

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
31 MARCH 2020

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 AS AT 31 MARCH 2020

| | <i>Note</i> | 31 Mar 2020 RM'000 | 31 Dec 2019 RM'000 |
|---|-------------|-----------------------|-----------------------|
| Assets | | | |
| Cash and short-term funds | 11 | 2,289,521 | 4,781,964 |
| Deposits and placements with banks and other financial institutions | 12 | 1,421,475 | 139,153 |
| Financial investments at fair value through other comprehensive income (FVOCI) | 13 | 2,983,305 | 2,719,975 |
| Financing and advances | 14 | 13,320,494 | 13,042,953 |
| Derivative financial assets | 17 | 199,543 | 125,674 |
| Other assets | 18 | 146,473 | 68,641 |
| Statutory deposits with Bank Negara Malaysia | 19 | 250,162 | 329,662 |
| Equipment | | 6,942 | 7,101 |
| Deferred tax assets | | 19,993 | 23,908 |
| Total assets | | 20,637,908 | 21,239,031 |
| Liabilities | | | |
| Deposits from customers | 20 | 13,511,916 | 13,320,333 |
| Deposits and placements from banks and other financial institutions | 21 | 2,277,151 | 2,339,954 |
| Structured liabilities designated at fair value through profit or loss (FVTPL) | 22 | 1,309,807 | 1,295,358 |
| Bills payable | | 12,065 | 22,036 |
| Derivative financial liabilities | 17 | 141,265 | 79,721 |
| Other liabilities | 23 | 241,198 | 343,396 |
| Provision for taxation | | 4,059 | 12,007 |
| Multi-Currency Sukuk Programme | 24 | 520,584 | 1,265,929 |
| Subordinated Commodity Murabahah Financing | 25 | 620,550 | 589,612 |
| Total liabilities | | 18,638,595 | 19,268,346 |
| Equity | | | |
| Share capital | | 660,000 | 660,000 |
| Reserves | | 1,339,313 | 1,310,685 |
| Total equity attributable to owner of the Bank | | 1,999,313 | 1,970,685 |
| Total liabilities and equity | | 20,637,908 | 21,239,031 |
| Restricted investment accounts ^[1] | | 3,634,692 | 4,144,225 |
| Total Islamic Banking asset ^[1] | | 24,272,600 | 25,383,256 |
| Commitments and contingencies | 32 | 19,946,022 | 20,854,027 |

^[1] The disclosure is in accordance with the requirements of Bank Negara Malaysia's Guideline on Financial Reporting for Islamic Banking Institutions dated 27 September 2019.

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 2019 and the accompanying explanatory notes on pages 8 to 33 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 28 April 2020.

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

UNAUDITED CONDENSED STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2020

| | <i>Note</i> | 31 Mar 2020 RM'000 | 31 Mar 2019 RM'000 |
|--|-------------|-------------------------------------|-----------------------|
| Income derived from investment of depositors' funds and others | 26 | 186,828 | 207,483 |
| Income derived from investment of shareholder's funds | 27 | 51,348 | 39,715 |
| Impairment allowance/provision | 28 | (63,911) | (18,436) |
| Total distributable income | | 174,265 | 228,762 |
| Income attributable to depositors | 29 | (92,418) | (112,860) |
| Total net income | | 81,847 | 115,902 |
| Operating expenses | 30 | (61,587) | (57,319) |
| Profit before tax | | 20,260 | 58,583 |
| Tax expense | | (4,052) | (10,681) |
| Profit for the financial period | | 16,208 | 47,902 |

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 2019 and the accompanying explanatory notes on pages 8 to 33 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 COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2020

| | 31 Mar 2020 | 31 Mar 2019 |
|---|--------------------|---------------|
| | RM'000 | RM'000 |
| Other comprehensive income/(expense) | | |
| <i>Items that will not be reclassified to profit or loss</i> | | |
| Own credit reserves: | | |
| Change in fair value | 17,829 | 1,029 |
| Income tax effect | (4,279) | (247) |
| <i>Items that will subsequently be reclassified to profit or loss when specific conditions are met:</i> | | |
| Fair value through other comprehensive income/(expense) reserve: | | |
| Change in fair value | 4,592 | 4,505 |
| Net amount transferred from profit or loss | (6,109) | 38 |
| Impairment charges | (2) | 92 |
| Income tax effect | 364 | (1,090) |
| Other comprehensive income for the financial period, net of tax | 12,395 | 4,327 |
| Total comprehensive income for the financial period | 28,603 | 52,229 |
| Profit attributable to the owner of the Bank | 16,208 | 47,902 |
| Total comprehensive income attributable to the owner of the Bank | 28,603 | 52,229 |
| Basic earnings per RM0.50 ordinary share | 16.2 sen | 47.9 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 2019 and the accompanying explanatory notes on pages 8 to 33 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 31 MARCH 2020

| | <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 |
| 2020 | | | | | | | |
| Balance at 1 January | 660,000 | 6,294 | (8,257) | 537 | 53,100 | 1,259,011 | 1,970,685 |
| Profit for the financial period | - | - | - | - | - | 16,208 | 16,208 |
| Other comprehensive income, net of tax | | | | | | | |
| FVOCI reserve/Own Credit reserve | | | | | | | |
| Net change in fair value | - | 3,490 | 13,550 | - | - | - | 17,040 |
| Net amount transferred to profit or loss | - | (4,643) | - | - | - | - | (4,643) |
| Impairment charges | - | (2) | - | - | - | - | (2) |
| <i>Total other comprehensive income</i> | - | (1,155) | 13,550 | - | - | - | 12,395 |
| Total comprehensive income for the financial period | - | (1,155) | 13,550 | - | - | 16,208 | 28,603 |
| Net change in regulatory reserves | - | - | - | - | (44,800) | 44,800 | - |
| Transactions with the owner, recorded directly in equity | | | | | | | |
| Share based payment transactions | - | - | - | (32) | - | 57 | 25 |
| Balance at 31 March | 660,000 | 5,139 | 5,293 | 505 | 8,300 | 1,320,076 | 1,999,313 |

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 2019 and the accompanying explanatory notes on pages 8 to 33 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 28 April 2020.

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

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2020 (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 |
| 2019 | | | | | | | |
| Balance at 1 January | 660,000 | 479 | (2,987) | 499 | 91,100 | 1,073,174 | 1,822,265 |
| Profit for the financial period | - | - | - | - | - | 47,902 | 47,902 |
| Other comprehensive income, net of tax | | | | | | | |
| FVOCI reserve/Own Credit reserve | | | | | | | |
| Net change in fair value | - | 3,424 | 782 | - | - | - | 4,206 |
| Net amount transferred to profit or loss | - | 29 | - | - | - | - | 29 |
| Impairment charges | - | 92 | - | - | - | - | 92 |
| <i>Total other comprehensive income</i> | - | 3,545 | 782 | - | - | - | 4,327 |
| Total comprehensive income for the financial period | - | 3,545 | 782 | - | - | 47,902 | 52,229 |
| Net change in regulatory reserves | - | - | - | - | (1,000) | 1,000 | - |
| Transactions with the owner, recorded directly in equity | | | | | | | |
| Share based payment transactions | - | - | - | 109 | - | 25 | 134 |
| Balance at 31 March | 660,000 | 4,024 | (2,205) | 608 | 90,100 | 1,122,101 | 1,874,628 |

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

UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2020

| | 31 Mar 2020 | 31 Mar 2019 |
|---|--------------------|--------------------|
| | RM'000 | RM'000 |
| Profit before tax | 20,260 | 58,583 |
| Adjustments for non-operating and non-cash items | 127,324 | 31,496 |
| Operating profit before working capital changes | 147,584 | 90,079 |
| Changes in working capital: | | |
| Net changes in operating assets | (1,698,586) | 160,541 |
| Net changes in operating liabilities | 108,869 | 23,418 |
| Income tax paid | (12,000) | (26,327) |
| Net cash (used in)/generated from operating activities | (1,454,133) | 247,711 |
| Net cash used in investing activities | (267,228) | (914,157) |
| Net cash used in financing activities | (771,082) | (19,140) |
| | (1,038,310) | (933,297) |
| Net changes in cash and cash equivalents | (2,492,443) | (685,586) |
| Cash and cash equivalents at 1 January | 4,781,964 | 2,804,494 |
| Cash and cash equivalents at 31 March | 2,289,521 | 2,118,908 |
| Analysis of cash and cash equivalents | | |
| Cash and short-term funds | 2,289,521 | 2,118,908 |

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 2019 and the accompanying explanatory notes on pages 8 to 33 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 28 April 2020.

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
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UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2020 (Cont'd)

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 31 March RM'000 |
|--|------------------------|-------------------------------------|--|----------------------------------|--------------------------|-----------------------|
| 2020 | | | | | | |
| Multi-Currency Sukuk Programme | 1,265,929 | (750,000) | - | 4,655 | - | 520,584 |
| Subordinated Commodity Murabahah Financing | 589,612 | - | 30,938 | - | - | 620,550 |
| Other Liabilities of which: | | | | | | |
| Profits paid on Multi-Currency Sukuk Programme | 13,724 | (14,508) | - | - | 11,505 | 10,721 |
| Profits paid on Subordinated Commodity Murabahah Financing | 281 | (6,574) | - | - | 6,570 | 277 |
| | 1,869,546 | (771,082) | 30,938 | 4,655 | 18,075 | 1,152,132 |
| 2019 | | | | | | |
| Multi-Currency Sukuk Programme | 1,755,281 | - | - | 3,347 | - | 1,758,628 |
| Subordinated Commodity Murabahah Financing | 595,987 | - | (8,139) | - | - | 587,848 |
| Other Liabilities of which: | | | | | | |
| Profits paid on Multi-Currency Sukuk Programme | 18,175 | (15,146) | - | - | 17,722 | 20,751 |
| Profits paid on Subordinated Commodity Murabahah Financing | 307 | (3,994) | - | - | 7,172 | 3,485 |
| | 2,369,750 | (19,140) | (8,139) | 3,347 | 24,894 | 2,370,712 |

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 2019 and the accompanying explanatory notes on pages 8 to 33 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 28 April 2020.

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

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 28 April 2020.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 31 March 2020 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 31 March 2020 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 2019. 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 2019.

All significant accounting policies, measurement basis 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 2019.

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

- Amendments to MFRS 3 'Definition of a Business' (effective 1 January 2020) revise the definition of a business.

To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments provide guidance to determine whether an input and a substantive process are present, including situation where an acquisition does not have outputs. To be a business without outputs, there will now need to be an organised workforce. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

In addition, the revised definition of the term 'outputs' is narrower, focusses on goods or services provided to customers, generating investment returns and other income but excludes returns in the form of cost savings.

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)

- Amendments to MFRS 3 'Definition of a Business' (effective 1 January 2020) revise the definition of a business. (Cont'd)

The amendments introduce an optional simplified assessment known as 'concentration test' that, if met, eliminates the need for further assessment. Under this concentration test, if substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset (or a group of similar assets), the assets acquired would not represent a business.

The amendments shall be applied prospectively. There is no material change in basis of preparation arising from the adoption of this standard.

- Amendments to MFRS 9 'Financial Instruments', MFRS 139 'Financial Instruments: Recognition and Measurement' and MFRS 7 'Financial Instruments: Disclosures' for Interest/Profit Rate Benchmark Reform.

Amendments to MFRS 9, MFRS 139 and MFRS 7 were issued in October 2019 that modify the specific hedge accounting requirements so that entities apply those hedge accounting requirements assuming that the profit rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of profit rate benchmark reform. These amendments apply from 1 January 2020 with early adoption permitted. The Bank has adopted the amendments that apply to MFRS 139 from 1 January 2019 and has made the additional disclosures as required by the amendments in the audited annual financial statements for the year ended 31 December 2019.

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 2019 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 31 March 2020.

7 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 31 March 2020.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

8 Debt and Equity Securities

The third series of Multi-Currency Sukuk Programme (MCSP) of RM 750 million was redeemed upon maturity on 27 March 2020. There were no other issuances, cancellations, repurchases, resale or repayment of other debt or equity securities during the financial period ended 31 March 2020.

9 Dividend

No interim dividend was declared nor paid during the financial period ended 31 March 2020.

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.

11 Cash and Short-Term Funds

| | 31 Mar 2020 | 31 Dec 2019 |
|--|--------------------|-------------|
| | RM'000 | RM'000 |
| Cash and balances with banks and other financial institutions | 204,632 | 215,943 |
| Money at call and interbank placements maturing within one month | 2,084,889 | 4,566,021 |
| | 2,289,521 | 4,781,964 |

Money at call and interbank placements maturing within one month is within Stage 1 allocation (12-months ECL) with RM29,000 impairment allowance as at 31 March 2020 (31 December 2019: RM6,000).

12 Deposits and Placements with Banks and Other Financial Institutions

| | 31 Mar 2020 | 31 Dec 2019 |
|--------------|--------------------|----------------|
| | RM'000 | RM'000 |
| Central bank | 1,421,475 | 139,153 |

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

| | 31 Mar 2020 | 31 Dec 2019 |
|------------------------------------|--------------------|-------------|
| | RM'000 | RM'000 |
| Money market instruments: | | |
| Malaysian Government Islamic Sukuk | 2,983,305 | 2,719,975 |
| | 2,983,305 | 2,719,975 |

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

| | | |
|-------------------------------------|------------------|-----------|
| Maturing within one year | 1,699,412 | 1,700,589 |
| More than one year to three years | 1,036,271 | 1,019,386 |
| More than three years to five years | 247,622 | - |
| | 2,983,305 | 2,719,975 |

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 Al-Inah | Ijarah Thumma Al-Bai | Diminishing Musharakah | | |
| 31 Mar 2020 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Cash line-i | 77,038 | - | - | - | - | 77,038 |
| Term financing: | | | | | | |
| House financing | - | - | - | 4,120,699 | - | 4,120,699 |
| Hire purchase receivables | - | - | 192,290 | - | - | 192,290 |
| Syndicated term financing | 779,709 | - | - | - | - | 779,709 |
| Other term financing | 2,843,648 | 39 | - | 966,355 | - | 3,810,042 |
| Trust receipts | 432,996 | - | - | - | - | 432,996 |
| Claims on customers under acceptance credits | 381,266 | - | - | - | - | 381,266 |
| Bills receivables | 841,342 | - | - | - | - | 841,342 |
| Staff financing-i | 874 | 20 | - | 1,152 | - | 2,046 |
| Credit cards-i | - | - | - | - | 1,196,616 | 1,196,616 |
| Revolving financing | 1,787,008 | - | - | - | - | 1,787,008 |
| Other financing | - | - | - | 4,241 | - | 4,241 |
| Gross financing and advances | 7,143,881 | 59 | 192,290 | 5,092,447 | 1,196,616 | 13,625,293 |
| Less: Impairment allowance | | | | | | (304,799) |
| Total net financing and advances | | | | | | 13,320,494 |

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 Al-Inah | Ijarah Thumma Al-Bai | Diminishing Musharakah | | |
| 31 Dec 2019 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Cash line-i | 73,131 | - | - | - | - | 73,131 |
| Term financing: | | | | | | |
| House financing | - | - | - | 4,164,372 | - | 4,164,372 |
| Hire purchase receivables | - | - | 194,049 | - | - | 194,049 |
| Syndicated term financing | 728,298 | - | - | - | - | 728,298 |
| Other term financing | 2,867,908 | 39 | - | 971,127 | - | 3,839,074 |
| Trust receipts | 525,826 | - | - | - | - | 525,826 |
| Claims on customers under acceptance credits | 323,272 | - | - | - | - | 323,272 |
| Bills receivables | 470,920 | - | - | - | - | 470,920 |
| Staff financing-i | 1,041 | 30 | - | 1,173 | - | 2,244 |
| Credit cards-i | - | - | - | - | 1,258,564 | 1,258,564 |
| Revolving financing | 1,716,165 | - | - | - | - | 1,716,165 |
| Other financing | - | - | - | 4,303 | - | 4,303 |
| Gross financing and advances | <u>6,706,561</u> | <u>69</u> | <u>194,049</u> | <u>5,140,975</u> | <u>1,258,564</u> | <u>13,300,218</u> |
| Less: Impairment allowance | | | | | | <u>(257,265)</u> |
| Total net financing and advances | | | | | | <u>13,042,953</u> |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances (Cont'd)

(ii) By type of customer

| | 31 Mar 2020 | 31 Dec 2019 |
|--|--------------------------|-------------------|
| | RM'000 | RM'000 |
| Domestic non-bank financial institutions | 474,484 | 494,886 |
| Domestic business enterprises: | | |
| Small medium enterprises | 979,660 | 937,397 |
| Others | 4,453,354 | 4,221,026 |
| Government and statutory bodies | 1,265 | 1,917 |
| Individuals | 6,190,301 | 6,263,102 |
| Other domestic entities | 1,118 | 1,137 |
| Foreign entities/individuals | 1,525,111 | 1,380,753 |
| | <u>13,625,293</u> | <u>13,300,218</u> |

(iii) By profit rate sensitivity

| | 31 Mar 2020 | 31 Dec 2019 |
|------------------------------------|--------------------------|-------------------|
| | RM'000 | RM'000 |
| Fixed rate: | | |
| Hire purchase receivables | 192,290 | 194,049 |
| Other financing | 3,731,241 | 3,443,551 |
| Variable rate: | | |
| Base Rate/Base Financing Rate plus | 5,154,456 | 5,197,432 |
| Cost-plus | 4,547,306 | 4,465,186 |
| | <u>13,625,293</u> | <u>13,300,218</u> |

(iv) By residual contractual maturity

| | 31 Mar 2020 | 31 Dec 2019 |
|-------------------------------------|--------------------------|-------------------|
| | RM'000 | RM'000 |
| Maturing within one year | 5,177,151 | 4,541,871 |
| More than one year to three years | 1,254,209 | 1,755,409 |
| More than three years to five years | 1,109,083 | 1,012,833 |
| Over five years | 6,084,850 | 5,990,105 |
| | <u>13,625,293</u> | <u>13,300,218</u> |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances (Cont'd)

(v) By sector

| | 31 Mar 2020 | 31 Dec 2019 |
|--|--------------------------|-------------------|
| | RM'000 | RM'000 |
| Agriculture, hunting, forestry & fishing | 18,064 | 16,715 |
| Mining and quarrying | 175,685 | 184,190 |
| Manufacturing | 1,418,240 | 1,203,233 |
| Electricity, gas and water | 216,013 | 199,311 |
| Construction | 970,054 | 1,051,079 |
| Real estate | 800,089 | 759,769 |
| Wholesale & retail trade, restaurants & hotels | 889,463 | 824,314 |
| Transport, storage and communication | 186,559 | 177,572 |
| Finance, takaful and business services | 860,052 | 868,309 |
| Household - Retail | 6,700,340 | 6,785,186 |
| Others | 1,390,734 | 1,230,540 |
| | <u>13,625,293</u> | <u>13,300,218</u> |

(vi) By purpose

| | 31 Mar 2020 | 31 Dec 2019 |
|--------------------------------|--------------------------|-------------------|
| | RM'000 | RM'000 |
| Purchase of landed property: | | |
| Residential | 4,121,848 | 4,165,546 |
| Non-residential | 796,194 | 799,749 |
| Purchase of transport vehicles | 648 | 771 |
| Consumption credit | 2,345,274 | 2,382,777 |
| Construction | 854,749 | 817,249 |
| Working capital | 4,490,243 | 4,273,540 |
| Other purpose | 1,016,337 | 860,586 |
| | <u>13,625,293</u> | <u>13,300,218</u> |

(vii) By geographical distribution

| | 31 Mar 2020 | 31 Dec 2019 |
|-----------------|--------------------------|-------------------|
| | RM'000 | RM'000 |
| Northern Region | 1,573,472 | 1,557,283 |
| Southern Region | 1,605,507 | 1,570,904 |
| Central Region | 10,082,275 | 9,793,026 |
| Eastern Region | 364,039 | 379,005 |
| | <u>13,625,293</u> | <u>13,300,218</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, 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)

14 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.

| | 31 Mar 2020 | 31 Dec 2019 |
|--|--------------------|----------------|
| | RM'000 | RM'000 |
| Financial assets at fair value through profit or loss ^[1] | <u>-</u> | <u>600,054</u> |
| Total gross financing and advances | 3,133,557 | 3,071,768 |
| Less: Impairment allowance | (2,592) | (347) |
| Total net financing and advances | 3,130,965 | 3,071,421 |
| <i>Maturity not exceeding one year</i> | 65,977 | 35,000 |
| <i>Maturity exceeding one year</i> | 437,750 | 437,750 |
| Total commitments and contingencies | 503,727 | 472,750 |
| Total restricted investment accounts | 3,634,692 | 4,144,225 |
| Risk weighted assets (RWA) of restricted investment accounts | 2,681,558 | 3,298,355 |

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 2019.

^[1] These are held for the purpose for sale in the near term.

15 Impaired Financing

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

| | 31 Mar 2020 | 31 Dec 2019 |
|---|--------------------|-------------|
| | RM'000 | RM'000 |
| Gross carrying amount as at 1 January | 385,303 | 356,312 |
| Transfer within stages | 23,251 | 59,449 |
| Net remeasurement due to changes in credit risk | 16,171 | 70,641 |
| Written-off | (25,895) | (101,099) |
| Gross carrying amount as at 31 March | 398,830 | 385,303 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Impaired Financing (Cont'd)

(ii) By contract

| | 31 Mar 2020 | 31 Dec 2019 |
|---|--------------------|-------------|
| | RM'000 | RM'000 |
| Ijarah Thumma Al-Bai (AITAB) (<i>hire purchase</i>) | 441 | 1,117 |
| Commodity Murabahah (<i>cost-plus</i>) | 264,882 | 248,763 |
| Diminishing Musharakah (<i>profit and loss sharing</i>) | 126,040 | 128,582 |
| Bai Al-Inah (<i>sell and buy back</i>) | 32 | 32 |
| Ujrah (<i>fee-based</i>) | 7,435 | 6,809 |
| | 398,830 | 385,303 |

(iii) By sector

| | 31 Mar 2020 | 31 Dec 2019 |
|--|--------------------|-------------|
| | RM'000 | RM'000 |
| Manufacturing | 17,358 | 16,247 |
| Construction | 2,621 | 4,199 |
| Real estate | - | 35 |
| Wholesale & retail trade, restaurants & hotels | 17,603 | 18,004 |
| Transport, storage and communication | 282 | 369 |
| Finance, takaful and business services | 30,541 | 28,721 |
| Household - Retail | 303,162 | 292,565 |
| Others | 27,263 | 25,163 |
| | 398,830 | 385,303 |

(iv) By purpose

| | 31 Mar 2020 | 31 Dec 2019 |
|--------------------------------|--------------------|-------------|
| | RM'000 | RM'000 |
| Purchase of landed property: | | |
| Residential | 106,071 | 105,991 |
| Non-residential | 16,290 | 18,307 |
| Purchase of transport vehicles | 32 | 32 |
| Consumption credit | 197,059 | 185,059 |
| Construction | 2,551 | 2,724 |
| Working capital | 51,910 | 50,381 |
| Others | 24,917 | 22,809 |
| | 398,830 | 385,303 |

(v) By geographical distribution

| | 31 Mar 2020 | 31 Dec 2019 |
|-----------------|--------------------|-------------|
| | RM'000 | RM'000 |
| Northern Region | 31,253 | 33,178 |
| Southern Region | 41,173 | 39,561 |
| Central Region | 318,582 | 305,637 |
| Eastern Region | 7,822 | 6,927 |
| | 398,830 | 385,303 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 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 | Total RM'000 |
| Balance at 1 January 2020 | 46,503 | 68,003 | 142,759 | 257,265 |
| Changes due to financial assets recognised in the opening balance that have: | | | | |
| - Transferred to Stage 1 | 12,391 | (10,839) | (1,552) | - |
| - Transferred to Stage 2 | (3,477) | 6,694 | (3,217) | - |
| - Transferred to Stage 3 | (9) | (9,900) | 9,909 | - |
| New financial assets originated or purchased | 7,128 | - | - | 7,128 |
| Net remeasurement due to changes in credit risk | 8,247 | 33,606 | 24,318 | 66,171 |
| Asset written-off | - | - | (25,895) | (25,895) |
| Others | 130 | - | - | 130 |
| Balance at 31 March 2020 | 70,913 | 87,564 | 146,322 | 304,799 |
| 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 | 21,747 | (18,175) | (3,572) | - |
| - Transferred to Stage 2 | (4,295) | 8,351 | (4,056) | - |
| - Transferred to Stage 3 | (443) | (3,831) | 4,274 | - |
| New financial assets originated or purchased | 17,655 | - | - | 17,655 |
| Net remeasurement due to changes in credit risk | (31,931) | 17,194 | 121,131 | 106,394 |
| Asset written-off | - | - | (101,099) | (101,099) |
| Others | (218) | - | - | (218) |
| Balance at 31 December 2019 | 46,503 | 68,003 | 142,759 | 257,265 |

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 period have contributed to the changes in the ECL allowances for the Bank under the expected credit loss model.

The total ECL allowances increased by RM 47.5 million compared to the balance at the beginning of the year. This net increase was mainly contributed by net remeasurement due to changes in credit risk (RM 66.2 million) and new financial assets originated or purchased (RM 7.1 million), partly offset by asset written-off (RM 25.9 million).

- 12-months ECL not credit impaired (Stage 1) - increased by RM24.4 million, primarily due to increase in new financial assets originated or purchased, migration of financings from Stage 2 and Stage 3 and increase in remeasurement driven by changes in credit risk.
- Lifetime ECL not credit-impaired (Stage 2) - increased by RM19.6 million, primarily due to increase in remeasurement driven by changes in credit risk and migration of financing to Stage 3, and partially offset by migration of financings to Stage 1 and Stage 3.
- Lifetime ECL credit-impaired (Stage 3) - increased by RM3.6 million, primarily due to increase in remeasurement driven by changes in credit risk and migration of financing to Stage 3, and partially offset by asset written-off.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 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 2020 | 1,276 | 874 | 402 | 2,552 |
| Changes due to financial assets recognised in the opening balance that have: | | | | |
| - Transferred to Stage 1 | 77 | (77) | - | - |
| - Transferred to Stage 2 | (31) | 31 | - | - |
| - Transferred to Stage 3 | - | - | - | - |
| New financial assets originated or purchased | 189 | - | - | 189 |
| Net remeasurement due to changes in credit risk | 1,595 | 1,619 | 3 | 3,217 |
| Others | 22 | - | - | 22 |
| Balance at 31 March 2020 | 3,128 | 2,447 | 405 | 5,980 |
| 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 | 81 | (81) | - | - |
| - Transferred to Stage 2 | (88) | 88 | - | - |
| - Transferred to Stage 3 | - | - | - | - |
| New financial assets originated or purchased | 653 | - | - | 653 |
| Net remeasurement due to changes in credit risk | (471) | (58) | (423) | (952) |
| Others | (8) | - | - | (8) |
| Balance at 31 December 2019 | 1,276 | 874 | 402 | 2,552 |

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)

17 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 |
| 31 Mar 2020 | | | | | | | | | | | | |
| Trading derivatives: | | | | | | | | | | | | |
| Foreign exchange contracts | | | | | | | | | | | | |
| - Forwards | 6,192,255 | - | - | 6,192,255 | 73,148 | - | - | 73,148 | 70,936 | - | - | 70,936 |
| - Swaps | 983,047 | - | - | 983,047 | 67,016 | - | - | 67,016 | 67,051 | - | - | 67,051 |
| Profit rate related contracts | | | | | | | | | | | | |
| - Swaps | 156,000 | 959,349 | - | 1,115,349 | 1,136 | 32,350 | - | 33,486 | - | 3,126 | - | 3,126 |
| - Options | 192,283 | 223,418 | - | 415,701 | 3,887 | 4,534 | - | 8,421 | - | - | - | - |
| Equity related contracts | | | | | | | | | | | | |
| - Options purchased | 415,272 | 512,024 | - | 927,296 | 10,980 | 6,492 | - | 17,472 | 142 | 10 | - | 152 |
| Sub- total | 7,938,857 | 1,694,791 | - | 9,633,648 | 156,167 | 43,376 | - | 199,543 | 138,129 | 3,136 | - | 141,265 |
| Total | 7,938,857 | 1,694,791 | - | 9,633,648 | 156,167 | 43,376 | - | 199,543 | 138,129 | 3,136 | - | 141,265 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
17 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 2019 | | | | | | | | | | | | |
| Trading derivatives: | | | | | | | | | | | | |
| Foreign exchange contracts | | | | | | | | | | | | |
| - Forwards | 6,829,354 | - | - | 6,829,354 | 35,968 | - | - | 35,968 | 36,232 | - | - | 36,232 |
| - Swaps | 642,318 | - | - | 642,318 | 41,737 | - | - | 41,737 | 41,568 | - | - | 41,568 |
| Profit rate related contracts | | | | | | | | | | | | |
| - Swaps | 1,048,000 | 863,428 | - | 1,911,428 | 1,097 | 11,565 | - | 12,662 | - | 1,601 | - | 1,601 |
| - Options | 170,519 | 245,982 | - | 416,501 | 2,620 | 1,960 | - | 4,580 | - | - | - | - |
| Equity related contracts | | | | | | | | | | | | |
| - Options purchased | 466,444 | 396,199 | - | 862,643 | 16,084 | 14,643 | - | 30,727 | 196 | 124 | - | 320 |
| Sub- total | 9,156,635 | 1,505,609 | - | 10,662,244 | 97,506 | 28,168 | - | 125,674 | 77,996 | 1,725 | - | 79,721 |
| Total | 9,156,635 | 1,505,609 | - | 10,662,244 | 97,506 | 28,168 | - | 125,674 | 77,996 | 1,725 | - | 79,721 |

The Bank does not have any hedging instrument as at 31 December 2019.

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

| | 31 Mar 2020 | 31 Mar 2019 |
|--|--------------------|-------------|
| | RM'000 | RM'000 |
| Gain on hedging instruments | - | 13 |
| Loss on the hedged items attributable to the hedged risk | - | (28) |
| Net loss from fair value hedges | - | (15) |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Other Assets

| | 31 Mar 2020 | 31 Dec 2019 |
|---------------------------------|-----------------------|---------------|
| | RM'000 | RM'000 |
| Settlements | 13,069 | - |
| Income receivable | 4,366 | 6,234 |
| Profit receivable | 31,174 | 24,990 |
| Amount due from holding company | 49,872 | 2,093 |
| Rights of Use (ROU) assets | 25,258 | 24,504 |
| Other receivables | 22,734 | 10,820 |
| | <u>146,473</u> | <u>68,641</u> |

19 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)

20 Deposits From Customers

(i) By type of deposit

| | 31 Mar 2020 | 31 Dec 2019 |
|--------------------------|--------------------|-------------|
| | RM'000 | RM'000 |
| At amortised cost | | |
| Non-Mudharabah Fund | | |
| Demand deposits | | |
| - Qard | 2,371,647 | 3,451,211 |
| Savings deposits | | |
| - Qard | 2,062,176 | 1,872,649 |
| Term deposits | | |
| - Commodity Murabahah | 8,974,903 | 7,942,487 |
| - Qard | 103,190 | 53,986 |
| | 13,511,916 | 13,320,333 |

The maturity structure of term deposits is as follows:

| | 31 Mar 2020 | 31 Dec 2019 |
|-------------------------------------|--------------------|-------------|
| | RM'000 | RM'000 |
| Due within six months | 7,648,474 | 6,590,085 |
| More than six months to one year | 1,077,634 | 1,099,780 |
| More than one year to three years | 209,617 | 174,180 |
| More than three years to five years | 142,368 | 132,428 |
| | 9,078,093 | 7,996,473 |

(ii) By type of customer

| | 31 Mar 2020 | 31 Dec 2019 |
|---------------------------------|--------------------|-------------|
| | RM'000 | RM'000 |
| Government and statutory bodies | 14,536 | 12,986 |
| Business enterprises | 3,311,760 | 2,753,651 |
| Individuals | 6,284,563 | 6,222,474 |
| Foreign entities/individuals | 3,649,282 | 3,945,963 |
| Others | 251,775 | 385,259 |
| | 13,511,916 | 13,320,333 |

21 Deposits and Placements from Banks and Other Financial Institutions

| | 31 Mar 2020 | 31 Dec 2019 |
|------------------------------|--------------------|-------------|
| | RM'000 | RM'000 |
| Non-Mudharabah Fund | | |
| Licensed banks | 985,808 | 427,197 |
| Bank Negara Malaysia | 36,472 | 20,412 |
| Other financial institutions | 1,254,871 | 1,892,345 |
| | 2,277,151 | 2,339,954 |

Included in deposits and placements from banks and other financial institutions are placements from the Bank's parent company, HSBC Bank Malaysia Berhad, of RM986 million (31 Dec 2019: RM427 million).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

| At fair value | 31 Mar 2020 | 31 Dec 2019 |
|--------------------------------|--------------------|-------------|
| | RM'000 | RM'000 |
| Structured liabilities | | |
| - Wakalah with Commodity Wa'ad | 178,380 | 205,951 |
| - Tawarruq | 1,131,427 | 1,089,407 |
| | 1,309,807 | 1,295,358 |

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.

23 Other Liabilities

| At amortised cost | Note | 31 Mar 2020 | 31 Dec 2019 |
|---|------|--------------------|-------------|
| | | RM'000 | RM'000 |
| Settlements | | 12,169 | 96 |
| Amounts due to holding company | | 59 | 57,735 |
| Profit payable | | 79,806 | 85,652 |
| Deferred income | | 11,319 | 38,760 |
| Marginal deposit | | 3,386 | 3,765 |
| Accrued expenses | | 26,459 | 26,971 |
| Lease liabilities | | 26,816 | 25,054 |
| Other creditors | (a) | 75,204 | 102,811 |
| Provision on financing and credit related commitments | | 5,980 | 2,552 |
| | | 241,198 | 343,396 |

(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. No Shariah non-compliant event has been identified during the financial period (2019: 1).

Source and use of charity funds

| | 31 Mar 2020 | 31 Dec 2019 |
|---|--------------------|-------------|
| | RM'000 | RM'000 |
| Balance at 1 January | 3 | 14 |
| Shariah non-compliant income for the financial period/year ^[1] | 2 | 27 |
| Contribution to non-profit organisations | - | (15) |
| Tax expense on Shariah non-compliant income | - | (23) |
| Balance at 31 March/31 December | 5 | 3 |

^[1] Income received from transactions in Financing and Advances and Nostro Accounts.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24 Multi-Currency Sukuk Programme

| | 31 Mar 2020 | 31 Dec 2019 |
|---------------------------------------|--------------------|-------------|
| | RM'000 | RM'000 |
| Multi-Currency Sukuk Programme (MCSP) | 520,584 | 1,265,929 |

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

| | Value | Issue | Maturity | Carrying Value | |
|----------------------------|------------------|--------------|-----------------|-----------------------|--------------------|
| | | | | 31 Mar 2020 | 31 Dec 2019 |
| <u>Issuance under MCSP</u> | RM'000 | Date | Date | RM'000 | RM'000 |
| At fair value | | | | | |
| 3rd series ^[1] | 750,000 | 27 Mar 2015 | 27 Mar 2020 | - | 751,732 |
| 4th series | 500,000 | 2 Oct 2018 | 2 Oct 2023 | 520,584 | 514,197 |
| | 1,750,000 | | | 520,584 | 1,265,929 |

Movement in MCSP

| | 3rd series | 4th series |
|--|--------------------|--------------------|
| | 31 Mar 2020 | 31 Mar 2020 |
| | RM'000 | RM'000 |
| <u>2020</u> | | |
| Balance at 1 January | 751,732 | 514,197 |
| Change in fair value other than from own credit risk | (847) | 8,930 |
| Change in fair value from own credit risk | (885) | (2,543) |
| Redemption of Multi-Currency Sukuk | (750,000) | - |
| Balance at 31 March | - | 520,584 |

| | 2nd series | 3rd series | 4th series |
|--|-------------------|-------------------|-------------------|
| | 31 Dec 2019 | 31 Dec 2019 | 31 Dec 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 | (917) | (1,455) | 8,446 |
| Change in fair value from own credit risk | (256) | 1,194 | 3,636 |
| Redemption of Multi-Currency Sukuk | (500,000) | - | - |
| Balance at 31 March | - | 751,732 | 514,197 |

| | 31 Mar 2020 | 31 Dec 2019 |
|---|--------------------|-------------|
| | RM'000 | RM'000 |
| The cumulative change in fair value due to changes in own credit risk | (3,428) | 4,574 |

^[1] Redeemed on 27 March 2020.

25 Subordinated Commodity Murabahah Financing

| | 31 Mar 2020 | 31 Dec 2019 |
|--|--------------------|-------------|
| | RM'000 | RM'000 |
| Subordinated Commodity Murabahah Financing, at amortised costs | | |
| - First tranche issued on 25 June 2014 | 334,641 | 317,957 |
| - Second tranche issued on 30 June 2015 | 285,909 | 271,655 |
| | 620,550 | 589,612 |

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)

26 Income Derived from Investment of Depositors' Funds and Others

| | 31 Mar 2020 | 31 Mar 2019 |
|------------------------------------|--------------------|-------------|
| | RM'000 | RM'000 |
| Income derived from investment of: | | |
| (i) Term deposit | 122,776 | 151,824 |
| (ii) Other deposits | 64,052 | 55,659 |
| | 186,828 | 207,483 |

(i) Income derived from investment of term deposits

Finance income:

Financing and advances

- Profit earned other than recoveries from impaired financing

101,175 119,744

- Recoveries from impaired financing

3,935 4,789

Financial investments at FVOCI

15,269 18,592

Money at call and deposit with financial institutions

15,618 10,374

135,997 153,499

Other operating income

Fee commission ^[1]

- 107

Realised gains from dealing in foreign currency

6,104 2,959

Unrealised (loss)/gain from dealing in foreign currency

(1,558) 89

Loss from sale of financial assets designated as FVTPL and other financial instruments

(190) (405)

Unrealised gain from revaluation of financial assets at FVTPL

2,416 1,542

Realised gain from trading in derivatives

103 52

Unrealised gain from trading in derivatives

3,670 819

Net expenses from financial liabilities designated at FVTPL

(23,766) (6,828)

Other expense

- (10)

(13,221) (1,675)

122,776 151,824

^[1] The above fees and commissions were derived from the following major contributors:

Service charges and fees

- 107

(ii) Income derived from investment of other deposits

Finance income:

Financing and advances

- Profit earned other than recoveries from impaired financing

44,223 42,973

- Recoveries from impaired financing

1,720 2,006

Financial investments at FVOCI

6,674 7,787

Money at call and deposit with financial institutions

6,826 3,383

59,443 56,149

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

| | 31 Mar 2020 | 31 Mar 2019 |
|--|--------------------|-------------|
| | RM'000 | RM'000 |
| (ii) Income derived from investment of other deposits (Cont'd) | | |
| <u>Other operating income</u> | | |
| Realised gain from dealing in foreign currency | 2,668 | 1,912 |
| Unrealised loss from dealing in foreign currency | (681) | (380) |
| Loss from sale of financial assets designated as FVTPL and other financial instruments | (83) | (169) |
| Unrealised gain from revaluation of financial assets at FVTPL | 1,056 | 646 |
| Realised gain from trading in derivatives | 45 | 22 |
| Unrealised gain from trading in derivatives | 1,604 | 343 |
| Net expenses from financial liabilities designated at FVTPL | - | (2,860) |
| Other expense | - | (4) |
| | 4,609 | (490) |
| | 64,052 | 55,659 |

27 Income Derived from Investment of Shareholder's Funds

| | 31 Mar 2020 | 31 Mar 2019 |
|--|--------------------|-------------|
| | RM'000 | RM'000 |
| <u>Finance income:</u> | | |
| Financing and advances | | |
| - Profit earned other than recoveries from impaired financing | 15,410 | 16,989 |
| - Recoveries from impaired financing | 599 | 793 |
| Financial investments at FVOCI | 2,326 | 3,078 |
| Money at call and deposit with financial institutions | 2,379 | 1,337 |
| | 20,714 | 22,197 |
| <u>Other operating income</u> | | |
| Fee commission ^[1] | 23,752 | 16,877 |
| Realised gains from dealing in foreign currency | 930 | 756 |
| Unrealised loss from dealing in foreign currency | (237) | (150) |
| Loss from sale of financial assets designated as FVTPL and other financial instruments | (29) | (67) |
| Unrealised gain from revaluation of financial assets FVTPL | 368 | 255 |
| Realised gains from trading in derivatives | 16 | 9 |
| Unrealised gain from trading in derivatives | 559 | 136 |
| Shared-service fees from holding company | 632 | 649 |
| Net expenses from financial liabilities designated at FVTPL | - | (1,046) |
| Gain on disposal of financial investments at FVOCI | 4,643 | - |
| Other income | - | 99 |
| | 30,634 | 17,518 |
| | 51,348 | 39,715 |

^[1] The above fees and commissions were derived from the following major contributors:

| | | |
|--------------------------|--------------|-------|
| Service charges and fees | 9,133 | 4,165 |
| Credit cards | 3,937 | 9,543 |
| Credit facilities | 2,028 | 2,100 |
| Agency fee | 3,898 | 2,078 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Impairment Allowance/Provisions

| | 31 Mar 2020 RM'000 | 31 Mar 2019 RM'000 |
|--|-----------------------|-----------------------|
| New and increased allowance/provisions (net of releases) | 76,725 | 29,594 |
| Recoveries | (12,815) | (11,195) |
| Written off | 1 | 37 |
| Total charge to statement of profit or loss | 63,911 | 18,436 |

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) | 73,299 | 29,899 |
| Recoveries | (12,815) | (11,195) |
| Written off | 1 | 37 |
| Total charge to statement of profit or loss | 60,485 | 18,741 |

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

| | | |
|--|-----------|------------|
| New and increased allowance (net of releases) | 22 | (2) |
| Total charge to statement of profit or loss | 22 | (2) |

(iii) Financing commitments

| | | |
|--|--------------|--------------|
| New and increased allowance (net of releases) | 3,406 | (395) |
| Total charge to statement of profit or loss | 3,406 | (395) |

(iv) Financial investment at FVOCI

| | | |
|--|------------|-----------|
| New and increased allowance (net of releases) | (2) | 92 |
| Total charge to statement of profit or loss | (2) | 92 |

29 Income Attributable to Depositors

| | 31 Mar 2020 RM'000 | 31 Mar 2019 RM'000 |
|---|-----------------------|-----------------------|
| <u>Non-Mudharabah Fund</u> | | |
| - Deposits from customers | 68,940 | 70,819 |
| - Deposits and placements of banks and other financial institutions | 5,313 | 16,669 |
| - Lease liabilities | 501 | 406 |
| - Others | 17,664 | 24,966 |
| | 92,418 | 112,860 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Operating Expenses

| | 31 Mar 2020 | 31 Mar 2019 |
|---|--------------------|-------------|
| | RM'000 | RM'000 |
| Personnel expenses | 11,673 | 11,357 |
| Promotion and marketing related expenses | 2,921 | 1,199 |
| Establishment related expenses | 4,447 | 4,053 |
| General administrative expenses | 8,912 | 8,423 |
| Related company expenses | 33,634 | 32,287 |
| | 61,587 | 57,319 |
| Personnel expenses | | |
| Salaries, allowances and bonuses | 9,279 | 8,992 |
| Employees Provident Fund contributions | 1,635 | 1,599 |
| Share based payment | 154 | 48 |
| Other staff related costs | 605 | 718 |
| | 11,673 | 11,357 |
| Promotion and marketing related expenses | 2,921 | 1,199 |
| Establishment related expenses | | |
| Depreciation of equipment | 495 | 496 |
| Depreciation of ROU assets | 2,442 | 2,026 |
| Information technology costs | 459 | 689 |
| Utilities | 492 | 500 |
| Others | 559 | 342 |
| | 4,447 | 4,053 |
| General administrative expenses | 8,912 | 8,423 |
| Related company charges | 33,634 | 32,287 |
| Of which by: | | |
| Type of service | | |
| - Information technology related cost | 5,000 | 2,559 |
| - Non information technology related cost | 28,634 | 29,728 |
| Countries | | |
| - Malaysia | 33,487 | 32,124 |
| - United Kingdom | 147 | 163 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Capital Adequacy

| | 31 Mar 2020 | 31 Dec 2019 |
|---|--------------------|-------------|
| | RM'000 | RM'000 |
| Tier 1 capital | | |
| Paid-up ordinary share capital | 660,000 | 660,000 |
| Retained profits | 1,253,868 | 1,259,011 |
| Other reserves | 22,479 | 51,001 |
| Regulatory adjustments | (43,664) | (71,428) |
| Total Common Equity Tier 1 (CET1) and Tier 1 capital | 1,892,683 | 1,898,584 |
| Tier 2 capital | | |
| Subordinated Commodity Murabahah financing | 620,550 | 589,612 |
| Impairment allowance (unimpaired portion) & regulatory reserves | 150,975 | 145,014 |
| Total Tier 2 capital | 771,525 | 734,626 |
| Capital base | 2,664,208 | 2,633,210 |
| <u>Inclusive of proposed dividend</u> | | |
| CET1 and Tier 1 Capital ratio | 14.391% | 14.974% |
| Total Capital ratio | 20.258% | 20.768% |
| <u>Net of proposed dividend</u> | | |
| CET1 and Tier 1 Capital ratio | 14.391% | 14.580% |
| Total Capital ratio | 20.258% | 20.374% |

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:

| | 31 Mar 2020 | 31 Dec 2019 |
|--------------------------------|--------------------|-------------|
| | RM'000 | RM'000 |
| Total RWA for credit risk | 12,078,021 | 11,601,150 |
| Total RWA for market risk | 62,796 | 81,799 |
| Total RWA for operational risk | 1,010,734 | 996,092 |
| | 13,151,551 | 12,679,041 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 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 | 31 Mar 2020 RM'000 | 31 Dec 2019 RM'000 |
|---|-------------------------------------|-----------------------|
| Direct credit substitutes | 411,333 | 488,882 |
| Transaction-related contingent items | 1,384,290 | 1,281,201 |
| Short-term self-liquidating trade-related contingencies | 64,630 | 37,007 |
| Formal standby facilities and credit lines | | |
| - Maturity not exceeding one year | 638,789 | 670,474 |
| - Maturity exceeding one year | 2,397,402 | 2,330,664 |
| Other unconditionally cancellable | 1,506,566 | 1,640,484 |
| Unutilised credit card lines | 3,909,364 | 3,743,071 |
| Equity related contracts | | |
| - Less than one year | 415,272 | 466,444 |
| - One year to less than five years | 512,024 | 396,199 |
| Profit rate related contracts | | |
| - Less than one year | 348,283 | 1,218,519 |
| - One year to less than five years | 1,182,767 | 1,109,410 |
| Foreign exchange related contracts | | |
| - Less than one year | 7,175,302 | 7,471,672 |
| | 19,946,022 | 20,854,027 |

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Performance Review, Economy and Prospects

Performance review

Profit before tax (PBT) of RM20.3 million decreased by RM38.3 million or 65.4% against history due to higher impairment provision (RM45.5 million) and lower income derived from investment of shareholder's funds, depositors' funds and others (RM9.0 million), partially offset by lower income attributable to depositors (RM20.4 million).

For the period ended 31 March 2020, impairment allowance/provisions increased as the impact of the Covid-19 outbreak were factored into the estimation of Expected Credit Loss (ECL). Income derived from investment of shareholder's funds, depositor's funds and others decreased by RM9.0 million, mainly due to lower profit earned from financing and advances (down RM18.9 million), partly offset by higher income from money at call and deposit with financial institutions (up RM9.7 million).

Total balance sheet at 31 March 2020 stood at RM20.6 billion, RM0.6 billion lower compared against 31 December 2019 (RM21.2 billion). The Bank's capital and liquidity ratios continues to remain strong and well above the regulatory requirements.

Economy and Prospects

Since early January 2020, the COVID-19 outbreak has spread across the globe. It has been classified by the World Health Organisation as pandemic in March 2020. This is causing ongoing disruption to business and economic activity world-wide, and is resulting in government and central banks rolling out relief actions and support measures in many countries to protect the economy.

Malaysia alike, is also impacted by the COVID-19 outbreak. The economic impact is already being felt across by households and businesses arising from the spill over effect of global supply chain disruptions and domestic containment actions. The Government of Malaysia has implemented Movement Control Order (MCO) as a containment measure where everyone is required to stay at home during the MCO period and public movement is restricted to purchasing necessities and seeking, and performing, essential services only. In addition, only providers of essential services and certain approved industries or companies are allowed to operate their business during the MCO period. This will have a chain effect on the state of our economy. In fact, Bank Negara Malaysia (BNM) has projected the Malaysia's GDP to contract between -2.0% and +0.5% for 2020, compared to a growth of 4.3% in 2019.

To cushion this impact, the Government and BNM have responded swiftly through a combination of monetary, financial and fiscal measures. The Government has introduced two major economic stimulus packages to support household income and safeguard jobs. For the business community, measures such as a dedicated financing guarantee facility, lower utility costs and income tax deferrals were undertaken to help reduce expenses and ease the cash flow of affected small and medium enterprises (SMEs) and corporations.

These were further complemented by measures rolled out by BNM, namely i) reduction in Overnight Policy Rate (OPR) by a total of 50 basis points in January and March this year, ii) reduction in Statutory Reserve Requirement (SRR) ratio by 100 basis points, with allowance for Government securities to be recognised for SRR compliance, and iii) 6-month moratorium relief programme for financing and advances repayment from individuals and SMEs. Alongside this, banks are also given temporary supervisory and regulatory flexibilities to support the effort in assisting individuals, SMEs and corporations through this period. HSBC Amanah fully supports BNM's moratorium relief measures and has rolled out the various relief initiatives to our customers.

The COVID-19 pandemic, if prolong, is expected to cause more serious disruptions to the economic activity globally throughout 2020 and will impact the performance and operation of most businesses, including that of our customers and suppliers. To date, we have proven our ability to continue to operate and support our customers during the MCO period, with our resources supporting from home via well-established and connected system infrastructure. Our capital and funding position remains well above the regulatory requirement level and we will continue to monitor and manage our positions actively.

We remain positive that the Malaysian economy will remain resilient and will gradually improve when the risks from the pandemic subside. According to BNM, production in the mining and agriculture sectors are projected to improve in the second half of the year amid the expected recovery from the supply disruptions. Continuation of large-scale public infrastructure projects will also provide additional lift to the local economy. Malaysia's domestic prospects are therefore, projected to improve towards the end of the year and subsequently in 2021.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Performance Review and Business Prospects (Cont'd)

Economy and Prospects (Cont'd)

We will continue to support our customers in this difficult time. The Bank will also continue with plans to further improve digital capabilities for mobile and internet banking for better customer service and experience. In addition, we will continue to deepen the relationship with existing customers along with new customer segments.

The Bank will also continue to leverage on HSBC Group's international network and capabilities to capture cross-border opportunities in the ASEAN and Belt and Road Initiative (BRI) corridors, and grow its business by leveraging on government schemes, providing customers with structured banking solutions and sustainable financing, besides maintaining its commitment towards the VBI agenda.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 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.

Comparatives for Income attributable to depositors and other operating expenses were restated to reclassify deposit protection insurance costs from Income attributable to depositors to other operating expenses. This cost represents an annual holding cost for deposits to customers as opposed to an initial transaction cost incurred in accepting the deposit.

Statement of Profit or Loss

31 Mar 2019

| | RM'000 As restated | RM'000 As previously stated |
|---|-----------------------|-----------------------------------|
| a) Income attributable to depositors | <u>112,860</u> | <u>114,442</u> |
| <i>(of which the affected components are disclosed below)</i> | | |
| <u>Non-Mudharabah Fund</u> | | |
| - Others | 24,966 | 26,548 |
| b) Operating Expenses | <u>57,319</u> | <u>55,737</u> |
| <i>(of which the affected components are disclosed below)</i> | | |
| General administrative expenses | 8,423 | 6,841 |