

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
30 JUNE 2017

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

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

UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2017

	<i>Note</i>	30 Jun 2017 RM'000	31 Dec 2016 RM'000
Assets			
Cash and short-term funds	<i>11</i>	1,690,211	2,359,591
Financial assets held-for-trading	<i>12</i>	503	488
Financial investments available-for-sale	<i>13</i>	1,762,423	1,368,574
Financing and advances	<i>14</i>	13,221,388	11,743,263
Derivative financial assets	<i>16</i>	290,357	395,748
Other assets	<i>17</i>	37,589	80,041
Statutory deposits with Bank Negara Malaysia	<i>18</i>	327,961	325,462
Equipment		6,561	7,237
Deferred tax assets		6,927	10,395
Tax recoverable		12,432	10,285
Total assets		17,356,352	16,301,084
Liabilities			
Deposits from customers	<i>19</i>	8,997,062	8,726,543
Deposits and placements from banks and other financial institutions	<i>20</i>	3,279,192	1,951,602
Bills and acceptances payable		17,737	23,632
Derivative financial liabilities	<i>16</i>	294,628	490,755
Other liabilities	<i>21</i>	824,347	1,185,135
Multi-Currency Sukuk Programme	<i>22</i>	1,751,836	1,756,001
Subordinated Commodity Murabahah Financing	<i>23</i>	618,821	646,265
Total liabilities		15,783,623	14,779,933
Equity			
Share capital		660,000	50,000
Reserves		912,729	1,471,151
Total equity attributable to owner of the Bank		1,572,729	1,521,151
Total liabilities and equity		17,356,352	16,301,084
Restricted investment accounts ^[1]		3,269,187	2,230,065
Total Islamic Banking asset ^[1]		20,625,539	18,531,149
Commitments and contingencies	<i>31</i>	21,330,980	22,149,853

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

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2016 and the accompanying explanatory notes on pages 6 to 36 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 19 July 2017.

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

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

	Note	Second Quarter		Six Months Ended	
		30 Jun 2017 RM'000	30 Jun 2016 RM'000	30 Jun 2017 RM'000	30 Jun 2016 RM'000
Income derived from investment of depositors' funds and others	24	174,183	173,727	339,649	352,177
Income derived from investment of shareholder's funds	25	33,390	30,001	67,970	74,126
Impairment losses on financing	26	(34,898)	(26,412)	(74,038)	(74,300)
Total distributable income		172,675	177,316	333,581	352,003
Income attributable to depositors	27	(83,161)	(89,184)	(160,883)	(185,784)
Total net income		89,514	88,132	172,698	166,219
Operating expenses	28	(60,659)	(61,884)	(120,959)	(124,793)
Profit before tax		28,855	26,248	51,739	41,426
Tax expense		(4,477)	(6,252)	(9,735)	(8,342)
Profit for the financial period		24,378	19,996	42,004	33,084
Other comprehensive income/(expense)					
<i>Items that will subsequently be reclassified to profit or loss when specific conditions are met:</i>					
Own credit reserves:					
Change in fair value		6,516	-	6,762	-
Income tax effect		(1,564)	-	(1,623)	-
Available-for-sale reserve:					
Change in fair value		4,150	1,858	5,845	5,789
Net amount transferred to profit or loss		-	-	-	(3,055)
Income tax effect		(996)	(446)	(1,403)	(656)
Other comprehensive income for the financial period, net of tax		8,106	1,412	9,581	2,078
Total comprehensive income for the financial period		32,484	21,408	51,585	35,162
Profit attributable to the owner of the Bank		24,378	19,996	42,004	33,084
Total comprehensive income attributable to the owner of the Bank		32,484	21,408	51,585	35,162
Basic earnings per RM0.50 ordinary share		24.4 sen	20.0 sen	42.0 sen	33.1 sen

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2016 and the accompanying explanatory notes on pages 6 to 36 attached to the unaudited condensed interim financial statements.

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

	<i>Non-distributable</i>						<i>Distributable</i>		<i>Total</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve^[1]</i>	<i>Available-for-sale reserve</i>	<i>Own Credit Reserve^[2]</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profits</i>	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017									
Balance at 1 January	50,000	610,000	50,000	(6,547)	-	403	34,000	783,295	1,521,151
Effects of adopting MFRS 9 on 1 January 2017 ^[2]	-	-	-	-	(1,846)	-	-	1,846	-
As restated	50,000	610,000	50,000	(6,547)	(1,846)	403	34,000	785,141	1,521,151
Total comprehensive income for the financial period									
Profit for the financial period	-	-	-	-	-	-	-	42,004	42,004
Other comprehensive income, net of tax									
Available-for-sale reserve:									
Net change in fair value	-	-	-	4,442	5,139	-	-	-	9,581
<i>Total other comprehensive income</i>	-	-	-	4,442	5,139	-	-	-	9,581
Total comprehensive income for the financial period	-	-	-	4,442	5,139	-	-	42,004	51,585
Transfer in accordance to Section 618(2) of the Companies Act 2016	610,000	(610,000)	-	-	-	-	-	-	-
Transfer in accordance with BNM's requirement ^[1]	-	-	(50,000)	-	-	-	-	50,000	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	(7)	-	-	(7)
Balance at 30 June	660,000	-	-	(2,105)	3,293	396	34,000	877,145	1,572,729

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

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

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2016 and the accompanying explanatory notes on pages 6 to 36 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 19 July 2017.

HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2017 (Cont'd)

	<i>Non-distributable</i>					<i>Distributable</i>		<i>Total</i>
	<i>Share capital</i>	<i>Share premium</i>	<i>Statutory reserve</i>	<i>Available-for-sale reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profits</i>	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2016								
Balance at 1 January	50,000	610,000	50,000	4,946	1,058	34,000	701,902	1,451,906
Total comprehensive income for the financial period								
Profit for the financial period	-	-	-	-	-	-	33,084	33,084
Other comprehensive income, net of tax								
Available-for-sale reserve:								
Net change in fair value	-	-	-	4,400	-	-	-	4,400
Net amount transferred to profit or loss	-	-	-	(2,322)	-	-	-	(2,322)
<i>Total other comprehensive income</i>	-	-	-	2,078	-	-	-	2,078
Total comprehensive income for the financial period	-	-	-	2,078	-	-	33,084	35,162
Transactions with the owner, recorded directly in equity								
Share based payment transactions	-	-	-	-	(625)	-	-	(625)
Balance at 30 June	50,000	610,000	50,000	7,024	433	34,000	734,986	1,486,443

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2016 and the accompanying explanatory notes on pages 6 to 36 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 19 July 2017.

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

	30 Jun 2017	30 Jun 2016
	RM'000	RM'000
Profit before tax	51,739	41,426
Adjustments for non-operating and non-cash items	62,670	72,148
	<hr/>	<hr/>
Operating profit before working capital changes	114,409	113,574
Changes in working capital:		
Net changes in operating assets	(1,417,942)	594,507
Net changes in operating liabilities	1,078,318	(3,156,364)
Income tax paid	(11,440)	(13,458)
	<hr/>	<hr/>
Net cash used in operating activities	(236,655)	(2,461,741)
Net cash (used in)/generated from investing activities	(389,652)	383,582
Net cash used in financing activities	(43,073)	(43,537)
	<hr/>	<hr/>
	(432,725)	340,045
Net changes in cash and cash equivalents	(669,380)	(2,121,696)
Cash and cash equivalents at 1 January	2,359,591	4,750,390
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	1,690,211	2,628,694
	<hr/>	<hr/>
Analysis of cash and cash equivalents		
Cash and short-term funds	1,690,211	2,628,694
	<hr/>	<hr/>

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2016 and the accompanying explanatory notes on pages 6 to 36 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 19 July 2017.

HSBC AMANAH MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS

1 General Information

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

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

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

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

The financial statements were approved and authorised for issue by the Board of Directors on 19 July 2017.

2 Basis of Preparation

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

The unaudited condensed interim financial statements for the financial period ended 30 June 2017 have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (MFRS) 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (MASB) and Bank Negara Malaysia (BNM) requirements on Shariah related disclosures.

The unaudited condensed interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2016. The explanatory notes attached in the unaudited condensed interim financial statements provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Bank since the financial year ended 31 December 2016.

All significant accounting policies and methods of computation applied in the unaudited condensed interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the year ended 31 December 2016.

(i) Standards and amendments to published standards that are effective and applicable to the Bank

The new accounting standards and amendments to published accounts that are effective and applicable to the Bank for the financial year beginning on 1 January 2017 are as follows:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.
- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

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

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

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

- Amendments to MFRS 140 'Classification on 'Change in Use' – Assets transferred to, or from, Investment Properties' clarify that to transfer to, or from investment properties there must be a change in use. A change in use would involve an assessment of whether a property meet, or has ceased to meet, the definition of investment property. The change must be supported by evidence that the change in use has occurred and a change in management's intention in isolation is not sufficient to support a transfer of property.

The amendments also clarify the same principle applies to assets under construction.

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

- MFRS 9 'Financial Instruments' will replace MFRS 139 'Financial Instruments: Recognition and Measurement'.

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

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch. With effect from 1 January 2017, the Bank has early applied this requirements for the presentation of gains and losses on financial liabilities designated at fair value through profit or loss without applying the other requirements of MFRS 9. The early adoption is applied prospectively from 2017 and onwards.

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

- 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

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

a. Financial year beginning on/after 1 January 2018 (Cont'd)

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

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

Key provisions of the new standard are as follows:

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

b. Financial year beginning on/after 1 January 2019

- MFRS 16 'Leases'

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

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

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

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

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

The initial application of the above accounting standards, amendments and interpretation are not expected to have any material financial impacts to the current and prior year's financial statement of the Bank upon its first adoption, except for MFRS 9.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Functional and Presentation of Currency

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

4 Auditors' Report On Preceding Annual Financial Statements

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

5 Seasonality or Cyclical Factors

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

6 Unusual Items Due to Their Nature, Size or Incidence

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

7 Changes in Estimates

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

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

8 Debt and Equity Securities

There were no other issuances, cancellations, repurchases, resale or repayment of other debt or equity securities during the financial period ended 30 June 2017.

9 Dividend

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

10 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)

11 Cash and Short-Term Funds

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Cash and balances with banks and other financial institutions	170,211	189,591
Money at call and interbank placements maturing within one month	1,520,000	2,170,000
	1,690,211	2,359,591

12 Financial Assets Held-for-Trading

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	503	488
	503	488

13 Financial Investments Available-for-Sale

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
At fair value		
Money market instruments:		
Malaysian Government Islamic bonds	1,618,788	1,368,574
Negotiable instruments of deposit	119,098	-
Islamic Treasury Bill	24,537	-
	1,762,423	1,368,574

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

Maturing within one year	619,414	180,224
More than one year to three years	1,082,429	732,449
More than three years to five years	40,299	435,846
Over five years	20,281	20,055
	1,762,423	1,368,574

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances

(i) By type and Shariah contracts

At amortised cost	Sale-based contracts			Lease-based contracts		Equity-based contracts	Ujrah	Total
	Commodity Murabahah	Bai Bithaman Ajil	Bai Al-Inah	Ijarah	Ijarah Thumma Al-Bai	Diminishing Musharakah		
30 Jun 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	86,876	-	-	-	-	-	-	86,876
Term financing:								
House financing	-	179	-	-	-	4,388,079	-	4,388,258
Hire purchase receivables	-	-	-	-	189,935	-	-	189,935
Lease receivables	-	-	-	2,014	-	-	-	2,014
Syndicated term financing	1,583,374	-	-	-	-	-	-	1,583,374
Other term financing	2,935,627	4,875	69	-	-	984,381	-	3,924,952
Trust receipts	985,632	-	-	-	-	-	-	985,632
Claims on customers under acceptance credits	414,606	-	-	-	-	-	-	414,606
Bills receivables	119,835	-	-	-	-	-	-	119,835
Staff financing-i	2,824	-	247	-	-	2,800	-	5,871
Credit cards-i	-	-	-	-	-	-	823,159	823,159
Revolving credit	990,443	-	-	-	-	-	-	990,443
Other financing	-	-	-	-	-	1,268	-	1,268
Gross financing and advances	7,119,217	5,054	316	2,014	189,935	5,376,528	823,159	13,516,223
Less: Allowance for impaired financing								
Collective allowances for impairment								(206,447)
Individual allowances for impairment								(88,388)
Total net financing and advances								13,221,388

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances (Cont'd)

(i) By type and Shariah contracts (Cont'd)

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances (Cont'd)

(ii) By type of customer

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Domestic non-bank financial institutions	626,750	638,263
Domestic business enterprises:		
Small medium enterprises	2,050,796	1,821,064
Others	3,570,380	2,397,737
Government and statutory bodies	8,770	10,316
Individuals	5,987,744	5,901,851
Other domestic entities	1,412	1,466
Foreign entities	1,270,371	1,235,338
	<u>13,516,223</u>	<u>12,006,035</u>

(iii) By profit rate sensitivity

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Fixed rate:		
House financing	179	398
Hire purchase receivables	189,935	208,921
Other financing	3,274,570	2,784,299
Variable rate:		
BR/BFR plus	5,449,334	5,471,227
Cost-plus	4,602,205	3,541,190
	<u>13,516,223</u>	<u>12,006,035</u>

(iv) By residual contractual maturity

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Maturing within one year	5,540,401	4,356,186
More than one year to three years	959,092	654,513
More than three years to five years	1,049,881	1,111,456
Over five years	5,966,849	5,883,880
	<u>13,516,223</u>	<u>12,006,035</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances (Cont'd)

(v) By sector

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Agriculture, hunting, forestry & fishing	105,475	136,372
Mining and quarrying	245,122	218,194
Manufacturing	1,706,040	1,187,941
Electricity, gas and water	34,841	32,907
Construction	359,404	354,645
Real estate	908,582	821,854
Wholesale & retail trade, restaurants & hotels	1,063,594	816,323
Transport, storage and communication	578,073	186,721
Finance, takaful and business services	979,803	929,714
Household - Retail	6,620,970	6,536,695
Others	914,319	784,669
	<u>13,516,223</u>	<u>12,006,035</u>

(vi) By purpose

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Purchase of landed property:		
Residential	4,391,058	4,359,849
Non-residential	814,539	853,008
Purchase of transport vehicles	1,900	1,847
Purchase of fixed assets excluding land & building	-	366
Consumption credit	1,961,003	1,893,592
Construction	386,905	343,443
Working capital	5,314,903	3,943,120
Other purpose	645,915	610,810
	<u>13,516,223</u>	<u>12,006,035</u>

(vii) By geographical distribution

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Northern Region	1,410,665	1,405,240
Southern Region	1,526,528	1,569,412
Central Region	10,117,936	8,565,903
Eastern Region	461,094	465,480
	<u>13,516,223</u>	<u>12,006,035</u>

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

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

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

The Central region consists of the states of Selangor and the Federal Territory of Kuala Lumpur.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances (Cont'd)

(viii) Assets under Management

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

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Total net financing and advances	<u>2,685,614</u>	<u>1,733,132</u>
Irrevocable commitments to extend credit:		
<i>Maturity not exceeding one year</i>	369,351	496,933
<i>Maturity exceeding one year</i>	<u>214,222</u>	<u>-</u>
Total commitments and contingencies	<u>583,573</u>	<u>496,933</u>
Risk weighted assets (RWA)	<u>2,780,094</u>	<u>1,832,519</u>

The RPSIA is with the Bank's holding company, HSBC Bank Malaysia Berhad (HBMY), and the contract is based on the Mudharabah principle where HBMY provides the funds, whilst the assets are managed by the Bank. The profits of the underlying assets are shared based on pre-agreed ratios, whilst risks on the financing are borne by HBMY. Hence, the underlying assets and allowances for impairment arising thereon, if any, are recognised and accounted for by HBMY. Effective 31 March 2015, SIAF/IAA replaces RPSIA for new financing and advances.

The SIAF/IAA arrangement is based on the Wakalah principle where HBMY, solely or together with other financial institutions provide the funds, whilst the assets are managed by the Bank (as the Wakeel or agent). However, in the arrangement, the profits of the underlying assets are recognised by HBMY and the other financial institutions proportionately in relation to the funding provided in the syndication arrangement. At the same time, risks on the financing are also proportionately borne by HBMY and the other financial institutions. Hence, the underlying assets and allowances for impairment arising thereon, if any, are proportionately recognised and accounted for by HBMY and the other financial institutions.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Impaired Financing

(i) Movements in impaired financing and advances

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Balance at 1 January	303,526	235,279
Classified as impaired during the financial period/year	205,314	358,706
Reclassified as performing	(70,099)	(122,829)
Amount recovered	(33,769)	(49,831)
Amount written off	(69,378)	(117,799)
Balance at 30 June/31 December	<u>335,594</u>	<u>303,526</u>

(ii) Movements in allowance for impaired financing

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Collective allowance for impairment		
Balance at 1 January	200,015	140,264
Made during the financial period/year	95,649	211,487
Amount released	(27,083)	(58,264)
Amount written off	(62,134)	(93,472)
Balance at 30 June/31 December	<u>206,447</u>	<u>200,015</u>

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Individual allowance for impairment		
Balance at 1 January	62,757	68,647
Made during the financial period/year	33,556	30,041
Amount released	(15,838)	(18,115)
Amount reinstated/(written off)	7,913	(17,816)
Balance at 30 June/31 December	<u>88,388</u>	<u>62,757</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Impaired Financing (Cont'd)

(iii) By contract

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Bai Bithaman Ajil (<i>deferred payment sale</i>)	2	5
Ijarah Thumma Al-Bai (AITAB) (<i>hire purchase</i>)	4,927	5,730
Murabahah (<i>cost-plus</i>)	143,383	127,743
Musharakah (<i>profit and loss sharing</i>)	168,322	152,729
Bai Al-Inah (<i>sell and buy back</i>)	38	217
Ujrah (<i>fee-based</i>)	18,922	17,102
	335,594	303,526

(iv) By sector

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Manufacturing	3,319	4,038
Construction	-	204
Wholesale & retail trade, restaurants & hotels	9,399	12,309
Transport, storage and communication	3,684	3,665
Finance, takaful and business services	30,250	23,346
Household - Retail	285,945	259,346
Others	2,997	618
	335,594	303,526

(v) By purpose

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Purchase of landed property:		
Residential	153,369	135,067
Non-residential	9,752	10,887
Purchase of transport vehicles	135	146
Purchase of fixed assets excluding land & building	-	358
Consumption credit	127,920	121,217
Construction	-	204
Working capital	44,418	35,647
	335,594	303,526

(vi) By geographical distribution

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Northern Region	51,628	47,713
Southern Region	31,895	30,606
Central Region	235,760	212,643
Eastern Region	16,311	12,564
	335,594	303,526

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

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

	Contract / Notional Amount			Positive Fair Value			Negative Fair Value		
	Up to 1 Year RM'000	>1 - 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	Total RM'000
30 Jun 2017									
Trading derivatives:									
Foreign exchange contracts									
- Forwards	3,354,713	-	3,354,713	53,095	-	53,095	53,157	-	53,157
- Swaps	-	2,086,598	2,086,598	-	212,346	212,346	-	211,017	211,017
- Options	9,718	334,636	344,354	931	3,513	4,444	931	3,513	4,444
Profit rate related contracts									
- Swaps	200,000	4,548,857	4,748,857	45	15,929	15,974	29	8,956	8,985
- Options	-	186,394	186,394	-	4,498	4,498	-	-	-
Equity related contracts									
- Options purchased	246,466	88,671	335,137	-	-	-	16,125	-	16,125
Sub- total	<u>3,810,897</u>	<u>7,245,156</u>	<u>11,056,053</u>	<u>54,071</u>	<u>236,286</u>	<u>290,357</u>	<u>70,242</u>	<u>223,486</u>	<u>293,728</u>
Hedging Derivatives:									
Fair Value Hedge									
Profit rate related contracts									
- Swaps	30,000	160,000	190,000	-	-	-	63	837	900
Sub- total	<u>30,000</u>	<u>160,000</u>	<u>190,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63</u>	<u>837</u>	<u>900</u>
Total	<u>3,840,897</u>	<u>7,405,156</u>	<u>11,246,053</u>	<u>54,071</u>	<u>236,286</u>	<u>290,357</u>	<u>70,305</u>	<u>224,323</u>	<u>294,628</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Derivative Financial Instruments (Cont'd)

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

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

	30 Jun 2017 RM'000	30 Jun 2016 RM'000
Gains/(Losses) on hedging instruments	72	(1,723)
Gains on the hedged items attributable to the hedged risk	361	1,744
Net gains from fair value hedges	433	21

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Other Assets

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Income receivable	11,736	12,972
Profit receivable	5,344	6,059
Prepayments	2,866	72
Amount due from holding company	503	45,132
Other receivables	17,140	15,806
	37,589	80,041

18 Statutory deposits with Bank Negara Malaysia

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Deposits From Customers

(i) By type of deposit

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
At amortised cost		
Non-Mudharabah Fund		
Demand deposits		
- Wadiah	2,270,720	1,902,318
Savings deposits		
- Wadiah	1,765,429	1,627,182
Fixed return investment deposits		
- Murabahah	4,778,877	5,007,808
- Qard	104,323	129,452
Islamic repurchase agreements		
- Bai Al-Inah	77,713	59,783
	<u>8,997,062</u>	<u>8,726,543</u>

The maturity structure of term deposits is as follows:

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Due within six months	4,088,541	4,376,774
More than six months to one year	756,110	735,158
More than one year to three years	26,164	19,710
More than three years to five years	12,385	5,618
	<u>4,883,200</u>	<u>5,137,260</u>

(ii) By type of customer

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Government and statutory bodies	4,432	6,429
Business enterprises	2,495,312	2,026,165
Individuals	4,567,113	4,583,883
Others	1,930,205	2,110,066
	<u>8,997,062</u>	<u>8,726,543</u>

20 Deposits and Placements from Banks and Other Financial Institutions

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Non-Mudharabah Fund		
Licensed banks	2,653,113	1,923,186
Bank Negara Malaysia	47,268	28,416
Other financial institutions	578,811	-
	<u>3,279,192</u>	<u>1,951,602</u>

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Other Liabilities

	Note	30 Jun 2017 RM'000	31 Dec 2016 RM'000
At amortised cost			
Amounts due to holding company		141,738	36,472
Profit payable			
- Structured products		1,990	4,182
- Others		57,403	61,262
Deferred income		10,890	11,286
Marginal deposit		9,995	22,761
Accrued expenses		24,830	26,235
Other creditors	(a)	64,842	53,528
		311,688	215,726
At fair value			
Structured products, at fair value			
- Wakalah with Commodity Wa'ad		512,659	969,409
		824,347	1,185,135

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

(a) Other creditors and accruals

Included in other creditors and accruals is excess compensation balance and profit earned from inadvertent Shariah non-compliant activities. The contribution was distributed to the Non-Governmental Organisations approved by the Shariah Committee during the financial period/year.

Source and use of charity funds

	30 Jun 2017 RM'000	31 Dec 2016 RM'000
Source of charity funds		
Balance at 1 January	4	70
Shariah non-compliant income for the financial period/year	5	114
Use of charity funds		
Contribution to non-profit organisations	-	(93)
Tax expense on Shariah non-compliant income	-	(87)
Balance at 30 June/31 December	9	4

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

22 Multi-Currency Sukuk Programme

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	1,751,836	1,756,001

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

	Nominal Value	Issue Date	Maturity Date	Carrying Value	
				30 Jun 2017	31 Dec 2016
<u>Issuance under MCSP</u>	RM'000			RM'000	RM'000
At amortised cost					
1st series at amortised cost	500,000	28 Sept 2012	28 Sept 2017	500,000	500,000
At fair value					
2nd series	500,000	16 Oct 2014	16 Oct 2019	501,151	502,835
3rd series	750,000	27 Mar 2015	27 Mar 2020	750,685	753,166
	<u>1,250,000</u>			<u>1,251,836</u>	<u>1,256,001</u>
	<u>1,750,000</u>			<u>1,751,836</u>	<u>1,756,001</u>

Movement in MCSP

	2nd series		3rd series	
	30 Jun 2017	31 Dec 2016	30 Jun 2017	31 Dec 2016
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	502,835	500,641	753,166	749,182
Change in fair value other than from own credit risk	858	4,282	1,739	7,565
Change in fair value from own credit risk	(2,542)	(2,088)	(4,220)	(3,581)
Balance at 30 June/31 December	<u>501,151</u>	<u>502,835</u>	<u>750,685</u>	<u>753,166</u>

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk	<u>(6,762)</u>	<u>(5,669)</u>

23 Subordinated Commodity Murabahah Financing

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	333,709	348,508
- Second tranche issued on 30 June 2015	285,112	297,757
	<u>618,821</u>	<u>646,265</u>

The unsecured Subordinated Commodity Murabahah financing comprise of two tranches of Basel III compliant Tier 2 subordinated financing of USD equivalent of RM250 million each from the Bank's immediate holding company, HSBC Bank Malaysia Berhad (HBMY). The tenor for both the Subordinated Commodity Murabahah financing is 10 years from the utilisation date with profit payable quarterly in arrears.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24 Income Derived from Investment of Depositors' Funds and Others

	Second Quarter		Six Months Ended	
	30 Jun 2017 RM'000	30 Jun 2016 RM'000	30 Jun 2017 RM'000	30 Jun 2016 RM'000
Income derived from investment of:				
(i) general investment deposits	109,938	114,544	212,509	229,843
(ii) specific investment deposits	12,160	7,746	20,590	15,479
(iii) others	52,085	51,437	106,550	106,855
	174,183	173,727	339,649	352,177
	Second Quarter		Six Months Ended	
	30 Jun 2017 RM'000	30 Jun 2016 RM'000	30 Jun 2017 RM'000	30 Jun 2016 RM'000
(i) Income derived from investment of general investment deposits				
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	90,329	90,505	174,372	177,785
- Recoveries from impaired financing	2,848	2,786	5,585	5,340
Financial investments available-for-sale	8,956	7,733	16,928	16,698
Money at call and deposit with financial institutions	5,449	13,790	11,342	32,438
	107,582	114,814	208,227	232,261
<u>Other operating income</u>				
Realised gains from dealing in foreign currency	3,356	12,812	9,134	14,560
Unrealised gains/(losses) from dealing in foreign currency	495	(8,304)	(673)	(7,651)
Gains from sale of financial assets held-for-trading and other financial instruments	-	280	-	885
Unrealised gains/(losses) from revaluation of financial assets held-for-trading	179	(129)	(147)	(68)
Net profit paid for financial assets held-for-trading and other financial instruments	(3,477)	(6,369)	(8,075)	(13,452)
Realised gains from trading in derivatives	1,061	1,132	1,227	1,437
Unrealised gains from trading in derivatives	733	305	2,557	1,858
Other gains	9	3	259	13
	2,356	(270)	4,282	(2,418)
	109,938	114,544	212,509	229,843

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	Second Quarter		Six Months Ended	
	30 Jun 2017 RM'000	30 Jun 2016 RM'000	30 Jun 2017 RM'000	30 Jun 2016 RM'000
(ii) Income derived from investment of specific investment deposits				
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	11,940	6,350	20,247	13,084
	11,940	6,350	20,247	13,084
<u>Other operating income</u>				
Fees and commission	137	228	293	524
Realised gains from dealing in foreign currency	83	1,320	50	1,955
Unrealised losses from dealing in foreign currency	-	(152)	-	(84)
	220	1,396	343	2,395
	12,160	7,746	20,590	15,479
The above fees and commissions were derived from the following major contributors:				
Guarantee fees	2	74	3	232
Service charges and fees	133	153	289	290
(iii) Income derived from investment of others				
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	42,802	40,703	87,429	82,653
- Recoveries from impaired financing	1,347	1,255	2,800	2,483
Financial investments available-for-sale	4,254	3,454	8,487	7,763
Money at call and deposit with financial institutions	2,558	6,117	5,687	15,080
	50,961	51,529	104,403	107,979
<u>Other operating income</u>				
Realised gains from dealing in foreign currency	1,512	5,929	4,580	6,769
Unrealised gains/(losses) from dealing in foreign currency	283	(3,871)	(337)	(3,557)
Gains from sale of financial assets held-for-trading and other financial instruments	-	120	-	411
Unrealised gains/(losses) from revaluation of financial assets held-for-trading	99	(60)	(74)	(31)
Net profit paid from financial assets held-for-trading and other financial instruments	(1,607)	(2,850)	(4,049)	(6,254)
Realised gains from trading in derivatives	527	522	615	668
Unrealised gains from trading in derivatives	313	117	1,282	864
Other (losses)/gains	(3)	1	130	6
	1,124	(92)	2,147	(1,124)
	52,085	51,437	106,550	106,855

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Income Derived from Investment of Shareholder's Funds

	Second Quarter		Six Months Ended	
	30 Jun 2017 RM'000	30 Jun 2016 RM'000	30 Jun 2017 RM'000	30 Jun 2016 RM'000
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	14,956	12,627	29,962	25,456
- Recoveries from impaired financing	471	390	960	765
Financial investments available-for-sale	1,486	1,073	2,909	2,391
Money at call and deposit with financial institutions	897	1,903	1,949	4,644
	17,810	15,993	35,780	33,256
<u>Other operating income</u>				
Fees and commission	14,509	12,280	30,215	26,588
Realised gains from dealing in foreign currency	537	1,828	1,569	2,085
Unrealised gains/(losses) from dealing in foreign currency	93	(1,192)	(116)	(1,096)
Gains from sale of financial assets held-for-trading and other financial instruments	-	38	-	127
Unrealised gains/(losses) from revaluation of financial assets held-for-trading	33	(19)	(25)	(10)
Net profit paid from financial assets held-for-trading and other financial instruments	(567)	(885)	(1,388)	(1,926)
Realised gains from trading in derivatives	181	161	211	206
Unrealised gains from trading in derivatives	113	38	439	266
Shared-service fees from holding company	694	763	1,430	1,576
Net gains on disposal of financial assets available-for-sale	-	-	-	3,055
Net (losses)/gains on financial instruments designated at fair value through profit or losses	(31)	966	(231)	9,940
Other income	18	30	86	59
	15,580	14,008	32,190	40,870
	33,390	30,001	67,970	74,126
The above fees and commissions were derived from the following major contributors:				
Service charges and fees	4,871	4,643	9,635	10,290
Cards	5,561	6,088	13,399	11,172
Agency fees	2,505	1,773	4,621	3,488

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

26 Impairment Losses on Financing

	Second Quarter		Six Months Ended	
	30 Jun 2017 RM'000	30 Jun 2016 RM'000	30 Jun 2017 RM'000	30 Jun 2016 RM'000
Impairment charges on financing:				
(a) Individual impairment				
- Made during the financial period	14,209	7,289	33,556	17,229
- Written back during the financial period	(6,503)	(5,062)	(15,838)	(13,765)
(b) Collective impairment				
- Made during the financial period	52,513	41,104	95,649	119,969
- Written back during the financial period	(19,928)	(9,255)	(27,083)	(35,346)
Impaired financing				
- Recovered during the period	(8,124)	(8,406)	(16,456)	(15,655)
- Written back during the financial period	2,731	742	4,210	1,868
	34,898	26,412	74,038	74,300

27 Income Attributable to Depositors

	Second Quarter		Six Months Ended	
	30 Jun 2017 RM'000	30 Jun 2016 RM'000	30 Jun 2017 RM'000	30 Jun 2016 RM'000
<u>Non-Mudharabah Fund</u>				
- Deposits from customers	44,242	52,757	88,858	106,614
- Deposits and placements of banks and other financial institutions	15,141	14,249	26,177	34,306
- Others	23,778	22,178	45,848	44,864
	83,161	89,184	160,883	185,784

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Operating Expenses

	Second Quarter		Six Months Ended	
	30 Jun 2017 RM'000	30 Jun 2016 RM'000	30 Jun 2017 RM'000	30 Jun 2016 RM'000
Personnel expenses	12,116	12,228	23,514	20,597
Promotion and marketing related expenses	2,948	3,000	5,495	6,704
Establishment related expenses	5,421	4,750	10,125	9,772
General administrative expenses	40,174	41,906	81,825	87,720
	60,659	61,884	120,959	124,793
Personnel expenses				
Salaries, allowances and bonuses	9,519	9,271	17,863	16,327
Employees Provident Fund contributions	1,651	1,598	3,097	2,850
Other staff related costs	946	1,359	2,554	1,420
	12,116	12,228	23,514	20,597
Promotion and marketing related expenses	2,948	3,000	5,495	6,704
Establishment related expenses				
Depreciation of equipment	1,124	1,258	2,248	2,608
Information technology costs	669	452	1,409	1,145
Rental of premises	1,967	2,088	3,900	4,148
Others	1,661	952	2,568	1,871
	5,421	4,750	10,125	9,772
General administrative expenses				
Group recharges	31,914	32,597	64,279	69,064
Others	8,260	9,309	17,546	18,656
	40,174	41,906	81,825	87,720

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 Credit exposure to connected parties

The credit exposures of the Bank to connected parties, as defined by Bank Negara Malaysia's Guidelines on Credit Transactions and Exposures with Connected Parties' are as follows:

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Aggregate value of outstanding credit exposures to connected parties	940,617	836,894
As a percentage of total credit exposures	5.3%	5.2%
Aggregate value of outstanding credit exposures to connected parties which is non-performing or in default	-	-
As a percentage of total credit exposures	-	-

30 Capital Adequacy

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	660,000	50,000
Share premium	-	610,000
Retained profits	877,145	783,296
Other reserves	34,920	75,789
Regulatory adjustments	(49,112)	(46,978)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	1,522,953	1,472,107
Tier 2 capital		
Subordinated Commodity Murabahah financing	618,821	646,265
Collective impairment allowance (unimpaired portion) & regulatory reserves	147,852	135,261
Total Tier 2 capital	766,673	781,526
Capital base	2,289,626	2,253,633
CET1 and Tier 1 Capital ratio	11.423%	12.553%
Total Capital ratio	17.174%	19.218%

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

Breakdown of RWA in the various categories of risk weights:

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Total RWA for credit risk	12,422,920	10,820,917
Total RWA for market risk	15,102	11,396
Total RWA for operational risk	893,735	894,490
	13,331,757	11,726,803

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Commitments and Contingencies

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

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

Principal amount	30 Jun 2017 RM'000	31 Dec 2016 RM'000
Direct credit substitutes	556,330	535,818
Transaction-related contingent items	1,055,220	1,113,122
Short-term self-liquidating trade-related contingencies	98,149	111,027
Irrevocable commitments to extend credit		
- Maturity not exceeding one year	3,461,058	3,685,008
- Maturity exceeding one year	2,249,993	2,041,247
Unutilised credit card lines	2,664,177	2,251,942
Equity related contracts		
- Less than one year	246,466	765,236
- One year to less than five years	88,671	109,766
Profit rate related contracts		
- Less than one year	230,000	1,290,000
- One year to less than five years	4,895,251	5,149,618
Foreign exchange related contracts		
- Less than one year	3,364,431	2,592,079
- One year to less than five years	2,421,234	2,504,990
	21,330,980	22,149,853

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Profit Rate Risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. The following table summarises the Bank's exposure to the profit rates risk. The assets and liabilities at carrying amount are allocated to time bands by reference to the earlier of the next contractual repricing dates and maturity dates.

30 Jun 2017	Non-trading book					Non-profit sensitive RM'000	Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000				
ASSETS									
Cash and short-term funds	1,587,446	-	-	-	-	102,765	-	1,690,211	3.01
Financial assets held-for-trading	-	-	-	-	-	-	503	503	4.66
Financial investments available-for-sale	-	249,140	370,273	1,122,729	20,281	-	-	1,762,423	3.42
Financing and advances									
- performing	3,477,315	8,315,903	353,772	740,106	293,533	-	-	13,180,629	5.18
- impaired ^[1]	-	-	-	-	-	247,206	-	247,206	-
- collective allowance	-	-	-	-	-	(206,447)	-	(206,447)	-
Derivative financial assets	-	-	-	-	-	-	290,357	290,357	-
Other assets	-	-	-	-	-	37,589	-	37,589	-
Total Financial Assets	5,064,761	8,565,043	724,045	1,862,835	313,814	181,113	290,860	17,002,471	
LIABILITIES									
Deposits from customers	5,420,710	1,592,699	1,264,090	43,433	-	676,130	-	8,997,062	2.22
Deposits and placements from banks and other financial institutions	358,187	657,226	1,624,736	595,668	-	43,375	-	3,279,192	2.34
Bills and acceptances payable	-	-	-	-	-	17,737	-	17,737	-
Multi-Currency Sukuk Programme	-	500,000	-	1,251,836	-	-	-	1,751,836	3.79
Subordinated Commodity Murabahah Financing	-	-	-	-	618,821	-	-	618,821	3.19
Derivative financial liabilities	-	-	63	837	-	-	293,728	294,628	-
Other liabilities	-	-	-	-	-	276,866	512,659	789,525	2.61
Total Financial Liabilities	5,778,897	2,749,925	2,888,889	1,891,774	618,821	1,014,108	806,387	15,748,801	
Total profit sensitivity gap	(714,136)	5,815,118	(2,164,844)	(28,939)	(305,007)	(832,995)	(515,527)	1,253,670	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Profit rate risk (Cont'd)

31 Dec 2016	← Non-trading book →						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1 - 3 months RM'000	>3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000			
ASSETS									
Cash and short-term funds	2,251,658	-	-	-	-	107,933	-	2,359,591	3.16
Financial assets held-for-trading	-	-	-	-	-	-	488	488	5.95
Financial investments available-for-sale	-	-	180,224	1,168,295	20,055	-	-	1,368,574	3.51
Financing and advances									
- performing	2,824,706	7,697,033	145,381	813,867	221,522	-	-	11,702,509	5.30
- impaired ^[1]	-	-	-	-	-	240,769	-	240,769	-
- collective allowance	-	-	-	-	-	(200,015)	-	(200,015)	-
Derivative financial assets	-	-	-	-	-	-	395,748	395,748	-
Other assets	-	-	-	-	-	80,041	-	80,041	-
Total Financial Assets	5,076,364	7,697,033	325,605	1,982,162	241,577	228,728	396,236	15,947,705	
LIABILITIES									
Deposits from customers	5,107,103	1,767,337	1,225,760	32,571	-	593,772	-	8,726,543	2.43
Deposits and placements from banks and other financial institutions	559,368	86,830	1,248,600	32,391	-	24,413	-	1,951,602	2.69
Bills and acceptances payable	-	-	-	-	-	23,632	-	23,632	-
Multi-Currency Sukuk Programme	-	-	500,000	1,256,001	-	-	-	1,756,001	3.95
Derivative financial liabilities									
Subordinated Commodity Murabahah	-	-	-	-	646,265	-	-	646,265	2.80
Financing	-	59	-	962	-	-	489,734	490,755	-
Other liabilities	-	-	-	-	-	189,493	969,409	1,158,902	3.07
Total Financial Liabilities	5,666,471	1,854,226	2,974,360	1,321,925	646,265	831,310	1,459,143	14,753,700	
Total profit sensitivity gap	(590,107)	5,842,807	(2,648,755)	660,237	(404,688)	(602,582)	(1,062,907)	1,194,005	

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Liquidity risk

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

30 Jun 2017	Non-trading book						Trading book	Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	1 - 5 years	Over 5 years	Non-specific maturity		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS								
Cash and short-term funds	1,690,211	-	-	-	-	-	-	1,690,211
Financial assets held-for-trading	-	-	-	-	-	-	503	503
Financial investments available-for-sale	-	249,140	370,273	1,122,729	20,281	-	-	1,762,423
Financing and advances	2,437,115	1,965,763	1,072,629	1,968,492	5,777,389	-	-	13,221,388
Derivative financial assets	-	-	-	-	-	-	290,357	290,357
Others	627	1,446	1,374	8,397	395	379,231	-	391,470
Total Assets	4,127,953	2,216,349	1,444,276	3,099,618	5,798,065	379,231	290,860	17,356,352
LIABILITIES AND EQUITY								
Deposits from customers	6,096,840	1,592,699	1,264,090	43,433	-	-	-	8,997,062
Deposits and placements from banks and other financial institutions	401,562	657,226	1,624,736	595,668	-	-	-	3,279,192
Bills and acceptances payable	17,737	-	-	-	-	-	-	17,737
Multi-Currency Sukuk Programme	-	500,000	-	1,251,836	-	-	-	1,751,836
Subordinated Commodity Murabahah Financing	-	-	-	-	618,821	-	-	618,821
Derivative financial liabilities	-	-	63	837	-	-	293,728	294,628
Others	155,948	17,856	15,288	14,860	8,448	99,288	512,659	824,347
Total Liabilities	6,672,087	2,767,781	2,904,177	1,906,634	627,269	99,288	806,387	15,783,623
Equity	-	-	-	-	-	1,572,729	-	1,572,729
Total Liabilities and Equity	6,672,087	2,767,781	2,904,177	1,906,634	627,269	1,672,017	806,387	17,356,352
Net maturity mismatches	(2,544,134)	(551,432)	(1,459,901)	1,192,984	5,170,796	(1,292,786)	(515,527)	-
Off balance sheet liabilities	9,353,039	1,061,759	2,978,768	7,868,128	69,286	-	-	21,330,980

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Liquidity risk (Cont'd)

31 Dec 2016	Non-trading book						Trading book	Total
	Up to 1 month	>1 - 3 months	>3 - 12 months	1 - 5 years	Over 5 years	Non-specific maturity		
	RM'000	RM'000	RM'000		RM'000	RM'000	RM'000	RM'000
ASSETS								
Cash and short-term funds	2,359,591	-	-	-	-	-	-	2,359,591
Financial assets held-for-trading	-	-	-	-	-	-	488	488
Financial investments available-for-sale	-	-	180,224	1,168,295	20,055	-	-	1,368,574
Financing and advances	2,160,491	1,740,491	415,573	1,706,522	5,720,186	-	-	11,743,263
Derivative financial assets	-	-	-	-	-	-	395,748	395,748
Others	47,582	-	1,298	8,828	395	375,317	-	433,420
Total Assets	4,567,664	1,740,491	597,095	2,883,645	5,740,636	375,317	396,236	16,301,084
LIABILITIES AND EQUITY								
Deposits from customers	5,700,875	1,767,337	1,225,760	32,571	-	-	-	8,726,543
Deposits and placements from banks and other financial institutions	583,781	86,830	1,248,600	32,391	-	-	-	1,951,602
Bills and acceptances payable	23,632	-	-	-	-	-	-	23,632
Multi-Currency Sukuk Programme	-	-	500,000	1,256,001	-	-	-	1,756,001
Subordinated Commodity Murabahah Financing	-	-	-	-	646,265	-	-	646,265
Derivative financial liabilities	-	59	-	962	-	-	489,734	490,755
Others	52,421	12,285	23,242	14,161	204	113,413	969,409	1,185,135
Total Liabilities	6,360,709	1,866,511	2,997,602	1,336,086	646,469	113,413	1,459,143	14,779,933
Equity	-	-	-	-	-	1,521,151	-	1,521,151
Total Liabilities and Equity	6,360,709	1,866,511	2,997,602	1,336,086	646,469	1,634,564	1,459,143	16,301,084
Net maturity mismatches	(1,793,045)	(126,020)	(2,400,507)	1,547,559	5,094,167	(1,259,247)	(1,062,907)	-
Off balance sheet liabilities	7,787,944	2,793,902	3,404,638	8,026,932	9,945	-	-	22,023,361

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Business Prospects

During the first quarter of 2017, there were broad-based improvements in global growth, supported by stronger investment activity in major advanced economies. Volatility in the global financial markets declined, as major developments and events were largely anticipated by market participants. Nevertheless, there remain risks to global growth arising from threats such as protectionism, geopolitical developments, and commodity price volatility.

Locally, the Malaysian economy recorded a better-than-expected growth performance of 5.6% in 1Q 2017 (2016: 4.2%) and is expected to sustain throughout 2017. This is underpinned on statistics of businesses spending more and the outlook for exports firming up. Domestic demand will continue to be the main driver of growth, supported primarily by private sector spending.

Bank Negara Malaysia (BNM)'s foreign exchange market stabilisation measures had seen improvement in balancing the Ringgit's supply and demand. During 1Q 2017, the Ringgit has performed better against the USD dollar amidst the broad weakening of the US dollar, driven mainly by market uncertainties on the direction and implication of policies in the US.

To ensure continuous domestic financial stability supported by healthy business activities, BNM had continued to keep the Overnight Policy Rate (OPR) of 3.00% unchanged since July 2016. Headline inflation projected to average higher in the range of 3.0% - 4.0% in 2017 (2016: 2.1%), given the prospect of fuel price adjustments, the spill over effect of the Ringgit's depreciation in 2016 which increased the cost of imported goods and services, and other cost related pressures.

As for the banking sector, challenges facing the industry include moderate loans growth, competition for deposits, potential rising costs of doing business including compliance and credit costs. However, the domestic financial institutions continue to demonstrate sound capacity and resilience in weathering these challenges while identifying opportunities to improve customer experience including ensuring security and speed of providing information as well as end-to-end services through infusion of the new wave of financial technology. The expansion of domestic Islamic financing continued to surpass conventional banking loans in 2016 and 1Q2017 where strong regulatory backing and industry innovation have led to the considerable growth traction in recent years. Separately, the global Sukuk market also witnessed a rebound since 2016 after three consecutive years of decline, with Malaysia continuing to be the main driver.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Performance Review

Profit before tax (PBT) increased by RM10.3 million or 24.9% against history due to lower income distribute to depositors (up RM24.9 million) and offset by lower income derived from investment of of shareholder's funds, depositors' funds and others (down RM18.7 million).

Total balance sheet size at 30 June 2017 stood at RM17.4 billion, RM1.1 billion higher compared against 31 December 2016 (RM16.3 billion). The bank has recorded a 12.6% (RM1.5 billion) growth in customer advances in Q2 2017. The Bank's capital and liquidity ratios continues to remain strong and well above regulatory requirements.

Meanwhile, operating expenses decreased mainly due to lower general administrative expenses (down RM5.9 million) and promotion and marketing related expenses (down RM1.2 million), offset by higher personnel expenses (up RM3.0 million). The Bank continues to leverage on its holding company to provide certain services under an embedded model to ensure its costs are maintained at sustainable level.