

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
30 SEPTEMBER 2019

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

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)

UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2019

	<i>Note</i>	30 Sep 2019 RM'000	31 Dec 2018 RM'000
Assets			
Cash and short-term funds	12	3,421,905	2,804,494
Deposits and placements with banks and other financial institutions	13	119,344	-
Financial investments at fair value through other comprehensive income (FVOCI)	14	2,720,918	2,725,683
Financing and advances	15	13,695,763	14,137,337
Derivative financial assets	18	114,645	242,284
Other assets	19	306,842	50,664
Statutory deposits with Bank Negara Malaysia	20	335,662	364,662
Equipment		6,950	6,868
Deferred tax assets	18	26,194	17,363
Total assets		20,748,223	20,349,355
Liabilities			
Deposits from customers	21	12,499,149	11,444,577
Deposits and placements from banks and other financial institutions	22	2,181,721	3,299,964
Structured liabilities designated at fair value through profit or loss (FVTPL)	23	1,200,011	884,877
Bills payable		16,016	18,594
Derivative financial liabilities	18	72,974	227,330
Other liabilities	24	457,562	270,960
Provision for taxation		16,734	29,520
Multi-Currency Sukuk Programme	25	1,771,033	1,755,281
Subordinated Commodity Murabahah Financing	26	603,262	595,987
Total liabilities		18,818,462	18,527,090
Equity			
Share capital		660,000	660,000
Reserves		1,269,761	1,162,265
Total equity attributable to owner of the Bank		1,929,761	1,822,265
Total liabilities and equity		20,748,223	20,349,355
Restricted investment accounts ^[1]		3,916,406	4,175,818
Total Islamic Banking asset ^[1]		24,664,629	24,525,173
Commitments and contingencies	33	19,213,835	23,162,908

^[1] The disclosure is in accordance with the requirements of Bank Negara Malaysia's Guideline on Financial Reporting for Islamic Banking Institutions dated 2 February 2018.

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 2018 and the accompanying explanatory notes on pages 7 to 37 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 29 October 2019.

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
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**UNAUDITED CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019**

		Third Quarter		Nine Months Ended	
	<i>Note</i>	30 Sep 2019	30 Sep 2018	30 Sep 2019	30 Sep 2018
		RM'000	RM'000	RM'000	RM'000
			(Restated)		(Restated)
Income derived from investment of depositors' funds and others	27	209,963	209,017	628,956	609,947
Income derived from investment of shareholder's funds	28	40,564	35,601	122,851	108,548
Impairment allowance/provision	29	(9,109)	(14,395)	(49,804)	(56,578)
Total distributable income		241,418	230,223	702,003	661,917
Income attributable to depositors	30	(110,645)	(113,445)	(338,719)	(320,126)
Total net income		130,773	116,778	363,284	341,791
Operating expenses	31	(63,400)	(63,625)	(184,844)	(191,202)
Profit before tax		67,373	53,153	178,440	150,589
Tax expense		(4,553)	(22,977)	(29,182)	(42,949)
Profit for the financial period		62,820	30,176	149,258	107,640
Other comprehensive income/(expense)					
<i>Items that will not be reclassified to profit or loss</i>					
Own credit reserves:					
Change in fair value		(11,121)	(3,164)	(9,609)	(1,893)
Income tax effect		2,669	759	2,306	454
<i>Items that will subsequently be reclassified to profit or loss when specific conditions are met:</i>					
Fair value through other comprehensive income reserve:					
Change in fair value		1,661	4,881	15,743	(308)
Net amount transferred from profit or loss		(2,140)	70	(8,651)	439
Impairment charges		(36)	45	88	32
Income tax effect		115	(1,187)	(1,702)	(31)
Other comprehensive (expense)/income for the financial period, net of tax		(8,852)	1,404	(1,825)	(1,307)
Total comprehensive income for the financial period		53,968	31,580	147,433	106,333
Profit attributable to the owner of the Bank		62,820	30,176	149,258	107,640
Total comprehensive income attributable to the owner of the Bank		53,968	31,580	147,433	106,333
Basic earnings per RM0.50 ordinary share		62.8 sen	30.2 sen	149.3 sen	107.6 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 2018 and the accompanying explanatory notes on pages 7 to 37 attached to the unaudited condensed interim financial statements.

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HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019

	<i>Non-distributable</i>				<i>Distributable</i>		<i>Total</i>
	<i>Share capital</i>	<i>FVOCI reserve</i>	<i>Own credit 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
2019							
Balance at 1 January	660,000	479	(2,987)	499	91,100	1,073,174	1,822,265
Total comprehensive income for the financial period							
Profit for the financial period	-	-	-	-	-	149,258	149,258
Other comprehensive income, net of tax							
Financial investments at FVOCI/Own Credit reserve							
Net change in fair value	-	11,964	(7,303)	-	-	-	4,661
Net amount transferred from profit or loss	-	(6,574)	-	-	-	-	(6,574)
Impairment charges	-	88	-	-	-	-	88
<i>Total other comprehensive income</i>	-	5,478	(7,303)	-	-	-	(1,825)
Total comprehensive income for the financial period	-	5,478	(7,303)	-	-	149,258	147,433
Net change in regulatory reserves	-	-	-	-	(7,000)	7,000	-
Transactions with the owner, recorded directly in equity							
Share based payment transactions	-	-	-	43	-	20	63
Dividends paid to owner - 2018 final	-	-	-	-	-	(40,000)	(40,000)
Balance at 30 September	660,000	5,957	(10,290)	542	84,100	1,189,452	1,929,761

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 2018 and the accompanying explanatory notes on pages 7 to 37 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 29 October 2019.

HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019 (Cont'd)

	<i>Non-distributable</i>				<i>Distributable</i>		<i>Total</i>
	<i>Share capital</i>	<i>FVOCI reserve</i>	<i>Own credit 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
2018							
Balance at 1 January	660,000	305	706	408	34,000	965,535	1,660,954
Total comprehensive income for the financial period							
Profit for the financial period	-	-	-	-	-	107,640	107,640
Other comprehensive income, net of tax							
FVOCI reserve/Own Credit reserve							
Net change in fair value	-	(234)	(1,439)	-	-	-	(1,673)
Net amount transferred from profit or loss	-	334	-	-	-	-	334
Impairment charges	-	32	-	-	-	-	32
<i>Total other comprehensive income</i>	-	132	(1,439)	-	-	-	(1,307)
Total comprehensive income for the financial period	-	132	(1,439)	-	-	107,640	106,333
Net change in regulatory reserves	-	-	-	-	14,000	(14,000)	-
Transactions with the owner, recorded directly in equity							
Share based payment transactions	-	-	-	152	-	9	161
Dividends paid to owner - 2017 final	-	-	-	-	-	(10,000)	(10,000)
Balance at 30 September	660,000	437	(733)	560	48,000	1,049,184	1,757,448

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HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019

	30 Sep 2019	30 Sep 2018
	RM'000	RM'000
Profit before tax	178,440	150,589
Adjustments for non-operating and non-cash items	127,329	111,306
Operating profit before working capital changes	305,769	261,895
Changes in working capital:		
Net changes in operating assets	138,082	(980,102)
Net changes in operating liabilities	303,010	1,135,051
Income tax paid	(50,213)	(12,910)
Net cash generated from operating activities	696,648	403,934
Net cash generated from/(used in) investing activities	8,084	(733,404)
Net cash (used in)/generated from financing activities	(87,321)	432,291
	(79,237)	(301,113)
Net changes in cash and cash equivalents	617,411	102,821
Cash and cash equivalents at 1 January	2,804,494	1,465,919
Cash and cash equivalents at 30 September	3,421,905	1,568,740
Analysis of cash and cash equivalents		
Cash and short-term funds	3,421,905	1,568,740

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 2018 and the accompanying explanatory notes on pages 7 to 37 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 29 October 2019.

HSBC AMANAH MALAYSIA BERHAD
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**UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2019**

Changes in liabilities arising from financing activities

	At 1 January RM'000	Cash (outflow)/ inflow RM'000	Foreign exchange adjustment RM'000	Fair value movement RM'000	Profit accrual RM'000	At 30 September RM'000
2019						
Multi-Currency Sukuk Programme	1,755,281	-	-	15,752	-	1,771,033
Subordinated Commodity Murabahah Financing	595,987	-	7,275	-	-	603,262
Other Liabilities of which:						
Profits paid on Multi-Currency Sukuk Programme	18,175	(32,979)	-	-	35,585	20,781
Profits paid on Subordinated Commodity Murabahah Financing	307	(14,342)	-	-	14,302	267
Dividend paid	-	(40,000)	-	-	-	(40,000)
	2,369,750	(87,321)	7,275	15,752	49,887	2,355,343
2018						
Multi-Currency Sukuk Programme	1,252,829	500,000	-	99	-	1,752,928
Subordinated Commodity Murabahah Financing	583,598	-	12,317	-	-	595,915
Other Liabilities of which:						
Profits paid on Multi-Currency Sukuk Programme	12,815	(40,242)	-	-	37,487	10,060
Profits paid on Subordinated Commodity Murabahah Financing	2,371	(17,467)	-	-	18,250	3,154
Dividend paid	-	(10,000)	-	-	-	(10,000)
	1,851,613	432,291	12,317	99	55,737	2,352,057

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 2018 and the accompanying explanatory notes on pages 7 to 37 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 29 October 2019.

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
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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 unaudited condensed interim financial statements were approved and authorised for issue by the Board of Directors on 29 October 2019.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 30 September 2019 have been prepared under the historical cost convention except for the following assets and liabilities which are stated at fair values: 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 2019 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 2018. 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 2018.

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 2018.

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

- 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 asset will be amortised over the length of the lease and the financial liability measured at amortised cost.

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.

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 Bank (Cont'd)

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

Transitional impact

MFRS 16 has an effective date for reporting beginning on or after 1 January 2019. MFRS 16 results in lessees accounting for most lease within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under MFRS 117 'Leases'. Lessees will recognise a right of use (ROU) assets and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under MFRS 117. The implementation is expected to increase assets (ROU assets) and increase financial liabilities with no other impact on net assets or retained earnings. The detailed impact of changes in accounting policies for MFRS 9 are set out in Note 3.

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

- Financial investments
- Derivatives and hedge accounting
- Financial liabilities designated at fair value through profit or loss

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies

(i) Reconciliation of statement of financial position balances from MFRS 117 to MFRS 16

The following table is a reconciliation of the carrying amount in the Bank's statement of financial position from MFRS 117 to MFRS 16 as at 1 January 2019:

	MFRS 117		MFRS 16		Retained profits impact as at 1 January 2019
	carrying amount as at 31 December 2018	MFRS 16 adjustments		carrying amount as at 1 January 2019	
	RM'000	Reclassification RM'000	Remeasurement RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	2,804,494	-	-	2,804,494	-
Financial investments at fair value through other comprehensive income (FVOCI)	2,725,683	-	-	2,725,683	-
Financing and advances	14,137,337	-	-	14,137,337	-
Derivative financial assets	242,284	-	-	242,284	-
Other assets	50,664	-	31,733	82,397	-
Statutory deposits with Bank Negara Malaysia	364,662	-	-	364,662	-
Deferred tax assets	17,363	-	-	17,363	-
Total change to financial asset balances, reclassification and remeasurement at 1 January 2019	20,342,487	-	31,733	20,374,220	-
Liabilities					
Deposits from customers	11,444,577	-	-	11,444,577	-
Deposits and placements from banks and other financial institutions	3,299,964	-	-	3,299,964	-
Structured liabilities designated at fair value through profit or loss	884,877	-	-	884,877	-
Bills payable	18,594	-	-	18,594	-
Derivative financial liabilities	227,330	-	-	227,330	-
Other liabilities	270,960	-	31,733	302,693	-
Provision for taxation	29,520	-	-	29,520	-
Multi-Currency Sukuk Programme	1,755,281	-	-	1,755,281	-
Subordinated Commodity Murabahah Financing	595,987	-	-	595,987	-
Total change to financial liabilities balances, reclassification and remeasurement at 1 January 2019	18,527,090	-	31,733	18,558,823	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies (Cont'd)

(ii) The total impacts of the changes in accounting policies on the Bank's reserve as at 1 January 2019 are as follow:

Retained profits

There is no impact on the retained profits arising from the adoption of MFRS 16.

Reconciliation between MFRS 117 operating lease commitments to MFRS 16

RM'000

Operating lease commitments disclosed as at 31 December 2018	13,404
Discounted using incremental borrowing rate	(610)
Less: short-term leases recognised on a straight-line basis as expense	(203)
Add: adjustments as a result of a different treatment on extension and termination options	18,893
Add: others	249
Lease liability recognised as at 1 January 2019	<u>31,733</u>
Of which:	
- Current lease liability	6,020
- Non-current lease liability	<u>25,713</u>
	<u>31,733</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

4 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.

5 Auditors' Report On Preceding Annual Financial Statements

The audit report on the audited financial statements for the financial year ended 31 December 2018 was not subject to any qualification.

6 Seasonality or Cyclical Factors

The business operations of the 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 Bank for the financial period ended 30 September 2019.

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 Bank for the financial period ended 30 September 2019.

9 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 September 2019.

Subsequent to the period ended 30 September 2019, the second series of Multi-Currency Sukuk Programme (MCSP) of RM500 million was redeemed upon maturity on 16 October 2019.

10 Dividend

Since the end of the previous financial year, the Bank paid a final dividend of RM0.40 per ordinary share amounting to RM40.0 million. The dividend was paid on 26 April 2019.

No interim dividend was declared nor paid during the financial period ended 30 September 2019.

11 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, except for as disclosed in Note 9.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Cash and Short-Term Funds

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
Cash and balances with banks and other financial institutions	160,912	165,396
Money at call and interbank placements maturing within one month	3,260,993	2,639,098
	<u>3,421,905</u>	<u>2,804,494</u>

13 Deposits and Placements with Banks and Other Financial Institutions

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
Central bank	<u>119,344</u>	<u>-</u>

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

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
Money market instruments:		
Malaysian Government Islamic Sukuk	2,720,918	2,526,369
Islamic Treasury Bill	-	199,314
	<u>2,720,918</u>	<u>2,725,683</u>

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

Maturing within one year	1,660,784	940,445
More than one year to three years	1,060,134	1,554,002
More than three years to five years	-	231,236
	<u>2,720,918</u>	<u>2,725,683</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 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 Al-Inah	Ijarah	Ijarah Thumma Al-Bai	Diminishing Musharakah		
30 Sep 2019	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash line-i	74,714	-	-	-	-	-	74,714
Term financing:							
House financing	-	-	-	-	4,204,536	-	4,204,536
Hire purchase receivables	-	-	-	184,442	-	-	184,442
Lease receivables	-	-	15	-	-	-	15
Syndicated term financing	1,258,815	-	-	-	-	-	1,258,815
Other term financing	2,985,410	40	-	-	955,678	-	3,941,128
Trust receipts	504,709	-	-	-	-	-	504,709
Claims on customers under acceptance credits	396,391	-	-	-	-	-	396,391
Bills receivables	466,916	-	-	-	-	-	466,916
Staff financing-i	1,076	36	-	-	1,369	-	2,481
Credit cards-i	-	-	-	-	-	1,167,246	1,167,246
Revolving financing	1,732,943	-	-	-	-	-	1,732,943
Other financing	-	-	-	-	3,934	-	3,934
Gross financing and advances	7,420,974	76	15	184,442	5,165,517	1,167,246	13,938,270
Less: Impairment allowance							(242,507)
Total net financing and advances							13,695,763

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 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 Al-Inah	Ijarah	Ijarah Thumma Al-Bai	Diminishing Musharakah		
31 Dec 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000 (Restated)
Cash line-i	75,334	-	-	-	-	-	75,334
Term financing:							
House financing	-	-	-	-	4,329,220	-	4,329,220
Hire purchase receivables	-	-	-	195,636	-	-	195,636
Lease receivables	-	-	539	-	-	-	539
Syndicated term financing	1,334,656	-	-	-	-	-	1,334,656
Other term financing	3,307,216	62	-	-	1,010,142	-	4,317,420
Trust receipts	523,625	-	-	-	-	-	523,625
Claims on customers under acceptance credits	422,293	-	-	-	-	-	422,293
Bills receivables	456,578	-	-	-	-	-	456,578
Staff financing-i	1,520	52	-	-	1,572	-	3,144
Credit cards-i	-	-	-	-	-	1,075,634	1,075,634
Revolving financing	1,634,365	-	-	-	-	-	1,634,365
Other financing	-	-	-	-	3,426	-	3,426
Gross financing and advances	<u>7,755,587</u>	<u>114</u>	<u>539</u>	<u>195,636</u>	<u>5,344,360</u>	<u>1,075,634</u>	<u>14,371,870</u>
Less: Impairment allowance							<u>(234,533)</u>
Total net financing and advances							<u>14,137,337</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Financing and Advances (Cont'd)

(ii) By type of customer

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
		(Restated)
Domestic non-bank financial institutions	601,356	619,421
Domestic business enterprises:		
Small medium enterprises	2,082,448	1,983,223
Others	3,457,517	3,781,656
Government and statutory bodies	2,569	4,527
Individuals	6,166,078	6,142,634
Other domestic entities	1,156	1,258
Foreign entities/individuals	1,627,146	1,839,151
	<u>13,938,270</u>	<u>14,371,870</u>

(iii) By profit rate sensitivity

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
		(Restated)
Fixed rate:		
Hire purchase receivables	184,442	195,636
Other financing	3,377,793	3,300,541
Variable rate:		
Base Rate/Base Financing Rate plus	5,216,128	5,392,670
Cost-plus	5,159,907	5,483,023
	<u>13,938,270</u>	<u>14,371,870</u>

(iv) By residual contractual maturity

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
		(Restated)
Maturing within one year	5,858,915	5,895,827
More than one year to three years	1,214,271	1,166,130
More than three years to five years	1,023,387	1,289,364
Over five years	5,841,697	6,020,549
	<u>13,938,270</u>	<u>14,371,870</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Financing and Advances (Cont'd)

(v) By sector

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
		(Restated)
Agriculture, hunting, forestry & fishing	18,369	18,986
Mining and quarrying	205,119	231,674
Manufacturing	1,466,372	1,495,092
Electricity, gas and water	190,070	128,262
Construction	958,986	783,688
Real estate	907,726	1,135,507
Wholesale & retail trade, restaurants & hotels	890,333	995,569
Transport, storage and communication	148,483	214,291
Finance, takaful and business services	983,307	1,040,672
Household - Retail	6,697,791	6,706,145
Others	1,471,714	1,621,984
	13,938,270	14,371,870

(vi) By purpose

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
		(Restated)
Purchase of landed property:		
Residential	4,205,904	4,330,789
Non-residential	784,867	835,867
Purchase of transport vehicles	756	1,255
Consumption credit	2,252,299	2,127,277
Construction	722,325	567,385
Working capital	4,874,117	5,229,130
Other purpose	1,098,002	1,280,167
	13,938,270	14,371,870

(vii) By geographical distribution

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
		(Restated)
Northern Region	1,530,623	1,497,309
Southern Region	1,549,284	1,464,169
Central Region	10,481,904	11,010,829
Eastern Region	376,459	399,563
	13,938,270	14,371,870

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, Federal Territory of Kuala Lumpur and 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)

15 Financing and Advances (Cont'd)

(viii) Assets under Management

The details of assets under management in respect of the Syndicated Investment Account 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 Sep 2019	31 Dec 2018
	RM'000	RM'000
Total gross financing and advances	3,271,874	3,381,964
Less: Impairment allowance	(718)	(896)
Total net financing and advances	3,271,156	3,381,068
<i>Maturity not exceeding one year</i>	645,250	794,750
Total commitments and contingencies	645,250	794,750
Risk weighted assets (RWA)	2,982,532	2,939,702

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 allowance 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 4(f) on financial instruments in the audited financial statements of the Bank for the financial year ended 31 December 2018.

16 Impaired Financing

(i) Gross carrying amount movement of financing and advances classified as credit impaired:

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
		(Restated)
Gross carrying amount as at 1 January	356,312	282,049
Transfer within stages	36,532	71,690
Net remeasurement due to changes in credit risk	53,971	115,711
Written-off	(77,269)	(113,156)
Others	-	18
Gross carrying amount as at 30 September/31 December	369,546	356,312

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Impaired Financing (Cont'd)

(ii) By contract

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
		(Restated)
Ijarah Thumma Al-Bai (AITAB) (<i>hire purchase</i>)	1,748	6,368
Commodity Murabahah (<i>cost-plus</i>)	232,795	201,946
Diminishing Musharakah (<i>profit and loss sharing</i>)	128,168	140,036
Bai Al-Inah (<i>sell and buy back</i>)	32	32
Ujrah (<i>fee-based</i>)	6,803	7,930
	369,546	356,312

(iii) By sector

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
		(Restated)
Mining and quarrying	72	704
Manufacturing	15,837	17,354
Construction	5,129	3,142
Real estate	810	-
Wholesale & retail trade, restaurants & hotels	16,400	11,139
Transport, storage and communication	587	4,153
Finance, takaful and business services	26,685	28,661
Household - Retail	277,994	265,333
Others	26,032	25,826
	369,546	356,312

(iv) By purpose

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
		(Restated)
Purchase of landed property:		
Residential	107,321	124,989
Non-residential	19,057	11,824
Purchase of transport vehicles	71	146
Consumption credit	169,079	138,227
Construction	2,724	2,402
Working capital	47,638	53,902
Others	23,656	24,822
	369,546	356,312

(v) By geographical distribution

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
		(Restated)
Northern Region	34,303	37,748
Southern Region	39,127	39,453
Central Region	288,958	273,061
Eastern Region	7,158	6,050
	369,546	356,312

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Expected credit losses allowance charges (ECL)

(i) Movements in ECL allowances for financing and advances

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

	Stage 1	Stage 2	Stage 3			
	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 provision RM'000	Collective provision RM'000	Total RM'000
Balance at 1 January 2019	43,988	64,464	126,081	-	-	234,533
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	20,466	(16,917)	(3,549)	-	-	-
- Transferred to Stage 2	(4,225)	8,601	(4,376)	-	-	-
- Transferred to Stage 3	(364)	(4,767)	5,131	-	-	-
New financial assets originated or purchased	12,358	-	-	-	-	12,358
Net remeasurement due to changes in credit risk	(29,165)	18,786	83,418	-	-	73,039
Asset written-off	-	-	(77,269)	-	-	(77,269)
Others	(154)	-	-	-	-	(154)
Balance at 30 September 2019	42,904	70,167	129,436	-	-	242,507
Balance at 1 January 2018 ^[1]	-	-	-	74,265	240,908	315,173
- adoption of MFRS 9 ^[1]	61,134	65,520	110,136	(74,265)	(240,908)	(78,383)
Balance restated ^[1]	61,134	65,520	110,136	-	-	236,790
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	14,039	(12,550)	(1,489)	-	-	-
- Transferred to Stage 2	(4,667)	10,011	(5,344)	-	-	-
- Transferred to Stage 3	(638)	(3,821)	4,459	-	-	-
Changes due to modification not derecognised	-	-	-	-	-	-
New financial assets originated or purchased	19,140	-	-	-	-	19,140
Net remeasurement due to changes in credit risk	(44,424)	5,304	131,234	-	-	92,114
Asset written-off	-	-	(113,156)	-	-	(113,156)
Others ^[1]	(596)	-	241	-	-	(355)
Balance at 31 December 2018 ^[1]	43,988	64,464	126,081	-	-	234,533

The Bank measures the expected credit losses (ECL) using the three-stage approach. The following section explains how significant changes in the gross carrying amount of financing and advances during the year have contributed to the changes in the ECL allowances for the Bank under the expected credit loss model.

The total ECL allowances increased by RM8.0 million compared to the balance at the beginning of the year. This net increase was mainly contributed by net remeasurement due to change in credit risk (RM73.0 million) and new financial assets originated or purchased (RM12.4 million), partly offset by asset written off (-RM77.3 million).

- 12-months ECL not credit impaired (Stage 1) – decreased by RM1.1 million, primarily due to increase in remeasurement driven by changes in credit risk, migration of financings from/to Stage 1, Stage 2 and Stage 3 and partially offset by new financial assets originated or purchased.
- Lifetime ECL not credit-impaired (Stage 2) – increased by RM5.7 million, primarily due to increase in remeasurement driven by change in credit risk and partially offset by migration of financings from/to Stage 1, Stage 2 and Stage 3.
- Lifetime ECL credit-impaired (Stage 3) – increased by RM3.4 million, primarily due to decrease in remeasurement driven by change in credit risk and partially offset by asset written-off.

^[1] Balances have been restated as disclosed in Note 35.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Expected credit losses allowance charges (ECL) (Cont'd)

(ii) Movements in ECL allowances for financing commitments

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

	Stage 1	Stage 2	Stage 3	
	12- month ECL not credit impaired RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Total RM'000
Balance at 1 January 2019	1,109	925	825	2,859
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	104	(104)	-	-
- Transferred to Stage 2	(79)	79	-	-
- Transferred to Stage 3	-	-	-	-
New financial assets originated or purchased	540	-	-	540
Net remeasurement due to changes in credit risk	(222)	54	(423)	(591)
Others	7	-	-	7
Balance at 30 September 2019	1,459	954	402	2,815
Balance at 1 January 2018	-	-	-	-
- adoption of MFRS 9	946	1,880	997	3,823
Balance restated	946	1,880	997	3,823
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	152	(152)	-	-
- Transferred to Stage 2	(56)	56	-	-
- Transferred to Stage 3	(1)	(2)	3	-
New financial assets originated or purchased	240	-	-	240
Net remeasurement due to changes in credit risk	(99)	(857)	(175)	(1,131)
Others	(73)	-	-	(73)
Balance at 31 December 2018	1,109	925	825	2,859

Allowance for drawn amount and provisions for the undrawn commitments are not able to be split for retail portfolio, and in accordance to MFRS 7 Financial Instruments disclosure, the provisions for the financing and other credit related commitments for retail portfolio are presented together with the allowance for the drawn financing and advances.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 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	> 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
30 Sep 2019												
Trading derivatives:												
Foreign exchange contracts												
- Forwards	4,083,049	-	-	4,083,049	11,316	-	-	11,316	10,390	-	-	10,390
- Swaps	819,270	-	-	819,270	61,041	-	-	61,041	60,642	-	-	60,642
- Options	-	-	-	-	-	-	-	-	-	-	-	-
Profit rate related contracts												
- Swaps	1,548,000	764,007	-	2,312,007	2,621	12,741	-	15,362	-	1,489	-	1,489
- Options	121,813	295,038	-	416,851	1,675	2,662	-	4,337	-	-	-	-
Equity related contracts												
- Options purchased	474,101	317,436	-	791,537	10,391	12,198	-	22,589	399	54	-	453
Sub- total	7,046,233	1,376,481	-	8,422,714	87,044	27,601	-	114,645	71,431	1,543	-	72,974
Total	7,046,233	1,376,481	-	8,422,714	87,044	27,601	-	114,645	71,431	1,543	-	72,974

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 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	> 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
31 Dec 2018												
Trading derivatives:												
Foreign exchange contracts												
- Forwards	6,141,764	-	-	6,141,764	43,589	-	-	43,589	44,382	-	-	44,382
- Swaps	1,695,255	646,019	-	2,341,274	134,476	42,693	-	177,169	135,262	42,095	-	177,357
Profit rate related contracts												
- Swaps	1,997,822	1,250,000	232,745	3,480,567	3,387	1,846	281	5,514	2,848	-	-	2,848
- Options	-	421,166	-	421,166	-	3,441	-	3,441	-	942	-	942
Equity related contracts												
- Options purchased	116,883	362,229	-	479,112	2,033	10,538	-	12,571	-	1,745	-	1,745
Sub- total	9,951,724	2,679,414	232,745	12,863,883	183,485	58,518	281	242,284	182,492	44,782	-	227,274
Hedging Derivatives:												
Fair Value Hedge												
Profit rate related contracts												
- Swaps	80,000	-	-	80,000	-	-	-	-	56	-	-	56
Sub- total	80,000	-	-	80,000	-	-	-	-	56	-	-	56
Total	10,031,724	2,679,414	232,745	12,943,883	183,485	58,518	281	242,284	182,548	44,782	-	227,330

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

	30 Sep 2019 RM'000	30 Sep 2018 RM'000
Gain on hedging instruments	13	307
Loss on the hedged items attributable to the hedged risk	(29)	(334)
Net loss from fair value hedges	(16)	(27)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Other Assets

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
Settlements ^[1]	220,146	3,431
Income receivable	8,311	7,733
Profit receivable	21,830	21,383
Prepayments	1,930	190
Amount due from holding company	496	360
ROU assets	27,574	-
Other receivables	26,555	17,567
	<u>306,842</u>	<u>50,664</u>

^[1] Included in settlements are outstandings due from the Bank's parent company, HSBC Bank Malaysia Berhad, of RM101.0 million (31 December 2018 = NIL), which were cleared on 1 October 2019.

20 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)

21 Deposits From Customers

(i) By type of deposit

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
At amortised cost		
Non-Mudharabah Fund		
Demand deposits		
- Qard	1,976,710	1,770,373
Savings deposits		
- Qard	1,816,985	1,689,423
Term deposits		
- Commodity Murabahah	8,327,489	7,789,088
- Qard	377,965	195,693
	12,499,149	11,444,577

The maturity structure of term deposits is as follows:

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
Due within six months	7,433,847	6,602,418
More than six months to one year	982,809	1,042,883
More than one year to three years	173,705	264,450
More than three years to five years	115,046	75,030
Over five years	47	-
	8,705,454	7,984,781

(ii) By type of customer

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
Government and statutory bodies	6,849	3,780
Business enterprises	3,061,224	2,349,937
Individuals	6,266,718	6,284,101
Foreign entities/individuals	2,959,167	2,511,888
Others	205,191	294,871
	12,499,149	11,444,577

22 Deposits and Placements from Banks and Other Financial Institutions

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
Non-Mudharabah Fund		
Licensed banks	446,305	579,301
Bank Negara Malaysia	43,932	27,971
Other financial institutions	1,691,484	2,692,692
	2,181,721	3,299,964

Included in deposits and placements from banks and other financial institutions are placements from the Bank's parent company, HSBC Bank Malaysia Berhad, of RM0.4 billion (31 Dec 2018: RM0.6 billion).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Structured Liabilities Designated as Fair Value through profit or loss (FVTPL)

At fair value	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
Structured liabilities ^[1]		
- Wakalah with Commodity Wa'ad	205,490	228,954
- Tawarruq	994,521	655,923
	1,200,011	884,877

^[1] Structured liabilities are measured at fair value over the life of the instruments. Structured liabilities are deposits with embedded derivatives, of which both profit paid and fair valuation on the structured liabilities are recorded as net income/expense from financial instruments designated at fair value.

24 Other Liabilities

	Note	30 Sep 2019	31 Dec 2018
At amortised cost		RM'000	RM'000
Settlements		12,278	-
Amounts due to holding company		203,896	73,163
Profit payable		97,077	87,846
Deferred income		12,152	11,824
Marginal deposit		7,532	4,245
Accrued expenses		35,709	32,928
Leased liabilities		28,176	-
Other creditors	(a)	57,927	58,095
Provision on financing and credit related commitments		2,815	2,859
		457,562	270,960

(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. One (1) actual Shariah non-compliant event has been identified during the financial period (2018: Nil). The event will be rectified in accordance with the Shariah governance framework.

Source and use of charity funds

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
Balance at 1 January	14	1
Shariah non-compliant income for the financial period/year ^[2]	26	16
- Contribution to non-profit organisations	(15)	-
- Tax expense on Shariah non-compliant income	(23)	(3)
Balance at 30 September/31 December	2	14

^[2] Income received from transactions in Financing and Advances and Nostro Accounts.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Multi-Currency Sukuk Programme

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	1,771,033	1,755,281

The Bank issued the following series of 5-year unsecured Sukuk under its RM3.0 billion MCSP.

	Nominal Value	Issue Date	Maturity Date	Carrying Value	
				30 Sep 2019	31 Dec 2018
<u>Issuance under MCSP</u>	RM'000			RM'000	RM'000
At fair value					
2nd series ^[1]	500,000	16 Oct 2014	16 Oct 2019	500,238	501,173
3rd series	750,000	27 Mar 2015	27 Mar 2020	753,650	751,993
4th series	500,000	2 Oct 2018	2 Oct 2023	517,145	502,115
	1,750,000			1,771,033	1,755,281

Movement in MCSP

	2nd series	3rd series	4th series
	30 Sep 2019	30 Sep 2019	30 Sep 2019
	RM'000	RM'000	RM'000
<u>2019</u>			
Balance at 1 January	501,173	751,993	502,115
Change in fair value other than from own credit risk	(990)	402	9,854
Change in fair value from own credit risk	55	1,255	5,176
Balance at 30 September	500,238	753,650	517,145
	2nd series	3rd series	4th series
	31 Dec 2018	31 Dec 2018	31 Dec 2018
	RM'000	RM'000	RM'000
<u>2018</u>			
Balance at 1 January	501,201	751,628	-
New issuance during the financial period	-	-	500,000
Change in fair value other than from own credit risk	(1,811)	445	1,054
Change in fair value from own credit risk	1,783	(80)	1,061
Balance at 31 December	501,173	751,993	502,115
		30 Sep 2019	31 Dec 2018
		RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk		6,486	2,764

^[1] Redeemed on 16 October 2019.

26 Subordinated Commodity Murabahah Financing

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	325,318	321,395
- Second tranche issued on 30 June 2015	277,944	274,592
	603,262	595,987

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)

27 Income Derived from Investment of Depositors' Funds and Others

	Third Quarter		Nine Months Ended	
	30 Sep 2019 RM'000	30 Sep 2018 RM'000	30 Sep 2019 RM'000	30 Sep 2018 RM'000
Income derived from investment of:				
(i) general investment deposits	129,735	139,225	387,777	398,014
(ii) specific investment deposits	23,063	20,520	70,291	63,949
(iii) others	57,165	49,272	170,888	147,984
	209,963	209,017	628,956	609,947
(i) Income derived from investment of general investment deposits				
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	96,445	106,808	292,424	306,019
- Recoveries from impaired financing	4,127	4,664	12,599	13,595
Financial investments at FVOCI	16,757	17,079	54,076	42,364
Money at call and deposit with financial institutions	13,624	10,295	32,457	30,222
	130,953	138,846	391,556	392,200
<u>Other operating income</u>				
Realised gains from dealing in foreign currency	5,146	3,179	13,776	9,579
Unrealised (loss)/gain from dealing in foreign currency	(266)	(420)	(1,230)	485
Gain from sale of financial assets designated as FVTPL and other financial instruments	810	1,093	1,022	1,539
Unrealised (loss)/gain from revaluation of financial assets designated as FVTPL	(375)	(1,159)	1,150	(1,304)
Realised gain from trading in derivatives	88	139	987	1,281
Unrealised gain/(loss) from trading in derivatives	157	(178)	734	(420)
Net expenses from financial liabilities designated at FVTPL	(6,778)	(2,277)	(20,208)	(5,328)
Other income/(expense)	-	2	(10)	(18)
	(1,218)	379	(3,779)	5,814
	129,735	139,225	387,777	398,014

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	Third Quarter		Nine Months Ended	
	30 Sep 2019 RM'000	30 Sep 2018 RM'000	30 Sep 2019 RM'000	30 Sep 2018 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	18,566	18,391	59,419	57,962
Money at call and deposit with financial institutions	5,143	3,082	11,975	6,157
	23,709	21,473	71,394	64,119
<u>Other operating income</u>				
Fees and commission	161	181	500	544
Realised loss from dealing in foreign currency	(1,144)	(1,134)	(1,851)	(713)
Unrealised gain/(loss) from dealing in foreign currency	337	-	248	(1)
	(646)	(953)	(1,103)	(170)
	23,063	20,520	70,291	63,949
The above fees and commissions were derived from the following major contributors:				
Service charges and fees	160	180	499	462
(iii) Income derived from investment of others				
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	42,496	37,793	128,867	113,780
- Recoveries from impaired financing	1,818	1,649	5,552	5,055
Financial investments at FVOCI	7,383	6,106	23,830	15,751
Money at call and deposit with financial institutions	6,003	3,636	14,303	11,237
	57,700	49,184	172,552	145,823
<u>Other operating income</u>				
Realised gain from dealing in foreign currency	2,268	1,120	6,071	3,561
Unrealised (loss)/gain from dealing in foreign currency	(117)	(165)	(542)	180
Gain from sale of financial assets designated as FVTPL and other financial instruments	357	402	451	572
Unrealised (loss)/gain from revaluation of financial assets at FVTPL	(166)	(430)	506	(485)
Realised gain from trading in derivatives	39	40	435	476
Unrealised gain/(loss) from trading in derivatives	70	(64)	324	(156)
Net expenses from financial liabilities designated at FVTPL	(2,986)	(817)	(8,905)	(1,981)
Other income/(expense)	-	2	(4)	(6)
	(535)	88	(1,664)	2,161
	57,165	49,272	170,888	147,984

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Income Derived from Investment of Shareholder's Funds

	Third Quarter		Nine Months Ended	
	30 Sep 2019 RM'000	30 Sep 2018 RM'000	30 Sep 2019 RM'000	30 Sep 2018 RM'000
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	14,637	16,050	46,617	48,139
- Recoveries from impaired financing	627	700	2,009	2,139
Financial investments at FVOCI	2,531	2,591	8,621	6,664
Money at call and deposit with financial institutions	2,101	1,544	5,174	4,754
	19,896	20,885	62,421	61,696
<u>Other operating income</u>				
Fees and commission	17,781	14,312	51,648	44,194
Realised gains from dealing in foreign currency	788	476	2,196	1,507
Unrealised (loss)/gain from dealing in foreign currency	(39)	(70)	(196)	76
Gain from sale of financial assets designated as FVTPL and other financial instruments	128	170	163	242
Unrealised (loss)/gain from revaluation of financial assets FVTPL	(66)	(182)	183	(205)
Realised gains from trading in derivatives	10	17	157	201
Unrealised gain/(loss) from trading in derivatives	23	(27)	117	(66)
Shared-service fees from holding company	609	579	1,814	1,834
Net expenses from financial liabilities designated at FVTPL	(274)	(565)	(2,440)	(941)
Gain on disposal of financial investments at FVOCI	1,626	-	6,603	-
Other income	82	6	185	10
	20,668	14,716	60,430	46,852
	40,564	35,601	122,851	108,548
The above fees and commissions were derived from the following major contributors:				
Service charges and fees	633	4,036	13,515	12,058
Credit cards	7,178	6,944	21,735	20,539
Agency fees	1,602	2,282	5,735	7,721

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 Impairment Allowance/Provisions

	Third Quarter		Nine Months Ended	
	30 Sep 2019 RM'000	30 Sep 2018 RM'000	30 Sep 2019 RM'000	30 Sep 2018 RM'000
New and increased allowance/provisions (net of releases)	22,450	23,930	85,439	86,923
Recoveries	(13,341)	(9,543)	(35,678)	(30,383)
Written off	-	8	43	38
Total charge to statement of profit or loss	9,109	14,395	49,804	56,578

Breakdown of the impairment allowance/provisions is disclosed by financial instruments type are as follow:

(i) Financing and advances

New and increased allowance (net of releases)	21,987	24,006	85,397	87,629
Recoveries	(13,341)	(9,543)	(35,678)	(30,383)
Written off	-	8	43	38
Total charge to statement of profit or loss	8,646	14,471	49,762	57,284

(ii) Money at call and interbank placements maturing within one month

New and increased allowance (net of releases)	5	(1)	5	(1)
Total charge to statement of profit or loss	5	(1)	5	(1)

(iii) Financing commitments

New and increased allowance (net of releases)	494	(119)	(51)	(736)
Total charge to statement of profit or loss	494	(119)	(51)	(736)

(iv) Financial investment at FVOCI

New and increased allowance (net of releases)	(36)	44	88	31
Total charge to statement of profit or loss	(36)	44	88	31

30 Income Attributable to Depositors

	Third Quarter		Nine Months Ended	
	30 Sep 2019 RM'000	30 Sep 2018 RM'000 (Restated)	30 Sep 2019 RM'000	30 Sep 2018 RM'000 (Restated)
<u>Non-Mudharabah Fund</u>				
- Deposits from customers	76,215	80,000	222,839	214,692
- Deposits and placements of banks and other financial institutions	10,134	13,851	40,838	49,580
- Lease liabilities	345	-	1,134	-
- Others	23,951	19,594	73,908	55,854
	110,645	113,445	338,719	320,126

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Operating Expenses

	Third Quarter		Nine Months Ended	
	30 Sep 2019 RM'000	30 Sep 2018 RM'000 (Restated)	30 Sep 2019 RM'000	30 Sep 2018 RM'000 (Restated)
Personnel expenses	12,029	12,184	36,517	36,033
Promotion and marketing related expenses	2,534	4,057	5,765	11,096
Establishment related expenses	3,668	4,635	11,582	12,912
General administrative expenses	9,348	8,262	26,395	28,963
Related company expenses	35,821	34,487	104,585	102,198
	63,400	63,625	184,844	191,202
Personnel expenses				
Salaries, allowances and bonuses	10,077	9,809	29,311	28,637
Employees Provident Fund contributions	1,779	1,742	5,191	5,095
Share based payment	(225)	31	164	96
Other staff related costs	398	602	1,851	2,205
	12,029	12,184	36,517	36,033
Promotion and marketing related expenses	2,534	4,057	5,765	11,096
Establishment related expenses				
Depreciation of equipment	465	560	1,478	1,786
Depreciation of ROU assets	1,271	-	5,104	-
Information technology costs	643	989	1,945	2,353
Hire of equipment	86	-	164	-
Rental of premises	73	2,041	235	6,126
Utilities	563	417	1,558	1,452
Others	567	628	1,098	1,195
	3,668	4,635	11,582	12,912
General administrative expenses	9,348	8,262	26,395	28,963
Related company charges	35,821	34,487	104,585	102,198
Of which by:				
Type of service				
- Information technology related cost	1,070	1,815	8,209	5,130
- Non information technology related cost	34,751	32,672	96,376	97,068
Countries				
- Malaysia	35,404	34,365	103,760	101,868
- United Kingdom	417	122	825	330

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Capital Adequacy

	30 Sep 2019	31 Dec 2018
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	660,000	660,000
Retained profits	1,126,634	1,073,174
Other reserves	78,865	88,251
Regulatory adjustments	(100,971)	(94,783)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	1,764,528	1,726,642
Tier 2 capital		
Subordinated Commodity Murabahah financing	603,263	595,987
Impairment allowance (unimpaired portion) & regulatory reserves	152,738	152,771
Total Tier 2 capital	756,001	748,758
Capital base	2,520,529	2,475,400
<u>Inclusive of proposed dividend</u>		
CET1 and Tier 1 Capital ratio	13.287%	13.025%
Total Capital ratio	18.980%	18.673%
<u>Net of proposed dividend</u>		
CET1 and Tier 1 Capital ratio	13.287%	13.025%
Total Capital ratio	18.980%	18.371%

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 Sep 2019	31 Dec 2018
	RM'000	RM'000
Total RWA for credit risk	12,219,012	12,221,665
Total RWA for market risk	88,398	91,851
Total RWA for operational risk	972,666	943,049
	13,280,076	13,256,565

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 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 Sep 2019 RM'000	31 Dec 2018 RM'000
Direct credit substitutes	531,890	491,803
Transaction-related contingent items	1,289,073	1,138,590
Short-term self-liquidating trade-related contingencies	84,705	63,111
Formal standby facilities and credit lines		
- Maturity not exceeding one year	1,293,492	1,374,867
- Maturity exceeding one year	2,254,377	2,156,256
Other unconditionally cancellable	1,605,882	1,541,548
Unutilised credit card lines	3,731,702	3,452,850
Equity related contracts		
- Less than one year	474,101	116,883
- One year to less than five years	317,436	362,229
Profit rate related contracts		
- Less than one year	1,669,813	2,077,822
- One year to less than five years	1,059,045	1,671,166
- Over five years	-	232,745
Foreign exchange related contracts		
- Less than one year	4,902,319	7,837,019
- One year to less than five years	-	646,019
	19,213,835	23,162,908

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Performance Review and Business Prospects

Performance review

Profit before tax (PBT) of RM178.4 million increased by RM27.8 million or 18.5% against history due to higher income derived from investment of shareholder's funds, depositors' funds and others (RM33.3 million), lower impairment provision (RM6.7 million) and lower operating expenses (RM6.4 million), partially offset by higher income attribute to depositors (RM18.6 million).

Income derived from investment of shareholder's funds, depositor's funds and others increased by RM33.3 million, mainly due to higher income from financial investments at FVOCI (up RM21.7 million) and money at call and deposit with financial institutions (up RM11.5 million).

Operating expenses decreased from RM191.2 million to RM184.8 million or by 3.3% mainly due to lower promotion and marketing related expenses (down RM5.3 million). The Bank continues to leverage on its holding company to provide certain services under an embedded model to ensure costs efficiency with cost income ratio stood at 44.7% compared to 48.0% in prior corresponding period.

Total balance sheet at 30 September 2019 stood at RM20.7 billion, RM0.4 billion higher compared against 31 December 2018 (RM20.3 billion). The Bank's capital and liquidity ratios continues to remain strong and well above the regulatory requirements.

Business Prospects

The Malaysian economy recorded a higher than expected GDP growth of 4.9% in 2Q 2019 (1Q 2019: 4.5%), largely supported by continued expansion in domestic demand. This was attributed to higher private sector expenditure and growth across all economic sectors, primarily in the services and manufacturing sectors.

The headline inflation for 2Q 2019 has increased, mainly due to the lapse in impact of the GST zerorisation that was implemented in June 2018. The trajectory of headline inflation will continue to be primarily dependent on global crude oil prices, but is expected to be broadly stable in 2019 compared to 2018, supported by continued expansion in the economic activity.

From funding perspective, the banking system liquidity is expected to remain robust and sufficient to facilitate financial intermediation. However, competition among banks for deposits will remain as the requirement of complying with Basel III's Net Stable Funding Ratio is by 1 July 2020.

Separately, the outlook on the global economy remain tilted to the downside, due to escalating China-US trade tension, uncertainties in the Brexit negotiations and political unrest in Hong Kong.

Amidst the challenging global and regional environment, the growth in Malaysian economy is still expected to remain broadly sustained for the year, with GDP growth rate projection in the range of 4.3% to 4.8%. Household spending is expected to be the main driver, underpinned by continued income and employment growth, and supportive monetary and fiscal policy changes. Bank Negara Malaysia (BNM) has reduced the Overnight Policy Rate (OPR) by 25 basis points in May 2019, a first revision since January 2018, with the intention to support a steady growth path amid price stability, and to spur the economy.

Locally, industry players are eagerly awaiting the release of the virtual banking licence requirement from BNM, which is expected to be issued by end of the year. Many local players are already eyeing the licence following from the recent issuance of digital banking licence in Singapore and Hong Kong, along with the successful set-up of a few digital banks in China, Australia and South Korea. Non-bank players from the FinTech sector are expected to join the crowd, leveraging on their well-established e-payment and e-wallet platforms. In time to come, the local banking industry will face an unprecedented, new breed of competitors.

Within HSBC Group, Malaysia is identified as a scalable market and an important footprint within ASEAN. 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 through both inbound and outbound business for customers of HSBC residing in other countries who are major trade partners with Malaysia including intra ASEAN corridors.

In attune to the rapid technology development, the Bank is also currently gearing up its technology frontier, by enhancing digital capabilities for mobile and internet banking to improve customer service and experience. In addition, the Bank will continue to deepen the relationship with existing customers and also to penetrate new customer segments including the tech-savvy group. In the spirit of putting customer's interest first and doing the right things, the Bank will also continue its journey in building the right culture for the organisation.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Comparative Figures

Presentation and classification of items in the financial statements are consistent with those in previous financial year except for those listed below. The Bank's prior year profit and loss and retained profits brought forward are not affected by these reclassifications.

(i) Comparatives for financing and advances, impaired financing, and ECL allowances were restated to align the presentation for certain portfolio of financing and advances with industry practice.

Notes to the Financial Statements

31 December 2018

(a) Financing and Advances

	31 Dec 2018	
	RM'000 As restated	RM'000 As previously stated
Gross financing and advances	14,371,870	14,445,871
Less: Impairment allowance	(234,533)	(308,534)
Total net financing and advances	14,137,337	14,137,337

(of which the affected components are disclosed below)

By type and Shariah contracts

	Sale-based Contracts	
	RM'000 As restated	RM'000 As previously stated
Term financing:		
Other term financing	3,307,216	3,381,217

By type of customer

	RM'000 As restated	RM'000 As previously stated
Individuals	6,142,634	6,216,584
Foreign entities/individuals	1,839,151	1,839,202

By profit rate sensitivity

Fixed rate:		
Other financing	3,300,541	3,341,460
Variable rate:		
Cost-plus	5,483,023	5,516,105

By residual contractual maturity

Maturing within one year	5,895,827	5,895,995
More than one year to three years	1,166,130	1,167,759
More than three years to five years	1,289,364	1,298,607
Over five years	6,020,549	6,083,510

By sector

Household - Retail	6,706,145	6,780,146
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By purpose

Consumption credit	2,127,277	2,201,278
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NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Comparative Figures (Cont'd)

(a) Financing and Advances (Cont'd)

	31 Dec 2018	
	RM'000 As restated	RM'000 As previously stated
By geographical distribution		
Northern Region	1,497,309	1,499,020
Southern Region	1,464,169	1,464,999
Central Region	11,010,829	11,081,704
Eastern Region	399,563	400,148

(b) Impaired Financing

(of which the affected components are disclosed below)

	31 Dec 2018	
	RM'000 As restated	RM'000 As previously stated
Gross carrying amount movement of financing and advances classified as credit impaired:		
Gross carrying amount as at 1 January	282,049	322,683
Others	18	33,385
Gross carrying amount as at 31 December	356,312	430,313
By contract		
Commodity Murabahah (<i>cost-plus</i>)	201,946	275,947
By sector		
Household - Retail	265,333	339,334
By purpose		
Consumption credit	138,227	212,228
By geographical distribution		
Northern Region	37,748	39,459
Southern Region	39,453	40,283
Central Region	273,061	343,936
Eastern Region	6,050	6,635

(c) ECL allowances

(of which the affected components are disclosed below)

Movements in ECL allowances for financing and advances

	Stage 3		Stage 3	
	Lifetime ECL credit impaired RM'000 As restated	Lifetime ECL credit impaired Specific provision RM'000 As restated	Lifetime ECL credit impaired RM'000 As previously stated	Lifetime ECL credit impaired Specific provision RM'000 As previously stated
Balance at 1 January 2018	-	74,265	-	114,899
- adoption of MFRS 9	110,136	(74,265)	150,770	(114,899)
Balance restated	110,136	-	150,770	-
Others	241	-	33,608	-
Balance 31 December 2018	126,081	-	200,082	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Comparative Figures (Cont'd)

(ii) Comparatives for income attributable to depositors and other operating expenses were restated to conform to the current financial year's presentation.

Statement of Profit or Loss and Other Comprehensive Income

30 September 2018

	RM'000 As restated	RM'000 As previously stated
a) Income attributable to depositors	<u>320,126</u>	<u>324,873</u>
<i>(of which the affected components are disclosed below)</i>		
<u>Non-Mudharabah Fund</u>		
- Others	55,854	60,601
b) Operating Expenses	<u>191,202</u>	<u>186,455</u>
<i>(of which the affected components are disclosed below)</i>		
General administrative expenses	28,963	24,216