
Total charge to the income statement	11	-	(19)	-

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	11	-	(19)	-
Total charge to the income statement	11	-	(19)	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Loans/financing Impairment Charges and Other Credit Risk Provisions (Cont'd)

(iii) Debt securities - FVOCI

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	171	-	87	-
Total charge to the income statement	171	-	87	-

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	152	-	100	-
Total charge to the income statement	152	-	100	-

(iv) Loan Commitments and Contingencies

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
New and increased provisions (net of releases)	5,116	-	880	-
Total charge to the income statement	5,116	-	880	-

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
New and increased provisions (net of releases)	4,084	-	1,497	-
Total charge to the income statement	4,084	-	1,497	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Other Operating Expenses

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018 RM'000	30 Jun 2017 RM'000	30 Jun 2018 RM'000	30 Jun 2017 RM'000
Personnel expenses	191,979	188,742	377,321	370,214
Promotion and marketing related expenses	9,942	21,591	31,746	35,757
Establishment related expenses	31,953	37,017	69,062	70,515
General administrative expenses	41,135	41,789	78,771	84,769
Intercompany charges	116,618	96,286	198,346	185,604
	391,627	385,425	755,246	746,859
Personnel expenses				
Salaries, allowances and bonuses	146,711	138,131	292,310	277,209
Employees Provident Fund contributions	24,947	23,377	48,727	45,815
Share based payment	3,330	2,182	6,500	5,915
Others	16,991	25,052	29,784	41,275
	191,979	188,742	377,321	370,214
Promotion and marketing related expenses	9,942	21,591	31,746	35,757
Establishment related expenses				
Depreciation of property and equipment	5,380	5,809	10,744	11,667
Amortisation of intangible assets	4,791	5,550	10,467	10,803
Impairment of Intangible asset	52	-	52	-
Information technology costs	2,487	4,690	8,661	8,175
Hire of equipment	1,941	1,973	4,434	4,174
Rental of premises	9,451	9,436	18,734	17,959
Property and equipment written off	15	18	19	21
General repairs and maintenance	3,345	3,259	5,577	6,421
Utilities	3,664	4,885	7,570	7,975
Others	827	1,397	2,804	3,320
	31,953	37,017	69,062	70,515
General administrative expenses	41,135	41,789	78,771	84,769
Intercompany charges	116,618	96,286	198,346	185,604
Of which by:				
Type of service				
- Information technology related cost	41,123	40,767	72,583	69,667
- Non information technology related cost	75,495	55,519	125,763	115,937
Geographical distribution				
- Inside Malaysia	18,307	14,262	33,483	28,671
- Outside Malaysia	98,311	82,024	164,863	156,933

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Other Operating Expenses (Cont'd)

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	RM'000	RM'000	RM'000	RM'000
Personnel expenses	179,669	176,626	353,472	346,700
Promotion and marketing related expenses	7,736	18,643	24,707	30,262
Establishment related expenses	27,718	31,596	60,785	60,390
General administrative expenses	32,868	33,529	61,235	67,223
Intercompany charges	115,021	95,553	195,974	184,751
	363,012	355,947	696,173	689,326
Personnel expenses				
Salaries, allowances and bonuses	137,220	128,612	273,482	259,346
Employees Provident Fund contributions	23,260	21,726	45,374	42,718
Share based payment	3,295	2,154	6,435	5,868
Others	15,894	24,134	28,181	38,768
	179,669	176,626	353,472	346,700
Promotion and marketing related expenses	7,736	18,643	24,707	30,262
Establishment related expenses				
Depreciation of property and equipment	4,820	4,685	9,518	9,419
Amortisation of intangible assets	4,791	5,550	10,467	10,803
Impairment of Intangible asset	52	-	52	-
Information technology costs	1,892	4,021	7,297	6,766
Hire of equipment	1,941	1,973	4,434	4,174
Rental of premises	7,234	7,469	14,649	14,059
Property and equipment written off	15	18	19	21
General repairs and maintenance	2,899	3,260	5,131	6,421
Utilities	3,149	4,070	6,535	6,817
Others	925	551	2,683	1,910
	27,718	31,597	60,785	60,390
General administrative expenses	32,868	33,529	61,235	67,223
Intercompany charges	115,021	95,553	195,974	184,751
Of which by:				
Type of service				
- Information technology related cost	41,104	40,765	72,583	69,665
- Non information technology related cost	73,917	54,788	123,391	115,086
Geographical distribution				
- Inside Malaysia	16,813	14,354	31,319	27,674
- Outside Malaysia	98,208	81,199	164,655	157,077

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Credit exposure to connected parties

	Group		Bank	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Aggregate value of outstanding credit exposures to connected parties	4,672,983	3,717,318	3,760,752	2,771,964
As a percentage of total credit exposures	6.5%	5.0%	6.8%	4.8%
Aggregate value of total outstanding credit exposures to connected parties which is impaired or in default	-	-	-	-
As a percentage of total credit exposures	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Capital Adequacy

	<i>Group</i>	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Tier 1 capital		
Paid-up ordinary share capital	1,045,875	1,045,875
Retained profits	7,857,250	7,562,878
Other reserves	966,007	802,284
Regulatory adjustments	(1,091,058)	(893,678)
Total Common Equity Tier 1 (CET 1) and Tier 1 capital	8,778,074	8,517,359
Tier 2 capital		
Subordinated liabilities	400,000	500,000
Subordinated term loan	581,653	583,598
Collective impairment allowance (unimpaired portion) & regulatory reserves	597,479	611,812
Regulatory adjustments	111,853	112,575
Total Tier 2 capital	1,690,985	1,807,985
Capital base	10,469,059	10,325,344
<u>Inclusive of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	15.936%	15.188%
Total Capital ratio	19.006%	18.412%
<u>Net of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	15.936%	14.831%
Total Capital ratio	19.006%	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>	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Total RWA for credit risk	47,806,377 ^[1]	48,944,965 ^[1]
Total RWA for market risk	1,543,777	1,347,442
Total RWA for operational risk	5,731,451	5,787,374
	55,081,605	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>	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Under SIAF/IAA arrangement	2,127,360	3,137,175

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Capital Adequacy (Cont'd)

	<i>Bank</i>	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Tier 1 capital		
Paid-up ordinary share capital	1,045,875	1,045,875
Retained profits	6,840,243	6,641,367
Other reserves	917,767	767,339
Regulatory adjustments	<u>(1,688,321)</u>	<u>(1,374,672)</u>
Total Common Equity Tier 1 (CET1) and Tier 1 capital	<u>7,115,564</u>	<u>7,079,909</u>
Tier 2 capital		
Subordinated liabilities	400,000	500,000
Subordinated term loan	581,653	583,598
Collective impairment allowance (unimpaired portion) & regulatory reserves	456,417	443,739
Regulatory adjustments	<u>(469,800)</u>	<u>(603,027)</u>
Total Tier 2 capital	<u>968,270</u>	<u>924,310</u>
Capital base	<u>8,083,834</u>	<u>8,004,219</u>
<u>Inclusive of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	16.492%	15.957%
Total Capital ratio	18.736%	18.040%
<u>Net of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	16.492%	15.506%
Total Capital ratio	18.736%	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>	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Total RWA for credit risk	36,513,499 ^[1]	37,826,954 ^[1]
Total RWA for market risk	1,497,183	1,337,992
Total RWA for operational risk	5,134,564	5,203,610
	<u>43,145,246</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>	
	30 Jun 2018 RM'000	31 Dec 2017 RM'000
Under SIAF/IAA arrangement	<u>2,127,360</u>	<u>3,137,175</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39 Commitments and Contingencies

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

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

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2018	31 Dec 2017	30 Jun 2018	31 Dec 2017
Principal amount	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	2,554,625	2,573,868	2,014,986	2,079,481
Transaction-related contingent items	9,276,326	9,489,136	8,315,032	8,492,366
Short-term self-liquidating trade-related contingencies	454,763	318,326	408,079	268,681
Formal standby facilities and credit lines				
- Maturity not exceeding one year	6,544,699	7,101,221	5,377,664	5,361,972
- Maturity exceeding one year	11,025,140	11,947,738	9,044,460	9,817,124
Other unconditionally cancellable	13,247,249	13,519,711	11,382,127	11,286,520
Unutilised credit card lines	12,400,454	11,587,852	9,078,334	8,563,420
Foreign exchange related contracts:				
- Less than one year	82,362,510	71,276,730	82,912,076	71,325,986
- Over one year to less than five years	8,280,949	7,500,859	8,260,762	7,488,345
- Over five years	1,408,185	1,605,588	1,408,185	1,605,588
Interest/profit rate related contracts:				
- Less than one year	11,660,336	14,999,855	11,820,336	15,109,855
- Over one year to less than five years	27,493,917	28,024,913	28,924,985	29,540,800
- Over five years	1,463,594	1,534,977	1,463,594	1,534,977
Gold and other precious metals contracts:				
- Less than one year	15,498	6,618	15,498	6,618
Equity related contracts:				
- Less than one year	373,321	268,827	382,733	271,772
- Over one year to less than five years	980,252	834,925	1,258,675	920,319
	189,541,818	182,591,144	182,067,526	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	794,750	1,047,532	794,750	1,047,532
- Maturity exceeding one year	-	237,166	-	237,166
	794,750	1,284,698	794,750	1,284,698

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

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

Group At 30 Jun 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	77,102,858	368,312	-	77,471,170	725,805	1,366	-	727,171	778,833	19,832	-	798,665
- Swaps	4,408,698	7,785,234	1,408,185	13,602,117	228,367	350,125	190,648	769,140	209,479	257,998	35,816	503,293
- Options	850,954	127,403	-	978,357	6,048	1,166	-	7,214	1,437	-	-	1,437
Interest/profit rate related contracts												
- Options	295,424	773,125	-	1,068,549	226	3,595	-	3,821	3,689	589	-	4,278
- Swaps	11,164,912	24,950,792	1,463,594	37,579,298	22,728	120,819	11,991	155,538	16,596	106,167	26,220	148,983
Equity related contracts												
- Options	373,321	980,252	-	1,353,573	2,342	23,595	-	25,937	2,800	11,486	-	14,286
Precious metal contracts												
- Options	15,498	-	-	15,498	35	-	-	35	69	-	-	69
Sub- total	94,211,665	34,985,118	2,871,779	132,068,562	985,551	500,666	202,639	1,688,856	1,012,903	396,072	62,036	1,471,011
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	200,000	1,770,000	-	1,970,000	-	1,103	-	1,103	17	6,342	-	6,359
Sub- total	200,000	1,770,000	-	1,970,000	-	1,103	-	1,103	17	6,342	-	6,359
Total	94,411,665	36,755,118	2,871,779	134,038,562	985,551	501,769	202,639	1,689,959	1,012,920	402,414	62,036	1,477,370

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 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)

40 Derivative Financial Instruments (Cont'd)

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

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

Bank At 30 Jun 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	77,632,237	368,312	-	78,000,549	725,595	1,366	-	726,961	776,795	19,832	-	796,627
- Swaps	4,408,698	7,785,234	1,408,185	13,602,117	226,547	350,781	190,648	767,976	209,479	257,999	35,816	503,294
- Options	871,141	107,216	-	978,357	6,048	1,166	-	7,214	1,437	-	-	1,437
Interest rate related contracts												
- Options	295,424	954,193	-	1,249,617	226	3,595	-	3,821	3,689	3,814	-	7,503
- Swaps	11,484,912	26,200,792	1,463,594	39,149,298	22,804	120,820	11,986	155,610	16,598	107,738	26,546	150,882
Equity related contracts												
- Options	382,733	1,258,675	-	1,641,408	2,342	23,888	-	26,230	2,956	22,216	-	25,172
Precious metal contracts												
- Options	15,498	-	-	15,498	35	-	-	35	69	-	-	69
Sub- total	95,090,643	36,674,422	2,871,779	134,636,844	983,597	501,616	202,634	1,687,847	1,011,023	411,599	62,362	1,484,984
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	40,000	1,770,000	-	1,810,000	-	1,103	-	1,103	17	6,342	-	6,359
Sub- total	40,000	1,770,000	-	1,810,000	-	1,103	-	1,103	17	6,342	-	6,359
Total	95,130,643	38,444,422	2,871,779	136,446,844	983,597	502,719	202,634	1,688,950	1,011,040	417,941	62,362	1,491,343

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 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

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

	Group		Bank	
	30 Jun 2018 RM'000	30 Jun 2017 RM'000	30 Jun 2018 RM'000	30 Jun 2017 RM'000
Gains on hedging instruments	1,534	(6,402)	1,534	(6,402)
Losses on the hedged items attributable to the hedged risk	(3,201)	6,425	(3,201)	6,425
Net gains from fair value hedges	(1,667)	23	(1,667)	23

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Interest/Profit Rate Risk

The Group and the Bank are exposed to various risks associated with the effects of fluctuation in the prevailing level of market interest/profit rates on its financial position and cash flows. The following tables summarise the Group and the Bank's exposure to interest/profit rate risk. The assets and liabilities at carrying amount are allocated to time bands by reference to the earlier of the next contractual repricing dates and maturity dates.

Group 30 Jun 2018	Non-trading book					Non- interest/profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest/ profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
ASSETS									
Cash and short term funds	10,439,101	-	-	-	-	404,295	-	10,843,396	2.90
Securities purchased under resale agreements	270,361	-	-	-	-	-	-	270,361	3.40
Deposits and placements with banks and other financial institutions	-	1,413,125	-	-	-	-	-	1,413,125	2.95
- Impaired	-	-	-	-	-	(30)	-	(30)	-
Financial assets at FVTPL	-	-	-	-	-	-	2,506,061	2,506,061	3.67
Financial investments at FVOCI	370,142	726,604	1,264,624	7,839,935	627,015	187,559	-	11,015,879	3.42
Loans, advances and financing									
- performing	17,081,803	31,063,460	888,757	638,969	358,424	-	-	50,031,413	5.00
- impaired ^[1]	-	-	-	-	-	1,015,749	-	1,015,749	-
- collective allowance	-	-	-	-	-	(690,702)	-	(690,702)	-
Derivative financial assets	-	-	-	1,103	-	-	1,688,856	1,689,959	-
Other assets	-	-	-	-	-	179,820	480,493	660,313	-
Total Financial Assets	28,161,407	33,203,189	2,153,381	8,480,007	985,439	1,096,691	4,675,410	78,755,524	
LIABILITIES									
Deposits from customers	31,998,321	5,512,605	8,820,102	459,493	-	9,766,811	-	56,557,332	2.01
Deposits and placements from banks and other financial institutions	1,497,011	223,045	786	2,125,633	-	14,250	-	3,860,725	1.88
Bills payable	-	-	-	-	-	234,503	-	234,503	-
Multi-Currency Sukuk Programme	-	-	-	1,251,599	-	-	-	1,251,599	3.96
Subordinated liabilities	-	-	-	500,000	581,653	-	-	1,081,653	4.38
Derivative financial liabilities	-	37	144	6,342	-	-	1,470,847	1,477,370	-
Other liabilities	-	-	-	-	-	1,107,107	360,925	1,468,032	-
- provision for commitments and contingencies	-	-	-	-	-	8,263	-	8,263	-
Total Financial Liabilities	33,495,332	5,735,687	8,821,032	4,343,067	581,653	11,130,934	1,831,772	65,939,477	
Total interest/profit sensitivity gap	(5,333,925)	27,467,502	(6,667,651)	4,136,940	403,786	(10,034,243)	2,843,638	12,816,047	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Interest/Profit Rate Risk (Cont'd)

Group 31 Dec 2017	Non-trading book					Non- interest/profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest/ profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
ASSETS									
Cash and short term funds	9,925,659	-	-	-	-	388,117	-	10,313,776	2.49
Securities purchased under resale agreements	1,048,527	916,403	-	-	-	-	-	1,964,930	3.11
Deposits and placements with banks and other financial institutions	-	709,999	-	-	-	-	-	709,999	2.71
Financial assets held-for-trading	-	-	-	-	-	-	1,988,719	1,988,719	3.50
Financial investments available-for-sale	128,345	1,342,578	598,155	7,533,920	-	177,407	-	9,780,405	3.29
Loans, advances and financing - performing	17,701,777	30,481,811	2,444,241	693,699	378,823	-	-	51,700,351	4.73
- impaired ^[1]	-	-	-	-	-	798,139	-	798,139	-
- collective allowance	-	-	-	-	-	(518,836)	-	(518,836)	-
Derivative financial assets	790	431	-	2,288	-	-	2,041,716	2,045,225	-
Other assets	-	-	-	-	-	190,982	46,136	237,118	-
Total Financial Assets	28,805,098	33,451,222	3,042,396	8,229,907	378,823	1,035,809	4,076,571	79,019,826	
LIABILITIES									
Deposits from customers	32,232,268	5,456,211	7,810,470	326,361	-	10,725,841	-	56,551,151	1.94
Deposits and placements from banks and other financial institutions	2,662,384	1,013,066	223,417	1,431,967	-	22,775	-	5,353,609	1.54
Bills payable	-	-	-	-	-	318,009	-	318,009	-
Multi-Currency Sukuk Programme	-	-	-	1,252,829	-	-	-	1,252,829	3.80
Subordinated liabilities	143	162	-	500,000	583,598	-	-	1,083,903	3.75
Derivative financial liabilities	207	26	217	8,733	-	-	2,087,222	2,096,405	-
Other liabilities	-	-	-	-	-	1,018,025	2,945,630	3,963,655	1.72
Total Financial Liabilities	34,895,002	6,469,465	8,034,104	3,519,890	583,598	12,084,650	5,032,852	70,619,561	
Total interest/profit sensitivity gap	(6,089,904)	26,981,757	(4,991,708)	4,710,017	(204,775)	(11,048,841)	(956,281)	8,400,265	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Interest/Profit Rate Risk (Cont'd)

Bank 30 Jun 2018	Non-trading book					Non-interest sensitive RM'000	Trading book RM'000	Effective interest rate %	
	← Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				Total RM'000
ASSETS									
Cash and short term funds	8,032,376	-	-	-	-	311,992	-	8,344,368	2.81
Securities purchased under resale agreements	270,361	-	-	-	-	-	-	270,361	3.40
Deposits and placements with banks and other financial institutions	25,000	1,733,813	-	29,863	581,653	-	-	2,370,329	2.95
- Impaired	-	-	-	-	-	(30)	-	(30)	-
Financial assets at FVTPL	-	-	-	-	-	-	2,506,061	2,506,061	3.67
Financial investments at FVOCI	370,142	476,397	607,913	6,410,367	627,015	187,559	-	8,679,393	3.40
Loans, advances and financing									
- performing	12,786,385	23,133,216	546,772	46,514	671	-	-	36,513,558	4.84
- impaired ⁽¹⁾	-	-	-	-	-	656,963	-	656,963	-
- collective allowance	-	-	-	-	-	(379,364)	-	(379,364)	-
Derivative financial assets	-	-	-	1,103	-	-	1,687,847	1,688,950	-
Other assets	-	-	-	-	-	168,012	471,996	640,008	-
Total Financial Assets	21,484,264	25,343,426	1,154,685	6,487,847	1,209,339	945,132	4,665,904	61,290,597	
LIABILITIES									
Deposits from customers	25,442,433	3,481,444	5,753,538	257,514	-	9,134,731	-	44,069,660	1.84
Deposits and placements from banks and other financial institutions	1,332,281	223,045	786	495,492	-	-	-	2,051,604	1.33
Bills payable	-	-	-	-	-	217,435	-	217,435	-
Subordinated liabilities	-	-	-	500,000	581,653	-	-	1,081,653	4.52
Derivative financial liabilities	-	17	-	6,342	-	-	1,484,984	1,491,343	-
Financial liabilities designated at FVTPL	-	-	-	-	-	-	3,084,523	3,084,523	2.38
Other liabilities	-	-	-	-	-	1,069,845	360,925	1,430,770	-
- provision for commitments and contingencies	-	-	-	-	-	8,217	-	8,217	-
Total Financial Liabilities	26,774,714	3,704,506	5,754,324	1,259,348	581,653	10,430,228	4,930,432	53,435,205	
Total interest sensitivity gap	(5,290,450)	21,638,920	(4,599,639)	5,228,499	627,686	(9,485,096)	(264,528)	7,855,392	

⁽¹⁾ This is arrived at after deducting Stage 3 credit impaired allowance from impaired loans/financing.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

41 Interest/Profit Rate Risk (Cont'd)

Bank 31 Dec 2017	Non-trading book					Non-interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
ASSETS									
Cash and short term funds	8,592,875	-	-	-	-	286,178	-	8,879,053	2.43
Securities purchased under resale agreements	1,048,527	916,403	-	-	-	-	-	1,964,930	3.11
Deposits and placements with banks and other financial institutions	-	1,903,433	1,184,845	31,622	583,598	-	-	3,703,498	2.71
Financial assets held-for-trading	-	-	-	-	-	-	1,988,719	1,988,719	3.50
Financial investments available-for-sale	128,345	1,168,559	85,166	5,999,884	-	177,407	-	7,559,361	3.26
Loans, advances and financing									
- performing	13,624,041	22,351,489	2,263,431	82,745	21,084	-	-	38,342,790	4.56
- impaired ^[1]	-	-	-	-	-	530,989	-	530,989	-
- collective allowance	-	-	-	-	-	(277,928)	-	(277,928)	-
Derivative financial assets	790	431	-	2,288	-	-	2,041,496	2,045,005	-
Other assets	-	-	-	-	-	349,089	46,136	395,225	-
Total Financial Assets	23,394,578	26,340,315	3,533,442	6,116,539	604,682	1,065,735	4,076,351	65,131,642	
LIABILITIES									
Deposits from customers	26,714,239	3,728,892	5,877,576	185,895	-	10,010,045	-	46,516,647	1.86
Deposits and placements from banks and other financial institutions	2,658,575	1,013,066	223,417	537,709	-	-	-	4,432,767	1.08
Bills payable	-	-	-	-	-	301,331	-	301,331	-
Subordinated liabilities	143	162	-	500,000	583,598	-	-	1,083,903	3.95
Derivative financial liabilities	207	-	87	8,398	-	-	2,100,563	2,109,255	-
Other liabilities	-	-	-	-	-	905,922	2,662,710	3,568,632	1.62
Total Financial Liabilities	29,373,164	4,742,120	6,101,080	1,232,002	583,598	11,217,298	4,763,273	58,012,535	
Total interest sensitivity gap	(5,978,586)	21,598,195	(2,567,638)	4,884,537	21,084	(10,151,563)	(686,922)	7,119,107	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

42 Liquidity Risk

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

Group 30 Jun 2018	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000		
ASSETS								
Cash and short term funds	10,843,396	-	-	-	-	-	-	10,843,396
Securities purchased under resale agreements	270,361	-	-	-	-	-	-	270,361
Deposits and placements with banks and other financial institutions	-	1,413,095	-	-	-	-	-	1,413,095
Financial assets at FVTPL	-	-	-	-	-	-	2,506,061	2,506,061
Financial investments at FVOCI	370,142	726,604	1,264,624	7,839,935	627,015	187,559	-	11,015,879
Loans, advances and financing	13,642,204	7,224,375	2,651,420	4,560,069	22,278,392	-	-	50,356,460
Derivative financial assets	-	-	-	1,103	-	-	1,688,856	1,689,959
Others	7,529	13,278	7,098	80,190	11,428	2,038,761	480,493	2,638,777
Total Assets	25,133,632	9,377,352	3,923,142	12,481,297	22,916,835	2,226,320	4,675,410	80,733,988
LIABILITIES AND EQUITY								
Deposits from customers Deposits and placements from banks and other financial institutions	41,765,132	5,512,605	8,820,102	459,493	-	-	-	56,557,332
Bills payable	1,497,011	223,045	786	2,125,633	-	14,250	-	3,860,725
Multi-Currency Sukuk Programme	234,503	-	-	-	-	-	-	234,503
Subordinated liabilities	-	-	-	1,251,599	-	-	-	1,251,599
Derivative financial liabilities	-	-	-	500,000	581,653	-	-	1,081,653
Financial liabilities designated at FVTPL	-	37	144	6,342	-	-	1,470,847	1,477,370
Others	-	-	-	-	-	-	3,545,575	3,545,575
Others	715,696	56,879	110,223	46,025	14,948	1,621,226	360,925	2,925,922
Total Liabilities	44,212,342	5,792,566	8,931,255	4,389,092	596,601	1,635,476	5,377,347	70,934,679
Equity	-	-	-	-	-	9,799,309	-	9,799,309
Total Liabilities and Equity	44,212,342	5,792,566	8,931,255	4,389,092	596,601	11,434,785	5,377,347	80,733,988
Net maturity mismatches	(19,078,710)	3,584,786	(5,008,113)	8,092,205	22,320,234	(9,208,465)	(701,937)	-
Off-balance sheet liabilities	72,431,158	34,937,400	36,094,046	42,430,516	3,648,698	-	-	189,541,818

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

42 Liquidity Risk (Cont'd)

Group 31 Dec 2017	Non-trading book						Trading book RM'000	Total RM'000
	← Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000		
ASSETS								
Cash and short term funds	10,313,776	-	-	-	-	-	-	10,313,776
Securities purchased under resale agreements	1,048,527	916,403	-	-	-	-	-	1,964,930
Deposits and placements with banks and other financial institutions	-	709,999	-	-	-	-	-	709,999
Financial assets held-for-trading	-	-	-	-	-	-	1,988,719	1,988,719
Financial investments available-for-sale	128,345	1,342,578	598,155	7,533,920	-	177,407	-	9,780,405
Loans, advances and financing	13,478,237	6,630,128	4,025,907	5,392,700	22,452,682	-	-	51,979,654
Derivative financial assets	790	431	-	2,288	-	-	2,041,716	2,045,225
Others	24,510	15,137	9,083	83,723	3,114	1,784,096	46,136	1,965,799
Total Assets	24,994,185	9,614,676	4,633,145	13,012,631	22,455,796	1,961,503	4,076,571	80,748,507
LIABILITIES AND EQUITY								
Deposits from customers	42,958,109	5,456,211	7,810,470	326,361	-	-	-	56,551,151
Deposits and placements from banks and other financial institutions	2,662,384	1,013,066	223,417	1,431,967	-	22,775	-	5,353,609
Bills payable	318,009	-	-	-	-	-	-	318,009
Multi-Currency Sukuk Programme	-	-	-	1,252,829	-	-	-	1,252,829
Subordinated liabilities	143	162	-	500,000	583,598	-	-	1,083,903
Derivative financial liabilities	207	26	217	8,733	-	-	2,087,222	2,096,405
Others	89,191	62,812	95,524	39,871	22,365	1,501,048	2,945,630	4,756,441
Total Liabilities	46,028,043	6,532,277	8,129,628	3,559,761	605,963	1,523,823	5,032,852	71,412,347
Equity	-	-	-	-	-	9,336,160	-	9,336,160
Total Liabilities and Equity	46,028,043	6,532,277	8,129,628	3,559,761	605,963	10,859,983	5,032,852	80,748,507
Net maturity mismatches	(21,033,858)	3,082,399	(3,496,483)	9,452,870	21,849,833	(8,898,480)	(956,281)	-
Off-balance sheet liabilities	68,351,879	28,323,781	39,608,681	41,999,075	4,307,728	-	-	182,591,144

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

42 Liquidity Risk (Cont'd)

Bank 30 Jun 2018	Non-trading book						Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000		
ASSETS								
Cash and short term funds	8,344,368	-	-	-	-	-	-	8,344,368
Securities purchased under resale agreements	270,361	-	-	-	-	-	-	270,361
Deposits and placements with banks and other financial institutions	25,000	1,733,783	-	29,863	581,653	-	-	2,370,299
Financial assets at FVTPL	-	-	-	-	-	-	2,506,061	2,506,061
Financial investments at FVOCI	370,142	476,397	607,913	6,410,367	627,015	187,559	-	8,679,393
Loans, advances and financing	10,348,291	5,402,918	2,023,347	2,481,669	16,534,932	-	-	36,791,157
Derivative financial assets	-	-	-	1,103	-	-	1,687,847	1,688,950
Others	17,950	10,122	4,248	68,554	14,547	2,279,346	471,996	2,866,763
Total Assets	19,376,112	7,623,220	2,635,508	8,991,556	17,758,147	2,466,905	4,665,904	63,517,352
LIABILITIES AND EQUITY								
Deposits from customers	34,577,164	3,481,444	5,753,538	257,514	-	-	-	44,069,660
Deposits and placements from banks and other financial institutions	1,332,281	223,045	786	495,492	-	-	-	2,051,604
Bills payable	217,435	-	-	-	-	-	-	217,435
Subordinated liabilities	-	-	-	500,000	581,653	-	-	1,081,653
Derivative financial liabilities	-	17	-	6,342	-	-	1,484,984	1,491,343
Financial liabilities designated at FVTPL	-	-	-	-	-	-	3,084,523	3,084,523
Others	781,544	42,601	75,861	26,051	23,166	1,477,497	360,925	2,787,645
Total Liabilities	36,908,424	3,747,107	5,830,185	1,285,399	604,819	1,477,497	4,930,432	54,783,863
Equity	-	-	-	-	-	8,733,489	-	8,733,489
Total Liabilities and Equity	36,908,424	3,747,107	5,830,185	1,285,399	604,819	10,210,986	4,930,432	63,517,352
Net maturity mismatches	(17,532,312)	3,876,113	(3,194,677)	7,706,157	17,153,328	(7,744,081)	(264,528)	-
Off-balance sheet liabilities	65,445,774	34,396,319	35,130,015	43,462,147	3,633,271	-	-	182,067,526

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

42 Liquidity Risk (Cont'd)

Bank 31 Dec 2017	Non-trading book					Non-specific maturity RM'000	Trading book RM'000	Total RM'000
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000			
ASSETS								
Cash and short term funds	8,879,053	-	-	-	-	-	-	8,879,053
Securities purchased under resale agreements	1,048,527	916,403	-	-	-	-	-	1,964,930
Deposits and placements with banks and other financial institutions	-	1,903,433	1,184,845	31,622	583,598	-	-	3,703,498
Financial assets held-for-trading	-	-	-	-	-	-	1,988,719	1,988,719
Financial investments available-for-sale	128,345	1,168,559	85,166	5,999,884	-	177,407	-	7,559,361
Loans, advances and financing	10,654,962	4,310,345	3,390,593	3,557,387	16,682,564	-	-	38,595,851
Derivative financial assets	790	431	-	2,288	-	-	2,041,496	2,045,005
Others	193,859	19,509	10,875	71,911	5,484	2,035,801	46,136	2,383,575
Total Assets	20,905,536	8,318,680	4,671,479	9,663,092	17,271,646	2,213,208	4,076,351	67,119,992
LIABILITIES AND EQUITY								
Deposits from customers	36,724,284	3,728,892	5,877,576	185,895	-	-	-	46,516,647
Deposits and placements from banks and other financial institutions	2,658,575	1,013,066	223,417	537,709	-	-	-	4,432,767
Bills payable	301,331	-	-	-	-	-	-	301,331
Subordinated liabilities	143	162	-	500,000	583,598	-	-	1,083,903
Derivative financial liabilities	207	-	87	8,398	-	-	2,100,563	2,109,255
Others	62,406	48,330	79,726	23,186	22,365	1,397,534	2,662,710	4,296,257
Total Liabilities	39,746,946	4,790,450	6,180,806	1,255,188	605,963	1,397,534	4,763,273	58,740,160
Equity	-	-	-	-	-	8,379,832	-	8,379,832
Total Liabilities and Equity	39,746,946	4,790,450	6,180,806	1,255,188	605,963	9,777,366	4,763,273	67,119,992
Net maturity mismatches	(18,841,410)	3,528,230	(1,509,327)	8,407,904	16,665,683	(7,564,158)	(686,922)	-
Off-balance sheet liabilities	60,676,088	27,845,741	37,908,065	42,939,736	4,304,194	-	-	173,673,824

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

43 Business Prospects

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

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

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

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

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

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

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

In its recent presentation to its investors, HSBC Group has committed to invest USD15-USD17 billion in the next three years in areas including technology and China. Malaysia is a scalable market and an important footprint for the HSBC Group within ASEAN. The Group and the Bank will continue to capture opportunities along the entire supply chain of foreign investment into Malaysia and outbound business of our customers. Leveraging on HSBC connectivity, we will explore business opportunity based on intra ASEAN corridors and ASEAN government initiatives. The Group and the Bank will also focus on expanding customers' base to increase market share where it has comparative advantage.

44 Performance Review

The Group recorded a profit before tax of RM743.1 million for the financial period ended 30 June 2018, an increase of RM129.3 million compared to the corresponding period in 2017. The increase was mainly contributed by higher net interest income (RM83.7m) and income from Islamic banking operations (RM186.9m), partially offset by lower net trading income (RM178.8m).

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 RM69.5m compared to the corresponding period in 2017.

The Group continues to place high emphasis in managing its operating expenses to ensure that the resources are spent in a sustainable manner. For the period ended 30 June 2018, the overall costs base increased marginally by 1.1% against history, with a cost income ratio of 48.1% compared to 49.8% in prior corresponding period. The increase in personnel expenses were in line with Group's commitment to invest in people for both growth and control agenda.

Total balance sheet size at 30 June 2018 stood at RM80.7 billion (31 December 2017: RM80.7 billion). The Group's capital and liquidity ratios continues to remain strong and well above regulatory requirements.