

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
30 SEPTEMBER 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 SEPTEMBER 2018

	Note	Group		Bank	
		30 Sep 2018 RM'000	31 Dec 2017 RM'000 (Restated)	30 Sep 2018 RM'000	31 Dec 2017 RM'000 (Restated)
Assets					
Cash and short-term funds	13	12,374,317	10,313,776	10,805,577	8,879,053
Securities purchased under resale agreements		2,822,261	1,964,930	2,822,261	1,964,930
Deposits and placements with banks and other financial institutions	14	-	709,999	980,362	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	1,332,214	-	1,332,214	-
Financial investments available-for-sale	17	-	9,780,405	-	7,559,361
Financial investments at fair value through other comprehensive income (FVOCI)	18	10,278,257	-	7,323,655	-
Loans, advances and financing	19	51,242,535	51,979,654	37,416,876	38,595,851
Derivative financial assets	39	1,441,513	2,045,225	1,443,622	2,045,005
Other assets	22	2,095,374	331,500	1,551,979	472,398
Statutory deposits with Bank Negara Malaysia	23	1,291,589	1,084,888	908,927	723,526
Investments in subsidiary companies		-	-	660,021	660,021
Property and equipment		446,750	371,259	439,713	365,739
Intangible assets		40,419	46,573	40,419	46,573
Tax recoverable		20,850	28,474	20,850	20,850
Deferred tax assets		172,771	103,105	162,949	94,468
Total assets		83,558,850	80,748,507	65,909,425	67,119,992
Liabilities					
Deposits from customers	24	56,582,642	56,551,151	44,815,202	46,516,647
Deposits and placements from banks and other financial institutions	25	5,542,912	5,353,609	3,413,238	4,432,767
Repurchase agreement		157,763	-	157,763	-
Bills payable		468,943	359,337	434,961	339,809
Derivative financial liabilities	39	1,147,180	2,096,405	1,165,039	2,109,255
Financial liabilities designated at fair value through profit and loss	26	3,869,127	-	3,227,598	-
Other liabilities	27	2,675,585	4,640,713	2,468,456	4,183,379
Provision for taxation		189,940	74,400	152,786	74,400
Multi-Currency Sukuk Programme	28	1,752,928	1,252,829	-	-
Subordinated liabilities	29	1,095,915	1,083,903	1,095,915	1,083,903
Total liabilities		73,482,935	71,412,347	56,930,958	58,740,160
Equity					
Share capital		1,045,875	1,045,875	1,045,875	1,045,875
Reserves		9,030,040	8,290,285	7,932,592	7,333,957
Total equity attributable to owner of the Bank		10,075,915	9,336,160	8,978,467	8,379,832
Total liabilities and equity		83,558,850	80,748,507	65,909,425	67,119,992
Commitments and contingencies	38	183,102,608	182,591,144	176,460,199	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 55 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 31 October 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 SEPTEMBER 2018

	<i>Note</i>	<i>Group</i>			
		Third Quarter		Nine Months Ended	
		30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
		RM'000	RM'000	RM'000	RM'000
Interest income	30	596,952	565,470	1,762,411	1,691,728
Interest expense	30	(195,444)	(202,192)	(564,893)	(617,744)
Net interest income	30	401,508	363,278	1,197,518	1,073,984
Fee and commission income	31	115,726	119,588	354,319	349,929
Fee and commission expense	31	(19,535)	(27,829)	(54,953)	(59,671)
Net fee and commission income	31	96,191	91,759	299,366	290,258
Net trading income	32	98,295	198,962	310,085	593,653
Income from Islamic banking operations	33	186,161	105,237	553,229	285,413
Net expenses from Financial Investments Designated at Fair Value		(26,976)	-	(57,818)	-
Other operating income	34	9,884	7,382	31,724	24,250
Operating income before impairment losses		765,063	766,618	2,334,104	2,267,558
Loans/financing impairment charges and other credit risk provisions	35	(25,429)	(80,462)	(96,076)	(220,645)
Net operating income		739,634	686,156	2,238,028	2,046,913
Other operating expenses	36	(373,511)	(381,581)	(1,128,757)	(1,128,440)
Profit before tax		366,123	304,575	1,109,271	918,473
Tax expense		(82,240)	(71,661)	(261,218)	(222,832)
Profit for the period		283,883	232,914	848,053	695,641

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

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018 RM'000	30 Sep 2017 RM'000	30 Sep 2018 RM'000	30 Sep 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	(8,610)	(312)	(3,913)	6,450
Income tax effect	2,066	75	939	(1,548)
<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	-	13,914	-	67,011
Net amount transferred to profit or loss	-	(1,162)	-	(7,350)
Income tax effect	-	(3,061)	-	(14,319)
Fair value through other comprehensive income reserve:				
Change in fair value	22,237	-	3,178	-
Amount transferred to profit or loss	(7,170)	-	(13,154)	-
Impairment	233	-	346	-
Income tax effect	(3,672)	-	2,311	-
Other comprehensive income for the financial period, net of income tax	5,084	9,454	(10,293)	50,244
Total comprehensive income for the period	288,967	242,368	837,760	745,885
Profit attributable to owner of the Bank	283,883	232,914	848,053	695,641
Total comprehensive income attributable to owner of the Bank	288,967	242,368	837,760	745,885
Basic earnings per RM0.50 ordinary share	124.0 sen	101.7 sen	370.3 sen	303.8 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	87.3 sen	87.3 sen

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and Bank for the financial year ended 31 December 2017 and the accompanying explanatory notes on pages 13 to 55 attached to the unaudited condensed interim financial statements.

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

	<i>Note</i>	<i>Bank</i>			
		Third Quarter		Nine Months Ended	
		30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
		RM'000	RM'000	RM'000	RM'000
Interest income	30	605,843	586,757	1,803,086	1,748,673
Interest expense	30	(195,444)	(202,192)	(564,893)	(617,744)
Net interest income	30	410,399	384,565	1,238,193	1,130,929
Fee and commission income	31	115,726	119,588	354,319	349,929
Fee and commission expense	31	(19,535)	(27,829)	(54,953)	(59,671)
Net fee and commission income	31	96,191	91,759	299,366	290,258
Net trading income	32	146,553	147,695	430,851	441,598
Net expenses from Financial Investments Designated at Fair Value		(26,976)	-	(57,818)	-
Other operating income	34	42,557	37,523	138,481	116,387
Operating income before impairment losses		668,724	661,542	2,049,073	1,979,172
Loans impairment (charges)/release and other credit risk provisions	35	(11,034)	(25,889)	(39,498)	(92,034)
Net operating income		657,690	635,653	2,009,575	1,887,138
Other operating expenses	36	(344,720)	(352,500)	(1,040,893)	(1,041,826)
Profit before tax		312,970	283,153	968,682	845,312
Tax expense		(59,263)	(67,927)	(218,269)	(209,363)
Profit for the period		253,707	215,226	750,413	635,949

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FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018 (Cont'd)**

	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 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	(5,446)	-	(2,020)	-
Income tax effect	1,307	-	485	-
<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	-	11,076	-	58,328
Net amount transferred to profit or loss	-	(1,162)	-	(7,350)
Income tax effect	-	(2,380)	-	(12,235)
Fair value through other comprehensive income reserve:				
Change in fair value	17,356	-	3,486	-
Amount transferred to profit or loss	(7,239)	-	(13,593)	-
Impairment	174	-	304	-
Income tax effect	(2,471)	-	2,352	-
Other comprehensive income for the financial period, net of income tax	3,681	7,534	(8,986)	38,743
Total comprehensive income for the period	257,388	222,760	741,427	674,692
Profit attributable to owner of the Bank	253,707	215,226	750,413	635,949
Total comprehensive income attributable to owner of the Bank	257,388	222,760	741,427	674,692
Basic earnings per RM0.50 ordinary share	110.8 sen	94.0 sen	327.7 sen	277.7 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	87.3 sen	87.3 sen

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 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	1,045,875	216,937	-	132,183	909	94,583	284,000	7,661,549	9,436,036
Total comprehensive income for the financial period									
Profit for the financial period	-	-	-	-	-	-	-	848,053	848,053
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	-	(1,828)	-	-	-	-	-	1,828	-
Fair value through other comprehensive income reserve:									
Net change in fair value	-	-	-	2,358	(2,974)	-	-	57	(559)
Net amount transferred to profit or loss	-	-	-	(9,997)	-	-	-	-	(9,997)
Impairment release	-	-	-	263	-	-	-	-	263
<i>Total other comprehensive income</i>	-	(1,828)	-	(7,376)	(2,974)	-	-	1,885	(10,293)
Total comprehensive income for the financial period	-	(1,828)	-	(7,376)	(2,974)	-	-	849,938	837,760
Transfer relating to regulatory reserves	-	-	-	-	-	-	134,000	(134,000)	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	5,804	-	(3,685)	2,119
Dividends paid to owner - 2017 final	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 30 September	1,045,875	215,109	-	124,807	(2,065)	100,387	418,000	8,173,802	10,075,915

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 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	-	-	-	-	-	-	-	-	-	695,641	695,641
Other comprehensive income, net of income tax											
Revaluation reserve:											
Transfer to retained profits upon realisation of depreciation	-	-	-	(1,759)	-	-	-	-	-	1,759	-
Available-for-sale reserve:											
Net change in fair value	-	-	-	-	-	50,928	4,902	-	-	-	55,830
Net amount transferred to profit or loss	-	-	-	-	-	(5,586)	-	-	-	-	(5,586)
<i>Total other comprehensive income</i>	-	-	-	(1,759)	-	45,342	4,902	-	-	1,759	50,244
Total comprehensive income for the financial period	-	-	-	(1,759)	-	45,342	4,902	-	-	697,400	745,885
Transition to no par value regime on 31 January 2017 ^[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	-	-	-	-	-	-	-	6,662	-	(403)	6,259
Dividends paid to owner - 2017 interim	-	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Dividends paid to owner - 2016 final	-	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 30 September	<u>1,045,875</u>	<u>-</u>	<u>-</u>	<u>214,470</u>	<u>-</u>	<u>126,499</u>	<u>3,056</u>	<u>90,503</u>	<u>284,000</u>	<u>7,317,105</u>	<u>9,081,508</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.

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 55 attached to the unaudited condensed interim financial statements.

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 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	-	-	-	-	-	-	-	750,413	750,413
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	-	(1,828)	-	-	-	-	-	1,828	-
Fair value through other comprehensive income reserve:									
Net change in fair value	-	-	-	2,592	(1,535)	-	-	57	1,114
Net amount transferred to profit or loss	-	-	-	(10,331)	-	-	-	-	(10,331)
Impairment release	-	-	-	231	-	-	-	-	231
<i>Total other comprehensive income</i>	-	(1,828)	-	(7,508)	(1,535)	-	-	1,885	(8,986)
Total comprehensive income for the financial period	-	(1,828)	-	(7,508)	(1,535)	-	-	752,298	741,427
Transfer relating to regulatory reserves	-	-	-	-	-	-	120,000	(120,000)	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	5,652	-	(3,694)	1,958
Dividends paid to owner - 2017 final	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 30 September	1,045,875	215,109	-	124,370	(1,332)	99,827	370,000	7,124,618	8,978,467

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 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	-	-	-	-	-	-	-	-	635,949	635,949
Other comprehensive income, net of income tax										
Revaluation reserve:										
Transfer to retained profits upon realisation of depreciation	-	-	-	(1,759)	-	-	-	-	1,759	-
Available-for-sale reserve:										
Net change in fair value	-	-	-	-	-	44,329	-	-	-	44,329
Net amount transferred to profit or loss	-	-	-	-	-	(5,586)	-	-	-	(5,586)
<i>Total other comprehensive income</i>	-	-	-	(1,759)	-	38,743	-	-	1,759	38,743
Total comprehensive income for the financial period	-	-	-	(1,759)	-	38,743	-	-	637,708	674,692
Transition to no par value regime on 31 January 2017 ^[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	-	-	-	-	-	-	6,665	-	(403)	6,262
Dividends paid to owner - 2017 interim	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Dividends paid to owner - 2016 final	-	-	-	-	-	-	-	-	(200,000)	(200,000)
Balance at 30 September	1,045,875	-	-	214,470	-	126,447	90,103	250,000	6,422,272	8,149,167

^[1] 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 SEPTEMBER 2018

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
Profit before tax	1,109,271	918,473	968,682	845,312
Adjustments for non-operating and non-cash items	(111,325)	668,368	(342,656)	664,605
Operating profit before working capital changes	997,946	1,586,841	626,026	1,509,917
Changes in working capital:				
Net changes in operating assets	158,584	881,387	3,459,317	1,424,597
Net changes in operating liabilities	1,463,909	(5,080,468)	(1,895,477)	(5,775,712)
Income tax paid	(235,666)	(188,375)	(222,756)	(170,071)
Net cash generated from/(used in) operations	2,384,773	(2,800,615)	1,967,110	(3,011,269)
Net cash (used in)/generated from investing activities	(554,232)	(7,148,609)	189,172	(6,572,028)
Net cash generated from/(used in) financing activity	230,000	(1,491,796)	(229,758)	(934,520)
	(324,232)	(8,640,405)	(40,586)	(7,506,548)
Net changes in cash and cash equivalents	2,060,541	(11,441,020)	1,926,524	(10,517,817)
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 September	12,374,317	5,363,094	10,805,577	4,482,071
Analysis of cash and cash equivalents				
Cash and short-term funds	12,374,317	5,363,094	10,805,577	4,482,071
Cash and cash equivalents comprise the following:				
Cash and short-term funds	12,374,317	5,363,094	10,805,577	4,482,071
Adjustment for cash collateral	(411,821)	(116,375)	(436,821)	(141,375)
Cash and cash equivalents	11,962,496	5,246,719	10,368,756	4,340,696

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 55 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 31 October 2018.

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

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

Change in liabilities arising from financing activities

Group (RM'000)

2018	At 1 Jan	Cash outflow	Foreign exchange adjustment	Fair value movement	Interest/ Profit accrual	At 30 Sep
Multi-Currency Sukuk Programme	1,252,829	500,000	-	99	-	1,752,928
Subordinated liabilities	1,083,903	-	12,012	-	-	1,095,915
Other liabilities of which:						
Profit paid on Multi-Currency Sukuk Programme	12,815	(40,242)	-	-	37,487	10,060
Interest paid on Subordinated liabilities	6,521	(29,758)	-	-	36,905	13,669
Dividend paid	-	(200,000)	-	-	-	-
	2,356,068	230,000	12,012	99	74,392	2,872,572
2017						
Multi-Currency Sukuk Programme	1,756,001	(500,000)	-	(3,389)	-	1,252,612
Subordinated liabilities	1,648,824	(500,000)	(39,417)	-	-	1,109,407
Other liabilities of which:						
Profit paid on Multi-Currency Sukuk Programme	17,637	(57,276)	-	-	49,641	10,002
Interest paid on Subordinated liabilities	4,593	(34,520)	-	-	42,916	12,989
Dividend paid	-	(400,000)	-	-	-	-
	3,427,055	(1,491,796)	(39,417)	(3,389)	92,557	2,385,010

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 55 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 31 October 2018.

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

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

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

Bank (RM'000)

2018	At 1 Jan	Cash outflow	Foreign exchange adjustment	Fair value movement	Interest/ Profit accrual	At 30 Sep
Subordinated liabilities	1,083,903	-	12,012	-	-	1,095,915
Other liabilities of which:						
Interest paid on Subordinated liabilities	6,521	(29,758)	-	-	36,905	13,669
Dividend paid	-	(200,000)	-	-	-	-
	1,090,424	(229,758)	12,012	-	36,905	1,109,584
2017						
Subordinated liabilities	1,648,824	(500,000)	(39,417)	-	-	1,109,407
Other liabilities of which:						
Interest paid on Subordinated liabilities	4,593	(34,520)	-	-	42,916	12,989
Dividend paid	-	(400,000)	-	-	-	-
	1,653,417	(934,520)	(39,417)	-	42,916	1,122,396

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 55 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 31 October 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 31 October 2018.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 30 September 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 September 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 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
Other assets	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	359,337	Amortised cost	359,337
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	4,640,713	Amortised cost	1,790,679
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
Other assets	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	339,809	Amortised cost	339,809
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	4,183,379	Amortised cost	1,613,320
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	-
Other assets	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	359,337	-	-	359,337	-
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	4,640,713	(2,850,034)	9,486	1,800,165	9,486
Provision for taxation	74,400	-	17,257	91,657	17,257
Total change to financial liabilities balances, reclassification and remeasurement at 1 January 2018	71,412,347	-	26,743	71,439,090	26,743

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies (Cont'd)

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

<u>Bank</u>	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	-
Other assets	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	339,809	-	-	339,809	-
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	4,183,379	(2,570,059)	6,753	1,620,073	6,753
Provision for taxation	74,400	-	17,257	91,657	17,257
Total change to financial liabilities balances, reclassification and remeasurement at 1 January 2018	58,740,160	-	24,010	58,764,170	24,010

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies (Cont'd)

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

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

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

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 September 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 September 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 September 2018, other than those disclosed in Note 28.

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 now recommend an interim dividend of RM1.08 per ordinary share amounting to RM248 million in respect of the current financial period on the fully issued and paid up ordinary shares of the Bank.

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 September 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 Sep 2018 RM'000	31 Dec 2017 RM'000	30 Sep 2018 RM'000	31 Dec 2017 RM'000
Cash and balances with banks and other financial institutions	887,470	772,911	718,729	556,992
Money at call and interbank placements maturing within one month	11,486,847	9,540,865	10,086,848	8,322,061
	12,374,317	10,313,776	10,805,577	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 RM411.8 million (31 December 2017: RM91.7 million) and RM436.8 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 Sep 2018 RM'000	31 Dec 2017 RM'000	30 Sep 2018 RM'000	31 Dec 2017 RM'000
Licensed banks	-	9,999	980,362	3,003,498
Bank Negara Malaysia	-	700,000	-	700,000
Net deposit and placements	-	709,999	980,362	3,703,498

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 RM980.4 million (31 December 2017: RM2,993.5 million). The balance is within Stage 1 allocation (12 -months ECL) with nil impairment allowance as at 30 September 2018.

15 Financial Assets Held-for-Trading

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018 RM'000	31 Dec 2017 RM'000	30 Sep 2018 RM'000	31 Dec 2017 RM'000
At fair value				
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 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
At fair value	RM'000	RM'000	RM'000	RM'000
Money market instruments:				
Malaysian Government treasury bills	6,998	-	6,998	-
Malaysian Government securities	1,039,774	-	1,039,774	-
Malaysian Government Islamic Sukuk	244,415	-	244,415	-
Cagamas bonds and notes	6,498	-	6,498	-
	1,297,685	-	1,297,685	-
Unquoted:				
Corporate bonds and Sukuk	34,529	-	34,529	-
	1,332,214	-	1,332,214	-

17 Financial Investments Available-For-Sale

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 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 Sep 2018	31 Dec 2017	30 Sep 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 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Debt instruments				
Money market instruments:				
Bank Negara Malaysia bills and notes	199,982	-	199,982	-
Malaysian Government securities	4,074,804	-	4,074,804	-
Malaysian Government Islamic Sukuk	4,249,252	-	1,592,098	-
Malaysian Government Islamic treasury bills	197,662	-	-	-
Cagamas bonds and notes	429,919	-	429,919	-
Negotiable instruments of deposit	99,786	-	-	-
US treasury bond	648,708	-	648,708	-
Bankers' acceptance and Islamic accepted bills	184,139	-	184,139	-
	10,084,252	-	7,129,650	-
Unquoted:				
Corporate bonds and Sukuk	6,541	-	6,541	-
Equity instruments				
Unquoted:				
Shares	187,464	-	187,464	-
	10,278,257	-	7,323,655	-

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

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Maturing within one year	2,319,183	-	1,210,336	-
More than one year to three years	5,500,650	-	3,806,040	-
More than three years to five years	1,711,291	-	1,560,146	-
Over five years	553,128	-	553,128	-
	10,084,252	-	7,129,650	-

Included in the FVOCI balances are Pledged Securities under Malaysian Government securities against Repurchase Agreement amounted to RM161.0 million as at 30 September 2018.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Loans, Advances and Financing

(i) By type

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
At amortised cost				
Overdrafts/cash line	777,680	876,611	707,962	794,428
Term loans/financing:				
Housing loans/financing	18,766,843	19,381,681	14,417,783	14,980,106
Syndicated term loans/financing	3,681,220	5,272,123	2,327,528	3,382,154
Factoring receivables	358,061	236,319	358,061	236,319
Hire purchase receivables	176,314	169,852	-	-
Lease receivables	752	1,379	-	-
Other term loans/financing ^[1]	9,492,303	9,380,633	5,253,977	5,208,706
Bills receivable	3,206,511	2,524,261	2,809,486	2,415,196
Trust receipts	2,318,941	2,280,046	1,589,936	1,537,964
Claims on customers under acceptance credits	1,721,705	2,020,837	1,298,764	1,597,923
Staff loans/financing	93,161	107,280	89,845	102,633
Credit/charge cards	3,471,722	3,374,281	2,472,229	2,448,864
Revolving financing	7,875,921	7,157,928	6,470,901	6,340,976
Other loans/financing	11,270	10,798	8,470	9,150
Gross loans, advances and financing	51,952,404	52,794,029	37,804,942	39,054,419
Less: - Impairment allowances (MFRS 9) ^[2]	(709,869)	-	(388,066)	-
- Collective impairment allowances	-	(518,836)	-	(277,928)
- Individual impairment allowances	-	(295,539)	-	(180,640)
Total net loans, advances and financing	51,242,535	51,979,654	37,416,876	38,595,851

^[1] Included in the loans, advances and financing of the Bank at 30 September 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 Sep 2018	31 Dec 2017
	RM'000	RM'000
Syndicated term loans/financing	1,816,984	3,547,160
Revolving financing	751,515	-
	2,568,499	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 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Domestic non-bank financial institutions	738,640	564,529	139,547	-
Domestic business enterprises:				
Small medium enterprises	6,538,591	6,958,173	4,525,055	4,995,748
Others	15,382,521	16,224,147	11,782,476	12,609,721
Government and statutory bodies	5,177	7,222	-	-
Individuals	22,174,431	22,558,828	15,987,346	16,441,610
Other domestic entities	8,852	18,522	3,768	3,881
Foreign entities	7,104,192	6,462,608	5,366,750	5,003,459
	51,952,404	52,794,029	37,804,942	39,054,419

(iii) By residual contractual maturity

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Maturity within one year	24,685,573	24,408,799	18,746,487	18,558,054
More than one year to three years	2,653,061	2,911,213	1,081,673	1,929,070
More than three years to five years	2,429,854	2,559,820	1,763,570	1,657,946
More than five years	22,183,916	22,914,197	16,213,212	16,909,349
	51,952,404	52,794,029	37,804,942	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 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Fixed rate:				
Housing loans/financing	422	479	422	457
Hire purchase receivables	176,314	169,852	-	-
Other fixed rate loans/financing	13,587,301	13,236,201	10,141,092	10,131,075
Variable rate:				
BR/BLR/BFR plus	22,329,433	23,264,364	16,926,002	17,807,010
Cost-plus	15,858,934	16,123,133	10,737,426	11,115,877
	51,952,404	52,794,029	37,804,942	39,054,419

(v) By sector

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Agricultural, hunting, forestry and fishing	326,025	985,426	290,658	888,008
Mining and quarrying	326,179	240,735	113,998	144,359
Manufacturing	6,826,936	6,579,585	5,294,722	4,913,795
Electricity, gas and water	158,997	72,969	20,663	9,699
Construction	3,125,702	2,997,007	2,530,085	2,564,874
Real estate	3,965,986	4,035,514	3,010,879	2,961,674
Wholesale & retail trade and restaurants & hotels	4,001,221	3,898,913	2,734,803	2,994,148
Transport, storage and communication	453,048	1,104,049	251,880	554,667
Finance, insurance and business services	2,822,585	3,171,660	1,818,717	2,178,056
Household-retail	25,359,530	26,004,009	18,606,933	19,265,049
Others	4,586,195	3,704,162	3,131,604	2,580,090
	51,952,404	52,794,029	37,804,942	39,054,419

(vi) By purpose

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Purchase of property:				
Residential	18,821,089	19,450,388	14,470,446	15,046,578
Non residential	1,502,022	1,552,966	679,911	735,638
Purchase of securities	4,482	5,101	4,482	5,101
Purchase of transport vehicles	22,295	25,144	20,888	23,500
Purchase of fixed assets excluding land & building	1,110	2,222	1,110	2,222
Consumption credit	6,054,750	6,028,667	3,905,044	3,958,229
Construction	2,765,768	2,626,789	2,213,160	2,279,991
Working capital	18,847,361	20,069,341	13,753,481	14,814,378
Other purpose	3,933,527	3,033,411	2,756,420	2,188,782
	51,952,404	52,794,029	37,804,942	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 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Northern Region	6,663,021	6,681,364	5,185,427	5,184,894
Southern Region	6,241,330	6,413,866	4,767,375	4,907,206
Central Region	36,656,263	37,097,724	25,865,838	26,802,561
Eastern Region	2,391,790	2,601,075	1,986,302	2,159,758
	51,952,404	52,794,029	37,804,942	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 Sep 2018	31 Dec 2017	30 Sep 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 September/31 December	-	1,093,678	-	711,629

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

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 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 September/31 December	-	518,836	-	277,928

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 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 September/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 21 (i).

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

	<i>Group</i>	<i>Bank</i>
	30 Sep 2018	30 Sep 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	160,696	90,747
Net remeasurement due to changes in credit risk	68,881	(9,158)
Asset written-off	(201,316)	(101,340)
Others	60,177	19,087
Gross carrying amount as at 30 September 2018	1,063,995	652,210

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 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Agricultural, hunting, forestry and fishing	-	58,208	-	58,208
Mining and quarrying	2,702	765	2,000	-
Manufacturing	39,783	58,786	27,176	40,975
Construction	7,453	10,306	7,453	10,306
Real estate	13,915	1,108	13,915	1,108
Wholesale & retail trade, restaurants & hotels	38,965	41,829	27,515	32,419
Transport, storage and communication	22,000	22,363	17,854	17,814
Finance, insurance and business services	32,814	38,692	4,308	9,382
Household-retail	871,650	859,867	543,143	541,151
Others	34,713	1,754	8,846	266
	1,063,995	1,093,678	652,210	711,629

(v) By purpose	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Purchase of property:				
Residential	445,899	523,396	316,636	360,433
Non residential	43,029	34,609	32,550	21,804
Purchase of transport vehicles	112	264	77	261
Consumption credit	414,597	322,678	217,607	171,096
Construction	6,250	13,955	3,610	11,169
Working capital	129,289	198,695	81,730	146,785
Other purpose	24,819	81	-	81
	1,063,995	1,093,678	652,210	711,629

(vi) By geographical distribution	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Northern Region	151,596	188,043	110,683	129,130
Southern Region	99,261	118,574	65,739	79,240
Central Region	744,717	631,951	414,627	360,379
Eastern Region	68,421	155,110	61,161	142,880
	1,063,995	1,093,678	652,210	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 RM'000	
	12-month ECL not credit impaired 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
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	36,826	(30,083)	(6,743)	-	-	-
- Transferred to Stage 2	(10,181)	23,963	(13,782)	-	-	-
- Transferred to Stage 3	(927)	(11,296)	12,223	-	-	-
New financial assets originated or purchased	26,861	-	-	-	-	26,861
Net remeasurement due to changes in credit risk	(98,433)	46,515	204,346	-	-	152,428
Asset written-off	-	-	(201,334)	-	-	(201,334)
Others	6,034	(1,515)	53,866	-	-	58,385
Balance at 30 September 2018	99,918	179,260	430,691	-	-	709,869
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	24,268	(19,297)	(4,971)	-	-	-
- Transferred to Stage 2	(5,421)	12,723	(7,302)	-	-	-
- Transferred to Stage 3	(303)	(5,540)	5,843	-	-	-
New financial assets originated or purchased	12,228	-	-	-	-	12,228
Net remeasurement due to changes in credit risk	(62,242)	33,868	107,806	-	-	79,432
Asset written-off	-	-	(101,351)	-	-	(101,351)
Others	10,819	33	7,757	-	-	18,609
Balance at 30 September 2018	57,113	101,643	229,310	-	-	388,066

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 RM'000
	12-month ECL not credit impaired RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	
Group				
Balance at 1 January 2018	-	-	-	-
Restated for adoption of MFRS 9	3,859	5,618	9	9,486
Restated opening balance at 1 January 2018	3,859	5,618	9	9,486
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	481	(481)	-	-
- Transferred to Stage 2	(290)	294	(4)	-
- Transferred to Stage 3	(1)	-	1	-
New financial assets originated or purchased	1,604	-	-	1,604
Net remeasurement due to changes in credit risk	(3,157)	715	812	(1,630)
Asset written-off	-	-	-	-
Others	1,698	(710)	4	992
Balance at 30 September 2018	4,194	5,436	822	10,452
Bank				
Balance at 1 January 2018	-	-	-	-
Restated for adoption of MFRS 9	3,006	3,738	9	6,753
Restated opening balance at 1 January 2018	3,006	3,738	9	6,753
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	322	(322)	-	-
- Transferred to Stage 2	(252)	256	(4)	-
- Transferred to Stage 3	-	-	-	-
New financial assets originated or purchased	1,457	-	-	1,457
Net remeasurement due to changes in credit risk	(1,100)	362	(9)	(747)
Asset written-off	-	-	-	-
Others	54	(36)	4	22
Balance at 30 September 2018	3,487	3,998	-	7,485

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 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Settlements	1,181,021	45,317	676,790	45,317
Interest/profit receivable	117,258	135,795	90,328	132,378
Income receivable	30,554	34,886	25,469	27,255
Deposits and prepayments	31,364	21,120	29,408	20,786
Amount due from subsidiary company	-	-	15,104	169,489
Other receivables	735,177	94,382	714,880	77,173
	2,095,374	331,500	1,551,979	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 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
(i) By type of deposit				
At amortised cost				
Demand deposits	19,571,207	20,264,702	17,932,615	18,150,556
Savings deposits	12,169,489	12,846,713	10,521,299	11,202,685
Fixed deposits	24,841,946	23,436,236	16,361,288	17,159,906
Wholesale money market deposits	-	3,500	-	3,500
	56,582,642	56,551,151	44,815,202	46,516,647

The maturity structure of fixed deposits is as follows:

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Due within six months	20,048,961	18,261,293	12,626,023	13,363,838
More than six months to one year	4,334,722	4,849,544	3,487,179	3,610,173
More than one year to three years	291,826	244,641	146,271	134,572
More than three years to five years	166,437	80,758	101,815	51,323
	24,841,946	23,436,236	16,361,288	17,159,906

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
(ii) By type of customer				
Government and statutory bodies	17,094	33,830	11,977	28,207
Business enterprises	20,968,750	20,625,420	18,275,072	18,404,900
Individuals	23,601,007	24,074,294	17,261,552	18,662,800
Others	11,995,791	11,817,607	9,266,601	9,420,740
	56,582,642	56,551,151	44,815,202	46,516,647

25 Deposits and Placements from Banks and Other Financial Institutions

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Licensed banks	955	231,646	905	231,619
Bank Negara Malaysia	9,977	28,507	450	1,950
Other financial institutions	5,531,980	5,093,456	3,411,883	4,199,198
	5,542,912	5,353,609	3,413,238	4,432,767

26 Financial Liabilities Designated at Fair Value through Profit or Loss

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Structured products ⁽¹⁾	3,869,127	-	3,227,598	-

⁽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 Sep 2018 RM'000	31 Dec 2017 RM'000 (Restated)	30 Sep 2018 RM'000	31 Dec 2017 RM'000 (Restated)
At amortised cost				
Settlements	284,964	74,224	284,964	71,279
Interest/profit payable	268,952	221,250	171,830	160,602
Deferred income	107,957	110,228	96,032	99,512
Marginal deposit	41,031	70,610	36,434	57,518
Amount due to subsidiary company	-	-	11,946	988
Accrued expenses	907,255	687,383	878,740	658,339
Other creditors	1,054,974	626,984	981,025	565,082
Provisions on loan and credit related commitments; and financial guarantees	10,452	-	7,485	-
	2,675,585	1,790,679	2,468,456	1,613,320
At fair value				
Structured products ^[1]	-	2,850,034	-	2,570,059
	2,675,585	4,640,713	2,468,456	4,183,379

^[1] Structured products are now measured as Financial Liabilities Designated at Fair Value through Profit or Loss with effect from 1 January 2018. Please refer to Note 26.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Multi-Currency Sukuk Programme

	<i>Group</i>	
	30 Sep 2018	31 Dec 2017
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	1,752,928	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 Sep 2018	31 Dec 2017
At fair value					
2nd series	500,000	16 Oct 2014	16 Oct 2019	501,231	501,201
3rd series	750,000	27 Mar 2015	27 Mar 2020	751,756	751,628
4th series	500,000	2 Oct 2018	2 Oct 2023	499,941	-
	<u>1,750,000</u>			<u>1,752,928</u>	<u>1,252,829</u>
Total	<u>1,750,000</u>			<u>1,752,928</u>	<u>1,252,829</u>

Movement in MCSP

	<u>2nd series</u>	<u>3rd series</u>	<u>4th series</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
2018			
Balance at 1 January	501,201	751,628	500,000
Change in fair value other than from own credit risk	(1,490)	322	(59)
Change in fair value from own credit risk	1,520	(194)	-
Balance at 30 September	<u>501,231</u>	<u>751,756</u>	<u>499,941</u>

	<u>2nd series</u>	<u>3rd series</u>	<u>4th series</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
2017			
Balance at 1 January	502,835	753,166	-
Change in fair value other than from own credit risk	(504)	64	-
Change in fair value from own credit risk	(1,130)	(1,602)	-
Balance at 31 December	<u>501,201</u>	<u>751,628</u>	<u>-</u>

	<i>Group</i>	
	30 Sep 2018	31 Dec 2017
	RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk	1,326	(2,732)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 Subordinated Liabilities

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
Subordinated Liabilities	1,095,915	1,083,903	1,095,915	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 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
	RM'000	RM'000	RM'000	RM'000
(ii) Subordinated term loan				
- First tranche issued on 25 June 2014	321,356	314,714	321,356	314,714
- Second tranche issued on 30 June 2015	274,559	268,884	274,559	268,884
	595,915	583,598	595,915	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>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	440,147	402,310	1,316,882	1,183,221
- Interest income recognised from impaired loans	10,492	9,665	38,709	28,431
Money at call and deposit placements with financial institutions	72,177	42,989	216,132	199,206
Financial investments at FVOCI	74,136	110,506	190,688	280,870
	596,952	565,470	1,762,411	1,691,728
Interest expense				
Deposits and placements of banks and other financial institutions	(11,162)	(12,494)	(29,212)	(37,834)
Deposits from customers	(168,535)	(175,894)	(490,672)	(528,650)
Subordinated liabilities	(13,001)	(11,022)	(36,905)	(42,916)
Others	(2,746)	(2,782)	(8,104)	(8,344)
	(195,444)	(202,192)	(564,893)	(617,744)
Net interest income	401,508	363,278	1,197,518	1,073,984
	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	440,147	402,310	1,316,882	1,183,221
- Interest income recognised from impaired loans	10,492	9,665	38,709	28,431
Money at call and deposit placements with financial institutions	81,068	64,276	256,807	256,151
Financial investments at FVOCI	74,136	110,506	190,688	280,870
	605,843	586,757	1,803,086	1,748,673
Interest expense				
Deposits and placements of banks and other financial institutions	(11,162)	(12,494)	(29,212)	(37,834)
Deposits from customers	(168,535)	(175,894)	(490,672)	(528,650)
Subordinated liabilities	(13,001)	(11,022)	(36,905)	(42,916)
Others	(2,746)	(2,782)	(8,104)	(8,344)
	(195,444)	(202,192)	(564,893)	(617,744)
Net interest income	410,399	384,565	1,238,193	1,130,929

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Net Fee and Commission Income

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
Fee and commission income				
Credit cards	36,903	36,736	107,555	112,591
Service charges and fees	31,137	32,938	96,729	95,501
Fees on credit facilities	14,713	14,080	44,194	43,394
Agency fee	24,865	27,226	82,454	75,655
Others	8,108	8,608	23,387	22,788
	115,726	119,588	354,319	349,929
Fee and commission expense				
Debit/credit cards	(15,899)	(23,474)	(42,475)	(42,821)
Interbank and clearing fees	(276)	(290)	(1,132)	(1,066)
Brokerage	(675)	(365)	(1,543)	(1,319)
Cash management	(85)	(481)	(1,234)	(2,100)
Others	(2,600)	(3,219)	(8,569)	(12,365)
	(19,535)	(27,829)	(54,953)	(59,671)
Net fee and commission income	96,191	91,759	299,366	290,258

	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
Fee and commission income				
Credit cards	36,903	36,736	107,555	112,591
Service charges and fees	31,137	32,938	96,729	95,501
Fees on credit facilities	14,713	14,080	44,194	43,394
Agency fee	24,865	27,226	82,454	75,655
Others	8,108	8,608	23,387	22,788
	115,726	119,588	354,319	349,929
Fee and commission expense				
Debit/credit cards	(15,899)	(23,474)	(42,475)	(42,821)
Interbank and clearing fees	(276)	(290)	(1,132)	(1,066)
Brokerage	(675)	(365)	(1,543)	(1,319)
Cash management	(85)	(481)	(1,234)	(2,100)
Others	(2,600)	(3,219)	(8,569)	(12,365)
	(19,535)	(27,829)	(54,953)	(59,671)
Net fee and commission income	96,191	91,759	299,366	290,258

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Net Trading Income

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
Realised gains on financial assets/liabilities at FVTPL and other financial instruments	4,371	11,044	2,492	30,826
Net interest income from financial assets at FVTPL	21,713	22,967	68,978	58,294
Net unrealised gains/(losses) on revaluation of financial assets at FVTPL	4,329	3,147	(2,889)	16,572
Net realised (losses)/gains arising from dealing in foreign currency	(51,804)	315,318	(22,591)	718,361
Net unrealised gains/(losses) from dealing in foreign currency	109,527	(167,589)	219,336	(242,891)
Net realised (losses)/gains arising from dealing in derivatives	(9,907)	(33,206)	(87,583)	164,165
Net unrealised gains/(losses) on revaluation of derivatives	19,031	47,333	132,974	(151,645)
Gains/(losses) arising from fair value hedges	1,035	(52)	(632)	(29)
	98,295	198,962	310,085	593,653

	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
Realised gains on financial assets/liabilities at FVTPL and other financial instruments	2,705	8,988	138	28,770
Net interest income from financial assets at FVTPL	21,713	22,967	68,978	58,294
Net unrealised gains/(losses) on revaluation of financial assets at FVTPL	6,098	2,083	(896)	15,508
Net realised (losses)/gains arising from dealing in foreign currency	(52,796)	314,959	(25,008)	720,878
Net unrealised gains/(losses) from dealing in foreign currency	158,671	(213,225)	354,733	(390,841)
Net (losses)/gains realised gains arising from dealing in derivatives	(10,829)	(37,318)	(86,284)	165,371
Net unrealised gains/(losses) on revaluation of derivatives	19,956	49,293	119,822	(156,353)
Gains/(losses) arising from fair value hedges	1,035	(52)	(632)	(29)
	146,553	147,695	430,851	441,598

33 Income from Islamic Banking operations

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositor funds and others ⁽¹⁾	257,275	133,254	730,713	372,115
Income derived from investment of shareholders funds ⁽¹⁾	35,022	40,124	106,714	106,664
Income attributable to the depositors	(106,136)	(68,141)	(284,198)	(193,366)
Income from Islamic Banking operations	186,161	105,237	553,229	285,413

⁽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 September:

Income derived from investment of depositors' funds and others	(7,309)	-
Income derived from investment of shareholder's funds	(941)	(591)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Other Operating Income

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
Disposal of financial investments at FVOCI	3,457	1,275	11,792	2,023
Dividend income from financial investments at FVOCI				
- Unquoted in Malaysia	123	-	1,053	1,143
Rental income	2,345	2,067	6,300	5,788
Net gains on disposal of property and equipment	90	77	90	73
Other operating income	3,869	3,963	12,489	15,223
	9,884	7,382	31,724	24,250

	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
Disposal of financial investments at FVOCI	3,457	1,275	11,792	2,023
Dividend income from financial investments at FVOCI				
- Unquoted in Malaysia	123	-	1,053	1,143
Dividend income from subsidiary	-	-	10,000	-
Rental income	2,345	2,067	6,300	5,788
Net gains on disposal of property and equipment	90	77	90	73
Income recharges from subsidiary	32,673	30,141	96,757	92,137
Other operating income	3,869	3,963	12,489	15,223
	42,557	37,523	138,481	116,387

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Loans/financing Impairment Charges and Other Credit Risk Provisions

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance/provisions (net of releases)	50,294	98,248	179,497	272,390
Recoveries of specific provisions	(24,993)	(23,451)	(83,696)	(66,714)
Written off	128	5,665	275	14,969
Total charge to the income statement	25,429	80,462	96,076	220,645

	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance/provisions (net of releases)	26,364	36,456	92,574	124,314
Recoveries of specific provisions	(15,450)	(14,918)	(53,313)	(41,725)
Written off	120	4,351	237	9,445
Total charge to the income statement	11,034	25,889	39,498	92,034

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

(i) Loan, advances and financing

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	51,034	98,248	179,289	272,390
Recoveries of specific provisions	(24,993)	(23,451)	(83,696)	(66,714)
Written off	128	5,665	275	14,969
Total charge to the income statement	26,169	80,462	95,868	220,645

	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	27,028	36,456	91,660	124,314
Recoveries of specific provisions	(15,450)	(14,918)	(53,313)	(41,725)
Written off	120	4,351	237	9,445
Total charge to the income statement	11,698	25,889	38,584	92,034

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

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	(9)	-	(28)	-
Total charge to the income statement	(9)	-	(28)	-

	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	(8)	-	(27)	-
Total charge to the income statement	(8)	-	(27)	-

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>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	175	-	262	-
Total charge to the income statement	175	-	262	-

	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	131	-	231	-
Total charge to the income statement	131	-	231	-

(iv) Loan Commitments and Contingencies

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
New and increased provisions (net of releases)	(906)	-	(26)	-
Total charge to the income statement	(906)	-	(26)	-

	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018	30 Sep 2017	30 Sep 2018	30 Sep 2017
	RM'000	RM'000	RM'000	RM'000
New and increased provisions (net of releases)	(787)	-	710	-
Total charge to the income statement	(787)	-	710	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Other Operating Expenses

	<i>Group</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018 RM'000	30 Sep 2017 RM'000	30 Sep 2018 RM'000	30 Sep 2017 RM'000
Personnel expenses	192,056	181,204	569,377	551,418
Promotion and marketing related expenses	15,080	11,435	46,826	47,192
Establishment related expenses	37,310	34,443	106,372	104,958
General administrative expenses	35,147	52,935	113,918	137,704
Intercompany charges	93,918	101,564	292,264	287,168
	373,511	381,581	1,128,757	1,128,440
Personnel expenses				
Salaries, allowances and bonuses	149,279	142,687	441,589	419,896
Employees Provident Fund contributions	25,386	24,057	74,113	69,872
Share based payment	2,998	3,044	9,498	8,959
Others	14,393	11,416	44,177	52,691
	192,056	181,204	569,377	551,418
Promotion and marketing related expenses	15,080	11,435	46,826	47,192
Establishment related expenses				
Depreciation of property and equipment	5,380	5,453	16,124	17,120
Amortisation of intangible assets	5,116	5,554	15,583	16,357
Intangible asset written off	-	587	-	587
Information technology costs	6,596	5,605	15,257	13,780
Hire of equipment	2,288	1,859	6,722	6,033
Rental of premises	9,331	9,191	28,065	27,150
Property and equipment written off	1	42	20	63
Others	8,650	6,152	24,601	23,868
	37,310	34,443	106,372	104,958
General administrative expenses	35,147	52,935	113,918	137,704
Intercompany charges	93,918	101,564	292,264	287,168
Of which by:				
Type of service				
- Information technology related cost	40,915	48,555	113,498	118,222
- Non information technology related cost	53,003	53,009	178,766	168,946
Geographical distribution				
- Inside Malaysia	11,707	15,375	45,190	44,046
- Outside Malaysia	82,211	86,189	247,074	243,122

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Other Operating Expenses (Cont'd)

	<i>Bank</i>			
	Third Quarter		Nine Months Ended	
	30 Sep 2018 RM'000	30 Sep 2017 RM'000	30 Sep 2018 RM'000	30 Sep 2017 RM'000
Personnel expenses	179,872	169,114	533,344	515,814
Promotion and marketing related expenses	11,023	8,823	35,730	39,085
Establishment related expenses	32,675	30,180	93,460	90,570
General administrative expenses	28,467	43,829	89,702	111,052
Intercompany charges	92,683	100,554	288,657	285,305
	344,720	352,500	1,040,893	1,041,826
Personnel expenses				
Salaries, allowances and bonuses	139,470	132,648	412,952	391,994
Employees Provident Fund contributions	23,644	22,324	69,018	65,042
Share based payment	2,967	3,017	9,402	8,885
Others	13,791	11,125	41,972	49,893
	179,872	169,114	533,344	515,814
Promotion and marketing related expenses	11,023	8,823	35,730	39,085
Establishment related expenses				
Depreciation of property and equipment	4,820	4,482	14,338	13,901
Amortisation of intangible assets	5,116	5,554	15,583	16,357
Intangible asset written off	-	587	-	587
Information technology costs	5,607	4,994	12,904	11,760
Hire of equipment	2,288	1,859	6,722	6,033
Rental of premises	7,290	7,354	21,939	21,413
Property and equipment written off	1	42	20	63
Others	7,605	5,308	21,954	20,456
	32,675	30,180	93,460	90,570
General administrative expenses	28,467	43,829	89,702	111,052
Intercompany charges	92,683	100,554	288,657	285,305
Of which by:				
Type of service				
- Information technology related cost	40,915	48,510	113,498	118,175
- Non information technology related cost	51,768	52,044	175,159	167,130
Geographical distribution	-			
- Inside Malaysia	10,594	14,504	41,913	42,178
- Outside Malaysia	82,089	86,050	246,744	243,127

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Capital Adequacy

	<i>Group</i>	
	30 Sep 2018 RM'000	31 Dec 2017 RM'000
Tier 1 capital		
Paid-up ordinary share capital	1,045,875	1,045,875
Retained profits	7,889,859	7,562,878
Other reserves	927,460	802,284
Regulatory adjustments	(1,079,666)	(893,678)
Total Common Equity Tier 1 (CET 1) and Tier 1 capital	8,783,528	8,517,359
Tier 2 capital		
Subordinated liabilities	400,000	500,000
Subordinated term loan	595,915	583,598
Collective impairment allowance (unimpaired portion) & regulatory reserves	626,748	611,812
Regulatory adjustments	111,492	112,575
Total Tier 2 capital	1,734,155	1,807,985
Capital base	10,517,683	10,325,344
<u>Inclusive of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	15.350%	15.188%
Total Capital ratio	18.380%	18.412%
<u>Net of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	14.916%	14.831%
Total Capital ratio	17.947%	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 Sep 2018 RM'000	31 Dec 2017 RM'000
Total RWA for credit risk	50,139,831 ^[1]	48,944,965 ^[1]
Total RWA for market risk	1,405,205	1,347,442
Total RWA for operational risk	5,677,580	5,787,374
	57,222,616	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 Sep 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)

37 Capital Adequacy (Cont'd)

	<i>Bank</i>	
	30 Sep 2018 RM'000	31 Dec 2017 RM'000
Tier 1 capital		
Paid-up ordinary share capital	1,045,875	1,045,875
Retained profits	6,870,852	6,641,367
Other reserves	879,339	767,339
Regulatory adjustments	<u>(1,681,979)</u>	<u>(1,374,672)</u>
Total Common Equity Tier 1 (CET1) and Tier 1 capital	<u>7,114,087</u>	<u>7,079,909</u>
Tier 2 capital		
Subordinated liabilities	400,000	500,000
Subordinated term loan	595,915	583,598
Collective impairment allowance (unimpaired portion) & regulatory reserves	475,857	443,739
Regulatory adjustments	<u>(484,423)</u>	<u>(603,027)</u>
Total Tier 2 capital	<u>987,349</u>	<u>924,310</u>
Capital base	<u>8,101,436</u>	<u>8,004,219</u>
<u>Inclusive of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	16.000%	15.957%
Total Capital ratio	18.220%	18.040%
<u>Net of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	15.442%	15.506%
Total Capital ratio	17.662%	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 Sep 2018 RM'000	31 Dec 2017 RM'000
Total RWA for credit risk	38,068,598 ^[1]	37,826,954 ^[1]
Total RWA for market risk	1,336,750	1,337,992
Total RWA for operational risk	5,058,915	5,203,610
	<u>44,464,263</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 Sep 2018 RM'000	31 Dec 2017 RM'000
Under SIAF/IAA arrangement	<u>2,126,237</u>	<u>3,137,175</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Commitments and Contingencies

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

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

	<i>Group</i>		<i>Bank</i>	
	30 Sep 2018	31 Dec 2017	30 Sep 2018	31 Dec 2017
Principal amount	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	2,650,650	2,573,868	2,079,872	2,079,481
Transaction-related contingent items	9,580,380	9,489,136	8,578,726	8,492,366
Short-term self-liquidating trade-related contingencies	281,945	318,326	237,963	268,681
Formal standby facilities and credit lines				
- Maturity not exceeding one year	6,785,958	7,101,221	5,498,967	5,361,972
- Maturity exceeding one year	12,679,676	11,947,738	10,494,338	9,817,124
Other unconditionally cancellable	13,549,647	13,519,711	11,908,506	11,286,520
Unutilised credit card lines	12,608,250	11,587,852	9,199,560	8,563,420
Foreign exchange related contracts:				
- Less than one year	74,366,881	71,276,730	75,395,432	71,325,986
- Over one year to less than five years	8,388,251	7,500,859	8,367,569	7,488,345
- Over five years	1,243,559	1,605,588	1,243,559	1,605,588
Interest/profit rate related contracts:				
- Less than one year	9,321,659	14,999,855	9,401,659	15,109,855
- Over one year to less than five years	28,208,703	28,024,913	29,741,067	29,540,800
- Over five years	1,910,447	1,534,977	2,410,447	1,534,977
Gold and other precious metals contracts:				
- Less than one year	10,396	6,618	10,396	6,618
Equity related contracts:				
- Less than one year	435,966	268,827	499,773	271,772
- Over one year to less than five years	1,080,240	834,925	1,392,365	920,319
	183,102,608	182,591,144	176,460,199	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)

39 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

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

Group At 30 Sep 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	70,193,132	538,414	-	70,731,546	574,132	3,061	-	577,193	474,970	14,454	-	489,424
- Swaps	3,788,427	7,720,949	1,243,559	12,752,935	159,553	372,304	151,120	682,977	161,100	273,963	34,880	469,943
- Options	385,322	128,888	-	514,210	5,547	632	-	6,179	340	-	-	340
Interest/profit rate related contracts												
- Options	340,202	915,141	-	1,255,343	2	4,300	-	4,302	4,360	855	-	5,215
- Swaps	8,831,457	25,523,562	1,910,447	36,265,466	11,694	121,096	11,591	144,381	9,111	107,234	28,633	144,978
Equity related contracts												
- Options	435,966	1,080,240	-	1,516,206	1,604	20,931	3,223	25,758	7,651	23,278	-	30,929
Precious metal contracts												
- Options	10,396	-	-	10,396	2	-	-	2	25	-	-	25
Sub- total	83,984,902	35,907,194	3,154,006	123,046,102	752,534	522,324	165,934	1,440,792	657,557	419,784	63,513	1,140,854
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	150,000	1,770,000	-	1,920,000	-	722	-	722	208	6,119	-	6,327
Sub- total	150,000	1,770,000	-	1,920,000	-	722	-	722	208	6,119	-	6,327
Total	84,134,902	37,677,194	3,154,006	124,966,102	752,534	523,046	165,934	1,441,514	657,765	425,903	63,513	1,147,181

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39 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)

39 Derivative Financial Instruments (Cont'd)

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

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

Bank At 30 Sep 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	71,201,001	538,414	-	71,739,415	576,029	3,061	-	579,090	475,694	14,454	-	490,148
- Swaps	3,788,427	7,720,949	1,243,559	12,752,935	159,304	371,438	151,120	681,862	161,100	273,963	34,880	469,943
- Options	406,004	108,206	-	514,210	5,547	632	-	6,179	340	-	-	340
Interest rate related contracts												
- Options	340,202	1,197,505	-	1,537,707	2	5,323	-	5,325	4,360	3,334	-	7,694
- Swaps	8,991,457	26,773,562	2,410,447	38,175,466	11,747	121,097	11,628	144,472	9,058	108,918	28,806	146,782
Equity related contracts												
- Options	499,773	1,392,365	-	1,892,138	1,604	21,143	3,223	25,970	9,221	34,559	-	43,780
Precious metal contracts												
- Options	10,396	-	-	10,396	2	-	-	2	25	-	-	25
Sub- total	85,237,260	37,731,001	3,654,006	126,622,267	754,235	522,694	165,971	1,442,900	659,798	435,228	63,686	1,158,712
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	70,000	1,770,000	-	1,840,000	-	722	-	722	208	6,119	-	6,327
Sub- total	70,000	1,770,000	-	1,840,000	-	722	-	722	208	6,119	-	6,327
Total	85,307,260	39,501,001	3,654,006	128,462,267	754,235	523,416	165,971	1,443,622	660,006	441,347	63,686	1,165,039

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

39 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 Sep 2018 RM'000	30 Sep 2017 RM'000	30 Sep 2018 RM'000	30 Sep 2017 RM'000
Gains/(Losses) on hedging instruments	524	(6,955)	524	(6,955)
(Losses)/Gain on the hedged items attributable to the hedged risk	(1,156)	6,926	(1,156)	6,926
Net losses from fair value hedges	(632)	(29)	(632)	(29)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

40 Business Prospects

Malaysia's real Gross Domestic Product (GDP) growth rate slowed to 4.5% in 2Q 2018 compared to 5.4% in 1Q 2018. However, the positive trend is forecasted to follow through for the remaining of 2018 with annual GDP growth anticipated to be in the range of 5.0%. The GDP growth continues to be anchored by domestic demand that is underpinned by private sector activities.

In the international arena, the global financial market volatility remained elevated during the year, as the tension of trade tariff spat between the US and China persisted throughout the period. Further escalation of the disagreement is likely to weight on trade and business sentiment in export related industries. Besides, capital outflows for emerging markets were also affected by higher interest rates in the United States of America, and a stronger US Dollar .

The Ringgit depreciation against the USD dollar was in line with regional currencies, partly due to the heightened trade tensions. Going forward, the Ringgit will continue to be influenced by external uncertainties, in particular the pace of monetary policy normalisation in the US and global trade tensions.

Headline inflation was 1.3% in 2Q 2018 (1Q 2018: 1.8%). Lower inflation during the quarter mainly reflected the zerorisation of the goods and services tax (GST) rate from 1 June 2018 to 31 August 2018, coupled with stronger consumer sentiments. GST has subsequently abolished. Sales and service tax (SST) is reintroduced effective 1 September 2018. Overall headline inflation is expected to moderate in 2018 due to the changes in the consumption tax policy.

Malaysia's financial system is expected to remain resilient with financial institutions maintaining sufficient capital buffers above regulatory minimum. Both S & P Global Ratings and Moody Investors Service have recently maintained its stable outlook for Malaysia and the banking system this year in view of the continuous robust operating conditions in the country.

The domestic financial markets, including the foreign exchange market, bond market and equity market, were driven mainly by external developments, with movements in line with regional markets. Despite non-resident portfolio outflows during Q2 2018, liquidity conditions remained sufficient to facilitate financial intermediation, with sustained net financing growth. The positive domestic demand outlook, sound financial sector and improving current account surplus of the balance of payments will continue to support Malaysia's fundamentals.

Malaysia is identified as 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.

On the sustainable front, HSBC Malaysia continues to take active interest in generating positive and sustainable impact to the economy, community and environment which it operates its business geographically. HSBC Amanah Malaysia Berhad, the subsidiary of the Bank, in embracing Bank Negara Malaysia's value-based intermediation (VBI) concept, took lead to issue to the world's first United Nations Sustainable Development Goals (SDG) sukuk, wherein the proceeds will be utilised to finance eligible businesses and projects in accordance with the internal HSBC SDG Bond Framework.

41 Performance Review

The Group recorded a profit before tax of RM1,109.3 million for the financial period ended 30 September 2018, an increase of RM190.8 million compared to the corresponding period in 2017. The increase was mainly contributed by higher net interest income (RM123.5m) and income from Islamic banking operations (RM267.8m), partially offset by lower net trading income (RM283.6m).

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 RM124.6m 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 September 2018, The Group have improved its cost income ratio from 49.8% (September 2017) to 48.4% in current 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 September 2018 have increased by 3.6% or RM2.9 billion to RM83.6 billion (31 December 2017: RM80.7 billion). The Group's capital and liquidity ratios continues to remain strong and well above regulatory requirements.