

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
30 SEPTEMBER 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 30 SEPTEMBER 2020

	<i>Note</i>	30 Sep 2020	31 Dec 2019
		RM'000	RM'000
Assets			
Cash and short-term funds	11	3,703,470	4,781,964
Deposits and placements with banks and other financial institutions	12	149,920	139,153
Financial investments at fair value through other comprehensive income (FVOCI)	13	1,418,106	2,719,975
Financing and advances	14	13,614,510	13,042,953
Derivative financial assets	17	123,578	125,674
Other assets	18	58,422	68,641
Statutory deposits with Bank Negara Malaysia	19	26,562	329,662
Equipment		9,878	7,101
Deferred tax assets		21,440	23,908
Total assets		<u>19,125,886</u>	<u>21,239,031</u>
Liabilities			
Deposits from customers	20	12,877,690	13,320,333
Deposits and placements from banks and other financial institutions	21	1,505,338	2,339,954
Structured liabilities designated at fair value through profit or loss (FVTPL)	22	1,146,007	1,295,358
Bills payable		21,699	22,036
Derivative financial liabilities	17	62,827	79,721
Other liabilities	23	366,904	343,396
Provision for taxation		3,917	12,007
Multi-Currency Sukuk Programme	24	525,092	1,265,929
Subordinated Commodity Murabahah Financing	25	599,301	589,612
Total liabilities		<u>17,108,775</u>	<u>19,268,346</u>
Equity			
Share capital		660,000	660,000
Reserves		1,357,111	1,310,685
Total equity attributable to owner of the Bank		<u>2,017,111</u>	<u>1,970,685</u>
Total liabilities and equity		<u>19,125,886</u>	<u>21,239,031</u>
Restricted investment accounts ^[1]		3,573,956	4,144,225
Total Islamic Banking asset ^[1]		<u>22,699,842</u>	<u>25,383,256</u>
Commitments and contingencies	32	<u>20,255,439</u>	<u>20,854,027</u>

^[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 32 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 26 October 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 30 SEPTEMBER 2020

	<i>Note</i>	Third Quarter		Nine Months Ended	
		30 Sep 2020	30 Sep 2019	30 Sep 2020	30 Sep 2019
		RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositors' funds and others	26	156,156	210,244	505,959	631,996
Income derived from investment of shareholder's funds	27	38,139	40,283	123,192	119,811
Impairment writeback/(provision)	28	11,154	(9,109)	(121,084)	(49,804)
Total distributable income		205,449	241,418	508,067	702,003
Income attributable to depositors	29	(57,433)	(110,645)	(224,927)	(338,719)
Total net income		148,016	130,773	283,140	363,284
Operating expenses	30	(61,076)	(63,400)	(181,061)	(184,844)
Profit before tax		86,940	67,373	102,079	178,440
Tax expense		(18,703)	(4,553)	(21,841)	(29,182)
Profit for the financial period		68,237	62,820	80,238	149,258
Basic earnings per RM0.50 ordinary share		68.2 sen	62.8 sen	80.2 sen	149.3 sen
Dividends per RM0.50 ordinary share (net)					
- final dividend paid in respect of prior period		-	-	50.0 sen	40.0 sen

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HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
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UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2020

	Third Quarter		Nine Months Ended	
	30 Sep 2020	30 Sep 2019	30 Sep 2020	30 Sep 2019
	RM'000	RM'000	RM'000	RM'000
Other comprehensive income/(expense)				
<i>Items that will not be reclassified to profit or loss</i>				
Own credit reserves:				
Change in fair value	(6,430)	(11,121)	10,257	(9,609)
Income tax effect	1,543	2,669	(2,462)	2,306
<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	5,963	1,661	22,583	15,743
Net amount transferred from profit or loss	(6,161)	(2,140)	(12,270)	(8,651)
Impairment charges	(726)	(36)	235	88
Income tax effect	48	115	(2,475)	(1,702)
Other comprehensive income for the financial period, net of income tax	(5,763)	(8,852)	15,868	(1,825)
Total comprehensive income for the financial period	62,474	53,968	96,106	147,433
Profit attributable to the owner of the Bank	68,237	62,820	80,238	149,258
Total comprehensive income attributable to the owner of the Bank	62,474	53,968	96,106	147,433

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HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 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	-	-	-	-	-	80,238	80,238
Other comprehensive income, net of tax							
FVOCI reserve/Own Credit reserve							
Net change in fair value	-	17,163	7,795	-	-	-	24,958
Net amount transferred to profit or loss	-	(9,325)	-	-	-	-	(9,325)
Impairment charges	-	235	-	-	-	-	235
<i>Total other comprehensive income</i>	-	8,073	7,795	-	-	-	15,868
Total comprehensive income for the financial period	-	8,073	7,795	-	-	80,238	96,106
Net change in regulatory reserves	-	-	-	-	(41,300)	41,300	-
Transactions with the owner, recorded directly in equity							
Share based payment transactions	-	-	-	277	-	43	320
Dividends paid to owner - 2019 final	-	-	-	-	-	(50,000)	(50,000)
Balance at 30 September	660,000	14,367	(462)	814	11,800	1,330,592	2,017,111

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HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 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	-	-	-	-	-	149,258	149,258
Other comprehensive income, net of tax							
FVOCI reserve/Own Credit reserve							
Net change in fair value	-	11,964	(7,303)	-	-	-	4,661
Net amount transferred to 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	<u>660,000</u>	<u>5,957</u>	<u>(10,290)</u>	<u>542</u>	<u>84,100</u>	<u>1,189,452</u>	<u>1,929,761</u>

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HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2020

	30 Sep 2020	30 Sep 2019
	RM'000	RM'000
Profit before tax	102,079	178,440
Adjustments for non-operating and non-cash items	209,805	127,329
Operating profit before working capital changes	311,884	305,769
Changes in working capital:		
Net changes in operating assets	(411,133)	138,082
Net changes in operating liabilities	(1,407,881)	303,010
Income tax paid	(32,400)	(50,213)
Net cash (used in)/generated from operating activities	(1,539,530)	696,648
Net cash generated from investing activities	1,298,147	8,084
Net cash used in financing activities	(837,111)	(87,321)
	461,036	(79,237)
Net changes in cash and cash equivalents	(1,078,494)	617,411
Cash and cash equivalents at 1 January	4,781,964	2,804,494
Cash and cash equivalents at 30 September	3,703,470	3,421,905
Analysis of cash and cash equivalents		
Cash and short-term funds	3,703,470	3,421,905

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HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 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 30 September RM'000
2020						
Multi-Currency Sukuk Programme	1,265,929	(750,000)	-	9,163	-	525,092
Subordinated Commodity Murabahah Financing	589,612	-	9,689	-	-	599,301
Other Liabilities of which:						
Profits paid on Multi-Currency Sukuk Programme	13,724	(22,033)	-	-	19,030	10,721
Profits paid on Subordinated Commodity Murabahah Financing	281	(15,078)	-	-	14,946	149
Dividend paid	-	(50,000)	-	-	-	-
	1,869,546	(837,111)	9,689	9,163	33,976	1,135,263
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)	-	-	-	-
	2,369,750	(87,321)	7,275	15,752	49,887	2,395,343

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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 26 October 2020.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 30 September 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.

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

The accounting policies and presentation adopted by the Bank for the interim financial statements are consistent with those adopted in the audited financial statements for the financial year ended 31 December 2019, except for the adoption of the following Amendments to MFRSs which are effective during the current financial period:

- The Conceptual Framework for Financial Reporting (Revised 2018)
- Amendments to MFRS 101 and MFRS 108 “Definition of Material”
- Amendments to MFRS 3 “Definition of a Business”
- Amendments to MFRS 16 “COVID-19-Related Rent Concessions”

The adoption of the above Amendments to MFRSs does not give rise to any material financial impact to the Bank.

(ii) Impact of Covid-19 Pandemic

The spread of COVID-19 since 1Q2020 vastly impacted both global and domestic economies and is expected to continue to affect all businesses, including HSBC Malaysia, for the remaining part of 2020.

In response to this unprecedented situation, the Bank has actively participated in moratorium relief programme initiated by Bank Negara Malaysia, aimed at providing support to our eligible customers that are affected by the economic disruption. As the moratorium itself should not automatically result in stage transfer under MFRS 9 in the absence of other factors relevant to the assessment, judgement is exercised and adapted based on current information on-hand in the determination of expected credit losses.

The Bank will continue to monitor the situation closely and take appropriate and timely actions to minimise the impact.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Functional and Presentation of Currency

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

4 Auditors' Report On Preceding Annual Financial Statements

The audit report on the audited financial statements for the financial year ended 31 December 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 30 September 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 30 September 2020.

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 30 September 2020.

9 Dividend

Since the end of the previous financial year, the Bank paid final dividend for the financial year ended 31 December 2019 of RM0.50 per ordinary share amounting to RM50 million.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Cash and Short-Term Funds

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Cash and balances with banks and other financial institutions	173,871	215,943
Money at call and interbank placements maturing within one month	3,529,599	4,566,021
	3,703,470	4,781,964

Money at call and interbank placements maturing within one month is within Stage 1 allocation (12-months ECL) with RM22,000 impairment allowance as at 30 September 2020 (31 December 2019: RM6,000).

12 Deposits and Placements with Banks and Other Financial Institutions

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Central bank	149,920	139,153

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

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Money market instruments:		
Malaysian Government Islamic Sukuk	1,418,106	2,719,975
	1,418,106	2,719,975

Financial investments at FVOCI are within Stage 1 allocation (12 -months ECL) with RM401,000 impairment allowance as at 30 September 2020 (31 December 2019: RM166,000). The carrying amount of financial investments at FVOCI is equivalent to their fair value. The impairment allowance is recognised in other comprehensive income and does not reduce the carrying amount in the statement of financial position.

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

Maturing within one year	65,485	1,700,589
More than one year to three years	1,109,067	1,019,386
More than three years to five years	243,554	-
	1,418,106	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 RM'000	Total RM'000
	Commodity Murabahah RM'000	Bai Al-Inah RM'000	Ijarah Thumma Al-Bai RM'000	Diminishing Musharakah RM'000		
30 Sep 2020						
Cash line-i	68,486	-	-	-	-	68,486
Term financing:						
House financing	-	-	-	4,097,073	-	4,097,073
Hire purchase receivables	-	-	215,337	-	-	215,337
Syndicated term financing	1,209,110	-	-	-	-	1,209,110
Other term financing	2,659,437	32	-	970,253	-	3,629,722
Trust receipts	455,372	-	-	-	-	455,372
Claims on customers under acceptance credits	248,196	-	-	-	-	248,196
Bills receivables	846,946	-	-	-	-	846,946
Staff financing-i	1,096	12	-	992	-	2,100
Credit cards-i	-	-	-	-	1,096,717	1,096,717
Revolving financing	2,054,931	-	-	-	-	2,054,931
Other financing	-	-	-	3,572	-	3,572
Gross financing and advances	7,543,574	44	215,337	5,071,890	1,096,717	13,927,562
Less: Impairment allowance						(313,052)
Total net financing and advances						13,614,510

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	Ujrah	Total		
31 Dec 2019	RM'000	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	6,706,561	69	194,049	5,140,975	1,258,564	-	13,300,218	
Less: Impairment allowance							(257,265)	
Total net financing and advances							13,042,953	

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances (Cont'd)

(ii) By type of customer

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Domestic non-bank financial institutions	400,068	494,886
Domestic business enterprises:		
Small medium enterprises	1,047,167	937,397
Others	4,348,164	4,221,026
Individuals	6,127,591	6,263,102
Other domestic entities	1,113	3,054
Foreign entities/individuals	2,003,459	1,380,753
	<u>13,927,562</u>	<u>13,300,218</u>

(iii) By profit rate sensitivity

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Fixed rate:		
Hire purchase receivables	215,337	194,049
Other financing	3,610,079	3,443,551
Variable rate:		
Base Rate/Base Financing Rate plus	5,124,697	5,197,432
Cost-plus	4,977,449	4,465,186
	<u>13,927,562</u>	<u>13,300,218</u>

(iv) By residual contractual maturity

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Maturing within one year	5,180,193	4,541,871
More than one year to three years	1,827,654	1,755,409
More than three years to five years	1,034,251	1,012,833
Over five years	5,885,464	5,990,105
	<u>13,927,562</u>	<u>13,300,218</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances (Cont'd)

(v) By sector

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Agriculture, hunting, forestry & fishing	17,028	16,715
Mining and quarrying	151,528	184,190
Manufacturing	1,537,859	1,203,233
Electricity, gas and water	16,621	199,311
Construction	1,062,928	1,051,079
Real estate	873,930	759,769
Wholesale & retail trade, restaurants & hotels	860,689	824,314
Transport, storage and communication	182,430	177,572
Finance, takaful and business services	827,872	868,309
Household - Retail	6,638,348	6,785,186
Others	1,758,329	1,230,540
	<u>13,927,562</u>	<u>13,300,218</u>

(vi) By purpose

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Purchase of landed property:		
Residential	4,098,062	4,165,546
Non-residential	802,006	799,749
Purchase of transport vehicles	719	771
Consumption credit	2,307,528	2,382,777
Construction	1,015,064	817,249
Working capital	4,211,481	4,273,540
Other purpose	1,492,702	860,586
	<u>13,927,562</u>	<u>13,300,218</u>

(vii) By geographical distribution

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Northern Region	1,257,721	1,557,283
Southern Region	1,669,745	1,570,904
Central Region	10,643,421	9,793,026
Eastern Region	356,675	379,005
	<u>13,927,562</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.

	30 Sep 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	3,512,097	3,071,768
Less: Impairment allowance	(964)	(347)
Total net financing and advances	3,511,133	3,071,421
<i>Maturity not exceeding one year</i>	62,823	35,000
<i>Maturity exceeding one year</i>	-	437,750
Total commitments and contingencies	62,823	472,750
Total restricted investment accounts	3,573,956	4,144,225
Risk weighted assets (RWA) of restricted investment accounts	2,762,438	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:

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Gross carrying amount as at 1 January	385,303	356,312
Transfer within stages	44,379	59,449
Net remeasurement due to changes in credit risk	59,462	70,641
Written-off	(97,352)	(101,099)
Gross carrying amount as at 30 September/31 December	391,792	385,303

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Impaired Financing (Cont'd)

(ii) By contract

	30 Sep 2020 RM'000	31 Dec 2019 RM'000
Ijarah Thumma Al-Bai (AITAB) (<i>hire purchase</i>)	438	1,117
Commodity Murabahah (<i>cost-plus</i>)	250,308	248,763
Diminishing Musharakah (<i>profit and loss sharing</i>)	112,169	128,582
Bai Al-Inah (<i>sell and buy back</i>)	32	32
Ujrah (<i>fee-based</i>)	28,845	6,809
	<u>391,792</u>	<u>385,303</u>

(iii) By sector

	30 Sep 2020 RM'000	31 Dec 2019 RM'000
Agriculture, hunting, forestry & fishing	338	-
Manufacturing	17,130	16,247
Construction	5,915	4,199
Real estate	-	35
Wholesale & retail trade, restaurants & hotels	10,568	18,004
Transport, storage and communication	216	369
Finance, takaful and business services	8,518	28,721
Household - Retail	325,452	292,565
Others	23,655	25,163
	<u>391,792</u>	<u>385,303</u>

(iv) By purpose

	30 Sep 2020 RM'000	31 Dec 2019 RM'000
Purchase of landed property:		
Residential	95,722	105,991
Non-residential	14,227	18,307
Purchase of transport vehicles	32	32
Consumption credit	229,469	185,059
Construction	5,855	2,724
Working capital	25,178	50,381
Others	21,309	22,809
	<u>391,792</u>	<u>385,303</u>

(v) By geographical distribution

	30 Sep 2020 RM'000	31 Dec 2019 RM'000
Northern Region	27,892	33,178
Southern Region	44,728	39,561
Central Region	310,491	305,637
Eastern Region	8,681	6,927
	<u>391,792</u>	<u>385,303</u>

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:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	
	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	17,448	(16,086)	(1,362)	-
- Transferred to Stage 2	(3,387)	5,807	(2,420)	-
- Transferred to Stage 3	(705)	(3,785)	4,490	-
New financial assets originated or purchased	15,438	-	-	15,438
Net remeasurement due to changes in credit risk	16,112	13,659	107,928	137,699
Asset written-off	-	-	(97,352)	(97,352)
Others	2	-	-	2
Balance at 30 September 2020	91,411	67,598	154,043	313,052
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 55.8 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 137.7 million) and new financial assets originated or purchased (RM 15.4 million), partly offset by asset written-off (RM 97.4 million).

- 12-months ECL not credit impaired (Stage 1) - increased by RM44.9 million, primarily due to increase in migration of financings to Stage 1, increase in remeasurement driven by changes in credit risk, new financial assets originated or purchased, and partially offset by migration of financings to Stage 2 and Stage 3.
- Lifetime ECL not credit-impaired (Stage 2) - decreased by RM0.4 million, primarily due to migration of financings to Stage 1 and Stage 3, partially offset by increase in net remeasurement driven by changes in credit risk.
- Lifetime ECL credit-impaired (Stage 3) - increased by RM11.3 million, primarily due to increase in net remeasurement driven by changes in credit risk, 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	140	(140)	-	-
- Transferred to Stage 2	(16)	16	-	-
- Transferred to Stage 3	-	(1)	1	-
New financial assets originated or purchased	273	-	-	273
Net remeasurement due to changes in credit risk	172	234	(403)	3
Others	(22)	-	-	(22)
Balance at 30 September 2020	1,823	983	-	2,806
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

For retail portfolio, the split of ECL allowance for drawn amount and provision for undrawn commitments is not available. 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
30 Sep 2020												
Trading derivatives:												
Foreign exchange contracts												
- Forwards	6,774,612	41,818	-	6,816,430	55,298	30	-	55,328	53,824	30	-	53,854
- Swaps	240,683	45,408	-	286,091	3,647	-	-	3,647	3,758	2,143	-	5,901
Profit rate related contracts												
- Swaps	211,000	1,018,190	-	1,229,190	1,515	38,136	-	39,651	-	3,072	-	3,072
- Options	164,616	127,962	-	292,578	2,329	2,888	-	5,217	-	-	-	-
Equity related contracts												
- Options purchased	346,130	490,085	-	836,215	9,959	9,776	-	19,735	-	-	-	-
Sub- total	7,737,041	1,723,463	-	9,460,504	72,748	50,830	-	123,578	57,582	5,245	-	62,827
Total	7,737,041	1,723,463	-	9,460,504	72,748	50,830	-	123,578	57,582	5,245	-	62,827

The Bank does not have any hedging instrument as at 30 September 2020.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)
17 Derivative Financial Instruments (Cont'd)

31 Dec 2019	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	>1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
Trading derivatives:												
Foreign exchange contracts												
- Forwards	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:

	30 Sep 2020	30 Sep 2019
	RM'000	RM'000
Gain on hedging instruments	-	13
Loss on the hedged items attributable to the hedged risk	-	(29)
Net loss from fair value hedges	-	(16)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Other Assets

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Income receivable	3,577	6,234
Profit receivable	15,477	24,990
Amount due from holding company	4,926	2,093
Rights of Use (ROU) assets	21,026	24,504
Other receivables	13,416	10,820
	58,422	68,641

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

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
At amortised cost		
Non-Mudharabah Fund		
Demand deposits		
- Qard	2,495,340	3,451,211
Savings deposits		
- Qard	2,331,267	1,872,649
Term deposits		
- Commodity Murabahah	7,924,799	7,942,487
- Qard	126,284	53,986
	12,877,690	13,320,333

The maturity structure of term deposits is as follows:

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Due within six months	6,711,195	6,590,085
More than six months to one year	967,683	1,099,780
More than one year to three years	248,642	174,180
More than three years to five years	123,563	132,428
	8,051,083	7,996,473

(ii) By type of customer

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Government and statutory bodies	15,456	12,986
Business enterprises	3,812,831	2,753,651
Individuals	5,950,560	6,222,474
Foreign entities/individuals	2,717,152	3,945,963
Others	381,691	385,259
	12,877,690	13,320,333

21 Deposits and Placements from Banks and Other Financial Institutions

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Non-Mudharabah Fund		
Licensed banks	753,076	427,197
Bank Negara Malaysia	7,611	20,412
Other financial institutions	744,651	1,892,345
	1,505,338	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 RM753 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	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Structured liabilities		
- Wakalah with Commodity Wa'ad	60,769	205,951
- Tawarruq	1,085,238	1,089,407
	1,146,007	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	30 Sep 2020	31 Dec 2019
		RM'000	RM'000
Settlements		-	96
Amounts due to holding company		159,131	57,735
Profit payable		66,207	85,652
Deferred income		10,914	38,760
Marginal deposit		6,250	3,765
Accrued expenses		39,219	26,971
Lease liabilities		22,625	25,054
Other creditors	(a)	59,752	102,811
Provision on financing and credit related commitments		2,806	2,552
		366,904	343,396

(a) Other creditors

Included in other creditors 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

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Balance at 1 January	3	14
Shariah non-compliant income for the financial period/year ^[1]	6	27
Contribution to non-profit organisations	-	(15)
Tax expense on Shariah non-compliant income	-	(23)
Balance at 30 September/31 December	9	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

	30 Sep 2020 RM'000	31 Dec 2019 RM'000
Multi-Currency Sukuk Programme (MCSP)	525,092	1,265,929

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

<u>Issuance under MCSP</u>	RM'000	Issue Date	Maturity Date	Carrying Value	
				30 Sep 2020 RM'000	31 Dec 2019 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	525,092	514,197
	1,750,000			525,092	1,265,929

Movement in MCSP

	3rd series 30 Sep 2020 RM'000	4th series 30 Sep 2020 RM'000
	<u>2020</u>	
Balance at 1 January	751,732	514,197
Change in fair value other than from own credit risk	(847)	2,158
Change in fair value from own credit risk	(885)	8,737
Redemption of Multi-Currency Sukuk	(750,000)	-
Balance at 30 September	-	525,092

	2nd series 31 Dec 2019 RM'000	3rd series 31 Dec 2019 RM'000	4th series 31 Dec 2019 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 December	-	751,732	514,197

	30 Sep 2020 RM'000	31 Dec 2019 RM'000
The cumulative change in fair value due to changes in own credit risk	7,852	4,574

^[1] Redeemed on 27 March 2020.

25 Subordinated Commodity Murabahah Financing

	30 Sep 2020 RM'000	31 Dec 2019 RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	323,182	317,957
- Second tranche issued on 30 June 2015	276,119	271,655
	599,301	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. Under the Capital Adequacy Framework (Capital Components), the par value of Tranche 1 of the subordinated financing are amortised on a straight line basis, with 20% of the par value phased out each year, with effect from 2020 for regulatory capital base purposes.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

26 Income Derived from Investment of Depositors' Funds and Others

	Third Quarter		Nine Months Ended	
	30 Sep 2020 RM'000	30 Sep 2019 RM'000	30 Sep 2020 RM'000	30 Sep 2019 RM'000
Income derived from investment of:				
(i) Term deposit	109,907	155,813	349,485	473,245
(ii) Other deposits	46,249	54,431	156,474	158,751
	156,156	210,244	505,959	631,996

(i) Income derived from investment of term deposits

Finance income:

Financing and advances

- Profit earned other than recoveries from impaired financing

90,021 117,981 **290,476** 365,043

- Recoveries from impaired financing

2,267 4,505 **8,911** 13,956

Financial investments at FVOCI

7,583 18,263 **35,206** 59,898

Money at call and deposit with financial institutions

8,233 18,478 **33,549** 44,241

108,104 159,227 **368,142** 483,138

Other operating income

Realised gains from dealing in foreign currency

6,428 4,842 **16,463** 13,978

Unrealised loss from dealing in foreign currency

(353) (52) **(1,118)** (1,190)

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

1,681 895 **2,577** 1,132

Unrealised (loss)/gain from revaluation of financial assets at FVTPL

(1,445) (429) **409** 1,272

Realised gain from trading in derivatives

1,010 90 **1,715** 1,093

Unrealised (loss)/gain from trading in derivatives

(449) 169 **4,055** 813

Net expenses from financial liabilities designated at FVTPL

(8,083) (10,037) **(43,684)** (31,553)

Gain on disposal of financial investments at FVOCI

3,012 1,109 **6,000** 4,571

Other income/(expense)

2 (1) **(5,074)** (9)

1,803 (3,414) **(18,657)** (9,893)

109,907 155,813 **349,485** 473,245

30 Sep 2020 30 Sep 2019 **30 Sep 2020** 30 Sep 2019
RM'000 **RM'000** **RM'000** **RM'000**

(ii) Income derived from investment of other deposits

Finance income:

Financing and advances

- Profit earned other than recoveries from impaired financing

35,311 38,760 **115,604** 114,800

- Recoveries from impaired financing

885 1,480 **3,546** 4,389

Financial investments at FVOCI

2,946 6,023 **14,011** 18,837

Money at call and deposit with financial institutions

3,212 5,984 **13,352** 13,913

42,354 52,247 **146,513** 151,939

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	Third Quarter		Nine Months Ended	
	30 Sep 2020 RM'000	30 Sep 2019 RM'000	30 Sep 2020 RM'000	30 Sep 2019 RM'000
(ii) Income derived from investment of other deposits (Cont'd)				
<u>Other operating income</u>				
Realised gain from dealing in foreign currency	2,532	1,584	6,552	4,396
Unrealised loss from dealing in foreign currency	(139)	(24)	(445)	(374)
Gain from sale of financial assets designated as FVTPL and other financial instruments	667	283	1,026	356
Unrealised (loss)/gain from revaluation of financial assets at FVTPL	(580)	(124)	163	400
Realised gain from trading in derivatives	400	35	682	344
Unrealised (loss)/gain from trading in derivatives	(190)	58	1,614	256
Gain on disposal of financial investments at FVOCI	1,191	373	2,388	1,438
Other income/(expense)	14	(1)	(2,019)	(4)
	3,895	2,184	9,961	6,812
	46,249	54,431	156,474	158,751

27 Income Derived from Investment of Shareholder's Funds

	Third Quarter		Nine Months Ended	
	30 Sep 2020 RM'000	30 Sep 2019 RM'000	30 Sep 2020 RM'000	30 Sep 2019 RM'000
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	14,711	15,403	45,404	47,484
- Recoveries from impaired financing	376	588	1,393	1,815
Financial investments at FVOCI	1,273	2,385	5,503	7,791
Money at call and deposit with financial institutions	1,368	2,410	5,244	5,755
	17,728	20,786	57,544	62,845
<u>Other operating income</u>				
Fee commission ^[1]	18,465	17,941	60,502	52,148
Realised gains from dealing in foreign currency	1,036	632	2,573	1,818
Unrealised loss from dealing in foreign currency	(58)	(7)	(175)	(155)
Gain from sale of financial assets designated as FVTPL and other financial instruments	266	116	403	147
Unrealised (loss)/gain from revaluation of financial assets at FVTPL	(220)	(56)	64	165
Realised gains from trading in derivatives	160	12	268	142
Unrealised (loss)/gain from trading in derivatives	(56)	22	634	106
Shared-service fees from holding company	318	609	1,199	1,814
Gain on disposal of financial investments at FVOCI	480	145	938	595
Other income/(expense)	20	83	(758)	186
	20,411	19,497	65,648	56,966
	38,139	40,283	123,192	119,811

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

Service charges and fees	5,831	793	18,891	14,014
Credit cards	3,657	7,178	13,990	21,735
Credit facilities	2,387	1,602	6,723	5,735
Agency fee	3,961	3,420	10,358	7,960

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Impairment Writeback/Provisions

	Third Quarter		Nine Months Ended	
	30 Sep 2020 RM'000	30 Sep 2019 RM'000	30 Sep 2020 RM'000	30 Sep 2019 RM'000
New and increased allowance/provisions (net of releases)	874	22,450	153,665	85,439
Recoveries	(12,031)	(13,341)	(32,722)	(35,678)
Written off	3	-	141	43
Total (writeback from)/charge to statement of profit or loss	(11,154)	9,109	121,084	49,804

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)	4,009	21,987	153,137	85,397
Recoveries	(12,031)	(13,341)	(32,722)	(35,678)
Written off	3	-	141	43
Total (writeback from)/charge to statement of profit or loss	(8,019)	8,646	120,556	49,762

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

New and increased allowance (net of releases)	(39)	5	17	5
Total (writeback from)/charge to statement of profit or loss	(39)	5	17	5

(iii) Financing commitments

New and increased allowance (net of releases)	(2,370)	494	276	(51)
Total (writeback from)/charge to statement of profit or loss	(2,370)	494	276	(51)

(iv) Financial investment at FVOCI

New and increased allowance (net of releases)	(726)	(36)	235	88
Total (writeback from)/charge to statement of profit or loss	(726)	(36)	235	88

29 Income Attributable to Depositors

	Third Quarter		Nine Months Ended	
	30 Sep 2020 RM'000	30 Sep 2019 RM'000	30 Sep 2020 RM'000	30 Sep 2019 RM'000
<u>Non-Mudharabah Fund</u>				
- Deposits from customers	46,636	76,215	174,267	222,839
- Deposits and placements of banks and other financial institutions	3,110	10,134	15,356	40,838
- Lease liabilities	528	345	1,078	1,134
- Others	7,159	23,951	34,226	73,908
	57,433	110,645	224,927	338,719

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Operating Expenses

	Third Quarter		Nine Months Ended	
	30 Sep 2020 RM'000	30 Sep 2019 RM'000	30 Sep 2020 RM'000	30 Sep 2019 RM'000
Personnel expenses	11,683	12,029	34,192	36,517
Promotion and marketing related expenses	1,499	2,534	6,707	5,765
Establishment related expenses	3,861	3,668	11,833	11,582
General administrative expenses	8,079	9,348	25,139	26,395
Related company expenses	35,954	35,821	103,190	104,585
	61,076	63,400	181,061	184,844
Personnel expenses				
Salaries, allowances and bonuses	9,236	10,077	27,056	29,311
Employees Provident Fund contributions	1,631	1,779	4,780	5,191
Share based payment	163	(225)	439	164
Other staff related costs	653	398	1,917	1,851
	11,683	12,029	34,192	36,517
Promotion and marketing related expenses	1,499	2,534	6,707	5,765
Establishment related expenses				
Depreciation of equipment	544	465	1,538	1,478
Depreciation of ROU assets	1,700	1,271	5,845	5,104
Information technology costs	645	643	1,622	1,945
Utilities	516	563	1,509	1,558
Others	456	726	1,319	1,497
	3,861	3,668	11,833	11,582
Related company charges	35,954	35,821	103,190	104,585
Of which by:				
Type of service				
- Information technology related cost	3,779	1,070	13,520	8,209
- Non information technology related cost	32,175	34,751	89,670	96,376
Countries/territories				
- Malaysia	35,595	35,404	102,539	103,760
- United Kingdom	345	417	637	825
- Hong Kong	14	-	14	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 Capital Adequacy

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Tier 1 capital		
Paid-up ordinary share capital	660,000	660,000
Retained profits	1,250,354	1,259,011
Other reserves	30,783	51,001
Regulatory adjustments	(48,701)	(71,428)
Total Common Equity Tier 1 (CET1) and Tier 1 capital	1,892,436	1,898,584
Tier 2 capital		
Subordinated Commodity Murabahah financing	534,664	589,612
Impairment allowance (unimpaired portion) & regulatory reserves	146,896	145,014
Total Tier 2 capital	681,560	734,626
Capital base	2,573,996	2,633,210
<u>Inclusive of proposed dividend</u>		
CET1 and Tier 1 Capital ratio	14.785%	14.974%
Total Capital ratio	20.109%	20.768%
<u>Net of proposed dividend</u>		
CET1 and Tier 1 Capital ratio	14.785%	14.580%
Total Capital ratio	20.109%	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:

	30 Sep 2020	31 Dec 2019
	RM'000	RM'000
Total RWA for credit risk	11,751,680	11,601,150
Total RWA for market risk	38,763	81,799
Total RWA for operational risk	1,009,568	996,092
	12,800,011	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	30 Sep 2020 RM'000	31 Dec 2019 RM'000
Direct credit substitutes	315,659	488,882
Transaction-related contingent items	1,248,822	1,281,201
Short-term self-liquidating trade-related contingencies	69,612	37,007
Formal standby facilities and credit lines		
- Maturity not exceeding one year	1,179,554	670,474
- Maturity exceeding one year	2,259,085	2,330,664
Other unconditionally cancellable	1,942,036	1,640,484
Unutilised credit card lines	3,780,167	3,743,071
Equity related contracts		
- Less than one year	346,130	466,444
- One year to less than five years	490,085	396,199
Profit rate related contracts		
- Less than one year	375,616	1,218,519
- One year to less than five years	1,146,152	1,109,410
Foreign exchange related contracts		
- Less than one year	7,015,295	7,471,672
- One year to less than five years	87,226	-
	20,255,439	20,854,027

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Performance Review, Economy and Prospects

Performance review

Profit before tax (PBT) of RM102.1 million decreased by RM76.4 million or 42.8% against history primarily due to higher impairment provisions (up RM71.3 million), as the impact of COVID-19 outbreak has been considered in deriving the Expected Credit Loss (ECL) for financing and advances and other financial assets. The increase was reflected mainly in stages 1 and 2.

Income derived from investment of shareholder's funds, depositor's funds and others decreased by RM122.7 million compared to history, mainly due to lower profit earned from financing and advances (down RM75.8 million) and financial investments at fair value through other comprehensive income (down RM31.8 million). These were partly offset by lower income attributable to depositors' fund (down RM113.8m). The decrease in income from investment of depositors' fund and income attributable to depositors' fund were mainly due to reductions in Bank Negara Malaysia (BNM)'s Overnight Policy Rate (OPR) by 125 basis points to 1.75% between January 2020 to September 2020 and lower non-financing income from the generally weak market sentiment impacting business and consumer spending activities.

Total balance sheet as at 30 September 2020 stood at RM19.1 billion, RM2.1 billion lower compared to 31 December 2019 (RM21.2 billion). The Bank's capital and liquidity ratios remained strong and well above the regulatory requirements.

Economy and Prospects

As the COVID-19 pandemic continued into 3Q 2020, there were much uncertainties and concerns over the speed of recovery of the global economy.

In Malaysia, there was sharp contraction in domestic demand in 2Q 2020, by 18.7% (1Q 2020: 3.7%), due to weaker private sector expenditure as spending was impacted by lower income, movement restrictions and subdued consumer and business sentiments. As a result, gross domestic product growth (GDP) for 2Q 2020 contracted 17.1% y-o-y (1Q: +0.7% y-o-y).

Since 1Q 2020, the Government of Malaysia has rolled out various economic stimulus packages to support household income, safeguard jobs, and to spur the economy. Bank Negara Malaysia (BNM) has also introduced various measures, namely i) reduction in Overnight Policy Rate (OPR) by a cumulative 125 basis points to-date this year, to 1.75%, ii) reduction in Statutory Reserve Requirement (SRR) ratio by 100 basis points to 2.0%, with allowance for Government securities to be recognised for SRR compliance, iii) working alongside banks to introduce industry-wide 6-month moratorium relief programme, which allows qualified individuals and small-and medium enterprises (SMEs) to temporarily defer their financing instalments, and iv) granting special rate financing to qualified SMEs under a special relief fund programmes.

These are expected to create enabling conditions for a sustainable economy recovery. In addition, post expiry of the 6-month moratorium programme on 30 September 2020, banks are expected to continue offering targeted extension moratorium and repayment flexibilities to selected customers based on customers' specific financial situation.

Although BNM has projected the Malaysia's GDP to be between -2.0% and +0.5% for 2020 (2019: growth of 4.3%), with the various fiscal stimulus packages and measures in place, Malaysia's domestic economy is expected to gradually improve towards the end of the year and subsequently in 2021.

Since the commencement of movement control (MCO) restriction period, HSBC Amanah has been continuously operating and serving its customers committedly, with its resources supporting mainly virtually via well-established and connected system infrastructure.

The Bank has continued to invest in digital innovation for better customer service. In 2Q and 3Q 2020, we successfully launched three digital offerings that are first of their kind in the Malaysia's banking industry, i.e i) Remote Engagement Service (via Zoom, Live Connect and Live Sign), an electronic solution which allows a full suite of investment to be completed electronically and remotely. This has recently garnered an award from the Malaysian Technology Excellence Award 2020, ii) Voice-ID Biometrics solution for telebanking which enables authentication using voice capabilities in place of password or PIN code, and iii) 24/7 Digital Account Opening Service with enables account opening to be done anytime via self-service machines that are capable of performing identification and verification function.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Performance Review and Business Prospects (Cont'd)

Economy and Prospects (Cont'd)

From funding perspective, the Bank's capital, liquidity and funding positions remain well above the regulatory requirement level, and are being monitored and managed actively. In terms of business prospects, the Bank will 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 BNM's Value-Based Intermediation (VBI) agenda.

On VBI aspect, the Bank was the sole sustainability structuring bank for Malaysia's first Sustainability-Linked Financing (SLF) for a leading energy solutions provider. We also marked another milestone as the first international bank in Malaysia to become a member of the United Nations Global Compact (UNGC) via the Global Compact Malaysia (GCMY). The UNGC membership goes hand-in-hand with BNM's VBI initiative which aims for Islamic financial institutions to create greater value and impact by focusing on the Triple Bottom Line, which takes into consideration Prosperity, People and Planet instead of traditional bottom lines.

The Bank also recently won the Islamic ESG (Environmental, Social and Governance) Bank of the Year award as part of The Asset Triple A Islamic Finance Awards 2020.

We will continue to support our customers and the society, especially in these challenging times.