

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
30 JUNE 2022

Domiciled in Malaysia
Registered Office:
Level 21, Menara IQ
Lingkaran TRX
55188 Tun Razak Exchange
Kuala Lumpur

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

UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	Note	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Assets			
Cash and short-term funds	11	4,570,157	4,075,349
Deposits and placements with banks and other financial institutions	12	100,000	-
Financial investments at fair value through other comprehensive income (FVOCI)	13	1,836,769	2,252,951
Financing and advances	14	13,418,334	12,856,066
Derivative financial assets	17	140,139	92,858
Other assets	18	99,300	74,424
Statutory deposits with Bank Negara Malaysia	19	24,361	19,861
Equipment		6,513	6,905
Tax recoverable		-	13,260
Deferred tax assets		53,198	49,346
Total assets		20,248,771	19,441,020
Liabilities			
Deposits from customers	20	12,772,984	12,791,702
Deposits and placements from banks and other financial institutions	21	1,652,137	1,784,862
Structured liabilities designated at fair value through profit or loss (FVTPL)	22	1,731,763	1,188,099
Bills payable		32,975	12,867
Derivative financial liabilities	17	197,273	67,615
Other liabilities	23	583,880	469,724
Provision for taxation		27,510	-
Multi-Currency Sukuk Programme	24	507,775	515,333
Subordinated Commodity Murabahah Financing	25	634,812	600,777
Total liabilities		18,141,109	17,430,979
Equity			
Share capital		660,000	660,000
Reserves		1,447,662	1,350,041
Total equity attributable to owner of the Bank		2,107,662	2,010,041
Total liabilities and equity		20,248,771	19,441,020
Restricted investment accounts ^[1]		3,778,065	3,799,016
Total Islamic Banking asset ^[1]		24,026,836	23,240,036
Commitments and contingencies	33	29,217,056	27,296,398

^[1] The disclosure is in accordance with the requirements of Bank Negara Malaysia's Guideline on Financial Reporting for Islamic Banking Institutions dated 29 April 2022.

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 2021 and the accompanying explanatory notes on pages 8 to 31 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 20 July 2022.

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 JUNE 2022

	Note	Second Quarter		Six Months Ended	
		30 Jun 2022 RM'000	30 Jun 2021 RM'000	30 Jun 2022 RM'000	30 Jun 2021 RM'000
Income derived from investment of depositors' funds and others	26	154,592	138,855	302,577	285,281
Income derived from investment of shareholder's funds	27	34,926	38,090	76,209	75,926
Impairment write-back/(provision)	28	30,275	(196,747)	(13,851)	(165,120)
Total distributable income/(expense)		219,793	(19,802)	364,935	196,087
Income attributable to depositors	29	(44,254)	(43,276)	(85,371)	(88,655)
Total net income/(expense)		175,539	(63,078)	279,564	107,432
Operating expenses	30	(62,319)	(59,989)	(120,233)	(122,707)
Profit/(Loss) before tax		113,220	(123,067)	159,331	(15,275)
(Tax expense)/Tax write-back		(35,033)	29,763	(49,345)	2,934
Profit/(Loss) for the financial period		78,187	(93,304)	109,986	(12,341)
Profit/(Loss) attributable to the owner of the Bank		78,187	(93,304)	109,986	(12,341)
Basic earnings/(loss) per RM0.50 ordinary share		78.2 sen	(93.3 sen)	110.0 sen	(12.3 sen)
Dividends per RM0.50 ordinary share (net) - final dividend paid in respect of prior year		-	50.0 sen	-	50.0 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 2021 and the accompanying explanatory notes on pages 8 to 31 attached to the unaudited condensed interim financial statements.

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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 JUNE 2022**

	Second Quarter		Six Months Ended	
	30 Jun 2022	30 Jun 2021	30 Jun 2022	30 Jun 2021
	RM'000	RM'000	RM'000	RM'000
Profit/(Loss) for the financial period	78,187	(93,304)	109,986	(12,341)
Other comprehensive income/(expense)				
<i>Items that will not be reclassified to profit or loss</i>				
Own credit reserves:				
Change in fair value	6,006	3,182	(2,149)	1,083
Income tax effect	(1,441)	(764)	516	(260)
<i>Items that will subsequently be reclassified to profit or loss when specific conditions are met:</i>				
Fair value through other comprehensive income reserve:				
Change in fair value	(13,830)	1,613	(13,900)	(4,684)
Net amount transferred from profit or loss	-	(2,554)	-	(2,554)
Impairment charges	(55)	(42)	(155)	(28)
Income tax effect	3,319	226	3,336	1,737
Other comprehensive (expense)/income for the financial period, net of income tax	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>
	(6,001)	1,661	(12,352)	(4,706)
Total comprehensive income/(expense) attributable to the owner of the Bank	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>	<hr style="border-top: 1px solid black; border-bottom: none; border-left: none; border-right: none;"/>
	72,186	(91,643)	97,634	(17,047)

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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 JUNE 2022

	<i>Non-distributable</i>					<i>Distributable</i>		Total
	Share capital	FVOCI reserve	Own credit reserve	Capital contribution reserve	Regulatory reserve	Retained profits		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
2022								
Balance at 1 January	660,000	(2,851)	(2,193)	511	46,800	1,307,774	2,010,041	
Profit for the financial period	-	-	-	-	-	109,986	109,986	
Other comprehensive income, net of tax								
FVOCI reserve/Own Credit reserve								
Net change in fair value	-	(10,564)	(1,633)	-	-	-	(12,197)	
Impairment charges	-	(155)	-	-	-	-	(155)	
<i>Total other comprehensive expense</i>	<i>-</i>	<i>(10,719)</i>	<i>(1,633)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(12,352)</i>	
Total comprehensive (expense)/income for the financial period		(10,719)	(1,633)	-	-	109,986	97,634	
Net change in regulatory reserves	-	-	-	-	45,300	(45,300)	-	
Transactions with the owner, recorded directly in equity								
Share based payment transactions	-	-	-	(42)	-	29	(13)	
Balance at 30 June	660,000	(13,570)	(3,826)	469	92,100	1,372,489	2,107,662	

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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 JUNE 2022 (Cont'd)

	<i>Non-distributable</i>					<i>Distributable</i>		<i>Total</i>
	Share capital	FVOCI reserve	Own credit reserve	Capital contribution reserve	Regulatory reserve	Retained profits		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
2021								
Balance at 1 January	660,000	11,868	(1,123)	777	6,100	1,350,035	2,027,657	
Loss for the financial period	-	-	-	-	-	(12,341)	(12,341)	
Other comprehensive income, net of tax								
FVOCI reserve/Own Credit reserve								
Net change in fair value	-	(3,560)	823	-	-	-	(2,737)	
Net amount transferred to profit or loss	-	(1,941)	-	-	-	-	(1,941)	
Impairment charges	-	(28)	-	-	-	-	(28)	
Total other comprehensive expense	-	(5,529)	823	-	-	-	(4,706)	
Total comprehensive (expense)/income for the financial period	-	(5,529)	823	-	-	(12,341)	(17,047)	
Net change in regulatory reserves	-	-	-	-	77,100	(77,100)	-	
Transactions with the owner, recorded directly in equity								
Share based payment transactions	-	-	-	(260)	-	69	(191)	
Dividends paid to owner - 2020 final	-	-	-	-	-	(50,000)	(50,000)	
Balance at 30 June	660,000	6,339	(300)	517	83,200	1,210,663	1,960,419	

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HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2022

	30 Jun 2022 RM'000	30 Jun 2021 RM'000
Profit/(Loss) for the financial period	159,331	(15,275)
Adjustments for non-operating and non-cash items	<u>91,576</u>	<u>224,444</u>
Operating profit before working capital changes	250,907	209,169
Changes in working capital:		
Net changes in operating assets	(837,935)	614,140
Net changes in operating liabilities	717,298	(61,994)
Income tax paid	<u>(8,575)</u>	<u>(17,850)</u>
Net cash generated from operating activities	121,695	743,465
Net cash generated from/(used in) investing activities	387,620	(423,354)
Net cash used in financing activities	(14,507)	(62,764)
	373,113	(486,118)
Net changes in cash and cash equivalents	494,808	257,347
Cash and cash equivalents at 1 January	4,075,349	3,251,883
Cash and cash equivalents at 30 June	4,570,157	3,509,230
Analysis of cash and cash equivalents		
Cash and short-term funds	<u>4,570,157</u>	<u>3,509,230</u>

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 2021 and the accompanying explanatory notes on pages 8 to 31 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 20 July 2022.

HSBC AMANAH MALAYSIA BERHAD
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UNAUDITED CONDENSED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2022 (Cont'd)

Changes in liabilities arising from financing activities

	At 1 January RM'000	Cash inflow/ (outflow) RM'000	Foreign exchange adjustment RM'000	Fair value movement RM'000	Profit accrual RM'000	At 30 June RM'000
2022						
Multi-Currency Sukuk Programme	515,333	-	-	(7,558)	-	507,775
Subordinated Commodity Murabahah Financing	600,777	-	34,035	-	-	634,812
Other Liabilities of which:						
Profits paid on Multi-Currency Sukuk Programme	5,242	(6,176)	-	-	6,118	5,184
Profits paid on Subordinated Commodity Murabahah Financing	143	(8,331)	-	-	8,390	202
	1,121,495	(14,507)	34,035	(7,558)	14,508	1,147,973
2021						
Multi-Currency Sukuk Programme	523,841	-	-	(6,745)	-	517,096
Subordinated Commodity Murabahah Financing	578,700	-	19,304	-	-	598,004
Other Liabilities of which:						
Profits paid on Multi-Currency Sukuk Programme	5,360	(6,005)	-	-	5,946	5,301
Profits paid on Subordinated Commodity Murabahah Financing	118	(6,759)	-	-	6,785	144
	1,108,019	(12,764)	19,304	(6,745)	12,731	1,120,545

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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 Level 21, Menara IQ, Lingkaran TRX, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia.

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 20 July 2022.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 30 June 2022 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 2021. 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 period ended 31 December 2021.

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

The accounting policies, presentation, significant estimates and judgements 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 2021, except for the adoption of the following Amendments to MFRSs which are effective during the current financial period:

- Amendments to MFRS 16 "Covid-19-Related Rent Concessions beyond 30 June 2021"
- Amendments to MFRS 116 "Proceeds before Intended Use"
- Amendments to MFRS 3 "Reference to the Conceptual Framework"
- Annual Improvements to MFRSs 2018 – 2020 Cycle for annual periods beginning on or after 1 January 2022 as follows:
 - Amendment to Illustrative Example accompanying MFRS 16 Leases: Lease Incentives
 - Amendment to MFRS 9 Financial Instruments: Fees in the '10 per cent' Test for Derecognition of Financial Liabilities
- Amendments to MFRS 137 "Onerous Contracts - Cost of Fulfilling a Contract"

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

(ii) Standards and amendments to published standards that have been issued but not yet effective

A number of new standards and amendments to standards and interpretations have been issued that are applicable to the Bank but are not yet effective.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

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

Effective for annual periods commencing on or after 1 January 2023

- Amendments to MFRS 101 "Classification of Liabilities as Current or Non-current"
- Amendments to MFRS 101, MFRS Practice Statement 2 and MFRS 108 on disclosure of accounting policies and definition of accounting estimates
- Amendments MFRS 112 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

None of the above is expected to have a significant effect on the financial statements of the Bank.

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 2021 was not subject to any qualification.

5 Seasonality or Cyclical Factors

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

6 Unusual Items Due to Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Bank for the financial period ended 30 June 2022.

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 June 2022.

8 Debt and Equity Securities

There were no issuances, cancellations, repurchases, resale or repayment of other debt or equity securities during the financial period ended 30 June 2022.

9 Dividend

No interim dividend was declared nor paid for the financial period ended 30 June 2022.

10 Significant and Subsequent Events

There were no material events subsequent to the date of the statement of financial position that require disclosure or adjustments to the unaudited condensed interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

11 Cash and Short-Term Funds

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Cash and balances with banks and other financial institutions	618,383	377,259
Money at call and interbank placements maturing within one month	3,951,774	3,698,090
	4,570,157	4,075,349

Money at call and interbank placements maturing within one month is within Stage 1 allocation (12-months ECL) with RM1,000 impairment allowance as at 30 June 2022 (31 December 2021: RM1,000).

12 Deposits and Placements with Banks and Other Financial Institutions

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Licensed banks	100,000	-

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

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Money market instruments: Malaysian Government Islamic Sukuk	1,836,769	2,252,951

Financial investments at FVOCI are within Stage 1 allocation (12 -months ECL) with RM125,000 impairment allowance as at 30 June 2022 (31 December 2021: RM280,000). 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	990,366	836,139
More than one year to three years	846,403	1,416,812
	1,836,769	2,252,951

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 RM'000	Ijarah Thumma RM'000	Al-Bai	Diminishing Musharakah RM'000	Ujrah RM'000			
30 Jun 2022								
Cash line-i	86,770		-	-	-			86,770
Term financing:								
House financing	-	-		3,741,059	-			3,741,059
Hire purchase receivables	-	205,284		-	-			205,284
Syndicated term financing	1,026,478	-		-	-			1,026,478
Other term financing	2,984,006	-		854,405	-			3,838,411
Trust receipts	752,663	-		-	-			752,663
Claims on customers under acceptance credits	244,306	-	-	-	-			244,306
Bills receivables	887,297	-	-	-	-			887,297
Staff financing-i	1,424	-	372	-	-			1,796
Credit cards-i	-	-	-	1,093,660				1,093,660
Revolving financing	2,087,619	-	-	-	-			2,087,619
Other financing	-	-		3,158	-			3,158
Gross financing and advances	8,070,563	205,284		4,598,994	1,093,660			13,968,501
Less: Impairment allowance								(550,167)
Total net financing and advances								13,418,334

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances (Cont'd)

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

	31 Dec 2021	Sale-based contracts	Lease-based contracts	Equity-based contracts	Ujrah	Total
		Commodity Murabahah RM'000	Ijarah Thumma Al-Bai RM'000	Diminishing Musharakah RM'000		
Cash line-i		70,093	-	-	-	70,093
Term financing:						
House financing		-	-	3,857,513	-	3,857,513
Hire purchase receivables		-	210,548	-	-	210,548
Syndicated term financing		1,022,242	-	-	-	1,022,242
Other term financing		2,342,879	-	869,012	-	3,211,891
Trust receipts		457,790	-	-	-	457,790
Claims on customers under acceptance credits		198,498	-	-	-	198,498
Bills receivables		1,147,722	-	-	-	1,147,722
Staff financing-i		1,104	-	383	-	1,487
Credit cards-i		-	-	-	1,073,822	1,073,822
Revolving financing		2,124,126	-	-	-	2,124,126
Other financing		-	-	3,716	-	3,716
Gross financing and advances		<u>7,364,454</u>	<u>210,548</u>	<u>4,730,624</u>	<u>1,073,822</u>	<u>13,379,448</u>
Less: Impairment allowance						<u>(523,382)</u>
Total net financing and advances						<u>12,856,066</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances (Cont'd)

(ii) By type of customer

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Domestic non-bank financial institutions	339,989	417,793
Domestic business enterprises:		
Small medium enterprises	1,268,526	1,116,987
Others	5,037,514	4,357,333
Individuals	5,584,812	5,722,624
Other domestic entities	752	2
Foreign entities/individuals	1,736,908	1,764,709
	13,968,501	13,379,448

(iii) By profit rate sensitivity

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Fixed rate:		
Hire purchase receivables	205,284	210,548
Other financing	3,729,174	3,648,621
Variable rate:		
Base Rate/Base Financing Rate plus	4,701,540	4,783,525
Cost-plus	5,332,503	4,736,754
	13,968,501	13,379,448

(iv) By residual contractual maturity

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Maturing within one year	5,674,811	6,234,729
More than one year to three years	1,683,850	590,214
More than three years to five years	1,269,620	1,054,031
Over five years	5,340,220	5,500,474
	13,968,501	13,379,448

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financing and Advances (Cont'd)

(v) By sector

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Agriculture, hunting, forestry & fishing	145,710	10,608
Mining and quarrying	159,393	77,899
Manufacturing	1,765,113	1,486,450
Electricity, gas and water	143,811	344,869
Construction	973,190	963,817
Real estate	1,340,965	956,755
Wholesale & retail trade, restaurants & hotels	894,476	839,134
Transport, storage and communication	229,816	146,321
Finance, takaful and business services	822,638	900,248
Household - Retail	6,051,303	6,195,547
Others	1,442,086	1,457,800
	13,968,501	13,379,448

(vi) By purpose

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Purchase of landed property:		
Residential	3,741,430	3,857,897
Non-residential	717,013	729,179
Purchase of transport vehicles	1,204	878
Purchase of fixed assets excluding land & building	205,780	210,292
Consumption credit	2,120,846	2,140,872
Construction	935,354	700,915
Working capital	4,976,457	4,447,629
Other purpose	1,270,417	1,291,786
	13,968,501	13,379,448

(vii) By geographical distribution

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Northern Region	1,515,971	1,309,927
Southern Region	1,457,892	1,527,607
Central Region	10,679,981	10,225,163
Eastern Region	314,657	316,751
	13,968,501	13,379,448

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 Jun 2022 RM'000	31 Dec 2021 RM'000
Total gross financing and advances	3,900,134	3,802,192
Less: Impairment allowance	(233,715)	(183,710)
Total net financing and advances	3,666,419	3,618,482
<i>Maturity exceeding one year</i>	111,646	180,534
Total commitments and contingencies	111,646	180,534
Total restricted investment accounts	3,778,065	3,799,016
Risk weighted assets (RWA) of restricted investment accounts	3,004,464	2,941,036

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 3(f) on financial instruments in the audited financial statements of the Bank for the financial year ended 31 December 2021.

15 Impaired Financing

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

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Gross carrying amount as at 1 January	1,175,011	606,695
Transfer within stages	259,272	692,116
Net remeasurement due to changes in credit risk	(67,740)	(32,714)
Written-off	(29,789)	(91,086)
Gross carrying amount as at 30 June/31 December	1,336,754	1,175,011

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

15 Impaired Financing (Cont'd)

(ii) By contract

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Ijarah Thumma Al-Bai (AITAB) (<i>hire purchase</i>)	394	172
Commodity Murabahah (<i>cost-plus</i>)	646,220	542,650
Diminishing Musharakah (<i>profit and loss sharing</i>)	670,835	608,253
Ujrah (<i>fee-based</i>)	19,305	23,936
	1,336,754	1,175,011

(iii) By sector

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Agriculture, hunting, forestry & fishing	139	214
Manufacturing	13,633	25,502
Electricity, gas and water	133,797	-
Construction	114,954	136,921
Real estate	3,818	-
Wholesale & retail trade, restaurants & hotels	7,384	8,211
Transport, storage and communication	1,532	-
Finance, takaful and business services	55,399	53,276
Household - Retail	987,717	933,809
Others	18,381	17,078
	1,336,754	1,175,011

(iv) By purpose

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Purchase of landed property:		
Residential	625,472	571,650
Non-residential	11,997	9,571
Purchase of fixed assets excluding land & building	394	169
Consumption credit	361,288	362,159
Construction	114,954	137,322
Working capital	205,044	77,892
Others	17,605	16,248
	1,336,754	1,175,011

(v) By geographical distribution

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Northern Region	96,870	94,031
Southern Region	112,815	110,511
Central Region	1,099,713	949,437
Eastern Region	27,356	21,032
	1,336,754	1,175,011

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 2022	32,095	86,539	404,748	523,382
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	27,821	(22,695)	(5,126)	-
- Transferred to Stage 2	(2,924)	5,660	(2,736)	-
- Transferred to Stage 3	(122)	(6,007)	6,129	-
New financial assets originated or purchased	5,952	-	-	5,952
Net remeasurement due to changes in credit risk	(32,082)	(5,973)	82,648	44,593
Asset written-off	-	-	(29,789)	(29,789)
Others	-	-	6,029	6,029
Balance at 30 June 2022	30,740	57,524	461,903	550,167
Balance at 1 January 2021	88,787	75,764	183,764	348,315
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	20,826	(10,099)	(10,727)	-
- Transferred to Stage 2	(23,881)	29,788	(5,907)	-
- Transferred to Stage 3	(3,832)	(28,688)	32,520	-
Changes due to modification not derecognised	-	-	-	-
New financial assets originated or purchased	8,524	-	-	8,524
Net remeasurement due to changes in credit risk	(59,179)	19,774	296,184	256,779
Asset written-off	-	-	(91,086)	(91,086)
Others	850	-	-	850
Balance at 31 December 2021	32,095	86,539	404,748	523,382

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

The total ECL allowances increased by RM26.8 million compared to the balance at the beginning of the year. This net increase was mainly contributed by remeasurement driven by changes in credit risk (RM44.6 million), and new financial assets originated or purchased (RM6.0 million), partly offset by asset written-off (RM29.8 million).

- 12-months ECL not credit impaired (Stage 1) - decreased by RM1.4 million, primarily due to remeasurement driven by changes in credit risk, and partially offset by migration of financings from/to Stage 1, Stage 2 and Stage 3, and new financial assets originated or purchased.
- Lifetime ECL not credit-impaired (Stage 2) - decreased by RM29 million, primarily due to migration of financings from/to Stage 1, Stage 2 and Stage 3, and remeasurement driven by changes in credit risk.
- Lifetime ECL credit-impaired (Stage 3) - increased by RM57.2 million, primarily due to remeasurement driven by changes in credit risk, and partially offset by asset written-off and migration of financings from/to Stage 1, Stage 2 and Stage 3.

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 12-month ECL not credit impaired RM'000	Stage 2 Lifetime ECL not credit impaired RM'000	Stage 3 Lifetime ECL credit impaired RM'000	Total RM'000
Balance at 1 January 2022	2,542	6,395	-	8,937
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	275	(275)	-	-
- Transferred to Stage 2	(9)	9	-	-
- Transferred to Stage 3	-	-	-	-
New financial assets originated or purchased	217	-	-	217
Net remeasurement due to changes in credit risk	(2,202)	(4,891)	-	(7,093)
Others	42	-	-	42
Balance at 30 June 2022	865	1,238	-	2,103
Balance at 1 January 2021	1,509	759	-	2,268
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	26	(26)	-	-
- Transferred to Stage 2	(419)	419	-	-
- Transferred to Stage 3	-	-	-	-
New financial assets originated or purchased	180	-	-	180
Net remeasurement due to changes in credit risk	1,231	5,243	-	6,474
Others	15	-	-	15
Balance at 31 December 2021	2,542	6,395	-	8,937

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:

30 Jun 2022	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	11,224,805	-	-	11,224,805	120,431	-	-	120,431	113,251	-	-	113,251
- Swaps	278,991	-	172,176	451,167	4,384	-	2,104	6,488	1,871	-	2,140	4,011
- Options	15,266	-	-	15,266	15	-	-	15	15	-	-	15
Profit rate related contracts												
- Swaps	775,000	1,477,403	-	2,252,403	354	7,982	-	8,336	1,384	1,172	-	2,556
- Options	-	458,140	-	458,140	-	-	-	-	-	46,408	-	46,408
Equity related contracts												
- Options purchased	494,298	896,785	-	1,391,083	3,567	1,302	-	4,869	3,854	27,178	-	31,032
Total	12,788,360	2,832,328	172,176	15,792,864	128,751	9,284	2,104	140,139	120,375	74,758	2,140	197,273

The Bank does not have any hedging instrument as at 30 June 2022.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Derivative Financial Instruments (Cont'd)

31 Dec 2021	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	12,416,009	-	-	12,416,009	53,471	-	-	53,471	47,620	-	-	47,620
- Swaps	242,815	21,146	-	263,961	-	83	-	83	1,255	141	-	1,396
Profit rate related contracts												
- Swaps	235,000	1,010,293	-	1,245,293	781	17,292	-	18,073	-	1,658	-	1,658
- Options	-	361,968	-	361,968	-	-	-	-	-	12,775	-	12,775
Equity related contracts												
- Options purchased	243,376	592,619	-	835,995	5,522	15,703	-	21,225	-	4,160	-	4,160
Total	13,182,147	1,986,026	-	15,168,173	59,780	33,078	-	92,858	48,881	18,734	-	67,615

The Bank does not have any hedging instrument as at 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 Other Assets

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Settlements	29,505	2,777
Income receivable	5,888	11,718
Profit receivable	17,481	20,824
Prepayments	3,627	150
Amount due from holding company	2,488	371
ROU assets	20,723	21,503
Other receivables	19,588	17,081
	99,300	74,424

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.

In 2020, BNM has reduced the Statutory Reserve Requirement (SRR) Ratio requirement from 3% to 2% effective 20 March 2020. BNM also allowed banks to recognise Malaysia Government Securities (MGS) and Malaysian Government Investment Issues (MGII) securities as part of statutory reserve requirement compliance until 31 December 2022.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

20 Deposits From Customers

(i) By type of deposit

At amortised cost	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Non-Mudharabah Fund		
Demand deposits		
- Qard	3,178,598	3,318,864
Savings deposits		
- Qard	3,000,627	2,859,605
Term deposits		
- Commodity Murabahah	6,334,953	6,555,915
- Qard *	258,806	57,318
	12,772,984	12,791,702

* Refers to incidental qard treatment due to timing differences between the deposit placement and the execution of Commodity Murabahah.

The maturity structure of term deposits is as follows:

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Due within six months	5,278,706	5,212,577
More than six months to one year	913,104	973,920
More than one year to three years	348,020	346,719
More than three years to five years	53,929	80,017
	6,593,759	6,613,233

(ii) By type of customer

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Government and statutory bodies	13,413	13,524
Business enterprises	3,370,268	3,610,567
Individuals	5,747,312	5,738,029
Foreign entities/individuals	2,918,628	2,810,701
Others	723,363	618,881
	12,772,984	12,791,702

21 Deposits and Placements from Banks and Other Financial Institutions

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Non-Mudharabah Fund		
Licensed bank - parent company	1,648,324	1,036,500
Bank Negara Malaysia	3,802	1,866
Other financial institutions	11	746,496
	1,652,137	1,784,862

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
At fair value		
Structured liabilities		
- Tawarruq	<u>1,731,763</u>	<u>1,188,099</u>

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

	Note	30 Jun 2022 RM'000	31 Dec 2021 RM'000
At amortised cost			
Settlements		13	56
Amounts due to holding company		234,869	129,861
Profit payable		51,786	51,425
Deferred income		16,166	15,932
Marginal deposit		17,506	19,452
Accrued expenses		143,005	100,412
Lease liabilities		22,745	23,656
Other creditors	(a)	95,687	119,993
Provision on financing and credit related commitments	(b)	<u>2,103</u>	<u>8,937</u>
		583,880	469,724

(a) Other creditors

Included in other creditors is 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.

Source and use of charity funds

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Balance at 1 January	1	1
Shariah non-compliant income for the financial period/year ^[1]	1	4
Contribution to non-profit organisations	-	(4)
Balance at 30 June/31 December	<u>2</u>	<u>1</u>

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

(b) Refer to Note 16(ii) for movement in provision.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24 Multi-Currency Sukuk Programme

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Multi-Currency Sukuk Programme (MCSP)	<u>507,775</u>	<u>515,333</u>

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 Jun 2022 RM'000	31 Dec 2021 RM'000
At fair value					
4th series ^[1]	<u>500,000</u>	2 Oct 2018	2 Oct 2023	<u>507,775</u>	<u>515,333</u>

Movement in MCSP

	4th series	30 Jun 2022 RM'000	31 Dec 2021 RM'000	Carrying Value	
				4th series	31 Dec 2021 RM'000
Balance at 1 January					
Change in fair value other than from own credit risk					
Change in fair value from own credit risk					
Balance at 30 June/ 31 December		<u>507,775</u>	<u>515,333</u>		
		30 Jun 2022 RM'000	31 Dec 2021 RM'000		
The cumulative loss from change in fair value due to changes in own credit risk		<u>1,239</u>	<u>3,893</u>		

[1] Proceeds from this series are utilised, where appropriate, to finance eligible businesses and projects in accordance with HSBC's internal Sustainable Development Goals (SDG) Bond Framework.

25 Subordinated Commodity Murabahah Financing

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Subordinated Commodity Murabahah Financing, at amortised costs		
- First tranche issued on 25 June 2014	<u>342,332</u>	323,978
- Second tranche issued on 30 June 2015	<u>292,480</u>	276,799
	<u>634,812</u>	600,777

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 for Islamic Banks (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

	Second Quarter		Six Months Ended	
	30 Jun 2022 RM'000	30 Jun 2021 RM'000	30 Jun 2022 RM'000	30 Jun 2021 RM'000
Income derived from investment of:				
(i) Term deposit	107,602	93,069	212,459	192,913
(ii) Other deposits	46,990	45,786	90,118	92,368
	154,592	138,855	302,577	285,281

(i) Income derived from investment of term deposits

Finance income:

Financing and advances

- Profit earned other than recoveries from impaired financing	68,096	73,085	138,720	149,829
- Recoveries from impaired financing	8,806	4,497	12,002	10,307
Financial investments at FVOCI	6,176	5,316	13,748	11,114
Money at call and deposit with financial institutions	9,222	7,066	15,508	14,566
	92,300	89,964	179,978	185,816

Other operating income

Realised gain from dealing in foreign currency	4,821	5,092	11,734	8,945
Unrealised gain from dealing in foreign currency	1,617	1,811	764	5,764
Gain from sale of financial assets designated as FVTPL and other financial instruments	424	633	1,332	1,339
Unrealised loss from revaluation of financial assets at FVTPL	(9,814)	(615)	(19,300)	(1,354)
Realised gain from trading in derivatives	3,171	848	4,840	1,963
Unrealised loss from trading in derivatives	(9,126)	(446)	(16,357)	(2,473)
Net income/(expense) from financial liabilities designated at FVTPL	24,209	(5,399)	49,468	(8,268)
	15,302	3,105	32,481	7,097
	107,602	93,069	212,459	192,913

	30 Jun 2022 RM'000	30 Jun 2021 RM'000	30 Jun 2022 RM'000	30 Jun 2021 RM'000
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(ii) Income derived from investment of other deposits

Finance income:

Financing and advances

- Profit earned other than recoveries from impaired financing	38,434	33,985	76,699	68,790
- Recoveries from impaired financing	4,904	2,097	6,636	4,732
Financial investments at FVOCI	3,498	2,474	7,601	5,103
Money at call and deposit with financial institutions	5,169	3,287	8,575	6,688
	52,005	41,843	99,511	85,313

Other operating income

Realised gain from dealing in foreign currency	2,743	2,360	6,488	4,107
Unrealised gain from dealing in foreign currency	884	854	422	2,647
Gain from sale of financial assets designated as FVTPL and other financial instruments	244	295	736	615
Unrealised loss from revaluation of financial assets at FVTPL	(5,532)	(287)	(10,671)	(622)
Realised gain from trading in derivatives	1,772	395	2,676	901
Unrealised loss from trading in derivatives	(5,126)	(216)	(9,044)	(1,135)
	(5,015)	3,943	(9,393)	7,055
	46,990	45,786	90,118	92,368

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Income Derived from Investment of Shareholder's Funds

	Second Quarter		Six Months Ended	
	30 Jun 2022 RM'000	30 Jun 2021 RM'000	30 Jun 2022 RM'000	30 Jun 2021 RM'000
<u>Finance income:</u>				
Financing and advances				
- Profit earned other than recoveries from impaired financing	13,061	13,427	26,320	27,545
- Recoveries from impaired financing	1,677	826	2,277	1,895
Financial investments at FVOCI	1,186	977	2,608	2,043
Money at call and deposit with financial institutions	1,762	1,298	2,942	2,678
	17,686	16,528	34,147	34,161
<u>Other operating income</u>				
Fee commission ^[1]	18,222	19,666	44,645	38,312
Realised gain from dealing in foreign currency	929	936	2,227	1,645
Unrealised gain from dealing in foreign currency	305	333	145	1,060
Gain from sale of financial assets designated as FVTPL and other financial instruments	83	116	253	246
Unrealised loss from revaluation of financial assets at FVTPL	(1,881)	(113)	(3,662)	(249)
Realised gain from trading in derivatives	605	156	918	361
Unrealised loss from trading in derivatives	(1,745)	(82)	(3,103)	(455)
Shared-service fees from holding company	279	293	565	588
Other income	443	40	74	40
	17,240	21,562	42,062	41,765
	34,926	38,090	76,209	75,926
^[1] The above fees and commissions were derived from the following major contributors:				
Service charges and fees	5,335	3,063	15,629	6,379
Credit cards	5,533	6,496	11,004	12,196
Credit facilities	2,938	2,620	5,989	5,246
Agency fee	3,053	4,602	7,442	10,379

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Impairment (write-back)/provision

	Second Quarter		Six Months Ended	
	30 Jun 2022 RM'000	30 Jun 2021 RM'000	30 Jun 2022 RM'000	30 Jun 2021 RM'000
Net (release)/increase in allowance/provision	(13,372)	210,983	43,514	196,409
Recoveries	(16,760)	(14,237)	(29,520)	(31,290)
Written off	(143)	1	(143)	1
Total (write-back from)/charge to statement of profit or loss	(30,275)	196,747	13,851	165,120

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

(i) Financing and advances

Net (release)/increase in allowance	(11,627)	209,718	50,545	195,098
Recoveries	(16,760)	(14,237)	(29,520)	(31,290)
Written off	(143)	1	(143)	1
Total (write-back from)/charge to statement of profit or loss	(28,530)	195,482	20,882	163,809

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

Net increase/(release) in allowance/provision	1	(5)	-	(6)
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(iii) Financing commitments

(Net release)/increase in allowance/provision	(1,691)	1,312	(6,876)	1,345
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(iv) Financial investment at FVOCI

Net release in allowance/provision	(55)	(42)	(155)	(28)
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29 Income Attributable to Depositors

	Second Quarter		Six Months Ended	
	30 Jun 2022 RM'000	30 Jun 2021 RM'000	30 Jun 2022 RM'000	30 Jun 2021 RM'000
Non-Mudharabah Fund				
- Deposits from customers	32,596	32,968	63,096	67,872
- Deposits and placements of banks and other financial institutions	3,409	3,324	7,118	6,602
- Lease liabilities	253	507	509	1,276
- Others	7,996	6,477	14,648	12,905
	44,254	43,276	85,371	88,655

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Operating Expenses

	Second Quarter		Six Months Ended	
	30 Jun 2022 RM'000	30 Jun 2021 RM'000	30 Jun 2022 RM'000	30 Jun 2021 RM'000
Personnel expenses	9,897	11,282	17,645	21,477
Promotion and marketing related expenses	1,777	2,868	3,272	3,976
Establishment related expenses	2,996	4,543	5,902	8,079
General administrative expenses	8,648	7,617	15,302	14,774
Related company expenses	39,001	33,679	78,112	74,401
	62,319	59,989	120,233	122,707
Personnel expenses				
Salaries, allowances and bonuses	7,975	8,662	13,848	16,872
Employees Provident Fund contributions	1,419	1,528	2,642	3,015
Share based payment	(125)	(83)	(24)	(49)
Other staff related costs	628	1,175	1,179	1,639
	9,897	11,282	17,645	21,477
Establishment related expenses				
Depreciation of equipment	555	618	1,116	1,244
Depreciation of ROU assets	1,586	1,695	3,045	3,253
Information technology costs	156	1,333	640	1,516
Equipment written off	-	-	72	121
Utilities	256	339	474	688
Others	443	558	555	1,257
	2,996	4,543	5,902	8,079
Related company charges				
Of which by:				
(i) Type of service				
- Information technology related cost	8,039	7,086	15,464	13,492
- Non information technology related cost	30,962	26,593	62,648	60,909
	39,001	33,679	78,112	74,401
(ii) Country/territory				
- Malaysia	38,857	33,102	77,746	73,319
- India	181	-	360	-
- United Kingdom	(17)	577	(12)	1,077
- Hong Kong	-	-	3	5
- Others	(20)	-	15	-
	39,001	33,679	78,112	74,401

31 Credit exposure to connected parties

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

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Aggregate value of outstanding credit exposures to connected parties	348,618	669,930
As a percentage of total credit exposures	1.5%	2.9%
Aggregate value of outstanding credit exposures to connected parties which is non-performing or in default	-	-
As a percentage of total credit exposures	-	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Capital Adequacy

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Tier 1 capital		
Paid-up ordinary share capital	660,000	660,000
Retained profits	1,262,503	1,307,774
Other reserves	69,517	40,307
Regulatory adjustments	<u>(136,428)</u>	<u>(83,894)</u>
Total Common Equity Tier 1 (CET1) and Tier 1 capital	<u>1,855,592</u>	<u>1,924,187</u>
Tier 2 capital		
Subordinated Commodity Murabahah financing	312,421	415,826
Impairment allowance (unimpaired portion) & regulatory reserves	<u>158,604</u>	<u>145,252</u>
Total Tier 2 capital	<u>471,025</u>	<u>561,078</u>
Capital base	<u>2,326,617</u>	<u>2,485,265</u>
Before deducting proposed dividend		
CET1 and Tier 1 Capital ratio	13.456%	15.172%
Total Capital ratio	16.871%	19.596%
After deducting proposed dividend		
CET1 and Tier 1 Capital ratio	13.456%	15.172%
Total Capital ratio	16.871%	19.596%

The total capital and capital adequacy ratios have been computed based on the Standardised Approach in accordance with the Bank Negara Malaysia (BNM)'s Guidelines on 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.

Pursuant to BNM's Guidelines on Capital Adequacy Framework for Islamic Banks (Capital Component) issued on 9 December 2020 (the Guidelines), the Bank elected to apply the transitional arrangements as specified in paragraph 39.

Under transitional arrangements, the expected credit loss (ECL) allowance measured at an amount equal to 12-month and lifetime ECL to the extent they are related to non-credit-impaired exposures (hereinafter referred to as Stage 1 and Stage 2 provisions), are allowed to be added back to CET-1, subject to a capping. The transitional arrangement commenced from financial year beginning 1 January 2020, with an add-back factor that will gradually reduce over the four-year transitional duration.

As required by the Guideline, below is the disclosure on the capital ratios with comparison of:

- (i) the Capital Ratios, computed in accordance with the transitional arrangement
- (ii) the Capital Ratios, had the transitional arrangement not been applied.

	With Transitional Arrangement		Without Transitional Arrangement	
	30 Jun 2022 %	31 Dec 2021 %	30 Jun 2022 %	31 Dec 2021 %
CET1 and Tier 1 Capital	13.456%	15.172%	13.456%	15.085%
Total Capital	16.871%	19.596%	16.871%	19.509%

Breakdown of RWA in the various categories of risk weights:

	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Total RWA for credit risk	12,688,317	11,620,173
Total RWA for market risk	84,983	60,804
Total RWA for operational risk	1,017,019	1,001,279
	13,790,319	12,682,256

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Commitments and Contingencies

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

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

Principal amount	30 Jun 2022 RM'000	31 Dec 2021 RM'000
Direct credit substitutes	22,080	17,418
Transaction-related contingent items	1,765,488	1,701,750
Short-term self-liquidating trade-related contingencies	269,921	53,786
Formal standby facilities and credit lines		
- Maturity not exceeding one year	1,735,701	1,361,894
- Maturity exceeding one year	3,393,997	3,190,748
Other unconditionally cancellable	2,831,944	2,343,942
Unutilised credit card lines	3,405,061	3,458,687
Equity related contracts		
- Less than one year	494,298	243,376
- One year to less than five years	896,785	592,619
Profit rate related contracts		
- Less than one year	775,000	235,000
- One year to less than five years	1,935,543	1,372,261
Foreign exchange related contracts		
- Less than one year	11,519,062	12,703,771
- One year to less than five years	-	21,146
- Five years and above	172,176	-
	29,217,056	27,296,398

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Performance Review, Economy and Prospects

Performance review

The Bank recorded a profit before taxation of RM159.3 million for the financial period ended 30 June 2022, an increase of RM174.6 million from the corresponding period last year. This was mainly due to lower impairment provisions by RM151.3 million and higher operating income by RM20.9 million.

Total balance sheet as at 30 June 2022 stood at RM20.2 billion, an increase of RM0.8 billion compared to 31 December 2021 of RM19.4 billion. The Bank's capital and liquidity ratios remained strong and were well above the regulatory requirements.

Economy and Prospects

The country's economy prospects remain positive and promising. Latest indicators from Bank Negara Malaysia (BNM) show that the country's economic growth is on a firmer footing, driven by strengthening domestic demand amid sustained export growth, better labour market, and the transitioning of COVID-19 crisis to endemic phase in April 2022, which further prompted the easing of restrictions and encouraged the gradual reopening of international borders. Investment activity and prospects have improved, underpinned by the positive growth outlook.

According to HSBC Holdings plc's (HSBC Group) latest business survey, 'HSBC Navigator: SEA in Focus', foreign companies remain confident with surging ambitions for their business in Malaysia. In particular, businesses in China, India and the US are either looking to expand their Malaysian operations, prioritise growth in Malaysia over the next two years or enter the Malaysian market in the next two years. However, downside risks to both global and domestic growth stemming from weaker global growth, lingering supply chain disruptions and geopolitical tensions remain.

Inflationary pressures have continued to increase mainly due to elevated commodity prices and strong demand conditions despite some easing in global supply chain conditions. Consequently, BNM had on 11 May 2022 and 6 July 2022 increased the overnight policy rate (OPR) by 25 basis points respectively, with cumulative of 50 basis points, to 2.25% from a record low of 1.75% maintained since July 2020 following the COVID-19 outbreak that began in early 2020.

During Q2 2022, HSBC Bank Malaysia Berhad and its subsidiary, HSBC Amanah Malaysia Berhad (collectively referred to as 'HSBC Malaysia') have rolled out various products and further initiatives for our clients. These included the introduction of two new structured product ideas combining Environmental, Social and Governance (ESG) elements with risk control mechanism catering to market volatility while providing access to (i) global equities (MSCI World ESG Screened 5% Target Volatility Screened Index) and (ii) opportunities in companies benefiting from innovative technologies (Morningstar Exponential Technologies ESG Screened Target Volatility 7% Select Index).

For the second consecutive year this year, HSBC Malaysia was awarded 'Digital Bank of the Year' 2022 by The Asset Triple A Digital Awards and the 'Market Leader and the Best Service Provider for Trade Finance in Asia' 2022 by Euromoney's annual Trade Finance Survey. These are testaments and recognitions to our continuous digital transformation efforts and our capability in providing the very best products and solutions to our clients. Our head office building in Menara IQ, TRX, was also voted the Best New Green & Sustainable Commercial Building by Malaysia Green Building Council.

Separately, HSBC Amanah Malaysia Berhad (HSBC Amanah) has introduced its first Social Loan Principles (SLP) based financing in South East Asia for the real estate sector. This is the first social financing for the real estate granted by HSBC Group in South East Asia. By supporting these social projects, HSBC Malaysia supports our clients' mission of providing affordable housing for the low-middle income community.

In early July 2022, HSBC Amanah also published its report on Task Force on Climate-Related Financial Disclosures (TCFD) for the second year. This demonstrates our commitment and transparency in reporting climate-related financial risks.

Malaysia continues to be central to HSBC Group's strategy and is especially crucial to the Group's growth plans across the ASEAN region - an area that represents significant growth potential. At HSBC Malaysia, we remain committed to serving our customers, creating even better digital solutions and investing in our employees, aligning with HSBC Group's vision to build "A bank fit for the future".