

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

UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
31 MARCH 2019

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

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

UNAUDITED CONDENSED STATEMENTS OF FINANCIAL POSITION
AT 31 MARCH 2019

	Note	Group		Bank	
		31 Mar 2019 RM'000	31 Dec 2018 RM'000	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Assets					
Cash and short-term funds	13	6,513,451	7,908,159	4,396,240	5,137,240
Securities purchased under resale agreements		1,843,855	2,557,198	1,843,855	2,557,198
Deposits and placements with banks and other financial institutions	14	-	227,535	1,018,360	1,369,248
Financial assets at fair value through profit and loss (FVTPL)	15	3,345,325	2,327,385	3,345,325	2,327,385
Financial investments at fair value through other comprehensive income (FVOCI)	16	16,972,753	13,720,317	13,329,080	10,994,634
Loans, advances and financing	17	52,044,152	53,308,493	38,168,201	39,171,156
Derivative financial assets	37	1,167,874	1,299,939	1,166,662	1,303,262
Other assets	20	1,727,026	634,695	1,683,775	658,356
Statutory deposits with Bank Negara Malaysia	21	1,269,094	1,200,662	874,732	836,000
Investments in subsidiary companies		-	-	660,021	660,021
Property and equipment		716,059	467,730	709,179	460,862
Intangible assets		38,241	39,691	38,241	39,691
Tax recoverable		20,850	20,850	20,850	20,850
Deferred tax assets		194,508	208,895	179,176	191,532
Total assets		85,853,188	83,921,549	67,433,697	65,727,435
Liabilities					
Deposits from customers	22	57,219,853	57,147,153	45,443,607	45,702,597
Deposits and placements from banks and other financial institutions	23	4,649,621	5,518,751	2,237,230	2,798,088
Repurchase agreement		1,278,312	147,871	1,278,312	147,871
Bills payable		257,910	250,704	240,887	232,110
Derivative financial liabilities	37	872,437	1,116,285	906,499	1,134,562
Structured liabilities designated at fair value through profit and loss	24	4,561,821	4,158,241	3,543,246	3,273,364
Other liabilities	25	3,587,907	2,389,097	3,345,026	2,192,462
Provision for taxation		76,300	164,706	63,119	135,186
Multi-Currency Sukuk Programme	26	1,758,628	1,755,281	-	-
Subordinated liabilities	27	1,087,848	1,095,987	1,087,848	1,095,987
Total liabilities		75,350,637	73,744,076	58,145,774	56,712,227
Equity					
Share capital		1,045,875	1,045,875	1,045,875	1,045,875
Reserves		9,456,676	9,131,598	8,242,048	7,969,333
Total equity attributable to owner of the Bank		10,502,551	10,177,473	9,287,923	9,015,208
Total liabilities and equity		85,853,188	83,921,549	67,433,697	65,727,435
Commitments and contingencies	36	187,264,470	188,548,995	181,708,280	183,918,046

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 2018 and the accompanying explanatory notes on pages 11 to 43 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 23 April 2019.

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

UNAUDITED CONDENSED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2019

	Note	Group		Bank	
		31 Mar 2019 RM'000	31 Mar 2018 RM'000	31 Mar 2019 RM'000	31 Mar 2018 RM'000
Interest income	28	606,697	581,287	617,153	601,547
Interest expense	28	(205,505)	(184,212)	(205,505)	(184,212)
Net interest income	28	401,192	397,075	411,648	417,335
Fee and commission income	29	114,459	120,804	114,459	120,804
Fee and commission expense	29	(9,179)	(21,745)	(9,179)	(21,745)
Net fee and commission income	29	105,280	99,059	105,280	99,059
Net trading income	30	200,241	139,648	172,407	148,123
Income from Islamic banking operations	31	114,729	159,703	-	-
Net expenses from financial liabilities designated at fair value		(33,247)	(14,953)	(33,247)	(14,953)
Other operating income	32	7,085	12,155	37,496	43,796
Operating income before impairment losses		795,280	792,687	693,584	693,360
Impairment allowance/provisions	33	(27,819)	(40,855)	(9,383)	(15,136)
Net operating income		767,461	751,832	684,201	678,224
Other operating expenses	34	(371,636)	(363,619)	(346,959)	(333,161)
Profit before tax		395,825	388,213	337,242	345,063
Tax expense		(96,430)	(87,482)	(85,749)	(78,570)
Profit for the financial period		299,395	300,731	251,493	266,493

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 2018 and the accompanying explanatory notes on pages 11 to 43 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 23 April 2019.

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

UNAUDITED CONDENSED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2019 (Cont'd)

	Group		Bank	
	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018
<i>Note</i>	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	(834)	(3,700)	(1,863)	(1,745)
Income tax effect	200	888	447	419
<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	44,317	(14,859)	39,812	(11,730)
Amount transferred to profit or loss	(12,028)	(2,872)	(12,066)	(3,172)
Impairment charges	326	(112)	234	(70)
Income tax effect	(7,749)	4,282	(6,659)	3,593
Other comprehensive income/(expense) for the financial period, net of income tax	24,232	(16,373)	19,905	(12,705)
Total comprehensive income for the financial period	323,627	284,358	271,398	253,788
Profit attributable to the owner of the Bank	299,395	300,731	251,493	266,493
Total comprehensive income attributable to the owner of the Bank	323,627	284,358	271,398	253,788
Basic earnings per RM0.50 ordinary share	130.7 sen	131.3 sen	109.8 sen	116.4 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 2018 and the accompanying explanatory notes on pages 11 to 43 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 23 April 2019.

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

UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2019

Group (RM'000)

	<i>Share capital</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>	<i>Total equity</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
Total comprehensive income for the financial period								
Profit for the financial period	-	-	-	-	-	-	299,395	299,395
Other comprehensive income, net of income tax								
Revaluation reserve:								
Transfer to retained profits upon realisation of depreciation	-	(587)	-	-	-	-	587	-
Fair value through other comprehensive income reserve:								
Net change in fair value	-	-	33,681	(634)	-	-	-	33,047
Net amount transferred to profit or loss	-	-	(9,141)	-	-	-	-	(9,141)
Transfer to retained profits upon realisation of unquoted investment	-	-	(57)	-	-	-	57	-
Impairment charges	-	-	326	-	-	-	-	326
<i>Total other comprehensive income</i>	-	(587)	24,809	(634)	-	-	644	24,232
Total comprehensive income for the financial period	-	(587)	24,809	(634)	-	-	300,039	323,627
Transfer to regulatory reserves	-	-	-	-	-	(25,000)	25,000	-
Transactions with the owner, recorded directly in equity								
Share based payment transactions	-	-	-	-	3,018	-	(1,567)	1,451
Balance at 31 March	<u>1,045,875</u>	<u>204,303</u>	<u>150,778</u>	<u>(7,497)</u>	<u>102,604</u>	<u>534,200</u>	<u>8,472,288</u>	<u>10,502,551</u>

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 2018 and the accompanying explanatory notes on pages 11 to 43 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 23 April 2019.

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

UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2019 (Cont'd)

Group (RM'000)

	<i>Share capital</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>	<i>Total equity</i>
2018								
Balance at 1 January	1,045,875	216,937	132,183	1,123	94,583	284,000	7,661,549	9,436,250
Total comprehensive income for the financial period								
Profit for the financial period	-	-	-	-	-	-	300,731	300,731
Other comprehensive income, net of income tax								
Revaluation reserve:								
Transfer to retained profits upon realisation of depreciation	-	(609)	-	-	-	-	609	-
Fair value through other comprehensive income reserve:								
Net change in fair value	-	-	(11,293)	(2,812)	-	-	-	(14,105)
Net amount transferred to profit or loss	-	-	(2,183)	-	-	-	-	(2,183)
Impairment release	-	-	(85)	-	-	-	-	(85)
<i>Total other comprehensive income</i>	-	(609)	(13,561)	(2,812)	-	-	609	(16,373)
Total comprehensive income for the financial period	-	(609)	(13,561)	(2,812)	-	-	301,340	284,358
Transfer relating to regulatory reserves	-	-	-	-	-	161,000	(161,000)	-
Transactions with the owner, recorded directly in equity								
Share based payment transactions	-	-	-	-	(3,298)	-	(3,685)	(6,983)
Balance at 31 March	<u>1,045,875</u>	<u>216,328</u>	<u>118,622</u>	<u>(1,689)</u>	<u>91,285</u>	<u>445,000</u>	<u>7,798,204</u>	<u>9,713,625</u>

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 2018 and the accompanying explanatory notes on pages 11 to 43 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 23 April 2019.

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

UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2019 (Cont'd)

Bank (RM'000)	<i>Non-distributable</i>					<i>Distributable</i>		<i>Total equity</i>
	<i>Share capital</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
Total comprehensive income for the financial period								
Profit for the financial period	-	-	-	-	-	-	251,493	251,493
Other comprehensive income, net of income tax								
Revaluation reserve:								
Transfer to retained profits upon realisation of depreciation	-	(587)	-	-	-	-	587	-
Fair value through other comprehensive income reserve:								
Net change in fair value	-	-	30,257	(1,416)	-	-	-	28,841
Net amount transferred to profit or loss	-	-	(9,170)	-	-	-	-	(9,170)
Transfer to retained profits upon realisation of unquoted investments	-	-	(57)	-	-	-	57	-
Impairment charges	-	-	234	-	-	-	-	234
<i>Total other comprehensive income</i>	-	(587)	21,264	(1,416)	-	-	644	19,905
Total comprehensive income for the financial period	-	(587)	21,264	(1,416)	-	-	252,137	271,398
Transfer to regulatory reserves	-	-	-	-	-	(24,000)	24,000	-
Transactions with the owner, recorded directly in equity								
Share based payment transactions	-	-	-	-	2,909	-	(1,592)	1,317
Balance at 31 March	1,045,875	204,303	146,754	(5,292)	101,996	444,100	7,350,187	9,287,923

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 2018 and the accompanying explanatory notes on pages 11 to 43 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 23 April 2019.

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

UNAUDITED CONDENSED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2019 (Cont'd)

Bank (RM'000)	<i>Non-distributable</i>					<i>Distributable</i>		<i>Total equity</i>
	<i>Share capital</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>	
2018								
Balance at 1 January	1,045,875	216,937	131,878	267	94,175	250,000	6,696,014	8,435,146
Total comprehensive income for the financial period								
Profit for the financial period	-	-	-	-	-	-	266,493	266,493
Other comprehensive income, net of income tax								
Revaluation reserve:								
Transfer to retained profits upon realisation of depreciation	-	(609)	-	-	-	-	609	-
Fair value through other comprehensive income reserve:								
Net change in fair value	-	-	(8,915)	(1,326)	-	-	-	(10,241)
Net amount transferred to profit or loss	-	-	(2,411)	-	-	-	-	(2,411)
Impairment release	-	-	(53)	-	-	-	-	(53)
<i>Total other comprehensive income</i>	-	(609)	(11,379)	(1,326)	-	-	609	(12,705)
Total comprehensive income for the financial period	-	(609)	(11,379)	(1,326)	-	-	267,102	253,788
Transfer relating to regulatory reserves	-	-	-	-	-	150,000	(150,000)	-
Transactions with the owner, recorded directly in equity								
Share based payment transactions	-	-	-	-	(3,409)	-	(3,694)	(7,103)
Balance at 31 March	1,045,875	216,328	120,499	(1,059)	90,766	400,000	6,809,422	8,681,831

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 2018 and the accompanying explanatory notes on pages 11 to 43 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 23 April 2019.

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

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2019

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018
	RM'000	RM'000	RM'000	RM'000
Profit before tax	395,825	388,213	337,242	345,063
Adjustments for non-operating and non-cash items	36,456	178,887	26,897	129,787
Operating profit before working capital changes	432,281	567,100	364,139	474,850
Changes in working capital:				
Net changes in operating assets	140,638	(2,160,108)	102,133	(1,277,762)
Net changes in operating liabilities	1,676,163	(1,701,248)	1,480,888	(3,093,863)
Income tax paid	(177,999)	(43,461)	(151,672)	(42,507)
Net cash generated from/(used in) operations	2,071,083	(3,337,717)	1,795,488	(3,939,282)
Net cash (used in)/generated from investing activities	(3,446,645)	1,306,331	(2,532,488)	1,325,949
Net cash generated from/(used in) financing activity	(19,146)	(21,800)	(4,000)	(7,194)
	(3,465,791)	1,284,531	(2,536,488)	1,318,755
Net changes in cash and cash equivalents	(1,394,708)	(2,053,186)	(741,000)	(2,620,527)
Cash and cash equivalents at 1 January	7,908,159	10,313,776	5,137,240	8,879,053
Cash and cash equivalents at 31 March	6,513,451	8,260,590	4,396,240	6,258,526
Analysis of cash and cash equivalents				
Cash and short-term funds	6,513,451	8,260,590	4,396,240	6,258,526

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 2018 and the accompanying explanatory notes on pages 11 to 43 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 23 April 2019.

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

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2019 (Cont'd)

Change in liabilities arising from financing activities

Group (RM'000)

2019	At 1 January	Cash outflow	Foreign exchange adjustment	Fair value movement	Interest/ Profit accrual	At 31 March
Multi-Currency Sukuk Programme	1,755,281	-	-	3,347	-	1,758,628
Subordinated liabilities	1,095,987	-	(8,139)	-	-	1,087,848
Other liabilities of which:						
Profit paid on Multi-Currency Sukuk Programme	18,175	(15,146)	-	-	17,722	20,751
Interest paid on Subordinated liabilities	4,458	(4,000)	-	-	13,403	13,861
	2,873,901	(19,146)	(8,139)	3,347	31,125	2,881,088
2018						
Multi-Currency Sukuk Programme	1,252,829	-	-	115	-	1,252,944
Subordinated liabilities	1,083,903	-	(27,389)	-	-	1,056,514
Other liabilities of which:						
Profit paid on Multi-Currency Sukuk Programme	12,815	(14,606)	-	-	11,881	10,090
Interest paid on Subordinated liabilities	6,521	(7,194)	-	-	11,335	10,662
	2,356,068	(21,800)	(27,389)	115	23,216	2,330,210

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

UNAUDITED CONDENSED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2019 (Cont'd)

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

Bank (RM'000)

2019	At 1 January	Cash outflow	Foreign exchange adjustment	Fair value movement	Interest accrual	At 31 March
Subordinated liabilities	1,095,987	-	(8,139)	-	-	1,087,848
Other liabilities of which:						
Interest paid on Subordinated liabilities	4,458	(4,000)	-	-	13,403	13,861
	<u>1,100,445</u>	<u>(4,000)</u>	<u>(8,139)</u>	<u>-</u>	<u>13,403</u>	<u>1,101,709</u>
2018						
Subordinated liabilities	1,083,903	-	(27,389)	-	-	1,056,514
Other liabilities of which:						
Interest paid on Subordinated liabilities	6,521	(7,194)	-	-	11,335	10,662
	<u>1,090,424</u>	<u>(7,194)</u>	<u>(27,389)</u>	<u>-</u>	<u>11,335</u>	<u>1,067,176</u>

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 2018 and the accompanying explanatory notes on pages 11 to 43 attached to the unaudited condensed interim financial statements.

The unaudited condensed interim financial statements were approved by the Board of Directors on 23 April 2019.

HSBC BANK MALAYSIA BERHAD
(Company No. 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 23 April 2019.

2 Basis of Preparation

The unaudited condensed interim financial statements for the financial period ended 31 March 2019 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 31 March 2019 have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (MFRS) 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (MASB). 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 2018. The explanatory notes attached in the unaudited condensed interim financial statements provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Group and Bank since the financial year ended 31 December 2018.

All significant accounting policies and methods of computation applied in the unaudited condensed interim financial statements are consistent with those adopted in the most recent audited annual financial statements for the year ended 31 December 2018.

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

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

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" (ROU) of the underlying asset and a lease liability reflecting future lease payments for most leases. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

2 Basis of Preparation (Cont'd)

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

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

Transitional impact

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies (Cont'd)

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

The following table is a reconciliation of the carrying amount in the Group and the Bank's Statement of Financial Position from MFRS 117 to MFRS 16 as at 1 January 2019:

Group	MFRS 117 carrying	MFRS 16 adjustments		MFRS 16 carrying	Retained profits
	amount as at 31 December 2018	Reclassification	Remeasurement	amount as at 1 January 2019	impact as at 1 January 2019
	RM'000	RM'000	RM'000	RM'000	RM'000
Assets					
Cash and short term funds	7,908,159	-	-	7,908,159	-
Securities purchased under resale agreements	2,557,198	-	-	2,557,198	-
Deposits and placements with banks and other financial institutions	227,535	-	-	227,535	-
Financial assets at fair value through profit and loss (FVTPL)	2,327,385	-	-	2,327,385	-
Financial investments at fair value through own comprehensive income (FVOCI)	13,720,317	-	-	13,720,317	-
Loans, advances and financing	53,308,493	-	-	53,308,493	-
Derivative financial assets	1,299,939	-	-	1,299,939	-
Statutory deposits with Bank Negara Malaysia	1,200,662	-	-	1,200,662	-
Other assets	634,695	(4,982)	108,926	738,639	-
Deferred tax assets	208,895	-	-	208,895	-
Total change to financial asset balances, reclassification and remeasurement at 1 January 2019	83,393,278	(4,982)	108,926	83,497,222	-
Liabilities					
Deposits from customers	57,147,153	-	-	57,147,153	-
Deposits and placements from banks and other financial institutions	5,518,751	-	-	5,518,751	-
Repurchase agreement	147,871	-	-	147,871	-
Bills payable	250,704	-	-	250,704	-
Multi-Currency Sukuk Programme	1,755,281	-	-	1,755,281	-
Subordinated liabilities	1,095,987	-	-	1,095,987	-
Derivative financial liabilities	1,116,285	-	-	1,116,285	-
Structured liabilities designated at fair value through profit and loss	4,158,241	-	-	4,158,241	-
Other liabilities	2,389,097	(4,982)	108,926	2,493,041	-
Provision for taxation	164,706	-	-	164,706	-
Total change to financial liabilities balances, reclassification and remeasurement at 1 January 2019	73,744,076	(4,982)	108,926	73,848,020	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies (Cont'd)

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

	MFRS 117 carrying	MFRS 16 adjustments		MFRS 16 carrying	Retained profits
	amount as at 31 December 2018	Reclassification	Remeasurement	amount as at 1 January 2019	impact as at 1 January 2019
	RM'000	RM'000	RM'000	RM'000	RM'000
Bank					
Assets					
Cash and short term funds	5,137,240	-	-	5,137,240	-
Securities purchased under resale agreements	2,557,198	-	-	2,557,198	-
Deposits and placements with banks and other financial institutions	1,369,248	-	-	1,369,248	-
Financial assets at fair value through profit and loss (FVPL)	2,327,385	-	-	2,327,385	-
Financial investments at fair value through own comprehensive income (FVOCI)	10,994,634	-	-	10,994,634	-
Loans, advances and financing	39,171,156	-	-	39,171,156	-
Derivative financial assets	1,303,262	-	-	1,303,262	-
Statutory deposits with Bank Negara Malaysia	836,000	-	-	836,000	-
Other assets	658,356	(4,982)	77,193	730,567	-
Deferred tax assets	191,532	-	-	191,532	-
Total change to financial asset balances, reclassification and remeasurement at 1 January 2019	64,546,011	(4,982)	77,193	64,618,222	-
Liabilities					
Deposits from customers	45,702,597	-	-	45,702,597	-
Deposits and placements from banks and other financial institutions	2,798,088	-	-	2,798,088	-
Repurchase agreement	147,871	-	-	147,871	-
Bills payable	232,110	-	-	232,110	-
Subordinated liabilities	1,095,987	-	-	1,095,987	-
Derivative financial liabilities	1,134,562	-	-	1,134,562	-
Structured liabilities designated at fair value through profit and loss	3,273,364	-	-	3,273,364	-
Other liabilities	2,192,462	(4,982)	77,193	2,264,673	-
Provision for taxation	135,186	-	-	135,186	-
Total change to financial liabilities balances, reclassification and remeasurement at 1 January 2019	56,712,227	(4,982)	77,193	56,784,438	-

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

3 Changes in accounting policies (Cont'd)

(ii) The total impacts of the changes in accounting policies on the Group's and the Bank's reserves as at 1 January 2019 are as follows:

Retained profits	Group	Bank
	RM'000	RM'000
As previously reported at 31 December 2018	8,148,816	7,075,642
<u>Impact of adoption of MFRS 16 (net of tax effect)</u>		
Increase in ROU assets	103,944	72,211
Increase in lease liability	(108,926)	(77,193)
Decrease in other liabilities	4,982	4,982
As restated at 1 January 2019	<u>8,148,816</u>	<u>7,075,642</u>

Reconciliation between MFRS 117 operating lease commitments to MFRS 16	Group	Bank
	RM'000	RM'000
Operating lease commitments disclosed as at 31 December 2018	89,017	75,613
Discounted using incremental borrowing rate	(4,312)	(3,702)
Less: services and other charges not in scope for MFRS 16	(18,296)	(18,296)
Less: short-term leases recognised on a straight-line basis as expense	(1,545)	(1,342)
Less: low-value leases recognised on a straight-line basis as expense	(13)	(13)
Add: adjustments as a result of a different treatment on extension and termination options	44,999	26,106
Less: others	(924)	(1,173)
Lease liability recognised as at 1 January 2019	<u>108,926</u>	<u>77,193</u>
Of which:		
Current lease liability	26,364	20,344
Non-current lease liability	82,562	56,849
	<u>108,926</u>	<u>77,193</u>

NOTES TO THE FINANCIAL STATEMENTS

4 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.

5 Auditors' Report On Preceding Annual Financial Statements

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

6 Seasonality or Cyclical Factors

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

7 Unusual Items due to Their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group and Bank for the financial period ended 31 March 2019.

8 Changes in Estimates

There were no material changes in estimates of amounts reported in prior financial years that have a material effect on the financial results and position of the Group and Bank for the financial period ended 31 March 2019.

9 Debt and Equity Securities

There were no other issuances, cancellations, repurchases, resale or repayment of debt and equity securities during the financial period ended 31 March 2019.

10 Dividend

No interim dividend was declared nor paid during the financial period ended 31 March 2019.

11 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 31 March 2019.

12 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)

13 Cash and Short-Term Funds

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	1,025,033	851,050	846,125	685,654
Money at call and interbank placements maturing within one month	5,488,418	7,057,109	3,550,115	4,451,586
	6,513,451	7,908,159	4,396,240	5,137,240

Money at call and interbank placements maturing within one month is within Stage 1 allocation (12 -months ECL) with RM1,000 impairment allowance as at 31 March 2019 (31 December 2018: RM15,000).

14 Deposits and Placements with Banks and Other Financial Institutions

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018
	RM'000	RM'000	RM'000	RM'000
Licensed banks	-	20,685	1,018,360	1,162,398
Bank Negara Malaysia	-	206,850	-	206,850
Net deposit and placements	-	227,535	1,018,360	1,369,248

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 RM1,018.4 million (31 December 2018: RM1,141.7 million). The balance is within Stage 1 allocation (12 -months ECL) with nil impairment allowance as at 31 March 2019 (31 December 2018: nil).

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

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018
	RM'000	RM'000	RM'000	RM'000
Money market instruments:				
Malaysian Government treasury bills	472,644	573,248	472,644	573,248
Islamic treasury bills	283,598	-	283,598	-
Malaysian Government securities	1,816,369	1,355,514	1,816,369	1,355,514
Malaysian Government Islamic Sukuk	691,560	315,653	691,560	315,653
Cagamas bonds and notes	9,145	9,115	9,145	9,115
	3,273,316	2,253,530	3,273,316	2,253,530
Unquoted:				
Corporate bonds and Sukuk	54,025	73,855	54,025	73,855
Loans, advances and financing ⁽¹⁾	17,984	-	17,984	-
	3,345,325	2,327,385	3,345,325	2,327,385

⁽¹⁾ Loans, advances and financing were held for the purpose of selling in the near term.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018
	RM'000	RM'000	RM'000	RM'000
Debt instruments				
Money market instruments:				
Bank Negara Malaysia bills and notes	3,571,134	3,281,519	3,571,134	3,281,519
Islamic Bank Negara bills	-	411,266	-	411,266
Malaysian Government securities	7,010,690	4,442,265	7,010,690	4,442,265
Malaysian Government Islamic Sukuk	5,478,279	4,118,043	1,834,606	1,591,674
Malaysian Government Islamic treasury bills	-	199,314	-	-
Cagamas bonds and notes	70,045	419,789	70,045	419,789
US treasury bond	648,498	654,097	648,498	654,097
	16,778,646	13,526,293	13,134,973	10,800,610
Unquoted:				
Corporate bonds and Sukuk	6,643	6,560	6,643	6,560
Financial Investments Designated as FVOCI				
Equity instruments				
Unquoted:				
Shares	187,464	187,464	187,464	187,464
<i>of which</i>				
<i>Cagamas Holdings Berhad</i>	150,667	150,667	150,667	150,667
<i>Credit Guarantee Corporation Malaysia Berhad</i>	30,388	30,388	30,388	30,388
<i>Others</i>	6,409	6,409	6,409	6,409
	16,972,753	13,720,317	13,329,080	10,994,634

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>	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018
	RM'000	RM'000	RM'000	RM'000
Maturing within one year	5,870,678	5,784,454	5,130,083	4,844,009
More than one year to three years	8,575,742	5,867,787	6,096,852	4,313,785
More than three years to five years	1,771,374	1,321,194	1,347,186	1,089,958
Over five years	560,852	552,858	560,852	552,858
	16,778,646	13,526,293	13,134,973	10,800,610

Included in the FVOCI balances are Malaysian Government securities pledged against the Repurchase Agreement amounted to RM1,303.5 million as at 31 March 2019 (31 December 2018: RM150.8 million).

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Loans, Advances and Financing

(i) By type

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018
	RM'000	RM'000	RM'000	RM'000
At amortised cost				
Overdrafts/cash line	844,694	952,685	763,070	877,351
Term loans/financing:				
Housing loans/financing	18,390,847	18,570,714	14,098,416	14,241,494
Syndicated term loans/financing ⁽¹⁾	3,813,256	3,674,894	2,541,131	2,340,238
Factoring receivables	491,980	509,453	491,980	509,453
Hire purchase receivables	182,658	195,636	-	-
Lease receivables	318	539	-	-
Other term loans/financing	9,956,401	10,286,671	5,807,079	5,895,250
Bills receivable	2,446,857	3,449,649	1,947,323	2,993,071
Trust receipts	2,283,348	2,140,273	1,725,023	1,616,648
Claims on customers under acceptance credits	1,502,632	1,579,135	1,085,445	1,156,842
Staff loans/financing	86,244	90,539	83,472	87,395
Credit/charge cards	3,601,655	3,663,256	2,524,147	2,587,622
Revolving financing ⁽¹⁾	9,049,434	8,806,637	7,404,437	7,172,272
Other loans/financing	12,538	12,159	9,084	8,733
Gross loans, advances and financing	52,662,862	53,932,240	38,480,607	39,486,369
Less: - Impairment allowances	(618,710)	(623,747)	(312,406)	(315,213)
Total net loans, advances and financing	52,044,152	53,308,493	38,168,201	39,171,156

⁽¹⁾ Included in the loans, advances and financing of the Bank at 31 March 2019 are financing which are disclosed as "Asset under Management" in the financial statements of HBMS. These details are as follows:

	<i>Bank</i>	
	31 Mar 2019	31 Dec 2018
	RM'000	RM'000
Syndicated term loans/financing	1,893,568	1,820,336
Revolving financing	751,435	751,515
	2,645,003	2,571,851

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.

The recognition and derecognition treatments of the above are in accordance to Note 4(g) on financial instruments in the audited financial statements of the Group and the Bank for the financial year ended 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Loans, Advances and Financing (Cont'd)

(ii) By type of customer

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018
	RM'000	RM'000	RM'000	RM'000
Domestic non-bank financial institutions	1,226,584	1,198,133	586,358	578,712
Domestic business enterprises:				
Small medium enterprises	6,433,583	6,498,801	4,459,588	4,515,578
Others	17,029,906	17,020,804	13,375,179	13,239,148
Government and statutory bodies	3,874	4,527	-	-
Individuals	21,842,285	22,141,739	15,677,771	15,925,155
Other domestic entities	4,599	4,804	3,372	3,546
Foreign entities	6,122,031	7,063,432	4,378,339	5,224,230
	52,662,862	53,932,240	38,480,607	39,486,369

(iii) By residual contractual maturity

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018
	RM'000	RM'000	RM'000	RM'000
Maturity within one year	24,904,102	26,229,546	19,078,533	20,333,551
More than one year to three years	3,154,681	2,531,922	2,021,622	1,364,163
More than three years to five years	2,676,609	3,018,651	1,381,434	1,720,044
More than five years	21,927,470	22,152,121	15,999,018	16,068,611
	52,662,862	53,932,240	38,480,607	39,486,369

(iv) By interest/profit rate sensitivity

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018
	RM'000	RM'000	RM'000	RM'000
Fixed rate:				
Housing loans/financing	189	194	189	194
Hire purchase receivables	182,658	195,636	-	-
Other fixed rate loans/financing	13,034,634	13,567,734	9,633,800	10,226,274
Variable rate:				
Base Rate/Base Lending/Financing Rate plus	21,799,062	22,218,713	16,459,631	16,826,043
Cost-plus	17,646,319	17,949,963	12,386,987	12,433,858
	52,662,862	53,932,240	38,480,607	39,486,369

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

17 Loans, Advances and Financing (Cont'd)

(v) By sector

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Agricultural, hunting, forestry and fishing	226,004	224,321	207,283	205,335
Mining and quarrying	362,836	353,554	158,197	121,880
Manufacturing	7,401,224	7,512,804	5,914,340	6,017,712
Electricity, gas and water	175,187	156,677	20,422	28,415
Construction	3,526,967	3,354,705	2,690,653	2,571,017
Real estate	4,399,178	4,297,149	3,467,307	3,161,642
Wholesale & retail trade and restaurants & hotels	4,064,295	3,984,139	3,004,894	2,988,570
Transport, storage and communication	496,792	484,495	307,348	270,204
Finance, insurance and business services	3,332,645	3,624,914	2,284,612	2,584,242
Household-retail	24,959,252	25,301,557	18,242,609	18,521,411
Others	3,718,482	4,637,925	2,182,942	3,015,941
	52,662,862	53,932,240	38,480,607	39,486,369

(vi) By purpose

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Purchase of property:				
Residential	18,427,671	18,629,663	14,133,692	14,298,874
Non residential	1,470,669	1,515,174	669,400	679,307
Purchase of securities	3,992	4,215	3,992	4,215
Purchase of transport vehicles	20,372	21,661	19,277	20,406
Purchase of fixed assets excluding land & building	370	740	370	740
Consumption credit	6,085,225	6,201,636	3,904,006	4,000,358
Construction	2,462,035	2,798,190	1,857,805	2,230,805
Working capital	21,172,047	20,843,932	16,067,021	15,614,802
Other purpose	3,020,481	3,917,029	1,825,044	2,636,862
	52,662,862	53,932,240	38,480,607	39,486,369

(vii) By geographical distribution

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Northern Region	6,750,347	6,722,844	5,239,375	5,223,824
Southern Region	6,203,816	6,336,194	4,713,553	4,871,195
Central Region	37,443,945	38,506,545	26,653,457	27,424,841
Eastern Region	2,264,754	2,366,657	1,874,222	1,966,509
	52,662,862	53,932,240	38,480,607	39,486,369

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)

18 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>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Gross carrying amount as at 1 January	1,105,156	975,557	674,843	652,874
Transfer within stages	73,046	195,005	43,254	123,315
Net remeasurement due to changes in credit risk	(18,678)	130,268	(15,723)	14,557
Written-off	(57,324)	(240,278)	(27,319)	(127,122)
Others	(3,120)	44,604	(1,279)	11,219
Gross carrying amount as at 31 March/31 December	1,099,080	1,105,156	673,776	674,843

(ii) By sector

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Mining and quarrying	2,019	2,704	1,929	2,000
Manufacturing	44,068	41,970	27,454	24,616
Construction	37,384	41,263	33,777	38,121
Real estate	12,741	12,855	12,741	12,855
Wholesale & retail trade, restaurants & hotels	27,465	29,776	14,811	18,637
Transport, storage and communication	19,057	22,007	17,855	17,854
Finance, insurance and business services	27,839	32,875	1,225	4,214
Household-retail	893,597	887,087	553,638	547,753
Others	34,910	34,619	10,346	8,793
1,099,080	1,105,156	673,776	674,843	

(iii) By purpose

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Purchase of property:				
Residential	443,890	446,416	322,510	321,427
Non residential	41,082	43,517	27,617	31,693
Purchase of transport vehicles	152	207	58	61
Consumption credit	439,488	429,680	222,486	217,452
Construction	24,207	26,565	21,189	24,163
Working capital	126,692	133,931	79,916	80,029
Other purpose	23,569	24,840	-	18
1,099,080	1,105,156	673,776	674,843	

(iv) By geographical distribution

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Northern Region	133,230	132,945	94,155	93,486
Southern Region	113,541	117,402	76,094	77,119
Central Region	791,871	796,059	450,690	452,123
Eastern Region	60,438	58,750	52,837	52,115
1,099,080	1,105,156	673,776	674,843	

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 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:

	Stage 1	Stage 2	Stage 3	Lifetime ECL		Total RM'000
	12-month ECL not credit impaired RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Lifetime ECL credit impaired Specific provision RM'000	Collective provision RM'000	
Group						
Balance at 1 January 2019	99,954	132,892	390,901	-	-	623,747
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	38,158	(32,539)	(5,619)	-	-	-
- Transferred to Stage 2	(8,236)	17,193	(8,957)	-	-	-
- Transferred to Stage 3	(16)	(21,084)	21,100	-	-	-
New financial assets originated or purchased	7,614	-	-	-	-	7,614
Net remeasurement due to changes in credit risk	(41,057)	41,855	47,616	-	-	48,414
Asset written-off	-	-	(57,324)	-	-	(57,324)
Others	(535)	-	(3,206)	-	-	(3,741)
Balance at 31 March 2019	95,882	138,317	384,511	-	-	618,710
Balance at 1 January 2018	-	-	-	295,539	518,836	814,375
- adoption of MFRS 9	137,218	135,296	356,338	(295,539)	(518,836)	(185,523)
Balance restated	137,218	135,296	356,338	-	-	628,852
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	39,936	(35,006)	(4,930)	-	-	-
- Transferred to Stage 2	(10,019)	22,902	(12,883)	-	-	-
- Transferred to Stage 3	(967)	(8,878)	9,845	-	-	-
New financial assets originated or purchased	32,948	-	-	-	-	32,948
Net remeasurement due to changes in credit risk	(97,894)	18,578	237,931	-	-	158,615
Asset written-off	-	-	(240,278)	-	-	(240,278)
Others	(1,268)	-	44,878	-	-	43,610
Balance at 31 December 2018	99,954	132,892	390,901	-	-	623,747

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.

The total ECL allowances decreased by RM5.0 million for the Group compared to the balance at the beginning of the year. This net reduction was mainly contributed by accounts written off (at RM54.5 million) partially offset by remeasurement due to change in credit risk (at RM48.4 million).

- 12-months ECL not credit impaired (Stage 1) – decreased by RM4.1 million for the Group, mainly from remeasurement due to change in credit risk based on the HSBC Group's model and partially offset by the loans migrated back to Stage 1 due to improved credit quality.
- Lifetime ECL not credit-impaired (Stage 2) – increased by RM5.4 million for the Group, mainly from remeasurement due to change in credit risk partially offset by migration of loans to Stage 3 as result of credit quality deterioration.
- Lifetime ECL credit-impaired (Stage 3) – decreased by RM6.4 million for the Group, primarily due to written off of the impaired loan partially offset by remeasurement due to change in credit risk.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 ECL allowances

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

	Stage 1	Stage 2	Stage 3	Lifetime ECL		Total RM'000
	12-month ECL not credit impaired RM'000	Lifetime ECL not credit impaired RM'000	Lifetime ECL credit impaired RM'000	Lifetime ECL credit impaired Specific provision RM'000	Collective provision RM'000	
Bank						
Balance at 1 January 2019	55,966	68,428	190,819	-	-	315,213
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	23,516	(20,033)	(3,483)	-	-	-
- Transferred to Stage 2	(4,541)	10,634	(6,093)	-	-	-
- Transferred to Stage 3	(10)	(9,202)	9,212	-	-	-
New financial assets originated or purchased	3,930	-	-	-	-	3,930
Net remeasurement due to changes in credit risk	(23,202)	21,610	23,791	-	-	22,199
Asset written-off	-	-	(27,319)	-	-	(27,319)
Others	(277)	-	(1,340)	-	-	(1,617)
Balance at 31 March 2019	55,382	71,437	185,587	-	-	312,406
Balance at 1 January 2018	-	-	-	180,640	277,928	458,568
- adoption of MFRS 9	76,084	69,776	205,568	(180,640)	(277,928)	(107,140)
Balance restated	76,084	69,776	205,568	-	-	351,428
Changes due to financial assets recognised in the opening balance that have:						
- Transferred to Stage 1	25,897	(22,456)	(3,441)	-	-	-
- Transferred to Stage 2	(5,352)	12,891	(7,539)	-	-	-
- Transferred to Stage 3	(329)	(5,057)	5,386	-	-	-
New financial assets originated or purchased	13,808	-	-	-	-	13,808
Net remeasurement due to changes in credit risk	(53,470)	13,274	106,697	-	-	66,501
Asset written-off	-	-	(127,122)	-	-	(127,122)
Others	(672)	-	11,270	-	-	10,598
Balance at 31 December 2018	55,966	68,428	190,819	-	-	315,213

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 decreased by RM2.8 million for the Bank compared to the balance at the beginning of the year. This net reduction was mainly contributed by accounts written off (at RM27.3 million) partially offset by remeasurement due to change in credit risk.

- 12-months ECL not credit impaired (Stage 1) – decreased by RM0.6 million for the Bank, primarily due to remeasurement due to change in credit risk based on the HSBC Group's model and partially offset by the new loans and loans migrated back to Stage 1 due to improved credit quality.
- Lifetime ECL not credit-impaired (Stage 2) – increased by RM3.0 million for the Bank, mainly from remeasurement due to change in credit risk.
- Lifetime ECL credit-impaired (Stage 3) – Stage 3 ECL decreased by RM5.2 million, primarily due to written off of the impaired loan and partially offset by remeasurement due to change in credit risk based on the HSBC Group's model.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 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 2019	4,415	3,358	825	8,598
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	340	(340)	-	-
- Transferred to Stage 2	(422)	422	-	-
- Transferred to Stage 3	-	-	-	-
New financial assets originated or purchased	788	-	-	788
Net remeasurement due to changes in credit risk	(380)	838	(466)	(8)
Asset written-off	-	-	-	-
Others	(31)	-	-	(31)
Balance at 31 March 2019	4,710	4,278	359	9,347
Balance at 1 January 2018	-	-	-	-
- adoption of MFRS 9	3,984	5,618	1,006	10,608
Balance restated	3,984	5,618	1,006	10,608
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	574	(574)	-	-
- Transferred to Stage 2	(223)	227	(4)	-
- Transferred to Stage 3	(2)	(2)	4	-
New financial assets originated or purchased	1,102	-	-	1,102
Net remeasurement due to changes in credit risk	(906)	(1,911)	(181)	(2,998)
Asset written-off	-	-	-	-
Others	(114)	-	-	(114)
Balance at 31 December 2018	4,415	3,358	825	8,598

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

19 ECL allowances movement (Cont'd)

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

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL		
	not credit	not credit	Lifetime ECL	
	impaired	impaired	credit impaired	Total
	RM'000	RM'000	RM'000	RM'000
Bank				
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	86	(86)	-	-
- Transferred to Stage 2	(354)	354	-	-
- Transferred to Stage 3	-	-	-	-
New financial assets originated or purchased	576	-	-	576
Net remeasurement due to changes in credit risk	(97)	696	-	599
Asset written-off	-	-	-	-
Others	(25)	-	-	(25)
Balance at 31 March 2019	3,492	3,397	-	6,889
Balance at 1 January 2018	-	-	-	-
- adoption of MFRS 9	3,038	3,738	9	6,785
Balance restated	3,038	3,738	9	6,785
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to Stage 1	422	(422)	-	-
- Transferred to Stage 2	(167)	171	(4)	-
- Transferred to Stage 3	(1)	-	1	-
New financial assets originated or purchased	862	-	-	862
Net remeasurement due to changes in credit risk	(807)	(1,054)	(6)	(1,867)
Asset written-off	-	-	-	-
Others	(41)	-	-	(41)
Balance at 31 December 2018	3,306	2,433	-	5,739

Allowance for drawn amount and provisions for the undrawn commitments are not able to be split for retail portfolio, and in accordance to MFRS 7 Financial Instruments disclosure, the provisions for the 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)

20 Other Assets

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018
	RM'000	RM'000	RM'000	RM'000
Settlements	1,236,963	6,257	1,228,076	2,826
Interest/profit receivable	149,173	129,644	118,798	109,063
Income receivable	49,164	53,578	43,908	45,845
Deposits and prepayments	6,932	27,004	6,712	26,814
Amount due from subsidiary company	-	-	57,756	73,163
ROU assets	95,752	-	64,728	-
Cash collateral	21,306	289,271	21,306	289,271
Other receivables	167,736	128,941	142,491	111,374
	1,727,026	634,695	1,683,775	658,356

21 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)

22 Deposits from Customers

(i) By type of deposit	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000	31 Mar 2019 RM'000	31 Dec 2018 RM'000
At amortised cost				
Demand deposits	20,645,642	20,716,131	18,676,392	18,945,779
Savings deposits	11,953,302	12,061,066	10,207,288	10,371,643
Fixed deposits	24,620,909	24,369,956	16,559,927	16,385,175
	57,219,853	57,147,153	45,443,607	45,702,597

The maturity structure of fixed deposits is as follows:

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Due within six months	19,458,385	19,229,277	12,848,270	12,626,859
More than six months to one year	4,650,972	4,540,646	3,441,026	3,497,763
More than one year to three years	304,211	415,621	152,794	151,171
More than three years to five years	207,341	184,412	117,837	109,382
	24,620,909	24,369,956	16,559,927	16,385,175

(ii) By type of customer	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Government and statutory bodies	18,127	15,677	10,477	11,897
Business enterprises	21,995,069	21,664,510	19,348,807	19,314,594
Individuals	23,186,604	23,405,773	16,892,856	17,121,672
Others	12,020,053	12,061,193	9,191,467	9,254,434
	57,219,853	57,147,153	45,443,607	45,702,597

23 Deposits and Placements from Banks and Other Financial Institutions

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Licensed banks	-	3,539	-	3,539
Bank Negara Malaysia	42,005	27,971	1,850	-
Other financial institutions	4,607,616	5,487,241	2,235,380	2,794,549
	4,649,621	5,518,751	2,237,230	2,798,088

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

24 Structured Liabilities Designated at Fair Value through Profit or Loss

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Structured liabilities	4,561,821	4,158,241	3,543,246	3,273,364

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.

25 Other Liabilities

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000	31 Mar 2019 RM'000	31 Dec 2018 RM'000
At amortised cost				
Settlements	1,028,726	31,095	1,028,726	31,095
Interest/profit payable	276,198	254,430	185,227	167,386
Deferred income	104,380	108,296	92,273	96,472
Marginal deposit	68,221	48,358	63,835	44,113
Amount due to subsidiary company	-	-	937	360
Accrued expenses	975,065	1,014,982	948,083	982,054
Lease liabilities	101,183	-	69,628	-
Cash collateral	409,085	255,078	409,085	255,078
Other creditors	615,702	668,260	540,343	610,165
Provisions on loan and credit related commitments; and financial guarantees	9,347	8,598	6,889	5,739
	3,587,907	2,389,097	3,345,026	2,192,462

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

26 Multi-Currency Sukuk Programme

	<i>Group</i>	
	31 Mar 2019	31 Dec 2018
	RM'000	RM'000
Multi-Currency Sukuk Programme (MCSP)	1,758,628	1,755,281

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)	
				31 Mar 2019	31 Dec 2018
At fair value					
2nd series	500,000	16 Oct 2014	16 Oct 2019	501,337	501,173
3rd series	750,000	27 Mar 2015	27 Mar 2020	752,863	751,993
4th series	500,000	2 Oct 2018	2 Oct 2023	504,428	502,115
Total	<u>1,750,000</u>			<u>1,758,628</u>	<u>1,755,281</u>

Movement in MCSP

	2nd series RM'000	3rd series RM'000	4th series RM'000
<u>2019</u>			
Balance at 1 January	501,173	751,993	502,115
Change in fair value other than from own credit risk	(252)	1,178	4,138
Change in fair value from own credit risk	416	(308)	(1,825)
Balance at 31 March	<u>501,337</u>	<u>752,863</u>	<u>504,428</u>

	2nd series RM'000	3rd series RM'000	4th series RM'000
<u>2018</u>			
Balance at 1 January	501,201	751,628	-
New issuance during the financial year	-	-	500,000
Change in fair value other than from own credit risk	(1,811)	445	1,054
Change in fair value from own credit risk	1,783	(80)	1,061
Balance at 31 December	<u>501,173</u>	<u>751,993</u>	<u>502,115</u>

	<i>Group</i>	
	31 Mar 2019	31 Dec 2018
	RM'000	RM'000
The cumulative change in fair value due to changes in own credit risk	(1,717)	2,764

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

27 Subordinated Liabilities

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018
	RM'000	RM'000	RM'000	RM'000
Subordinated Liabilities	1,087,848	1,095,987	1,087,848	1,095,987
(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>	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018
	RM'000	RM'000	RM'000	RM'000
(ii) Subordinated term loan				
- First tranche issued on 25 June 2014	317,006	321,395	317,006	321,395
- Second tranche issued on 30 June 2015	270,842	274,592	270,842	274,592
	587,848	595,987	587,848	595,987

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)

28 Net Interest Income

	Group		Bank	
	31 Mar 2019 RM'000	31 Mar 2018 RM'000	31 Mar 2019 RM'000	31 Mar 2018 RM'000
Interest income				
Loans and advances				
- Interest income other than from impaired loans	451,854	433,971	451,854	433,971
- Interest income recognised from impaired loans	9,726	18,107	9,726	18,107
Money at call and deposit placements with financial institutions	46,445	71,960	56,901	92,220
Financial investments at FVOCI	98,672	57,249	98,672	57,249
	606,697	581,287	617,153	601,547
Interest expense				
Deposits and placements of banks and other financial institutions	(11,028)	(9,658)	(11,028)	(9,658)
Deposits from customers	(177,448)	(160,437)	(177,448)	(160,437)
Subordinated liabilities	(13,403)	(11,335)	(13,403)	(11,335)
Lease liabilities	(851)	-	(851)	-
Others	(2,775)	(2,782)	(2,775)	(2,782)
	(205,505)	(184,212)	(205,505)	(184,212)
Net interest income	401,192	397,075	411,648	417,335

29 Net Fee and Commission Income

	Group		Bank	
	31 Mar 2019 RM'000	31 Mar 2018 RM'000	31 Mar 2019 RM'000	31 Mar 2018 RM'000
Fee and commission income				
Credit cards	36,075	35,196	36,075	35,196
Service charges	33,867	34,843	33,867	34,843
Credit facilities	14,842	15,165	14,842	15,165
Agency	21,455	27,567	21,455	27,567
Others	8,220	8,033	8,220	8,033
	114,459	120,804	114,459	120,804
Fee and commission expense				
Debit/credit cards	(892)	(16,967)	(892)	(16,967)
Interbank and clearing	(415)	(515)	(415)	(515)
Brokerage	(426)	(546)	(426)	(546)
Cash management	-	(1,044)	-	(1,044)
Others	(7,446)	(2,673)	(7,446)	(2,673)
	(9,179)	(21,745)	(9,179)	(21,745)
Net fee and commission income	105,280	99,059	105,280	99,059

30 Net Trading Income

	Group		Bank	
	31 Mar 2019 RM'000	31 Mar 2018 RM'000	31 Mar 2019 RM'000	31 Mar 2018 RM'000
Realised gains on financial assets/liabilities at FVTPL and other financial instruments	12,359	4,709	13,000	5,120
Net interest income from financial assets at FVTPL	25,772	21,439	25,772	21,439
Net unrealised gains/(losses) on revaluation of financial assets at FVTPL	13,150	(1,421)	10,707	(1,896)
Net realised gains arising from dealing in foreign currency	127,228	115,785	127,849	111,546
Net unrealised gains/(losses) from dealing in foreign currency	19,125	(18,222)	(9,709)	2,947
Net realised (losses)/gains arising from dealing in derivatives	(39,214)	119,279	(34,934)	121,810
Net unrealised gains/(losses) on revaluation of derivatives	41,810	(101,102)	39,711	(112,024)
Gains/(Losses) arising from fair value hedges	11	(819)	11	(819)
	200,241	139,648	172,407	148,123

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

31 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>	
	31 Mar 2019	31 Mar 2018
	RM'000	RM'000
Income derived from investment of depositor funds and others ^[1]	207,483	192,303
Income derived from investment of shareholders funds ^[1]	39,715	37,185
Total income before allowance for impairment losses on financing and advances	247,198	229,488
Income attributable to the depositors	(114,442)	(97,867)
	132,756	131,621
Elimination of intercompany income and expenses	(18,027)	28,082
Income from Islamic Banking operations reported in the statement of profit or loss of the Group	114,729	159,703

^[1] Included in the following funds are net losses on financial instruments designated at fair value through profit or loss for the period ended 31 March:

Income derived from investment of depositors' funds and others	(9,688)	(1,630)
Income derived from investment of shareholder's funds	(1,046)	(297)

32 Other Operating Income

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018
	RM'000	RM'000	RM'000	RM'000
Gain on disposal of financial investments at FVOCI	-	6,308	-	6,308
Rental income	1,869	1,849	1,869	1,849
Net gain on disposal of property and equipment	9	-	9	-
Income recharges from subsidiary	-	-	30,411	31,641
Other operating income	5,207	3,998	5,207	3,998
	7,085	12,155	37,496	43,796

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

33 Impairment Allowance/Provisions

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	57,126	71,134	27,532	34,428
Recoveries	(29,475)	(30,281)	(18,280)	(19,294)
Written off	168	2	131	2
Total charge to the statements of profit or loss	27,819	40,855	9,383	15,136

Breakdown of the impairment allowance/provisions by financial instruments type.

(i) Loan, advances and financing

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	56,028	75,484	26,129	37,097
Recoveries	(29,475)	(30,281)	(18,280)	(19,294)
Written off	168	2	131	2
Total charge to the statements of profit or loss	26,721	45,205	7,980	17,805

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

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	(8)	(30)	(6)	(30)
Total charge to the statements of profit or loss	(8)	(30)	(6)	(30)

(iii) Debt securities - FVOCI

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	326	(84)	234	(52)
Total charge to the statements of profit or loss	326	(84)	234	(52)

(iv) Loan commitments

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018
	RM'000	RM'000	RM'000	RM'000
New and increased allowance (net of releases)	780	(4,236)	1,175	(2,587)
Total charge to the statements of profit or loss	780	(4,236)	1,175	(2,587)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

34 Other Operating Expenses

	<i>Group</i>		<i>Bank</i>	
	31 Mar 2019 RM'000	31 Mar 2018 RM'000	31 Mar 2019 RM'000	31 Mar 2018 RM'000
Personnel expenses	188,558	185,342	177,201	173,803
Promotion and marketing related expenses	11,865	21,804	10,666	16,971
Establishment related expenses	32,403	37,109	28,350	33,067
General administrative expenses	31,506	37,636	24,665	28,367
Related company charges	107,304	81,728	106,077	80,953
	371,636	363,619	346,959	333,161
Personnel expenses				
Salaries, allowances and bonuses	147,893	145,599	138,901	136,262
Employees Provident Fund contributions	24,685	23,780	23,086	22,114
Share based payment	1,945	3,170	1,897	3,140
Others	14,035	12,793	13,317	12,287
	188,558	185,342	177,201	173,803
Promotion and marketing related expenses	11,865	21,804	10,666	16,971
Establishment related expenses				
Depreciation of property and equipment	5,573	5,364	5,077	4,698
Depreciation of ROU assets	6,718	-	4,692	-
Amortisation of intangible assets	3,162	5,676	3,162	5,676
Information technology costs	4,137	6,174	3,448	5,405
Hire of equipment	2,388	2,493	2,374	2,493
Rental of premises	496	9,283	390	7,415
Property and equipment written off	16	4	16	4
General repairs and maintenance	4,479	2,232	4,344	2,232
Utilities	3,460	3,906	2,960	3,386
Others	1,974	1,977	1,887	1,758
	32,403	37,109	28,350	33,067
General administrative expenses	31,506	37,636	24,665	28,367
Related company charges	107,304	81,728	106,077	80,953
Of which by:				
Type of service				
- Information technology related cost	48,708	31,460	48,708	31,479
- Non information technology related cost	58,596	50,268	57,369	49,474
Countries				
- Hong Kong	66,987	51,297	66,987	51,297
- United Kingdom	27,626	14,603	27,463	14,498
- Malaysia	11,741	15,176	10,677	14,506
- Others	950	652	950	652

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Capital Adequacy

	<i>Group</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Tier 1 capital		
Paid-up ordinary share capital	1,045,875	1,045,875
Retained profits	7,907,893	8,148,816
Other reserves	1,067,709	1,058,737
Regulatory adjustments	<u>(1,240,617)</u>	<u>(1,229,423)</u>
Total Common Equity Tier 1 (CET 1) and Tier 1 capital	<u>8,780,860</u>	<u>9,024,005</u>
Tier 2 capital		
Subordinated liabilities	300,000	400,000
Subordinated term loan	587,848	595,987
Collective impairment allowance (unimpaired portion) & regulatory reserves	631,927	636,819
Regulatory adjustments	<u>109,210</u>	<u>109,557</u>
Total Tier 2 capital	<u>1,628,985</u>	<u>1,742,363</u>
Capital base	<u>10,409,845</u>	<u>10,766,368</u>
<u>Inclusive of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	15.064%	15.475%
Total Capital ratio	17.858%	18.463%
<u>Net of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	15.064%	15.021%
Total Capital ratio	17.858%	18.009%

The total capital and capital adequacy ratios of the Group 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>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Total RWA for credit risk	50,554,128 ^[1]	50,945,497 ^[1]
Total RWA for market risk	2,095,512	1,712,316
Total RWA for operational risk	5,642,154	5,655,153
	<u>58,291,794</u>	<u>58,312,966</u>

^[1] The risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 17(i) for more details) are as follows:

	<i>Group</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Under SIAF/IAA arrangement	<u>2,185,805</u>	<u>2,129,589</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

35 Capital Adequacy (Cont'd)

	<i>Bank</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Tier 1 capital		
Paid-up ordinary share capital	1,045,875	1,045,875
Retained profits	6,833,695	7,075,642
Other reserves	974,684	970,486
Regulatory adjustments	<u>(1,795,241)</u>	<u>(1,794,661)</u>
Total Common Equity Tier 1 (CET1) and Tier 1 capital	<u>7,059,013</u>	<u>7,297,342</u>
Tier 2 capital		
Subordinated liabilities	300,000	400,000
Subordinated term loan	587,848	595,987
Collective impairment allowance (unimpaired portion) & regulatory reserves	485,165	488,880
Regulatory adjustments	<u>(478,638)</u>	<u>(486,430)</u>
Total Tier 2 capital	<u>894,375</u>	<u>998,437</u>
Capital base	<u>7,953,388</u>	<u>8,295,779</u>
<u>Inclusive of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	15.392%	15.948%
Total Capital ratio	17.343%	18.129%
<u>Net of proposed dividend</u>		
CET 1 and Tier 1 Capital ratio	15.392%	15.368%
Total Capital ratio	17.343%	17.550%

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>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Total RWA for credit risk	38,813,199 ^[1]	39,110,393 ^[1]
Total RWA for market risk	2,042,016	1,620,465
Total RWA for operational risk	5,004,961	5,027,602
	<u>45,860,176</u>	<u>45,758,460</u>

^[1] The risk weighted amount for credit risk relating to the SIAF/IAA (refer Note 17(i) for more details) are as follows:

	<i>Bank</i>	
	31 Mar 2019 RM'000	31 Dec 2018 RM'000
Under SIAF/IAA arrangement	<u>2,185,805</u>	<u>2,129,589</u>

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>	
	31 Mar 2019	31 Dec 2018	31 Mar 2019	31 Dec 2018
Principal amount	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	2,037,281	2,289,301	1,544,817	1,797,498
Transaction-related contingent items	9,110,317	9,402,996	7,949,299	8,264,405
Short-term self-liquidating trade-related contingencies	333,060	374,060	288,102	310,949
Formal standby facilities and credit lines				
- Maturity not exceeding one year	6,438,011	6,064,570	5,315,266	4,689,703
- Maturity exceeding one year	12,020,524	12,067,621	9,759,172	9,911,365
Other unconditionally cancellable	14,464,957	14,109,814	12,794,275	12,568,266
Unutilised credit card lines	13,074,538	12,699,419	9,468,356	9,246,569
Foreign exchange related contracts:				
- Less than one year	80,326,483	83,850,057	82,016,388	86,707,857
- Over one year to less than five years	7,211,180	7,157,153	7,211,180	7,157,153
- Over five years	1,268,011	1,039,804	1,268,011	1,039,804
Interest/profit rate related contracts:				
- Less than one year	9,328,286	8,647,061	10,783,286	9,227,061
- Over one year to less than five years	28,218,992	27,940,646	29,294,638	29,611,812
- Over five years	1,825,047	1,386,770	1,825,047	1,386,770
Gold and other precious metals contracts:				
- Less than one year	10,513	6,559	10,513	6,559
Equity related contracts:				
- Less than one year	643,988	471,745	894,019	588,628
- Over one year to less than five years	953,282	1,041,419	1,285,911	1,403,647
	187,264,470	188,548,995	181,708,280	183,918,046

of which the amount related to SIAF/IAA arrangement (refer Note 17(i) for more detail) are as below:

Formal standby facilities and credit lines:

- Maturity not exceeding one year

	709,750	794,750	709,750	794,750
--	----------------	---------	----------------	---------

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Derivative Financial Instruments

Details of derivative financial instruments outstanding are as follows:

i) Derivative financial instruments measured at their fair values together with their corresponding contract/notional amounts:

Group At 31 Mar 2019	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
	Up to 1 Year RM'000	> 1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	> 1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	> 1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
Trading derivatives:												
Foreign exchange contracts												
- Forwards	74,662,611	645,951	-	75,308,562	308,193	2,324	-	310,517	324,330	16,651	-	340,981
- Swaps	5,032,380	6,565,229	1,268,011	12,865,620	211,414	335,369	121,259	668,042	80,019	227,808	33,909	341,736
- Options	631,492	-	-	631,492	2,046	-	-	2,046	2,037	-	-	2,037
Interest/profit rate related contracts												
- Options	449,961	1,203,831	-	1,653,792	164	8,131	-	8,295	1,362	1,628	-	2,990
- Swaps	8,728,325	25,325,161	1,825,047	35,878,533	10,889	113,312	17,389	141,590	15,655	97,300	29,756	142,711
Equity related contracts												
- Options	643,988	953,282	-	1,597,270	8,132	29,221	-	37,353	-	452	24,778	25,230
Precious metal contracts												
- Options	10,513	-	-	10,513	31	-	-	31	59	-	-	59
Sub- total	90,159,270	34,693,454	3,093,058	127,945,782	540,869	488,357	138,648	1,167,874	423,462	343,839	88,443	855,744
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	150,000	1,690,000	-	1,840,000	-	-	-	-	316	16,377	-	16,693
Sub- total	150,000	1,690,000	-	1,840,000	-	-	-	-	316	16,377	-	16,693
Total	90,309,270	36,383,454	3,093,058	129,785,782	540,869	488,357	138,648	1,167,874	423,778	360,216	88,443	872,437

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Derivative Financial Instruments (Cont'd)

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

i) 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	> 1 - 5 Years	> 5 Years	Total	Up to 1 Year	> 1 - 5 Years	> 5 Years	Total	Up to 1 Year	> 1 - 5 Years	> 5 Years	Total
At 31 Dec 2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trading derivatives:												
Foreign exchange contracts												
- Forwards	77,928,953	552,750	-	78,481,703	448,545	2,949	-	451,494	460,640	13,481	-	474,121
- Swaps	5,571,728	6,604,403	1,039,804	13,215,935	209,031	345,023	142,627	696,681	158,710	251,729	34,035	444,474
- Options	349,376	-	-	349,376	1,773	-	-	1,773	335	-	-	335
Interest/profit rate related contracts												
- Options	297,827	1,157,812	-	1,455,639	55	5,619	-	5,674	4,537	74	-	4,611
- Swaps	8,199,234	25,012,834	1,386,770	34,598,838	14,752	97,750	11,242	123,744	13,918	93,691	25,019	132,628
Equity related contracts												
- Options	471,745	1,041,419	-	1,513,164	3,180	17,048	-	20,228	14,861	35,519	-	50,380
Precious metal contracts												
- Options	6,559	-	-	6,559	16	-	-	16	50	-	-	50
Sub- total	92,825,422	34,369,218	2,426,574	129,621,214	677,352	468,389	153,869	1,299,610	653,051	394,494	59,054	1,106,599
Hedging Derivatives:												
Fair Value Hedge												
Interest/profit rate related contracts												
- Swaps	150,000	1,770,000	-	1,920,000	-	329	-	329	158	9,528	-	9,686
Sub- total	150,000	1,770,000	-	1,920,000	-	329	-	329	158	9,528	-	9,686
Total	92,975,422	36,139,218	2,426,574	131,541,214	677,352	468,718	153,869	1,299,939	653,209	404,022	59,054	1,116,285

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Derivative Financial Instruments (Cont'd)

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

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

Bank At 31 Mar 2019	Contract / Notional Amount				Positive Fair Value				Negative Fair Value			
	Up to 1 Year RM'000	> 1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	> 1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000	Up to 1 Year RM'000	> 1 - 5 Years RM'000	> 5 Years RM'000	Total RM'000
Trading derivatives:												
Foreign exchange contracts												
- Forwards	76,352,516	645,951	-	76,998,467	308,436	2,324	-	310,760	324,222	16,651	-	340,873
- Swaps	5,032,380	6,565,229	1,268,011	12,865,620	211,330	334,447	121,259	667,036	80,017	227,808	33,909	341,734
- Options	631,492	-	-	631,492	2,046	-	-	2,046	2,037	-	-	2,037
Interest rate related contracts												
- Options	449,961	1,623,477	-	2,073,438	164	8,146	-	8,310	1,362	6,585	-	7,947
- Swaps	10,183,325	25,981,161	1,825,047	37,989,533	10,890	113,312	17,131	141,333	18,047	102,503	29,756	150,306
Equity related contracts												
- Options	894,019	1,285,911	-	2,179,930	8,132	29,014	-	37,146	5,667	16,405	24,778	46,850
Precious metal contracts												
- Options	10,513	-	-	10,513	31	-	-	31	59	-	-	59
Sub- total	93,554,206	36,101,729	3,093,058	132,748,993	541,029	487,243	138,390	1,166,662	431,411	369,952	88,443	889,806
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	150,000	1,690,000	-	1,840,000	-	-	-	-	316	16,377	-	16,693
Sub- total	150,000	1,690,000	-	1,840,000	-	-	-	-	316	16,377	-	16,693
Total	93,704,206	37,791,729	3,093,058	134,588,993	541,029	487,243	138,390	1,166,662	431,727	386,329	88,443	906,499

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

37 Derivative Financial Instruments (Cont'd)

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

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

Bank At 31 Dec 2018	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	80,786,753	552,750	-	81,339,503	449,477	2,949	-	452,426	460,779	13,481	-	474,260
- Swaps	5,571,728	6,604,403	1,039,804	13,215,935	209,817	344,425	142,627	696,869	158,710	251,729	34,035	444,474
- Options	349,376	-	-	349,376	1,773	-	-	1,773	335	-	-	335
Interest rate related contracts												
- Options	297,827	1,578,978	-	1,876,805	55	6,561	-	6,616	4,537	3,515	-	8,052
- Swaps	8,859,234	26,262,834	1,386,770	36,508,838	14,763	97,750	11,000	123,513	14,412	95,537	25,058	135,007
Equity related contracts												
- Options	588,628	1,403,647	-	1,992,275	3,180	18,540	-	21,720	16,894	45,804	-	62,698
Precious metal contracts												
- Options	6,559	-	-	6,559	16	-	-	16	50	-	-	50
Sub- total	96,460,105	36,402,612	2,426,574	135,289,291	679,081	470,225	153,627	1,302,933	655,717	410,066	59,093	1,124,876
Hedging Derivatives:												
Fair Value Hedge												
Interest rate related contracts												
- Swaps	70,000	1,770,000	-	1,840,000	-	329	-	329	158	9,528	-	9,686
Sub- total	70,000	1,770,000	-	1,840,000	-	329	-	329	158	9,528	-	9,686
Total	96,530,105	38,172,612	2,426,574	137,129,291	679,081	470,554	153,627	1,303,262	655,875	419,594	59,093	1,134,562

Included in the net non-profit income is the net losses arising from fair value hedges during the financial period as follows:

	Group		Bank	
	31 Mar 2019 RM'000	31 Mar 2018 RM'000	31 Mar 2019 RM'000	31 Mar 2018 RM'000
(Losses)/gains on hedging instruments	(9,159)	2,773	(9,159)	2,773
Gains/(losses) on the hedged items attributable to the hedged risk	9,170	(3,592)	9,170	(3,592)
Net Gains/(losses) from fair value hedges	11	(819)	11	(819)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

38 Performance Review and Business Prospects

Performance Review

The Group recorded a profit before tax of RM395.8 million for the financial period ended 31 March 2019, an increase of RM7.6 million compared to the corresponding period in 2018. The increase was mainly contributed by higher net trading income (RM60.6 million), higher net fee income (RM6.2 million) and lower impairment charges (RM13.0 million) and partially offset by lower income from Islamic banking operations (RM45.0 million), higher net expenses from financial liabilities designated as FVTPL (RM18.3 million) and higher operating expenses (RM 8.0 million).

For the period ended 31 March 2019, operating expenses increased by 2%, mainly from personnel expenses and intercompany recharges. The Group continues to place high emphasis in managing its operating expenses to ensure that the resources are spent in a sustainable manner.

Total balance sheet size at 31 March 2019 have increased by 2.3% or RM2.0 billion to RM85.9 billion (31 December 2018: RM83.9 billion). The Group's capital and liquidity ratios continues to remain strong and well above regulatory requirements.

Business Prospects

Malaysia's real Gross Domestic Product (GDP) registered a 4.7% growth in 2018 (2017: 5.9%). BNM projected that GDP growth would moderate to a range of 4.3%-4.8% in 2019, with private sector activities as key driver.

In 2019, external uncertainties will continue to affect the outlook for domestic financial markets. These include uncertainties surrounding the US Fed's monetary policy normalisation path, a potential further escalation in global trade tensions, the unravelling of geopolitical developments such as UK's Brexit and the resurgence of volatility in global crude oil prices.

Headline inflation was 1.0% in 2018 (2017: 3.7%), primarily due to the impact of fixing of retail fuel prices coupled with the zerorisation of the goods and services tax (GST) rate from 1 June 2018 to 31 August 2018. These factors more than offset upward cost pressures. Overall headline inflation is forecasted to be broadly stable with projected annual average of between 0.7% to 1.7% , due to upward domestic cost factors, offset by lower global oil prices and the implementation of price ceilings on domestic retail fuel prices until mid-2019.

The Ringgit depreciated against the US dollar by 1.8% in 2018 but remained as one of the better performing currencies in the region. Investor sentiments were negatively affected by rising trade tensions and concerns over contagion risk from vulnerable emerging market economies. Going forward, the Ringgit will continue to be influenced by external uncertainties as well as the trajectory of the US dollar.

From funding perspective, the banking system liquidity is expected to remain robust and sufficient to facilitate financial intermediation without undue reliance on external and cross currency funding. However, competition among banks for deposits will remain as the requirement of complying with Basel III's Net Stable Funding Ratio is by 1 January 2020.

Bank Negara Malaysia (BNM) has announced further liberalisation in the foreign exchange administration (FEA) framework. The framework is aimed at providing greater hedging flexibility for residents to better manage their foreign exchange risk. Separately, BNM is currently working towards releasing licensing guidelines for virtual-bank operation in Malaysia by the end of 2019, in a move that is set to raise the country's game in financial technology ("fintech").

In early 2019, in line with the industry rollout, the Group and the Bank launched "DuitNow", which is an electronic funds transfer services launched by PayNet, an entity where the shareholders are BNM and eleven banks. The platform allows bank customers to transfer money instantly and in a more secured manner via internet or mobile banking channels. This is a step towards cashless transactions in Malaysia.

Within HSBC Group, Malaysia is identified as a scalable market and an important footprint within ASEAN. The Group and the Bank will continue to capture opportunities along the entire supply chain of foreign investment into Malaysia and outbound business of our customers. Leveraging on HSBC connectivity, we will explore business opportunity based on intra ASEAN corridors and ASEAN government initiatives as well as various business corridors.

The Group and the Bank will also focus on improving customer experience and expanding customers' base where there are comparative advantages. This include penetrating new customer segments, investing in digital capabilities for mobile and internet banking, strengthening our leading position in affluent segments, as well as developing change management programs that is customer centric focus.