

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
30 JUNE 2020

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

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

UNAUDITED CONDENSED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Note	<i>Group</i>		<i>Bank</i>	
		30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
		RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short-term funds	12	10,387,583	9,623,962	7,904,633	4,847,237
Securities purchased under resale agreements		4,166,955	6,645,298	4,166,955	6,645,298
Deposits and placements with banks and other financial institutions	13	481,763	139,153	1,408,509	1,011,570
Financial assets at fair value through profit and loss (FVTPL)	14	2,372,538	1,391,978	2,372,538	1,391,978
Financial investments at fair value through other comprehensive income (FVOCI)	15	11,123,493	11,907,954	9,026,991	9,187,979
Loans, advances and financing	16	54,189,540	51,289,860	39,868,363	38,246,907
Derivative financial assets	37	1,664,783	1,440,197	1,664,940	1,440,057
Other assets	19	974,215	432,253	919,702	424,659
Statutory deposits with Bank Negara Malaysia	20	190,208	992,351	155,646	662,689
Investments in subsidiary companies		-	-	660,021	660,021
Property and equipment		950,955	834,156	944,234	827,055
Intangible assets		35,769	38,854	35,769	38,854
Tax recoverable		165,001	89,458	160,415	89,458
Deferred tax assets		78,417	125,695	58,567	101,787
Total assets		86,781,220	84,951,169	69,347,283	65,575,549
Liabilities					
Deposits from customers	21	62,900,707	59,407,190	49,220,550	46,086,878
Deposits and placements from banks and other financial institutions	22	2,759,767	3,683,684	1,968,032	1,770,927
Bills payable		114,624	176,652	99,677	154,616
Derivative financial liabilities	37	1,594,688	1,282,269	1,659,898	1,328,082
Structured liabilities designated at fair value through profit and loss	23	4,471,022	4,860,845	3,300,539	3,565,487
Other liabilities	24	2,454,570	2,478,076	2,428,654	2,195,727
Provision for taxation		-	12,007	-	-
Multi-Currency Sukuk Programme	25	521,337	1,265,929	-	-
Subordinated liabilities	26	1,116,948	1,089,612	1,116,948	1,089,612
Total liabilities		75,933,663	74,256,264	59,794,298	56,191,329
Equity					
Share capital		1,045,875	1,045,875	1,045,875	1,045,875
Other equity and reserves		9,801,682	9,649,030	8,507,110	8,338,345
Total equity attributable to owner of the Bank		10,847,557	10,694,905	9,552,985	9,384,220
Total liabilities and equity		86,781,220	84,951,169	69,347,283	65,575,549
Commitments and contingencies	36	180,601,000	198,344,398	172,605,265	193,751,469

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2019 and the accompanying explanatory notes on pages 13 to 49 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 24 July 2020.

HSBC BANK MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

	<i>Note</i>	<i>Group</i>			
		Second Quarter		Six Months Ended	
		30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
		RM'000	RM'000	RM'000	RM'000
Interest income	27	492,733	596,317	1,055,043	1,203,014
Interest expense	27	(153,636)	(207,064)	(329,729)	(409,943)
Net interest income	27	339,097	389,253	725,314	793,071
Fee and commission income	28	86,368	106,374	198,040	220,833
Fee and commission expense	28	(5,485)	(21,965)	(30,391)	(31,144)
Net fee and commission income	28	80,883	84,409	167,649	189,689
Net trading income	29	199,373	167,016	323,700	367,257
Income from Islamic banking operations	30	92,639	145,366	307,785	261,677
Net expenses from Financial Liabilities Designated at Fair Value		(18,165)	(34,192)	(51,723)	(67,439)
Other operating income	31	28,612	21,871	43,816	28,956
Operating income before impairment losses		722,439	773,723	1,516,541	1,573,211
Impairment allowance/provisions	32	(195,488)	(42,387)	(337,038)	(70,206)
Net operating income		526,951	731,336	1,179,503	1,503,005
Other operating expenses	33	(403,601)	(421,902)	(817,553)	(797,746)
Profit before tax		123,350	309,434	361,950	705,259
Tax expense		(32,550)	(74,243)	(91,187)	(170,673)
Profit for the period		90,800	235,191	270,763	534,586
Basic earnings per RM0.50 ordinary share		39.7 sen	102.7 sen	118.2 sen	233.4 sen
Dividends per RM0.50 ordinary share (net)					
- final dividend paid in respect of prior period		79.9 sen	115.7 sen	79.9 sen	115.7 sen
- special dividend paid in respect of current period		-	218.3 sen	-	218.3 sen

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UNAUDITED CONDENSED STATEMENT OF PROFIT OR LOSS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020 (Cont'd)

		<i>Bank</i>			
		Second Quarter		Six Months Ended	
		30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
<i>Note</i>		RM'000	RM'000	RM'000	RM'000
Interest income	27	500,814	606,072	1,071,710	1,223,225
Interest expense	27	(153,636)	(207,064)	(329,729)	(409,943)
Net interest income	27	347,178	399,008	741,981	813,282
Fee and commission income	28	86,159	106,374	197,442	220,833
Fee and commission expense	28	(5,485)	(21,965)	(30,391)	(31,144)
Net fee and commission income	28	80,674	84,409	167,051	189,689
Net trading income	29	162,785	164,315	348,935	336,722
Net expenses from Financial Liabilities Designated at Fair Value		(18,165)	(34,192)	(51,723)	(67,439)
Other operating income	31	110,192	95,965	156,843	133,461
Operating income before impairment losses		682,664	709,505	1,363,087	1,405,715
Impairment allowance/provisions	32	(127,161)	(20,128)	(204,800)	(29,511)
Net operating income		555,503	689,377	1,158,287	1,376,204
Other operating expenses	33	(377,032)	(392,428)	(761,476)	(742,013)
Profit before tax		178,471	296,949	396,811	634,191
Tax expense		(33,464)	(60,295)	(88,049)	(146,044)
Profit for the period		145,007	236,654	308,762	488,147
Basic earnings per RM0.50 ordinary share		63.3 sen	103.3 sen	134.8 sen	213.2 sen
Dividends per RM0.50 ordinary share (net)					
- final dividend paid in respect of prior period		79.9 sen	115.7 sen	79.9 sen	115.7 sen
- special dividend paid in respect of current period		-	218.3 sen	-	218.3 sen

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2019 and the accompanying explanatory notes on pages 13 to 49 attached to the unaudited condensed interim financial statements.

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HSBC BANK MALAYSIA BERHAD
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UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 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 reserve:				
Change in fair value	(7,408)	(3,638)	26,320	(4,472)
Income tax effect	1,778	873	(6,317)	1,073
<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	77,252	42,750	131,476	87,067
Amount transferred to profit or loss	(33,094)	(33,686)	(87,680)	(45,714)
Impairment	4,498	20	4,618	346
Income tax effect	(14,674)	(4,470)	(14,587)	(12,219)
Financial assets designated as fair value through other comprehensive income				
Change in fair value	16,982	9,557	16,982	9,557
Other comprehensive income for the financial period, net of income tax	45,334	11,406	70,812	35,638
Total comprehensive income for the period	136,134	246,597	341,575	570,224
Profit attributable to owner of the Bank	90,800	235,191	270,763	534,586
Total comprehensive income attributable to owner of the Bank	136,134	246,597	341,575	570,224

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UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020 (Cont'd)

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 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 reserve:				
Change in fair value	(6,266)	(4,121)	9,633	(5,984)
Income tax effect	1,504	989	(2,312)	1,436
<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	65,224	33,173	114,856	72,985
Amount transferred to profit or loss	(33,095)	(27,138)	(81,571)	(39,204)
Impairment	3,535	(12)	3,657	222
Income tax effect	(11,786)	(3,742)	(12,064)	(10,401)
Financial assets designated as fair value through other comprehensive income				
Change in fair value	16,982	9,557	16,982	9,557
Other comprehensive income for the financial period, net of income tax	36,098	8,706	49,181	28,611
Total comprehensive income for the period	181,105	245,360	357,943	516,758
Profit attributable to owner of the Bank	145,007	236,654	308,762	488,147
Total comprehensive income attributable to owner of the Bank	181,105	245,360	357,943	516,758

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

Group (RM'000)	<i>Non-distributable</i>						<i>Distributable</i>		<i>Total equity</i>
	<i>Share capital</i>	<i>Other equity instrument</i>	<i>Revaluation reserve</i>	<i>FVOCI reserve</i>	<i>Own credit reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profits</i>	
2020									
Balance at 1 January	1,045,875	500,000	205,363	173,673	(18,179)	100,010	486,200	8,201,963	10,694,905
Profit for the financial period	-	-	-	-	-	-	-	270,763	270,763
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	-	-	(1,197)	-	-	-	-	1,197	-
FVOCI reserve/Own credit reserve									
Net change in fair value	-	-	-	112,828	20,003	-	-	-	132,831
Net amount transferred to profit or loss	-	-	-	(66,637)	-	-	-	-	(66,637)
Impairment charges	-	-	-	4,618	-	-	-	-	4,618
<i>Total other comprehensive income</i>	-	-	(1,197)	50,809	20,003	-	-	1,197	70,812
Total comprehensive income for the financial period	-	-	(1,197)	50,809	20,003	-	-	271,960	341,575
Net change in regulatory reserves	-	-	-	-	-	-	(173,400)	173,400	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	2,929	-	1,607	4,536
Dividends paid to owner - 2019 final	-	-	-	-	-	-	-	(183,000)	(183,000)
Discretionary coupon on other equity instrument issued	-	-	-	-	-	-	-	(10,459)	(10,459)
Balance at 30 June	1,045,875	500,000	204,166	224,482	1,824	102,939	312,800	8,455,471	10,847,557

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020 (Cont'd)

Group (RM'000)	<i>Non-distributable</i>						<i>Distributable</i>		<i>Total equity</i>
	<i>Share capital</i>	<i>Other equity instrument</i>	<i>Revaluation reserve</i>	<i>FVOCI reserve</i>	<i>Own credit reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profits</i>	
2019									
Balance at 1 January	1,045,875	-	204,890	125,969	(6,863)	99,586	559,200	8,148,816	10,177,473
Profit for the financial period	-	-	-	-	-	-	-	534,586	534,586
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	-	-	(1,174)	-	-	-	-	1,174	-
FVOCI reserve/Own credit reserve									
Net change in fair value	-	-	-	73,434	(3,399)	-	-	-	70,035
Net amount transferred to profit or loss	-	-	-	(34,743)	-	-	-	-	(34,743)
Transfer to retained profits upon realisation of unquoted investments	-	-	-	(57)	-	-	-	57	-
Impairment charges	-	-	-	346	-	-	-	-	346
<i>Total other comprehensive income</i>	-	-	(1,174)	38,980	(3,399)	-	-	1,231	35,638
Total comprehensive income for the financial period	-	-	(1,174)	38,980	(3,399)	-	-	535,817	570,224
Net change in regulatory reserves	-	-	-	-	-	-	(28,000)	28,000	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	(556)	-	(1,567)	(2,123)
Other equity instrument issued	-	500,000	-	-	-	-	-	-	500,000
Dividends paid to owner - 2018 final	-	-	-	-	-	-	-	(265,000)	(265,000)
Dividends paid to owner - 2019 special	-	-	-	-	-	-	-	(500,000)	(500,000)
Balance at 30 June	1,045,875	500,000	203,716	164,949	(10,262)	99,030	531,200	7,946,066	10,480,574

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020 (Cont'd)

Bank (RM'000)	<i>Non-distributable</i>						<i>Distributable</i>		<i>Total equity</i>
	<i>Share capital</i>	<i>Other equity instrument</i>	<i>Revaluation reserve</i>	<i>FVOCI reserve</i>	<i>Own credit reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profits</i>	
2020									
Balance at 1 January	1,045,875	500,000	205,363	167,379	(9,922)	99,473	433,100	6,942,952	9,384,220
Profit for the financial period	-	-	-	-	-	-	-	308,762	308,762
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	-	-	(1,197)	-	-	-	-	1,197	-
FVOCI reserve/Own credit reserve									
Net change in fair value	-	-	-	100,197	7,321	-	-	-	107,518
Net amount transferred to profit or loss	-	-	-	(61,994)	-	-	-	-	(61,994)
Impairment charges	-	-	-	3,657	-	-	-	-	3,657
<i>Total other comprehensive income</i>	-	-	(1,197)	41,860	7,321	-	-	1,197	49,181
Total comprehensive income for the financial period	-	-	(1,197)	41,860	7,321	-	-	309,959	357,943
Net change in regulatory reserves	-	-	-	-	-	-	(125,300)	125,300	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	2,731	-	1,550	4,281
Dividends paid to owner - 2019 final	-	-	-	-	-	-	-	(183,000)	(183,000)
Discretionary coupon on other equity instrument issued	-	-	-	-	-	-	-	(10,459)	(10,459)
Balance at 30 June	1,045,875	500,000	204,166	209,239	(2,601)	102,204	307,800	7,186,302	9,552,985

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UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020 (Cont'd)

Bank (RM'000)	<i>Non-distributable</i>						<i>Distributable</i>		<i>Total equity</i>
	<i>Share capital</i>	<i>Other equity instrument</i>	<i>Revaluation reserve</i>	<i>FVOCI reserve</i>	<i>Own credit reserve</i>	<i>Capital contribution reserve</i>	<i>Regulatory reserve</i>	<i>Retained profits</i>	
2019									
Balance at 1 January	1,045,875	-	204,890	125,490	(3,876)	99,087	468,100	7,075,642	9,015,208
Profit for the financial period	-	-	-	-	-	-	-	488,147	488,147
Other comprehensive income, net of income tax									
Revaluation reserve:									
Transfer to retained profits upon realisation of depreciation	-	-	(1,174)	-	-	-	-	1,174	-
FVOCI reserve/Own credit reserve									
Net change in fair value	-	-	-	62,732	(4,548)	-	-	-	58,184
Net amount transferred to profit or loss	-	-	-	(29,795)	-	-	-	-	(29,795)
Transfer to retained profits upon realisation of unquoted investments	-	-	-	(57)	-	-	-	57	-
Impairment charges	-	-	-	222	-	-	-	-	222
<i>Total other comprehensive income</i>	-	-	(1,174)	33,102	(4,548)	-	-	1,231	28,611
Total comprehensive income for the financial period	-	-	(1,174)	33,102	(4,548)	-	-	489,378	516,758
Net change in regulatory reserves	-	-	-	-	-	-	(17,000)	17,000	-
Transactions with the owner, recorded directly in equity									
Share based payment transactions	-	-	-	-	-	(873)	-	(1,592)	(2,465)
Other equity instrument issued	-	500,000	-	-	-	-	-	-	500,000
Dividends paid to owner - 2018 final	-	-	-	-	-	-	-	(265,000)	(265,000)
Dividends paid to owner - 2019 special	-	-	-	-	-	-	-	(500,000)	(500,000)
Balance at 30 June	1,045,875	500,000	203,716	158,592	(8,424)	98,214	451,100	6,815,428	9,264,501

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UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
Profit before tax	361,950	705,259	396,811	634,191
Adjustments for non-operating and non-cash items	275,197	135,690	63,505	160,312
Operating profit before working capital changes	637,147	840,949	460,316	794,503
Changes in working capital:				
Net changes in operating assets	(1,965,104)	(353,337)	(874,284)	(851,671)
Net changes in operating liabilities	2,485,079	73,572	3,646,227	(304,304)
Income tax paid	(152,361)	(254,078)	(130,161)	(218,967)
Net cash generated from/(used in) operations	1,004,761	307,106	3,102,098	(580,439)
Net cash generated from investing activities	750,302	516,595	172,744	779,820
Net cash used in financing activities	(991,442)	(324,410)	(217,446)	(288,709)
	(241,140)	192,185	(44,702)	491,111
Net changes in cash and cash equivalents	763,621	499,291	3,057,396	(89,328)
Cash and cash equivalents at 1 January	9,623,962	7,908,159	4,847,237	5,137,240
Cash and cash equivalents at 30 June	10,387,583	8,407,450	7,904,633	5,047,912
Analysis of cash and cash equivalents				
Cash and short-term funds	10,387,583	8,407,450	7,904,633	5,047,912

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UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020 (Cont'd)

Change in liabilities arising from financing activities

Group (RM'000)

2020	At 1 Jan	Cash inflow/ (outflow)	Foreign exchange adjustment	Fair value movement	Interest/ Profit accrual	At 30 Jun
Multi-Currency Sukuk Programme	1,265,929	(750,000)	-	5,408	-	521,337
Subordinated liabilities	1,089,612	-	27,336	-	-	1,116,948
Other liabilities of which:						
Profit paid on Multi-Currency Sukuk	13,724	(23,996)	-	-	15,573	5,301
Interest paid on Subordinated liabilities	4,292	(23,987)	-	-	23,866	4,171
Other equity instrument	500,000	-	-	-	-	500,000
Dividend paid	-	(183,000)	-	-	-	-
Discretionary coupon paid on other equity instrument issued	-	(10,459)	-	-	-	-
	2,873,557	(991,442)	27,336	5,408	39,439	2,147,757
2019						
Multi-Currency Sukuk Programme	1,755,281	-	-	4,994	-	1,760,275
Subordinated liabilities	1,095,987	-	-	-	-	1,095,987
Other liabilities of which:						
Profit paid on Multi-Currency Sukuk	18,175	(35,701)	-	-	35,585	18,059
Interest paid on Subordinated liabilities	4,458	(23,709)	-	-	26,731	7,480
Other equity instrument	-	500,000	-	-	-	500,000
Dividend paid	-	(765,000)	-	-	-	-
	2,873,901	(324,410)	-	4,994	62,316	3,381,801

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2019 and the accompanying explanatory notes on pages 13 to 49 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 24 July 2020.

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020 (Cont'd)

Change in liabilities arising from financing activities (Cont'd)

Bank (RM'000)

2020	At 1 Jan	Cash inflow/ (outflow)	Foreign exchange adjustment	Fair value movement	Interest accrual	At 30 Jun
Subordinated liabilities	1,089,612	-	27,336	-	-	1,116,948
Other liabilities of which:						
Interest paid on Subordinated liabilities	4,292	(23,987)	-	-	23,866	4,171
Other equity instrument	500,000	-	-	-	-	500,000
Dividend paid	-	(183,000)	-	-	-	-
Discretionary coupon paid on other equity instrument issued	-	(10,459)	-	-	-	-
	1,593,904	(217,446)	27,336	-	23,866	1,621,119
2019						
Subordinated liabilities	1,095,987	-	-	-	-	1,095,987
Other liabilities of which:						
Interest paid on Subordinated liabilities	4,458	(23,709)	-	-	26,731	7,480
Other equity instrument	-	500,000	-	-	-	500,000
Dividend paid	-	(765,000)	-	-	-	-
	1,100,445	(288,709)	-	-	26,731	1,603,467

The unaudited condensed interim financial statements should be read in conjunction with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2019 and the accompanying explanatory notes on pages 13 to 49 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 24 July 2020.

HSBC BANK MALAYSIA BERHAD
(Company No. 198401015221 (127776-V))
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

1 General Information

HSBC Bank Malaysia Berhad (the Bank) is principally engaged in the provision of banking and other related financial services. The subsidiaries of the Bank are principally engaged in the businesses of Islamic Banking and nominee services. Islamic Banking operations refer generally to the acceptance of deposits and granting of financing under the principles of Shariah. The Bank and its subsidiaries are collectively known as "the Group".

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 the ultimate holding company during the financial period are The Hongkong and Shanghai Banking Corporation Limited (HBAP) and HSBC Holdings plc, respectively.

The unaudited condensed interim financial statements were approved and authorised for issue by the Board of Directors on 24 July 2020.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 30 June 2020 have been prepared under the historical cost convention except for the following assets and liabilities which are stated at fair values: financial assets at fair value through profit and loss, financial investments at fair value through other comprehensive income, derivative financial instruments, and financial liabilities designated at fair-valued through profit and loss.

The unaudited condensed interim financial statements for the financial period ended 30 June 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). The unaudited condensed interim financial statements incorporate those activities relating to Islamic Banking which have been undertaken by the Bank's Islamic subsidiary.

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 Group and 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 Group and Bank since the financial year ended 31 December 2019.

All significant accounting policies, measurement basis and methods of computation applied in the unaudited condensed interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the year ended 31 December 2019.

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

A number of new standards and amendments to standards and interpretations are effective for financial year beginning after 1 January 2020. None of these is expected to have a significant effect on the consolidated financial statements of the Group and the Bank, except the following set out below:

- Amendments to MFRS 3 'Definition of a Business' revise the definition of a business.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

(i) Standards and amendments to published standards that are effective and applicable to the Group and the Bank (cont'd)

- Amendments to MFRS 3 'Definition of a Business' (cont'd)

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

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

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

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

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

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

(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 Group and the Bank have 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 Group and 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 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 annual 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 Group and 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 Group and Bank for the financial period ended 30 June 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 Group and Bank for the financial period ended 30 June 2020.

8 Debt and Equity Securities

The third series of Multi-Currency Sukuk Programme (MCSP) of RM750 million was redeemed upon maturity on 27 March 2020. There were no other issuances, cancellations, repurchases, resale or repayment of debt and equity securities during the financial period ended 30 June 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 RM0.80 per ordinary share amounting to RM183 million.

No interim dividend was declared nor paid for the financial period ended 30 June 2020.

10 Carrying Amount of Revalued Assets

Property and equipment are stated at cost/valuation less accumulated depreciation and impairment losses (if any) except for freehold land which is stated at professional valuation. There was no change in the valuation of property and equipment that was brought forward from the previous audited financial statements for the financial period ended 30 June 2020.

11 Significant and Subsequent Events

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

12 Cash and Short-Term Funds

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	854,153	956,880	663,351	740,937
Money at call and interbank placements maturing within one month	9,533,430	8,667,082	7,241,282	4,106,300
	10,387,583	9,623,962	7,904,633	4,847,237

Money at call and interbank placements maturing within one month is within Stage 1 allocation (12 -months ECL) with impairment allowance of RM426,000 for the Group and RM371,000 for the Bank as at 30 June 2020 (31 December 2019: RM69,000 for the Group and RM63,000 for the Bank).

13 Deposits and Placements with Banks and Other Financial Institutions

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Licensed banks	-	-	1,308,509	1,011,570
Bank Negara Malaysia	481,763	139,153	100,000	-
	481,763	139,153	1,408,509	1,011,570

Included in Deposits and Placements with Banks and Other Financial Institutions of the Bank are placements with the Bank's wholly owned subsidiary, HSBC Amanah Malaysia Berhad (HBMS) of RM1,308.5 million (31 December 2019: RM1,011.6 million). The balance is within Stage 1 allocation (12 -months ECL) with nil impairment allowance for the Group and the Bank as at 30 June 2020 (31 December 2019: nil for the Group and the Bank).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

14 Financial Assets at Fair Value through Profit and Loss (FVTPL)

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Money market instruments:				
Malaysian Government treasury bills	-	48,736	-	48,736
Islamic treasury bills	19,977	19,668	19,977	19,668
Malaysian Government securities	1,460,000	397,683	1,460,000	397,683
Malaysian Government Islamic Sukuk	624,674	198,991	624,674	198,991
Cagamas bonds and notes	18,496	13,458	18,496	13,458
	2,123,147	678,536	2,123,147	678,536
Unquoted:				
Corporate bonds and Sukuk	249,391	113,388	249,391	113,388
Loans, advances and financing ^[1]	-	600,054	-	600,054
	2,372,538	1,391,978	2,372,538	1,391,978

^[1] Included in Financial Assets at FVTPL of the Bank as at 31 December 2019 is a financing exposure of RM600,054,000 held for the purpose of sale in the near term. This exposure is classified as 'other' business model and its cash flow does not represent solely for the collection of principal and interest (the "SPPI" test). Hence it is being classified as FVTPL. This has been sold during the financial period ended 30 June 2020.

This exposure is also an SIAF/IAA financing which is being disclosed as "Asset Under Management" in the financial statements of HBMS. Syndicated Investment Account for Financing/Investment Agency Account (SIAF/IAA) arrangement is with the Bank's wholly owned subsidiary, HBMS, and the contract is based on the Wakalah principle where the Bank, solely or together with other financial institutions provide the funds, whilst the assets are managed by HBMS (as the Wakeel or agent). However, in the arrangement, the profits of the underlying assets are recognised by the Bank proportionately in relation to the funding it provides in the syndication arrangement. At the same time, risks on the financing are also proportionately borne by the Bank. Hence, the underlying assets and allowances for impairment arising thereon, if any, are proportionately recognised and accounted for by the Bank.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Debt instruments				
Money market instruments:				
Bank Negara Malaysia bills and notes	3,552,338	840,066	3,552,338	840,066
Islamic Bank Negara bills	-	499,459	-	499,459
Malaysian Government securities	3,661,807	4,685,666	3,661,807	4,685,666
Malaysian Government Islamic Sukuk	3,589,249	4,323,458	1,492,747	1,603,483
Cagamas bonds and notes	100,030	135,065	100,030	135,065
US treasury bond	-	1,221,297	-	1,221,297
	10,903,424	11,705,011	8,806,922	8,985,036
Unquoted:				
Corporate bonds and Sukuk	6,066	5,922	6,066	5,922
Financial Investments Designated as FVOCI				
Equity instruments				
Unquoted:				
Shares	214,003	197,021	214,003	197,021
<i>of which</i>				
<i>Cagamas Holdings Berhad</i>	172,994	159,741	172,994	159,741
<i>Credit Guarantee Corporation Malaysia Berhad</i>	33,619	31,196	33,619	31,196
<i>Others</i>	7,390	6,084	7,390	6,084
	11,123,493	11,907,954	9,026,991	9,187,979

The Group and the Bank have elected to designate these equity instruments at fair value through other comprehensive income as these instruments are held for business facilitation and not to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. None of these equity instruments were disposed during the financial period.

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

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Maturing within one year	4,683,985	4,837,044	4,121,295	3,136,455
More than one year to three years	4,625,513	5,667,297	3,556,100	4,647,911
More than three years to five years	1,593,926	1,200,670	1,129,527	1,200,670
	10,903,424	11,705,011	8,806,922	8,985,036

There are no FVOCI balances that are pledged against Repurchase Agreement as at 30 June 2020 (31 December 2019: nil).

Financial investments at FVOCI are within Stage 1 allocation (12 -months ECL) with RM5,307,000 impairment allowance for the Group and RM4,181,000 for the Bank as at 30 June 2020 (31 December 2019: RM690,000 for the Group and RM524,000 for the Bank). 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.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Loans, Advances and Financing

(i) By type

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
At amortised cost				
Overdrafts/cash line	878,120	811,630	804,813	738,499
Term loans/financing:				
Housing loans/financing	17,442,209	17,790,451	13,340,726	13,626,079
Syndicated term loans/financing	4,277,353	3,432,114	2,931,424	2,703,816
Factoring receivables	712,584	613,197	712,584	613,197
Hire purchase receivables	201,778	194,049	-	-
Other term loans/financing	10,679,338	10,089,398	6,844,010	6,250,324
Bills receivable	3,249,624	2,066,044	2,252,748	1,595,124
Trust receipts	3,427,565	2,511,619	2,975,162	1,985,793
Claims on customers under acceptance credits	1,082,889	1,404,798	627,530	1,081,526
Staff loans/financing	66,297	75,179	64,153	72,935
Credit/charge cards	3,434,500	4,009,507	2,320,270	2,750,943
Revolving financing	9,489,069	8,811,969	7,421,010	7,095,804
Other loans/financing	14,786	15,694	11,150	11,391
Gross loans, advances and financing ^[1]	54,956,112	51,825,649	40,305,580	38,525,431
Less: - Impairment allowances	(766,572)	(535,789)	(437,217)	(278,524)
Total net loans, advances and financing	54,189,540	51,289,860	39,868,363	38,246,907

^[1] Included in gross loans, advances and financing of the Bank are SIAF/IAA financing which are disclosed as "Asset Under Management" in the unaudited financial statements of HBMS (refer to Note 14 for more details). These comprise of the following types of financing:

	<i>Bank</i>	
	30 Jun 2020	31 Dec 2019
	RM'000	RM'000
Syndicated term financing	2,027,941	1,910,351
Other term financing	116,811	15,087
Revolving financing	1,295,267	839,000
	3,440,020	2,764,438

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Loans, Advances and Financing (Cont'd)

(ii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Domestic non-bank financial institutions	1,899,825	1,312,978	1,369,463	818,092
Domestic business enterprises:				
Small medium enterprises	2,993,741	2,316,481	1,919,294	1,379,084
Others	22,462,822	21,248,961	17,678,747	17,027,935
Government and statutory bodies	612	1,917	-	-
Individuals	20,834,942	21,675,316	14,706,926	15,412,214
Other domestic entities	4,314	4,390	3,211	3,253
Foreign entities/individuals	6,759,856	5,265,606	4,627,939	3,884,853
	54,956,112	51,825,649	40,305,580	38,525,431

(iii) By residual contractual maturity

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Maturity within one year	23,568,995	21,320,575	17,976,862	16,778,704
More than one year to three years	5,968,835	5,208,744	4,130,968	3,453,335
More than three years to five years	4,040,607	3,638,797	2,922,271	2,625,964
More than five years	21,377,675	21,657,533	15,275,479	15,667,428
	54,956,112	51,825,649	40,305,580	38,525,431

(iv) By interest/profit rate sensitivity

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Fixed rate:				
Housing loans/financing	167	7,677	167	7,677
Hire purchase receivables	201,778	194,049	-	-
Other fixed rate loans/financing	12,063,338	11,129,738	8,112,793	7,686,187
Variable rate:				
Base Rate/Base Lending/Financing Rate plus	20,848,958	21,179,066	15,728,523	15,981,634
Cost-plus	21,841,871	19,315,119	16,464,097	14,849,933
	54,956,112	51,825,649	40,305,580	38,525,431

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

16 Loans, Advances and Financing (Cont'd)

(v) By sector	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020 RM'000	31 Dec 2019 RM'000	30 Jun 2020 RM'000	31 Dec 2019 RM'000
Agricultural, hunting, forestry and fishing	128,572	183,220	110,398	166,505
Mining and quarrying	330,889	361,643	163,297	177,453
Manufacturing	8,102,722	7,693,137	6,536,679	6,489,904
Electricity, gas and water	442,654	278,428	28,482	79,117
Construction	3,714,037	3,747,741	2,706,912	2,696,662
Real estate	4,666,514	4,039,836	3,816,252	3,280,067
Wholesale & retail trade and restaurants & hotels	4,472,012	3,860,439	3,553,457	3,036,125
Transport, storage and communication	618,705	547,990	438,230	370,418
Finance, insurance and business services	3,916,660	3,376,985	3,023,419	2,508,676
Household-retail	23,751,796	24,673,823	17,122,191	17,888,637
Others	4,811,551	3,062,407	2,806,263	1,831,867
	54,956,112	51,825,649	40,305,580	38,525,431

(vi) By purpose

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020 RM'000	31 Dec 2019 RM'000	30 Jun 2020 RM'000	31 Dec 2019 RM'000
Purchase of property:				
Residential	17,483,952	17,838,858	13,381,310	13,673,312
Non residential	1,412,186	1,427,087	622,840	627,338
Purchase of securities	3,150	3,177	3,150	3,177
Purchase of transport vehicles	15,015	17,103	14,384	16,332
Consumption credit	5,866,900	6,420,319	3,571,964	4,037,542
Construction	3,051,907	2,906,066	2,154,717	2,088,817
Working capital	23,274,197	20,935,035	18,339,350	16,661,495
Other purpose	3,848,805	2,278,004	2,217,865	1,417,418
	54,956,112	51,825,649	40,305,580	38,525,431

(vii) By geographical distribution

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020 RM'000	31 Dec 2019 RM'000	30 Jun 2020 RM'000	31 Dec 2019 RM'000
Northern Region	6,533,026	6,568,954	5,002,182	5,011,671
Southern Region	6,184,670	6,046,981	4,573,454	4,476,077
Central Region	40,123,529	37,011,516	28,973,665	27,218,490
Eastern Region	2,114,887	2,198,198	1,756,279	1,819,193
	54,956,112	51,825,649	40,305,580	38,525,431

Concentration by location for loans, advances and financing is based on the location of the borrower.

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 state of Selangor, the Federal Territory of Kuala Lumpur and the 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)

17 Impaired Loans, Advances and Financing

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

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Gross carrying amount as at 1 January	1,003,447	973,287	618,144	616,975
Transfer within stages	97,273	140,107	66,298	80,658
Net remeasurement due to changes in credit risk	94,028	96,662	56,225	26,021
Written-off	(125,968)	(206,609)	(48,657)	(105,510)
Gross carrying amount as at 30 June	1,068,780	1,003,447	692,010	618,144

(ii) By sector

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Mining and quarrying	-	1,611	-	1,611
Manufacturing	97,975	79,934	80,906	63,687
Electricity, gas and water	577	600	577	600
Construction	32,429	34,177	29,818	29,978
Real estate	12,119	12,151	12,119	12,116
Wholesale & retail trade, restaurants & hotels	68,800	36,021	57,246	18,017
Transport, storage and communication	18,136	18,223	17,854	17,854
Finance, insurance and business services	12,893	29,614	804	893
Household-retail	792,313	757,974	484,828	465,409
Others	33,538	33,142	7,858	7,979
1,068,780	1,003,447	692,010	618,144	

(iii) By purpose

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Purchase of property:				
Residential	378,505	379,762	270,194	273,771
Non residential	45,788	50,238	31,178	31,931
Purchase of transport vehicles	72	109	40	77
Consumption credit	405,689	368,637	206,781	183,578
Construction	29,462	29,622	26,911	26,898
Working capital	185,868	152,212	156,844	101,831
Other purpose	23,396	22,867	62	58
1,068,780	1,003,447	692,010	618,144	

(iv) By geographical distribution

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Northern Region	111,312	120,756	83,992	87,578
Southern Region	113,003	112,952	74,420	73,391
Central Region	783,840	712,067	481,226	406,430
Eastern Region	60,625	57,672	52,372	50,745
1,068,780	1,003,447	692,010	618,144	

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 ECL allowances

(i) Movements in ECL allowances for loans, advances and financing

The following table shows reconciliation from the opening to the closing balance of the ECL allowance for customer loan 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
Group				
Balance at 1 January 2020	91,688	129,424	314,677	535,789
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	40,451	(36,369)	(4,082)	-
- Transferred to Stage 2	(6,595)	15,263	(8,668)	-
- Transferred to Stage 3	(563)	(9,983)	10,546	-
New financial assets originated or purchased	27,907	-	-	27,907
Net remeasurement due to changes in credit risk	29,184	132,989	165,716	327,889
Asset written-off	-	-	(125,968)	(125,968)
Others	955	-	-	955
Balance at 30 June 2020	183,027	231,324	352,221	766,572
Balance at 1 January 2019	99,954	132,892	259,032	491,878
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	58,006	(49,322)	(8,684)	-
- Transferred to Stage 2	(7,907)	21,435	(13,528)	-
- Transferred to Stage 3	(733)	(8,888)	9,621	-
New financial assets originated or purchased	28,358	-	-	28,358
Net remeasurement due to changes in credit risk	(84,983)	33,307	274,845	223,169
Asset written-off	-	-	(206,609)	(206,609)
Others	(1,007)	-	-	(1,007)
Balance at 31 December 2019	91,688	129,424	314,677	535,789

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

Total ECL allowances increased by RM230.8 million for the Group compared to the balance at the beginning of the year. This net increase was mainly contributed by remeasurement due to changes in credit risk (RM327.9 million) and new financial assets originated or purchased (RM27.9 million), partially offset by asset written-off (RM126.0 million).

- 12-months ECL not credit impaired (Stage 1) – increased by RM91.3 million for the Group, due to net migration of loans from stages 2 and 3, remeasurement due to changes in credit risk based on HSBC Group's model and new financial assets.
- Lifetime ECL not credit-impaired (Stage 2) – increased by RM101.9 million for the Group, mainly from remeasurement due to changes in credit risk and partially offset by net migration of loans mostly to stage 1 as a result of improved credit quality.
- Lifetime ECL credit-impaired (Stage 3) – increased by RM37.5 million for the Group, primarily from remeasurement due to changes in credit risk and partially offset by asset written-off.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 ECL allowances (Cont'd)

(i) Movements in ECL allowances for loans, advances and financing (Cont'd)

	<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
Bank				
Balance at 1 January 2020	45,185	61,421	171,918	278,524
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	20,801	(17,416)	(3,385)	-
- Transferred to Stage 2	(3,288)	8,876	(5,588)	-
- Transferred to Stage 3	(273)	(5,281)	5,554	-
New financial assets originated or purchased	16,767	-	-	16,767
Net remeasurement due to changes in credit risk	21,715	66,680	101,506	189,901
Asset written-off	-	-	(48,657)	(48,657)
Others	682	-	-	682
Balance at 30 June 2020	101,589	114,280	221,348	437,217
Balance at 1 January 2019	55,966	68,428	132,951	257,345
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	36,259	(31,147)	(5,112)	-
- Transferred to Stage 2	(3,612)	13,084	(9,472)	-
- Transferred to Stage 3	(290)	(5,057)	5,347	-
New financial assets originated or purchased	10,703	-	-	10,703
Net remeasurement due to changes in credit risk	(53,052)	16,113	153,714	116,775
Asset written-off	-	-	(105,510)	(105,510)
Others	(789)	-	-	(789)
Balance at 31 December 2019	45,185	61,421	171,918	278,524

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 loans, advances and financing 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 RM158.7 million for the Bank compared to the balance at the beginning of the year. This net increase was mainly contributed by remeasurement due to changes in credit risk (RM189.9 million) and new financial assets originated or purchased (RM16.8 million), partially offset by asset written-off (RM48.7 million).

- 12-months ECL not credit impaired (Stage 1) – increased by RM56.4 million for the Bank, contributed by remeasurement due to changes in credit risk based on the HSBC Group's model, loans migrated to Stage 1 due to improved credit quality, and new financial assets.
- Lifetime ECL not credit-impaired (Stage 2) – increased by RM52.9 million for the Bank, mainly from remeasurement due to changes in credit risk and offset by migration of loans mostly to stage 1 due to credit quality improvement.
- Lifetime ECL credit-impaired (Stage 3) – Stage 3 ECL increased by RM49.4 million, primarily contributed by remeasurement due to changes in credit risk. This was partially offset by impaired loans written off.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 ECL allowances movement (Cont'd)

(ii) Movements in ECL allowances for loan commitments

The following table shows reconciliation from the opening to the closing balance of the ECL allowance for loan 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
Group				
Balance at 1 January 2020	4,830	3,105	649	8,584
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	473	(473)	-	-
- Transferred to Stage 2	(217)	217	-	-
- Transferred to Stage 3	-	(5)	5	-
New financial assets originated or purchased	2,196	-	-	2,196
Net remeasurement due to changes in credit risk	5,328	9,537	(70)	14,795
Others	(41)	-	-	(41)
Balance at 30 June 2020	12,569	12,381	584	25,534
Balance at 1 January 2019	4,415	3,358	825	8,598
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	532	(532)	-	-
- Transferred to Stage 2	(228)	228	-	-
- Transferred to Stage 3	-	(1)	1	-
New financial assets originated or purchased	1,242	-	-	1,242
Net remeasurement due to changes in credit risk	(1,129)	52	(177)	(1,254)
Others	(2)	-	-	(2)
Balance at 31 December 2019	4,830	3,105	649	8,584

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

18 ECL allowances movement (Cont'd)

(ii) Movements in ECL allowances for loan commitments (Cont'd)

	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
Bank				
Balance at 1 January 2020	3,554	2,231	247	6,032
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	318	(318)	-	-
- Transferred to Stage 2	(140)	140	-	-
- Transferred to Stage 3	-	(5)	5	-
New financial assets originated or purchased	2,010	-	-	2,010
Net remeasurement due to changes in credit risk	4,075	8,330	(70)	12,335
Others	(60)	-	-	(60)
Balance at 30 June 2020	9,757	10,378	182	20,317
Balance at 1 January 2019	3,306	2,433	-	5,739
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	451	(451)	-	-
- Transferred to Stage 2	(140)	140	-	-
- Transferred to Stage 3	-	(1)	1	-
New financial assets originated or purchased	589	-	-	589
Net remeasurement due to changes in credit risk	(658)	110	246	(302)
Others	6	-	-	6
Balance at 31 December 2019	3,554	2,231	247	6,032

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 loans, financing and other credit related commitments for retail portfolio are presented together with the allowance for the drawn loans, advances and financing.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 Other Assets

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Settlements	394,785	2,417	394,785	2,417
Interest/profit receivable	107,812	143,547	84,576	119,776
Income receivable	32,496	35,255	37,344	29,021
Deposits and prepayments	7,103	1,451	7,103	1,451
Amount due from subsidiary company	-	-	88	57,735
Rights of Use (ROU) assets	70,463	82,620	49,681	58,116
Cash collateral	184,456	40,143	184,456	40,143
Other receivables	177,100	126,820	161,669	116,000
	974,215	432,253	919,702	424,659

20 Statutory Deposits with Bank Negara Malaysia

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

21 Deposits from Customers

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
(i) By type of deposit	RM'000	RM'000	RM'000	RM'000
Demand deposits	20,884,348	21,252,995	18,108,728	17,801,805
Savings deposits	14,749,040	12,647,639	12,429,946	10,774,990
Fixed deposits	27,267,319	25,506,556	18,681,876	17,510,083
	62,900,707	59,407,190	49,220,550	46,086,878

The maturity structure of fixed deposits is as follows:

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Due within six months	21,505,332	20,111,102	14,304,690	13,521,017
More than six months to one year	4,712,015	4,560,534	3,703,313	3,460,754
More than one year to three years	645,796	493,239	407,090	319,059
More than three years to five years	404,176	340,941	266,783	208,513
Over five years	-	740	-	740
	27,267,319	25,506,556	18,681,876	17,510,083

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
(ii) By type of customer	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	30,009	29,979	13,253	16,993
Business enterprises	24,251,904	21,235,228	20,093,695	18,481,598
Individuals	25,170,524	24,079,749	18,980,350	17,857,275
Foreign entities/individuals	12,534,029	13,014,439	9,430,182	9,068,476
Others	914,241	1,047,795	703,070	662,536
	62,900,707	59,407,190	49,220,550	46,086,878

22 Deposits and Placements from Banks and Other Financial Institutions

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Licensed banks	245,015	822	245,015	822
Bank Negara Malaysia	146,842	22,262	135,604	1,850
Other financial institutions	2,367,910	3,660,600	1,587,413	1,768,255
	2,759,767	3,683,684	1,968,032	1,770,927

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

23 Structured Liabilities Designated at Fair Value through Profit or Loss

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Structured liabilities	4,471,022	4,860,845	3,300,539	3,565,487

Structured liabilities are measured at fair value over the life of the instruments. Structured liabilities are customer placements with embedded derivatives, of which both interest/profit paid and fair valuation on the structured liabilities are recorded in net income/(expense) from financial investments designated at fair value.

24 Other Liabilities

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Settlements	179,131	194	178,867	98
Interest/profit payable	215,252	250,172	146,607	165,739
Deferred income	74,240	115,485	63,356	76,725
Marginal deposit	79,535	90,086	75,077	86,321
Amount due to subsidiary company	-	-	178,423	2,093
Accrued expenses	564,474	707,423	541,563	680,452
Lease liabilities	76,181	87,923	54,037	62,869
Cash collateral	444,413	439,106	444,413	439,106
Other creditors	795,810	779,103	725,994	676,292
Provisions on loan and credit related commitments; and financial guarantees	25,534	8,584	20,317	6,032
	2,454,570	2,478,076	2,428,654	2,195,727

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

25 Multi-Currency Sukuk Programme

	<i>Group</i>	
	30 Jun 2020	31 Dec 2019
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	521,337	1,265,929

HSBC Amanah Malaysia Berhad, a subsidiary of the Bank, issued the following series of 5-year Sukuk under its RM3 billion MCSP:

<u>Issuance under MCSP</u>	Nominal Value (RM'000)	Issue Date	Maturity Date	Carrying Value (RM'000)	
				30 Jun 2020	31 Dec 2019
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	521,337	514,197
Total	1,250,000			521,337	1,265,929

Movement in MCSP

	3rd series	4th series
	RM'000	RM'000
<u>2020</u>		
Balance at 1 January	751,732	514,197
Change in fair value other than from own credit risk	(847)	2,589
Change in fair value from own credit risk	(885)	4,551
Redemption of Multi-Currency Sukuk	(750,000)	-
Balance at 30 June	-	521,337

2019

	2nd series	3rd series	4th series
	RM'000	RM'000	RM'000
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

	<i>Group</i>	
	30 Jun 2020	31 Dec 2019
	RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk	3,666	4,574

^[1] Redeemed on 27 March 2020.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

26 Subordinated Liabilities

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
Subordinated Liabilities	1,116,948	1,089,612	1,116,948	1,089,612
(i) Subordinated liabilities, at par				
- Second tranche issued on 2 November 2007 ^[1]	500,000	500,000	500,000	500,000

^[1] 5.05% coupon rate for RM500 million due 2027 callable with a 100 basis point step up coupon in 2022.

The unsecured subordinated liabilities qualify as a component of Tier 2 capital of the Bank. Under the Capital Adequacy Framework (Capital Components), the par value of the subordinated liabilities are amortised on a straight line basis, with 10% of the par value phased out each year, with effect from 2013 for regulatory capital base purposes.

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
	RM'000	RM'000	RM'000	RM'000
(ii) Subordinated term loan				
- First tranche issued on 25 June 2014	332,699	317,957	332,699	317,957
- Second tranche issued on 30 June 2015	284,249	271,655	284,249	271,655
	616,948	589,612	616,948	589,612

The subordinated term loans comprised two tranches of Basel III compliant Tier 2 subordinated loans of USD equivalent of RM250 million each from the Bank's immediate holding company, HBAP. The tenor for both the subordinated term loans is 10 years from the utilisation date with interest payable quarterly in arrears.

The subordinated term loans constitute direct, unsecured and subordinated obligations of the Bank. The Bank further invested a similar amount into HBMS.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Net Interest Income

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020 RM'000	30 Jun 2019 RM'000	30 Jun 2020 RM'000	30 Jun 2019 RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	379,884	442,052	800,400	893,906
- Interest income recognised from impaired loans	3,528	8,618	12,474	18,344
Money at call and deposit placements with financial institutions	52,818	46,613	113,430	93,058
Financial investments at FVOCI	56,503	99,034	128,739	197,706
	492,733	596,317	1,055,043	1,203,014
Interest expense				
Deposits and placements of banks and other financial institutions	(4,639)	(13,094)	(9,905)	(24,122)
Deposits from customers	(136,589)	(179,756)	(293,938)	(357,204)
Subordinated liabilities	(11,515)	(13,328)	(23,866)	(26,731)
Lease liabilities	(555)	(696)	(1,506)	(1,547)
Others	(338)	(190)	(514)	(339)
	(153,636)	(207,064)	(329,729)	(409,943)
Net interest income	339,097	389,253	725,314	793,071

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020 RM'000	30 Jun 2019 RM'000	30 Jun 2020 RM'000	30 Jun 2019 RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	379,884	442,052	800,400	893,906
- Interest income recognised from impaired loans	3,528	8,618	12,474	18,344
Money at call and deposit placements with financial institutions	60,899	56,368	130,097	113,269
Financial investments at FVOCI	56,503	99,034	128,739	197,706
	500,814	606,072	1,071,710	1,223,225
Interest expense				
Deposits and placements of banks and other financial institutions	(4,639)	(13,094)	(9,905)	(24,122)
Deposits from customers	(136,589)	(179,756)	(293,938)	(357,204)
Subordinated liabilities	(11,515)	(13,328)	(23,866)	(26,731)
Lease liabilities	(555)	(696)	(1,506)	(1,547)
Others	(338)	(190)	(514)	(339)
	(153,636)	(207,064)	(329,729)	(409,943)
Net interest income	347,178	399,008	741,981	813,282

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

28 Net Fee and Commission Income

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
Fee and commission expense				
Debit/credit cards	(720)	(17,088)	(21,048)	(17,980)
Interbank and clearing fees	(309)	(305)	(513)	(720)
Brokerage	(478)	(510)	(949)	(936)
Cash management	(383)	(203)	(854)	(203)
Others	(3,595)	(3,859)	(7,027)	(11,305)
	(5,485)	(21,965)	(30,391)	(31,144)
Net fee and commission income	80,883	84,409	167,649	189,689

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
Fee and commission income				
Credit cards	20,385	27,165	48,243	63,240
Service charges and fees	26,076	29,692	54,914	63,559
Fees on credit facilities	14,790	14,298	29,587	29,140
Agency fee	20,695	26,937	51,028	48,392
Others	4,213	8,282	13,670	16,502
	86,159	106,374	197,442	220,833
Fee and commission expense				
Debit/credit cards	(720)	(17,088)	(21,048)	(17,980)
Interbank and clearing fees	(309)	(305)	(513)	(720)
Brokerage	(478)	(510)	(949)	(936)
Cash management	(383)	(203)	(854)	(203)
Others	(3,595)	(3,859)	(7,027)	(11,305)
	(5,485)	(21,965)	(30,391)	(31,144)
Net fee and commission income	80,674	84,409	167,051	189,689

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

29 Net Trading Income

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
Realised gain on financial assets/liabilities at FVTPL and other financial instruments	10,988	5,183	29,149	17,542
Net interest income from financial assets at FVTPL	17,422	29,842	34,625	55,614
Net unrealised (loss)/gain on revaluation of financial assets at FVTPL	(701)	3,520	12,457	16,670
Net realised gain arising from dealing in foreign currency	167,051	95,787	141,281	223,015
Net unrealised (loss)/gain from dealing in foreign currency	(16,369)	16,696	62,702	35,821
Net realised loss arising from dealing in derivatives	(40,870)	(2,432)	(35,147)	(41,646)
Net unrealised gain on revaluation of derivatives	61,917	18,324	78,371	60,134
(Loss)/gain arising from fair value hedges	(65)	96	262	107
	199,373	167,016	323,700	367,257

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
Realised gains on financial assets/liabilities at FVTPL and other financial instruments	9,294	4,201	27,757	17,201
Net interest income from financial assets at FVTPL	17,422	29,842	34,625	55,614
Net unrealised gain on revaluation of financial assets at FVTPL	258	3,516	9,575	14,223
Net realised gain arising from dealing in foreign currency	162,582	95,270	137,140	223,119
Net unrealised (loss)/gain from dealing in foreign currency	(46,717)	14,352	101,706	4,643
Net gain realised gains arising from dealing in derivatives	22,148	116,391	27,874	81,457
Net unrealised (loss)/gain on revaluation of derivatives	(2,137)	(99,353)	9,996	(59,642)
(Loss)/gain arising from fair value hedges	(65)	96	262	107
	162,785	164,315	348,935	336,722

Net trading income for the Group is presented in both Note 29 and Note 30. A reconciliation of the net trading income for the Group is as follows:

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
Total net trading income (net of elimination with subsidiary)	172,794	172,599	375,705	353,373
of which:				
- is disclosed in Note 29	199,373	167,016	323,700	367,257
- is included under Income from Islamic Banking operations of the Group (Note 30)	(26,579)	5,583	52,005	(13,884)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

30 Income from Islamic Banking operations

For consolidation with the conventional banking operations, the income from Islamic Banking operations as shown in the face of the consolidated statements of profit or loss and other comprehensive income, consists of the following items:

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of depositor funds and others ^[1]	158,777	217,390	349,803	421,752
Income derived from investment of shareholders funds	37,903	36,692	85,053	79,528
Total income before allowance for impairment losses on financing and advances	196,680	254,082	434,856	501,280
Income attributable to the depositors	(75,076)	(115,214)	(167,494)	(228,074)
Income from Islamic Banking operations before elimination	121,604	138,868	267,362	273,206
Elimination of intercompany income and expenses	(28,965)	6,498	40,423	(11,529)
Income from Islamic Banking operations reported in statement of profit or loss of the Group ^[2]	92,639	145,366	307,785	261,677

^[1] Included in income derived from investment of depositors' funds and others are net expenses from financial liabilities designated at fair value through profit or loss for the period ended 30 June:

	(11,835)	(10,782)	(35,601)	(21,516)
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^[2] Included in income from Islamic Banking operations reported in statement of profit or loss of the Group is net trading income for the period ended 30 June:

	(26,579)	5,583	52,005	(13,884)
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31 Other Operating Income

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
Gain from disposal of financial investments at FVOCI	21,300	14,912	30,563	14,912
Dividend income from financial investments at FVOCI - Unquoted in Malaysia	930	930	930	930
Rental income	1,886	1,981	3,672	3,850
Net (loss)/gain on disposal of property and equipment	(27)	(4)	(4)	5
Other operating income	4,523	4,052	8,655	9,259
	28,612	21,871	43,816	28,956

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
Gain from disposal of financial investments at FVOCI	21,300	14,912	30,563	14,912
Dividend income from financial investments at FVOCI - Unquoted in Malaysia	930	930	930	930
Dividend income from subsidiary	50,000	40,000	50,000	40,000
Rental income	1,886	1,981	3,672	3,850
Net (loss)/gain on disposal of property and equipment	(27)	(4)	(4)	5
Income recharges from subsidiary	31,580	34,094	63,027	64,505
Other operating income	4,523	4,052	8,655	9,259
	110,192	95,965	156,843	133,461

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Impairment Allowance/Provisions

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	209,963	68,529	377,835	125,655
Recoveries	(15,018)	(26,218)	(41,413)	(55,693)
Written off	543	76	616	244
Total charge to the statements of profit or loss	195,488	42,387	337,038	70,206
	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	133,897	35,145	225,044	62,677
Recoveries	(7,142)	(15,077)	(20,722)	(33,357)
Written off	406	60	478	191
Total charge to the statements of profit or loss	127,161	20,128	204,800	29,511

Breakdown of the expected credit losses allowance by financial instruments type:

(i) Loan, advances and financing

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	200,394	69,837	355,796	125,865
Recoveries	(15,018)	(26,218)	(41,413)	(55,693)
Written off	543	76	616	244
Total charge to the statements of profit or loss	185,919	43,695	314,999	70,416
	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	124,565	36,337	206,668	62,466
Recoveries	(7,142)	(15,077)	(20,722)	(33,357)
Written off	406	60	478	191
Total charge to the statements of profit or loss	117,829	21,320	186,424	29,300

(ii) Deposits and placements with banks and other financial institutions

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	400	1	432	(7)
Total charge to/(writeback from) the statements of profit or loss	400	1	432	(7)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

32 Impairment Allowance/Provisions (Cont'd)

(ii) Deposits and placements with banks and other financial institutions (Cont'd)

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	366	(1)	376	(7)
Total charge to/(writeback from) the statements of profit or loss	366	(1)	376	(7)

(iii) Debt securities - FVOCI

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	4,498	19	4,616	345
Total charge to the statements of profit or loss	4,498	19	4,616	345

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	3,535	(13)	3,655	221
Total charge to/(writeback from) the statements of profit or loss	3,535	(13)	3,655	221

(iv) Loan Commitments and Contingencies

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
New and increased provisions (net of releases)	4,671	(1,328)	16,991	(548)
Total charge to/(writeback from) the statements of profit or loss	4,671	(1,328)	16,991	(548)

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
	RM'000	RM'000	RM'000	RM'000
New and increased provisions (net of releases)	5,431	(1,178)	14,345	(3)
Total charge to/(writeback from) the statements of profit or loss	5,431	(1,178)	14,345	(3)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Other Operating Expenses

	<i>Group</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020 RM'000	30 Jun 2019 RM'000	30 Jun 2020 RM'000	30 Jun 2019 RM'000
Personnel expenses	166,962	200,760	351,852	389,318
Promotion and marketing related expenses	6,773	22,953	19,524	34,818
Establishment related expenses	33,986	29,154	71,102	61,557
General administrative expenses	34,472	37,980	73,149	73,694
Related company charges	161,408	131,055	301,926	238,359
	403,601	421,902	817,553	797,746
Personnel expenses				
Salaries, allowances and bonuses	124,202	148,998	265,880	296,891
Employees Provident Fund contributions	21,056	25,310	44,526	49,995
Share based payment	2,601	4,463	4,960	6,408
Others	19,103	21,989	36,486	36,024
	166,962	200,760	351,852	389,318
Promotion and marketing related expenses	6,773	22,953	19,524	34,818
Establishment related expenses				
Depreciation of property and equipment	6,525	5,650	12,675	11,223
Depreciation of RoU assets	6,761	5,843	14,772	12,561
Amortisation of intangible assets	2,646	2,825	5,161	5,987
Impairment for intangible asset	-	-	83	-
Information technology costs	4,341	3,371	12,293	7,508
Property and equipment written off	2,332	8	2,337	24
General repairs and maintenance	3,731	3,875	8,876	8,354
Utilities	3,290	3,778	7,165	7,238
Others	4,377	3,804	7,883	8,662
	33,986	29,154	71,102	61,557
General administrative expenses	34,472	37,980	73,149	73,694
Related company charges	161,408	131,055	301,926	238,359
Of which by:				
Type of service				
- Information technology related cost	81,575	54,492	146,441	103,200
- Non information technology related cost	79,833	76,563	155,485	135,159
Geographical distribution				
Countries				
- Hong Kong	98,810	84,736	191,608	151,723
- United Kingdom	46,320	33,462	78,674	61,088
- Malaysia	15,935	12,127	30,255	23,868
- Others	343	730	1,389	1,680

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Other Operating Expenses (Cont'd)

	<i>Bank</i>			
	Second Quarter		Six Months Ended	
	30 Jun 2020 RM'000	30 Jun 2019 RM'000	30 Jun 2020 RM'000	30 Jun 2019 RM'000
Personnel expenses	156,126	187,628	329,343	364,829
Promotion and marketing related expenses	4,486	20,921	14,316	31,587
Establishment related expenses	30,461	25,294	63,130	53,644
General administrative expenses	26,324	29,357	56,089	56,648
Related company charges	159,635	129,228	298,598	235,305
	377,032	392,428	761,476	742,013
Personnel expenses				
Salaries, allowances and bonuses	115,661	138,756	248,060	277,657
Employees Provident Fund contributions	19,542	23,497	41,377	46,583
Share based payment	2,479	4,122	4,684	6,019
Others	18,444	21,253	35,222	34,570
	156,126	187,628	329,343	364,829
Promotion and marketing related expenses	4,486	20,921	14,316	31,587
Establishment related expenses				
Depreciation of property and equipment	6,026	5,133	11,681	10,210
Depreciation of RoU assets	5,058	4,036	10,627	8,728
Amortisation of intangible assets	2,646	2,825	5,161	5,987
Impairment for intangible asset	-	-	83	-
Information technology costs	3,823	2,758	11,316	6,206
Property and equipment written off	2,332	8	2,337	24
General repairs and maintenance	3,477	3,638	8,228	7,982
Utilities	2,789	3,283	6,172	6,243
Others	4,307	3,613	7,623	8,264
	30,461	25,294	63,130	53,644
General administrative expenses	26,324	29,357	56,089	56,648
Related company charges	159,635	129,228	298,598	235,305
Of which by:				
Type of service				
- Information technology related cost	81,575	54,492	146,441	103,200
- Non information technology related cost	78,060	74,736	152,157	132,105
Geographical distribution				
Countries				
- Hong Kong	98,810	84,736	191,608	151,723
- United Kingdom	46,175	33,217	78,383	60,680
- Malaysia	14,307	10,545	27,218	21,222
- Others	343	730	1,389	1,680

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Credit exposure to connected parties

	Group		Bank	
	30 Jun 2020 RM'000	31 Dec 2019 RM'000	30 Jun 2020 RM'000	31 Dec 2019 RM'000
Aggregate value of outstanding credit exposures to connected parties	4,793,847	5,284,778	3,994,168	4,343,440
As a percentage of total credit exposures	6.4%	7.3%	7.0%	7.8%
Aggregate value of total outstanding credit exposures to connected parties which is impaired or in default	-	-	-	-
As a percentage of total credit exposures	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Capital Adequacy

	<i>Group</i>	
	30 Jun 2020	31 Dec 2019
	RM'000	RM'000
Common Equity Tier 1 (CET1) capital		
Paid-up ordinary share capital	1,045,875	1,045,875
Retained profits	8,184,708	8,201,963
Other reserves	954,021	1,034,352
Regulatory adjustments	<u>(1,037,400)</u>	<u>(1,147,716)</u>
Total CET1 capital	<u>9,147,204</u>	9,134,474
Tier 1 capital		
Additional Tier 1 capital	<u>500,000</u>	500,000
Total Tier 1 capital	<u>9,647,204</u>	9,634,474
Tier 2 capital		
Subordinated liabilities	200,000	300,000
Subordinated term loan	550,408	589,613
Impairment allowance (unimpaired portion) & regulatory reserves	660,001	636,923
Regulatory adjustments	<u>108,985</u>	<u>109,693</u>
Total Tier 2 capital	<u>1,519,394</u>	1,636,229
Capital base	<u>11,166,598</u>	11,270,703
<u>Inclusive of proposed dividend</u>		
CET 1 Capital ratio	15.266%	15.682%
Tier 1 Capital ratio	16.101%	16.540%
Total Capital ratio	18.637%	19.350%
<u>Net of proposed dividend</u>		
CET 1 Capital ratio	15.266%	15.368%
Tier 1 Capital ratio	16.101%	16.226%
Total Capital ratio	18.637%	19.035%

The total capital and capital adequacy ratios of the Group and the Bank have been computed based on Standardised Approach in accordance with the Capital Adequacy Framework (Capital Components).

For HBMS, a wholly owned subsidiary of the Bank, the total capital and capital adequacy ratios have been computed in accordance with the Capital Adequacy Framework for Islamic Banks (CAFIB). HBMS has adopted Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

Breakdown of risk-weighted assets (RWA) in the various categories of risk-weights:

	<i>Group</i>	
	30 Jun 2020	31 Dec 2019
	RM'000	RM'000
Total RWA for credit risk	52,800,078 ⁽¹⁾	50,953,924 ⁽¹⁾
Total RWA for market risk	1,302,175	1,496,214
Total RWA for operational risk	<u>5,815,003</u>	<u>5,797,822</u>
	<u>59,917,256</u>	58,247,960

⁽¹⁾ The risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 14 for more details) are as follows:

	<i>Group</i>	
	30 Jun 2020	31 Dec 2019
	RM'000	RM'000
Under SIAF/IAA arrangement	<u>2,843,868</u>	2,991,025

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Capital Adequacy (Cont'd)

	<i>Bank</i>	
	30 Jun 2020	31 Dec 2019
	RM'000	RM'000
Common Equity Tier 1 (CET1) capital		
Paid-up ordinary share capital	1,045,875	1,045,875
Retained profits	6,877,540	6,942,952
Other reserves	922,763	983,351
Regulatory adjustments	(1,648,988)	(1,736,309)
Total CET1 capital	7,197,190	7,235,869
Tier 1 capital		
Additional Tier 1 capital	500,000	500,000
Total Tier 1 capital	7,697,190	7,735,869
Tier 2 capital		
Subordinated liabilities	200,000	300,000
Subordinated term loan	550,408	589,613
Impairment allowance (unimpaired portion) & regulatory reserves	509,507	494,431
Regulatory adjustments	(441,423)	(479,920)
Total Tier 2 capital	818,492	904,124
Capital base	8,515,682	8,639,993
<u>Inclusive of proposed dividend</u>		
CET 1 Capital ratio	15.263%	15.700%
Tier 1 Capital ratio	16.324%	16.785%
Total Capital ratio	18.059%	18.747%
<u>Net of proposed dividend</u>		
CET 1 Capital ratio	15.263%	15.303%
Tier 1 Capital ratio	16.324%	16.388%
Total Capital ratio	18.059%	18.350%

The total capital and capital adequacy ratios have been computed based on Standardised Approach in accordance with the Capital Adequacy Framework (Capital Components).

Breakdown of RWA in the various categories of risk-weights:

	<i>Bank</i>	
	30 Jun 2020	31 Dec 2019
	RM'000	RM'000
Total RWA for credit risk	40,760,566 ⁽¹⁾	39,554,516 ⁽¹⁾
Total RWA for market risk	1,242,801	1,414,415
Total RWA for operational risk	5,150,646	5,119,212
	47,154,013	46,088,143

⁽¹⁾ The risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 14 for more details) are as follows:

	<i>Bank</i>	
	30 Jun 2020	31 Dec 2019
	RM'000	RM'000
Under SIAF/IAA arrangement	2,843,868	2,991,025

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

36 Commitments and Contingencies

The table below shows the contracts or underlying principal amounts, 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 Group and of the Bank.

	<i>Group</i>		<i>Bank</i>	
	30 Jun 2020	31 Dec 2019	30 Jun 2020	31 Dec 2019
Principal amount	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	1,131,528	2,096,249	780,542	1,607,366
Transaction-related contingent items	8,575,996	8,502,326	7,323,366	7,221,124
Short-term self-liquidating trade-related contingencies	482,899	360,628	418,841	324,718
Formal standby facilities and credit lines				
- Maturity not exceeding one year	6,340,378	4,894,040	5,550,124	4,223,566
- Maturity exceeding one year	13,462,981	12,704,811	11,232,589	10,374,147
Other unconditionally cancellable	15,718,811	15,637,826	13,956,063	13,997,344
Unutilised credit card lines	13,791,812	13,419,320	9,940,962	9,676,249
Foreign exchange related contracts:				
- Less than one year	75,633,157	92,637,058	75,832,524	95,234,573
- Over one year to less than five years	3,769,320	5,313,386	3,777,685	5,313,386
- Over five years	1,166,486	1,270,378	1,166,486	1,270,378
Interest/profit rate related contracts:				
- Less than one year	11,157,261	9,908,087	11,468,738	11,126,606
- Over one year to less than five years	25,238,711	27,577,699	26,241,169	28,496,681
- Over five years	2,246,632	2,123,874	2,246,632	2,123,874
Gold and other precious metals contracts:				
- Less than one year	10,737	6,593	10,737	6,593
Equity related contracts:				
- Less than one year	907,936	1,113,308	1,221,378	1,579,752
- Over one year to less than five years	966,355	778,815	1,437,429	1,175,112
	180,601,000	198,344,398	172,605,265	193,751,469

of which the amount related to SIAF/IAA arrangement (refer Note 14 for more detail) are as below:

Formal standby facilities and credit lines:

- Maturity not exceeding one year	95,715	35,000	95,715	35,000
- Maturity exceeding one year	310,250	437,750	310,250	437,750
	405,965	472,750	405,965	472,750

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 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:

Group At 30 Jun 2020	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	69,620,707	369,674	-	69,990,381	506,523	7,242	-	513,765	492,454	1,916	-	494,370
- Swaps	5,321,263	3,399,646	1,166,486	9,887,395	153,320	213,762	104,155	471,237	158,862	125,517	40,227	324,606
- Options	691,187	-	-	691,187	3,985	-	-	3,985	728	-	-	728
Interest/profit rate related contracts												
- Options	1,100,446	456,335	-	1,556,781	9,500	5,351	-	14,851	5,244	-	-	5,244
- Swaps	9,566,815	23,582,376	2,246,632	35,395,823	47,830	484,589	101,720	634,139	37,708	448,889	97,329	583,926
Equity related contracts												
- Options	907,936	966,355	-	1,874,291	17,565	9,240	-	26,805	43,291	83,831	-	127,122
Precious metal contracts												
- Options	10,737	-	-	10,737	1	-	-	1	20	-	-	20
Sub- total	87,219,091	28,774,386	3,413,118	119,406,595	738,724	720,184	205,875	1,664,783	738,307	660,153	137,556	1,536,016
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	490,000	1,200,000	-	1,690,000	-	-	-	-	5,297	53,375	-	58,672
Sub- total	490,000	1,200,000	-	1,690,000	-	-	-	-	5,297	53,375	-	58,672
Total	87,709,091	29,974,386	3,413,118	121,096,595	738,724	720,184	205,875	1,664,783	743,604	713,528	137,556	1,594,688

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (Cont'd):

Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (Cont'd):

Group	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
At 31 Dec 2019												
Trading derivatives:												
Foreign exchange contracts												
- Forwards	87,634,546	749,151	-	88,383,697	663,508	4,505	-	668,013	732,752	14,184	-	746,936
- Swaps	4,396,472	4,564,235	1,270,378	10,231,085	153,659	233,307	102,544	489,510	100,570	138,570	29,875	269,015
- Options	606,040	-	-	606,040	670	-	-	670	1,997	-	-	1,997
Interest/profit rate related contracts												
- Options	647,149	884,883	-	1,532,032	5,143	5,263	-	10,406	284	4,937	-	5,221
- Swaps	9,010,938	25,172,816	2,123,874	36,307,628	18,657	166,956	38,144	223,757	26,650	153,817	40,147	220,614
Equity related contracts												
- Options	1,113,308	778,815	-	1,892,123	25,194	22,627	-	47,821	-	124	12,299	12,423
Precious metal contracts												
- Options	6,593	-	-	6,593	20	-	-	20	30	-	-	30
Sub- total	103,415,046	32,149,900	3,394,252	138,959,198	866,851	432,658	140,688	1,440,197	862,283	311,632	82,321	1,256,236
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	250,000	1,520,000	-	1,770,000	-	-	-	-	901	25,132	-	26,033
Sub- total	250,000	1,520,000	-	1,770,000	-	-	-	-	901	25,132	-	26,033
Total	103,665,046	33,669,900	3,394,252	140,729,198	866,851	432,658	140,688	1,440,197	863,184	336,764	82,321	1,282,269

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (Cont'd):

Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (Cont'd):

Bank At 30 Jun 2020	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	69,820,074	369,674	-	70,189,748	506,492	7,242	-	513,734	493,347	1,916	-	495,263
- Swaps	5,321,263	3,408,011	1,166,486	9,895,760	153,437	213,991	104,155	471,583	158,863	125,517	40,227	324,607
- Options	691,187	-	-	691,187	3,985	-	-	3,985	728	-	-	728
Interest rate related contracts												
- Options	1,255,923	679,293	-	1,935,216	9,500	5,351	-	14,851	7,781	4,925	-	12,706
- Swaps	9,722,815	24,361,876	2,246,632	36,331,323	47,830	484,431	101,720	633,981	38,661	483,624	97,329	619,614
Equity related contracts												
- Options	1,221,378	1,437,429	-	2,658,807	17,565	9,240	-	26,805	55,774	92,514	-	148,288
Precious metal contracts												
- Options	10,737	-	-	10,737	1	-	-	1	20	-	-	20
Sub- total	88,043,377	30,256,283	3,413,118	121,712,778	738,810	720,255	205,875	1,664,940	755,174	708,496	137,556	1,601,226
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	490,000	1,200,000	-	1,690,000	-	-	-	-	5,297	53,375	-	58,672
Sub- total	490,000	1,200,000	-	1,690,000	-	-	-	-	5,297	53,375	-	58,672
Total	88,533,377	31,456,283	3,413,118	123,402,778	738,810	720,255	205,875	1,664,940	760,471	761,871	137,556	1,659,898

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Derivative Financial Instruments (Cont'd)

Details of derivative financial instruments outstanding are as follows (Cont'd):

Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts (Cont'd):

Bank	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																																			
At 31 Dec 2019																																															
Trading derivatives:																																															
Foreign exchange contracts																																															
- Forwards	90,232,061	749,151	-	90,981,212	663,134	4,505	-	667,639	732,115	14,184	-	746,299																																			
- Swaps	4,396,472	4,564,235	1,270,378	10,231,085	153,491	233,307	102,544	489,342	100,570	138,570	29,875	269,015																																			
- Options	606,040	-	-	606,040	670	-	-	670	1,997	-	-	1,997																																			
Interest rate related contracts																																															
- Options	817,668	1,130,865	-	1,948,533	5,143	5,263	-	10,406	2,904	6,897	-	9,801																																			
- Swaps	10,058,938	25,845,816	2,123,874	38,028,628	18,657	167,038	38,144	223,839	27,747	163,863	40,147	231,757																																			
Equity related contracts																																															
- Options	1,579,752	1,175,112	-	2,754,864	25,390	22,751	-	48,141	16,084	14,767	12,299	43,150																																			
Precious metal contracts																																															
- Options	6,593	-	-	6,593	20	-	-	20	30	-	-	30																																			
Sub- total	107,697,524	33,465,179	3,394,252	144,556,955	866,505	432,864	140,688	1,440,057	881,447	338,281	82,321	1,302,049																																			
Hedging Derivatives:																																															
Fair Value Hedge																																															
Interest rate related contracts																																															
- Swaps	250,000	1,520,000	-	1,770,000	-	-	-	-	901	25,132	-	26,033																																			
Sub- total	250,000	1,520,000	-	1,770,000	-	-	-	-	901	25,132	-	26,033																																			
Total	107,947,524	34,985,179	3,394,252	146,326,955	866,505	432,864	140,688	1,440,057	882,348	363,413	82,321	1,328,082																																			
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th colspan="2" style="text-align: center;"><i>Group</i></th> <th colspan="2" style="text-align: center;"><i>Bank</i></th> </tr> <tr> <th></th> <th style="text-align: center;">30 Jun 2020</th> <th style="text-align: center;">30 Jun 2019</th> <th style="text-align: center;">30 Jun 2020</th> <th style="text-align: center;">30 Jun 2019</th> </tr> <tr> <th></th> <th style="text-align: center;">RM'000</th> <th style="text-align: center;">RM'000</th> <th style="text-align: center;">RM'000</th> <th style="text-align: center;">RM'000</th> </tr> </thead> <tbody> <tr> <td>Included in the net non-interest income is the net losses arising from fair value hedges during the financial period as follows:</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Loss on hedging instruments</td> <td style="text-align: right;">(31,169)</td> <td style="text-align: right;">(14,777)</td> <td style="text-align: right;">(31,169)</td> <td style="text-align: right;">(14,777)</td> </tr> <tr> <td>Gain on the hedged items attributable to the hedged risk</td> <td style="text-align: right;">31,431</td> <td style="text-align: right;">14,884</td> <td style="text-align: right;">31,431</td> <td style="text-align: right;">14,884</td> </tr> <tr> <td>Net gain from fair value hedges</td> <td style="text-align: right;">262</td> <td style="text-align: right;">107</td> <td style="text-align: right;">262</td> <td style="text-align: right;">107</td> </tr> </tbody> </table>														<i>Group</i>		<i>Bank</i>			30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019		RM'000	RM'000	RM'000	RM'000	Included in the net non-interest income is the net losses arising from fair value hedges during the financial period as follows:					Loss on hedging instruments	(31,169)	(14,777)	(31,169)	(14,777)	Gain on the hedged items attributable to the hedged risk	31,431	14,884	31,431	14,884	Net gain from fair value hedges	262	107	262	107
	<i>Group</i>		<i>Bank</i>																																												
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019																																											
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Net gain from fair value hedges	262	107	262	107																																											

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Performance Review, Economy and Prospects

Performance Review

The Group recorded a profit before tax of RM362.0 million for the financial period ended 30 June 2020, a decrease of RM343.3 million compared to the corresponding period in 2019. The decrease was mainly due to higher impairment allowance/provisions by RM266.8 million and lower operating income by RM56.7 million.

For the period ended 30 June 2020, impairment allowance/provisions increased as impact of the Covid-19 outbreak is considered in deriving the Expected Credit Loss (ECL) for loans and advances and other financial assets. The increase is reflected mainly in stages 1 and 2. Operating income were impacted by lower net interest income as a result of reductions in Bank Negara Malaysia (BNM)'s Overnight Policy Rate (OPR) by 100 basis points to 2.00% between January 2020 to June 2020 and lower non-interest income from the generally weak market sentiment impacting business and consumer spending activities.

Total balance sheet size at 30 June 2020 have increased by 2.2% or RM1.8 billion to RM86.8 billion (31 December 2019: RM85.0 billion). The Group's capital and liquidity coverage ratios continue to remain strong and well above regulatory requirements.

Economy and Prospects

The COVID-19 pandemic continued to impact the global economy severely in 2Q 2020. Global economic conditions remain weak with negative growth being projected for the year. Households and businesses continue to adopt a more precautionary behaviour towards spending and investments, and there are also evidence of broad-based weakness in the labour markets. Although many countries have begun gradually resuming economic activities, the downside risks remain whether there will be a second wave of spread that will require the re-implementation of movement restriction to control the situation.

For Malaysia, economic activity contracted sharply in 2Q 2020, due to the global and domestic measures introduced to contain the pandemic. Following the gradual resumption of business activities since May, economic activities have begun to show signs of recovery.

In these recent months, the Government of Malaysia has rolled out various economic stimulus packages to support household income, safeguard jobs, and to spur the economy. These were further complemented by various measures introduced by Bank Negara Malaysia (BNM), for example i) reducing in Overnight Policy Rate (OPR) by a total of 125 basis points to 1.75% since January this year, ii) reducing 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 exempts qualified individuals and small-and medium enterprises (SMEs) from paying their loan and 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.

Although BNM has projected the Malaysia's GDP to be between -2.0% and +0.5% for 2020 (2019: growth of 4.3%), Malaysia's domestic prospects are expected to improve towards the end of the year and subsequently in 2021.

During this movement control order (MCO) restriction period, HSBC Malaysia (HSBC) has continued to operate and serve its customers committedly with its resources supporting from home via well-established and connected system infrastructure. HSBC fully supports BNM's moratorium relief measures and was the first to announce that interest will not be compounded during the moratorium period to our qualified customers. Our capital, liquidity and funding positions remain well above the regulatory requirement level and are monitored and managed actively.

HSBC has continued its effort in digital innovation and investment for better customer service in mobile and internet banking despite the constraints of MCO. In 2Q 2020, we successfully introduced Remote Engagement Service (Zoom, Live Connect and Live Sign) – the first to be offered among banks in Malaysia. This is an electronic solution which allows a full suite of investment to be completed electronically for the convenience of our customers. We will continue to leverage on our international network and capabilities to capture cross-border opportunities in the ASEAN and Belt and Road Initiative (BRI) corridors.

HSBC has also garnered a few prominent awards since January this year, namely, Best International Bank in Malaysia (The Finance Asia Country Awards 2020); Best Service Provider, Cash Management in Malaysia (The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2020); and Best RMB Bank in Malaysia (The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards 2020).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Performance Review, Economy and Prospects (Cont'd)

Economy and Prospects (Cont'd)

On the Islamic Banking front, we endeavour to grow the HSBC Amanah franchise by leveraging on government schemes, providing customers with structured banking solutions and sustainable financing, and continue our commitment towards BNM's Value-Based Intermediation (VBI) agenda. In fact, HSBC Amanah 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.

We recognise our wider role in society and believe we have a role to play in helping to address the challenges relating to Covid-19. HSBC donated RM1 million to MERCY Malaysia to support its COVID-19 Strategic Preparedness and Response Plan through The Association of Banks Malaysia (ABM) as well as a few other initiatives to support rural communities whose income were impacted by the MCO. We will continue to support our customers and the society in these challenging times.