

HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
(Incorporated in Malaysia)
Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures
at 31 December 2016

CHIEF EXECUTIVE OFFICER'S ATTESTATION

I, Arsalaan Ahmed, being the Chief Executive Officer of HSBC Amanah Malaysia Berhad, do hereby state that, in my opinion, the Pillar 3 Disclosures set out on pages 2 to 27 have been prepared according to the Risk Weighted Capital Adequacy Framework (Basel II), and are accurate and complete.

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ARSALAN AHMED

CHIEF EXECUTIVE OFFICER
7 February 2017

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at 31 December 2016

(a) Introduction

HSBC Amanah Malaysia Berhad (the Bank) is principally engaged in the provision of Islamic banking business and nominee services. At the reporting date, the bank does not have any subsidiaries.

(b) Basel II

The Bank's lead regulator, Bank Negara Malaysia (BNM) sets and monitors capital requirements for the Bank. The Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Bank adopts the Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

Basel II is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Pillar 3 aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specific information on the capital management processes, and risk assessment processes, and hence the capital adequacy of the Bank. Disclosures consist of both quantitative and qualitative information. Banks are required to disclose all their material risks as part of the Pillar 3 framework. All material and non-proprietary information required by Pillar 3 is included in the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures at 31 December 2016. BNM permits certain Pillar 3 requirements to be satisfied by inclusion within the financial statements. Where this is the case, references are provided to relevant sections in the Financial Statements as at 31 December 2016.

(c) Transferability of capital and funds

HSBC Bank Malaysia Berhad, the holding company, is the primary provider of equity capital to the Bank. The Bank manages its own capital to support its planned business growth.

(d) Internal assessment of capital adequacy

The Bank assesses the adequacy of its capital by considering the resources necessary to cover unexpected losses arising from discretionary risks, such as credit risk and market risk, or non-discretionary risks, such as operational and reputational risk.

The key objective of Internal Capital Adequacy Assessment Process (ICAAP) is to ensure that sufficient capital is maintained, given the risk profile of the Bank on an ongoing and forward looking basis. ICAAP permits the setting of target amounts for internal capital consistent to the Bank's risk profile and the environment in which it pursues business.

The ICAAP is an internal assessment of the Bank's capital adequacy given its risk appetite, risk profile and regulatory minimum requirements. The Bank assesses the adequacy of its capital by considering the resources necessary to cover unexpected losses arising from discretionary risks, such as credit risk and market risk, or non-discretionary risks, such as operational and reputational risk. On a forward looking basis, the ICAAP ensures that the Bank's capital position:

- exceeds the minimum regulatory capital requirements as prescribed by the BNM;
- remains sufficient to support the Bank's Risk Appetite and business strategies;
- remains sufficient to support the underlying and projected risk profile; and
- remains sufficient to sustain business growth and in adverse business or economic conditions.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(d) Internal assessment of capital adequacy (Cont'd)

In order to achieve this, the Bank has a robust ICAAP framework in place which underlines the foundation of its risk and capital management process. It has the following key features:

- a strong and encompassing governance framework;
- a forward-looking risk appetite framework to ensure our business and risk profiles are in line with the Board of Directors' (BOD) expectations;
- a robust capital management, planning and forecasting framework; and
- an internal risk assessment process based on the economic capital and stress testing frameworks to support the Bank's capital adequacy positions.

Refer to Note 34 of the financial statements at 31 December 2016 for the total capital ratio and Tier 1 capital ratio, and risk weighted assets and capital requirements for credit risk, market risk and operational risk.

Stress Testing

Stress testing is a key risk management tool used to assess a variety of risks to which the Bank is exposed, including credit risk, market risk, operational risk, etc. Stress testing is integrated into our market risk management tool to evaluate the potential impact on the entity of more extreme, although plausible, events or movements in a set of financial variables. In such abnormal scenarios, losses can be much greater than those predicted by Value at Risk (VaR) modelling.

A key objective of stress testing is to make risk more transparent by estimating the potential losses on the Bank's exposure and impacts on its capital adequacy ratio, capital requirements and profit and loss under abnormal conditions. It will also assess specifically the extent by which risk-weighted assets and capital requirements will increase, and how profit and loss as well as liquidity levels will change. It plays a particularly important role in:

- Providing forward-looking assessments of risk.
- Overcoming limitations of models and historical data.
- Supporting internal and external communication.
- Feeding into capital and liquidity planning process.
- Informing the setting of a banks' risk tolerance.
- Facilitating the development of risk mitigation or contingency plans across a range of stressed conditions.
- Building upon business and strategic planning to the Risk Appetite of the institution.
- Strengthening the Bank's corporate governance and the resilience of the financial system.
- Using the experiences of the past held in local operations in addition to the wider experiences that can be obtained from the diversified operation and management.

Stress testing is considered as the collective quantitative and qualitative techniques used to assess all facets to the risks faced by the Bank. Stress testing is done in collaboration across all customer groups and functions such as Risks and Finance. The results of the analysis will facilitate informed financial and capital management whilst supporting business lines to manage their business through various measures such as establishing triggers and devising mitigation actions which can be readily implemented should the adverse scenarios materialise.

In line with BNM's Guideline on Stress Testing and the Bank's Policy Paper for Stress Testing, a Stress Test Working Group (STWG) has been established.

Stress testing is conducted on entity level and on a bank-wide basis. Stress testing will be carried out subject to regulatory and internal management demands as and when needed. At a minimum, a complete stress testing for the entire Bank should be completed on a semi-annual basis. Stress testing results are reviewed by STWG, Risk Management Meeting (RMM) and Risk Committee (RC) or BOD prior to submission to BNM.

Governance

The STWG will actively manage and drive cohesion and consistency across all stress testing activities, including the execution of enterprise wide stress tests and enhancements to stress testing and data capability. Stress test results and the propose mitigating actions will be recommended by RMM and RC of the Board for approval.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(d) Internal assessment of capital adequacy (Cont'd)

Risk Appetite

Risk Appetite is a central component of an integrated approach to risk, capital and value management and an important mechanism to realise the Bank's strategic vision and corporate strategy. Risk Appetite forms an integral part of the Bank's ICAAP to ensure sufficient capital resources for the risk profile across customer groups.

The Risk Appetite Framework describes the quantum and types of risk that the Bank is prepared to take in executing its strategy. It aims to introduce a more explicit and consistent consideration of risk and capital into the Bank's strategy formulation, business planning, target setting, execution and measurement/ reporting processes throughout the Bank. It applies to our planning activities, strategic investments and running of our operations across all regions and group businesses.

The Risk Appetite Framework as well as the Risk Appetite Statement (RAS) will be reviewed by all relevant stakeholders namely Risks, Finance and customer groups. It will be tabled to the RMM for endorsement, and subsequently tabled to the RC for recommendation to the BOD for approval.

(e) Capital structure

For regulatory purposes, the Bank's regulatory capital is divided into two categories, or tiers. These are Tier 1 and Tier 2. The main features of capital securities issued by the Bank are disclosed below:

- Tier 1 capital is divided into Common Equity Tier 1 (CET1) Capital and Additional Tier 1 Capital. CET1 Capital includes ordinary share capital^[1], share premium, retained earnings, reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. The Bank does not have any Additional Tier 1 Capital as at 31 December 2016. (Refer to Note 34 of the financial statements at 31 December 2016 for the amount of Tier 1 capital and a breakdown of its components).
- Tier 2 capital includes qualifying subordinated liabilities^[2], collective impairment allowances (excluding collective impairment allowances attributable to financing classified as impaired) and regulatory reserve, which are disclosed as the regulatory adjustments. (Refer to Note 34 of the financial statements at 31 December 2016 for the amount of Tier 2 capital and a breakdown of its components).

(f) Risk management policies

All of the Bank's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk (includes foreign exchange and profit rate risk)
- operational risk

Refer to Note 4 of the financial statements at 31 December 2016 for the Bank's risk managements policies on the above mentioned risks.

^[1] Refer to Note 23 of the financial statements at 31 December 2016 for further details on ordinary share capital. All ordinary shares in issue confer identical rights in respect of capital, dividends and voting.

^[2] Refer to Note 22 of the financial statement at 31 December 2016 for terms and conditions of the subordinated liabilities.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

1) RWA and Capital Requirement

The table below discloses the gross and net exposures, RWA and capital requirements for credit risk, market risk and operational risk of the Bank at balance sheet date.

31 Dec 2016
(RM'000)

Exposure Class	Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Capital Requirement
Credit Risk (Standardised Approach)				
<i>On-Balance Sheet Exposures</i>				
Sovereigns/Central Banks	3,886,272	3,886,272	-	-
PSEs	315,320	315,320	315,320	25,226
Banks, DFIs & MDBs	118,083	72,951	14,637	1,171
Corporates	4,549,758	4,433,031	4,208,732	336,699
Regulatory Retail	2,468,620	2,437,817	1,879,646	150,372
House Financing	4,342,868	4,339,994	1,612,759	129,021
Other Assets	141,895	141,895	35,401	2,832
Defaulted Exposures	182,491	180,521	193,648	15,492
Total for On-Balance Sheet Exposures	16,005,307	15,807,801	8,260,143	660,813
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	826,006	561,702	376,002	30,080
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,321,479	3,223,601	2,183,119	174,650
Defaulted Exposures	1,118	1,118	1,653	132
Total for Off-Balance Sheet Exposures	4,148,603	3,786,421	2,560,774	204,862
Total On and Off-Balance Sheet Exposures ^[1]	20,153,910	19,594,222	10,820,917	865,675
Market Risk (Standardised Approach)				
	<u>Long position</u>	<u>Short position</u>		
Profit Rate Risk	44,492	516,905	(472,413)	6,969
Foreign Currency Risk	4,427	1,567	4,427	354
	48,919	518,472	(467,986)	11,396
Operational Risk (Basic Indicator Approach)	-	-	-	894,490
Total RWA and Capital Requirement	-	-	11,726,803	938,146

^[1] The variance between Gross Exposures and Net Exposures represents the 'Total On and Off-Balance Sheet Exposures covered by Eligible Collateral'. Refer to Note (f) (3)(ii) Credit risk mitigation (CRM) within this disclosure document.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

1) RWA and Capital Requirement (Cont'd)

31 Dec 2015
(RM'000)

Exposure Class	Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Capital Requirement
Credit Risk (Standardised Approach)				
<i>On-Balance Sheet Exposures</i>				
Sovereigns/Central Banks	6,428,717	6,428,717	-	-
PSEs	310,813	310,813	310,813	24,865
Banks, DFIs & MDBs	561,634	535,780	122,845	9,828
Corporates	5,069,498	4,969,455	4,616,801	369,344
Regulatory Retail	2,260,232	2,231,613	1,683,372	134,670
House Financing	4,197,208	4,194,007	1,574,935	125,995
Other Assets	120,994	120,994	33,515	2,681
Defaulted Exposures	141,688	140,870	158,522	12,682
Total for On-Balance Sheet Exposures	19,090,784	18,932,249	8,500,803	680,065
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	807,265	483,119	348,121	27,850
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,057,095	2,989,927	2,035,186	162,815
Defaulted Exposures	986	986	1,403	112
Total for Off-Balance Sheet Exposures	3,865,346	3,474,032	2,384,710	190,777
Total On and Off-Balance Sheet Exposures ⁽¹⁾	22,956,130	22,406,281	10,885,513	870,842
Market Risk (Standardised Approach)				
	Long position	Short position		
Profit Rate Risk	878,456	93,489	784,967	83,300
Foreign Currency Risk	10,666	21,074	21,074	1,686
	889,122	114,563	806,041	104,374
Operational Risk (Basic Indicator Approach)	-	-	-	897,064
Total RWA and Capital Requirement	-	-	-	11,886,951
				950,957

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

PSEs - Public Sector Entities

OTC - Over the counter

⁽¹⁾ The variance between Gross Exposures and Net Exposures represents the 'Total On and Off-Balance Sheet Exposures covered by Eligible Collateral'. Refer to Note (f) (3)(ii) CRM within this disclosure document.

Refer to Note 35 of the financial statements at 31 December 2016 for disclosure of off-balance sheet.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

2) Risk Weight Profile and RWA

The tables below are disclosures on risk weights profile and RWA of the Bank at balance sheet date.

**31 Dec 2016
(RM'000)**

Risk Weights	Exposures after Netting and Credit Risk Mitigation							Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	PSEs	Banks, DFIs & MDBs	Corporates	Regulatory Retail	House Financing	Other Assets		
0%	3,886,272	-	-	3,443	4,901	-	106,492	4,001,108	-
20%	-	150,000	162,691	505,467	12,214	-	-	830,372	166,074
35%	-	-	-	-	-	4,409,561	-	4,409,561	1,543,346
50%	-	-	511,474	294,658	576	219,264	-	1,025,972	512,986
75%	-	-	-	-	2,743,074	234,686	-	2,977,760	2,233,320
100%	-	518,187	5,681	5,382,640	281,828	94,228	35,402	6,317,966	6,317,966
150%	-	-	-	3,890	3,729	23,864	-	31,483	47,225
Total								19,594,222	10,820,917
Weight	0%	82%	43%	91%	77%	39%	25%	55%	

**31 Dec 2015
(RM'000)**

Risk Weights	Exposures after Netting and Credit Risk Mitigation							Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	PSEs	Banks, DFIs & MDBs	Corporates	Regulatory Retail	House Financing	Other Assets		
0%	6,428,717	27,524	-	2,883	2,997	-	87,479	6,549,600	-
20%	-	217,396	603,197	621,858	3,500	-	-	1,445,951	289,190
35%	-	-	-	-	-	4,136,858	-	4,136,858	1,447,900
50%	-	-	248,655	310,038	281	287,999	-	846,973	423,487
75%	-	-	-	-	2,620,330	268,606	-	2,888,936	2,166,702
100%	-	412,746	54,938	5,845,171	85,571	65,480	33,515	6,497,421	6,497,421
150%	-	-	-	6,644	17,022	16,876	-	40,542	60,813
Total								22,406,281	10,885,513
Weight	0%	69%	33%	90%	76%	39%	28%	49%	

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

PSEs - Public Sector Entities

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk

Table 1: Geographical distribution of financing and advances breakdown by type

	31 Dec 2016				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	10,693	24,937	60,534	1,676	97,840
Term financing					
House financing	611,109	594,238	2,969,372	181,915	4,356,634
Syndicated term financing	-	-	650,266	-	650,266
Hire purchase receivables	50,658	62,391	80,610	15,262	208,921
Lease receivables	-	-	2,738	-	2,738
Other term financing	383,228	637,700	2,626,722	221,040	3,868,690
Bills receivables	6,274	5,959	97,369	670	110,272
Trust receipts	81,973	14,058	362,675	3,529	462,235
Claims on customers under acceptance credits	103,279	101,122	297,956	2,018	504,375
Staff financing-i	606	1,029	4,202	356	6,193
Credit cards-i	155,220	123,146	470,330	39,014	787,710
Revolving credit	2,200	4,832	943,129	-	950,161
	1,405,240	1,569,412	8,565,903	465,480	12,006,035

	31 Dec 2015				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	10,218	27,999	50,736	1,447	90,400
Term financing					
House financing	600,455	595,876	2,824,926	187,509	4,208,766
Syndicated term financing	-	-	954,559	-	954,559
Hire purchase receivables	65,021	54,213	86,143	24,175	229,552
Lease receivables	-	-	4,103	-	4,103
Other term financing	402,269	730,045	2,511,656	224,562	3,868,532
Bills receivables	28,465	4,065	183,980	-	216,510
Trust receipts	116,734	22,931	463,534	482	603,681
Claims on customers under acceptance credits	113,176	115,115	377,075	12,094	617,460
Staff financing-i	554	1,356	5,105	494	7,509
Credit cards-i	109,711	82,004	347,881	29,762	569,358
Revolving credit	2,200	5,065	799,433	-	806,698
	1,448,803	1,638,669	8,609,131	480,525	12,177,128

Concentration by location for financing and advances 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 states of Selangor and the Federal Territory of Kuala Lumpur.

The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

Table 2: Geographical distribution of impaired financing and advances breakdown by type

		31 Dec 2016				
RM'000	Northern	Southern	Central	Eastern	Total	
Cash line-i	1,932	-	4,195	-	6,127	
Term financing						
House financing	20,820	20,170	89,883	4,192	135,065	
Hire purchase receivables	1,714	-	351	3,665	5,730	
Other term financing	15,166	7,656	106,931	3,621	133,374	
Bills receivables	2,626	-	1,267	-	3,893	
Staff financing-i	-	-	30	5	35	
Credit cards-i	3,255	2,780	9,986	1,081	17,102	
Revolving credit	2,200	-	-	-	2,200	
	47,713	30,606	212,643	12,564	303,526	

		31 Dec 2015				
RM'000	Northern	Southern	Central	Eastern	Total	
Cash line-i	182	-	3,819	-	4,001	
Term financing						
House financing	18,550	18,606	55,767	2,060	94,983	
Hire purchase receivables	1,919	56	542	4,532	7,049	
Other term financing	10,120	9,553	74,768	1,975	96,416	
Bills receivables	18,283	-	-	-	18,283	
Staff financing-i	13	-	-	8	21	
Credit cards-i	2,835	2,052	6,868	571	12,326	
Revolving credit	2,200	-	-	-	2,200	
	54,102	30,267	141,764	9,146	235,279	

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

Table 3: Residual contractual maturity of financing and advances breakdown by type

		31 Dec 2016			
RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line-i	97,840	-	-	-	97,840
Term financing					
House financing	13,283	3,797	7,870	4,331,684	4,356,634
Syndicated term financing	650,266	-	-	-	650,266
Hire purchase receivables	13,860	101,581	93,480	-	208,921
Lease receivables	534	2,204	-	-	2,738
Other term financing	765,583	546,072	1,009,184	1,547,851	3,868,690
Bills receivables	110,272	-	-	-	110,272
Trust receipts	462,235	-	-	-	462,235
Claims on customers under acceptance credits	504,375	-	-	-	504,375
Staff financing-i	67	859	922	4,345	6,193
Credit cards-i	787,710	-	-	-	787,710
Revolving credit	950,161	-	-	-	950,161
	4,356,186	654,513	1,111,456	5,883,880	12,006,035

		31 Dec 2015			
RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line-i	90,400	-	-	-	90,400
Term financing					
House financing	15,028	3,470	13,335	4,176,933	4,208,766
Syndicated term financing	536,912	-	417,647	-	954,559
Hire purchase receivables	14,620	111,503	103,429	-	229,552
Lease receivables	-	1,243	2,860	-	4,103
Other term financing	1,062,010	525,580	951,356	1,329,586	3,868,532
Bills receivables	216,510	-	-	-	216,510
Trust receipts	603,681	-	-	-	603,681
Claims on customers under acceptance credits	617,460	-	-	-	617,460
Staff financing-i	189	906	1,606	4,808	7,509
Credit cards-i	569,358	-	-	-	569,358
Revolving credit	806,698	-	-	-	806,698
	4,532,866	642,702	1,490,233	5,511,327	12,177,128

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit risk (Cont'd)

Table 4: Distribution of financing and advances by sector, breakdown by type

31 Dec 2016												
RM'000												
Cash line-i	House financing	Syndicated Term Financing	Hire purchase receivables	Lease receivables	Other term financing	Bills receivables	Trust receipts	Claims on customers under acceptance credits	Staff financing-i	Credit card-i	Revolving credit	Total
Agricultural, hunting, forestry and fishing	3,230	-	-	3,567	-	122,313	-	2,960	4,302	-	-	136,372
Mining and quarrying	1,052	-	-	1,269	-	11,144	-	-	-	-	204,729	218,194
Manufacturing	21,179	-	48,856	103,494	-	664,823	11,926	103,962	227,362	-	6,339	1,187,941
Electricity, gas and water	1,148	-	-	257	-	19,053	-	9,467	963	-	2,019	32,907
Construction	10,350	-	-	17,824	-	92,678	28,469	3,753	50,523	-	151,048	354,645
Real estate	713	-	293,884	-	-	497,051	-	-	-	-	30,206	821,854
Wholesale & retail trade and restaurants & hotels	21,671	-	43,020	18,831	-	217,702	6,868	223,931	187,807	-	96,493	816,323
Transport, storage and communication	5,854	-	-	26,077	-	97,167	-	31,403	9,988	-	16,232	186,721
Finance, takaful and business services	29,928	-	-	17,767	2,738	583,079	884	159	21,021	-	274,138	929,714
Household-retail	294	4,356,634	-	-	-	1,385,864	-	-	-	6,193	787,710	6,536,695
Others	2,421	-	264,506	19,835	-	177,816	62,125	86,600	2,409	-	168,957	784,669
	97,840	4,356,634	650,266	208,921	2,738	3,868,690	110,272	462,235	504,375	6,193	787,710	12,006,035

31 Dec 2015												
RM'000												
Cash line-i	House financing	Syndicated Term Financing	Hire purchase receivables	Lease receivables	Other term financing	Bills receivables	Trust receipts	Claims on customers under acceptance credits	Staff financing-i	Credit Card-i	Revolving credit	Total
Agricultural, hunting, forestry and fishing	3,941	-	417,647	6,601	-	191,303	-	-	4,768	-	-	624,260
Mining and quarrying	1,178	-	-	3,162	-	1,346	56,116	49	-	-	144,443	206,294
Manufacturing	23,468	-	34,244	109,269	-	690,868	68,500	136,475	237,101	-	6,319	1,306,244
Electricity, gas and water	334	-	-	322	-	-	-	-	12,094	-	2,022	14,772
Construction	12,248	-	-	9,757	-	391,120	19,511	7,441	46,413	-	110,665	597,155
Real estate	611	-	211,115	-	-	150,989	-	-	-	-	30,219	392,934
Wholesale & retail trade and restaurants & hotels	22,672	-	-	42,421	-	242,466	41,040	380,994	281,059	-	78,114	1,088,766
Transport, storage and communication	4,237	-	-	22,244	-	108,263	-	1,542	13,906	-	16,251	166,443
Finance, takaful and business services	20,427	-	115,129	13,506	4,103	588,503	21,322	7,481	21,569	-	243,422	1,035,462
Household-retail	113	4,208,766	-	-	-	1,287,977	-	-	-	7,509	569,358	6,073,723
Others	1,171	-	176,424	22,270	-	215,697	10,021	69,699	550	-	175,243	671,075
	90,400	4,208,766	954,559	229,552	4,103	3,868,532	216,510	603,681	617,460	7,509	569,358	12,177,128

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit risk (Cont'd)

Table 5: Distribution of impaired financing by sector, breakdown by type

	31 Dec 2016 RM'000								
	Cash line-i	House financing	Hire purchase receivables	Other term financing	Bills receivables	Staff financing-i	Credit cards-i	Revolving credit	Total
Manufacturing	454	-	-	287	1,097	-	-	2,200	4,038
Construction	182	-	-	22	-	-	-	-	204
Wholesale & retail trade and restaurants & hotels	1,197	-	1,713	6,822	2,577	-	-	-	12,309
Transport, storage and communication	-	-	3,665	-	-	-	-	-	3,665
Finance, takaful and business services	4,128	-	352	18,647	219	-	-	-	23,346
Household-retail	30	135,065	-	107,114	-	35	17,102	-	259,346
Others	136	-	-	482	-	-	-	-	618
	6,127	135,065	5,730	133,374	3,893	35	17,102	2,200	303,526

	31 Dec 2015 RM'000								
	Cash line-i	House financing	Hire purchase receivables	Other term financing	Bills receivables	Staff financing-i	Credit cards-i	Revolving credit	Total
Manufacturing	-	-	678	248	17,967	-	-	2,200	21,093
Construction	182	-	-	22	-	-	-	-	204
Wholesale & retail trade and restaurants & hotels	-	-	1,714	7,642	316	-	-	-	9,672
Transport, storage and communication	614	-	3,952	877	-	-	-	-	5,443
Finance, takaful and business services	3,065	-	705	1,757	-	-	-	-	5,527
Household-retail	1	94,983	-	85,356	-	21	12,326	-	192,687
Others	139	-	-	514	-	-	-	-	653
	4,001	94,983	7,049	96,416	18,283	21	12,326	2,200	235,279

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

Table 6: All past due financing and advances breakdown by sector ^[1]

	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Manufacturing	15,142	81,411
Construction	765	787
Wholesale & retail trade and restaurants & hotels	46,156	37,330
Transport, storage and communication	13,743	21,008
Finance, takaful and business services	87,543	21,332
Household-retail	972,501	743,699
Others	2,317	2,520
	<u>1,138,167</u>	<u>908,087</u>

Table 7: All past due financing and advances breakdown by geographical location ^[1]

	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Northern region	178,915	208,813
Southern region	114,767	116,819
Central region	797,372	547,155
Eastern region	47,113	35,300
	<u>1,138,167</u>	<u>908,087</u>

^[1] of which the portion of impaired financing and advances breakdown by sector and geographical location is disclosed in Note 10(iv) and 10(vi) of the financial statements at 31 December 2016.

Table 8: Individual impairment allowance breakdown by sector

	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Manufacturing	87	18,828
Construction	136	120
Wholesale & retail trade and restaurants & hotels	2,596	1,081
Transport, storage and communication	3,635	3,919
Finance, takaful and business services	6,312	2,008
Household-retail	49,991	42,691
	<u>62,757</u>	<u>68,647</u>

Table 8a: Collective impairment allowance breakdown by sector

	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	24	112
Manufacturing	33,720	24,801
Electricity, gas and water	2,780	1,856
Real estate	3,320	-
Wholesale & retail trade and restaurants & hotels	2,893	5,507
Transport, storage and communication	3,267	4,111
Household-retail	151,585	101,896
Others	2,290	1,981
	<u>200,015</u>	<u>140,264</u>

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

Table 9: Individual impairment allowance breakdown by geographical location

	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Northern region	2,154	18,534
Southern region	578	607
Central region	56,164	44,923
Eastern region	3,861	4,583
	62,757	68,647

Table 9a: Collective impairment allowance breakdown by geographical location

	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Northern region	26,185	19,107
Southern region	27,436	19,846
Central region	136,943	94,584
Eastern region	9,451	6,727
	200,015	140,264

The reconciliation of changes in financing impairment provisions is disclosed in Note 10(ii) of the financial statements at 31 December 2016.

Table 10: Charges for individual impairment allowance for the year breakdown by sector

	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Manufacturing	509	23,202
Construction	20	-
Wholesale & retail trade and restaurants & hotels	2,065	1,191
Transport, storage and communication	-	2,028
Finance, takaful and business services	6,012	2,643
Household-retail	21,435	16,765
	30,041	45,829

Table 10a: Charges for write-offs for individual impairment allowance for the year breakdown by sector

	31 Dec 2016	31 Dec 2015
	RM'000	RM'000
Manufacturing	18,358	427
Construction	-	5
Wholesale & retail trade and restaurants & hotels	462	735
Transport, storage and communication	-	2
Finance, takaful and business services	26	-
Household-retail	6,500	4,457
	25,346	5,626

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) External Credit Assessment Institutions (ECAIs)

The standardised approach requires banks to use risk assessments prepared by ECAIs to determine the risk weightings applied to rated counterparties.

ECAIs are used by the Bank as part of the determination of risk weightings for the following classes of exposure:

- Sovereigns and Central Banks
- Multilateral development banks
- Public sector entities
- Corporates
- Banks
- Securities firms

For the purpose of Pillar 1 reporting to BNM, the Bank uses the external credit ratings from the following ECAIs:

- Standard & Poor's Rating Services (S&P)
- Moody's Investors Services (Moody's)
- Fitch Ratings (Fitch)
- Rating and Investment Information, Inc (R&I)
- RAM Rating Services Berhad (RAM)
- Malaysian Rating Corporation Berhad (MARC)

Data files of external ratings from the nominated ECAIs are matched with the customer records in the Bank's centralised credit database. When calculating the risk-weighted value of any exposure under the standardised approach, the customer in question is identified and matched to a rating, according to BNM's selection rules. The relevant risk weight is then derived using BNM's prescribed risk weights and rating categories. All other exposure classes are assigned risk weightings as prescribed in BNM Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets).

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

Below are the summary tables of long and short term ratings governing the high level assignment of risk weights under the standardised approach:

Long Term Rating Category		1	2	3	4	5	6	7
Rating Agency	S & P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	B1 to B3	Caa1 and below	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	R & I ^[1]	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to BB3	B1 to B3	C1 and below	Unrated
MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	C+ and below	Unrated	

Short Term Rating Category		1	2	3	4	5
Rating Agency	S & P	A-1	A-2	A-3	Others	Unrated
	Moody's	P-1	P-2	P-3	Others	Unrated
	Fitch	F1+,F1	F2	F3	B to D	Unrated
	R & I ^[1]	a-1+, a-1	a-2	a-3	b, c	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated	

Risk Weights Based on Credit Rating of the Counterparty Exposure Class						
Rating Category	Long Term Rating					Short Term Rating
	Sovereigns and Central Banks	Corporates	Banking Institutions			
			Risk weight (original maturity greater than 6 months)	Risk weight (original maturity of 6 months or less)	Risk weight (original maturity of 3 months or less)	
1	0%	20%	20%	20%	20%	20%
2	20%	50%	50%	20%	20%	50%
3	50%	100%	50%	20%	20%	100%
4	100%	100%	100%	50%	20%	150%
5	100%	150%	100%	50%	20%	N/A
6	150%	150%	150%	150%	20%	N/A
7	100%	100%	50%	20%	20%	N/A

^[1] External credit assessments produced by R&I on Islamic debt securities are not recognised by BNM in determining the risk weights for exposures as prescribed in BNM Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets).

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

Risk weights under the Standardised Approach at the reporting date are reflected in page 3 and 4. Rated and unrated exposures according to ratings by ECAIs at reporting date are as follows:-

31 Dec 2016

RM '000

Exposure Class	Long Term Rating Category							Total
	1	2	3	4	5	6	7	
On and Off Balance Sheet Exposures								
(i) Total rated exposures								
Sovereigns & Central Banks								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	1,379,087	-	-	-	-	-	1,379,087
PSEs								
- Exposures risk-weighted using ratings of Corporates	-	-	36,785	-	-	-	-	36,785
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	353,577	183,745	325,632	-	-	-	-	862,954
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	3,443	-	-	-	-	-	3,443
- Exposures risk-weighted using ratings of Banking Institution	-	2,728	-	-	-	-	-	2,728
- Exposures risk-weighted using ratings of Corporates	351,844	83,599	1,200	-	-	-	-	436,643
	705,421	1,652,602	363,617	-	-	-	-	2,721,640
(ii) Total unrated exposures								
							14,343,713	14,343,713
Total Long Term Exposure	705,421	1,652,602	363,617	-	-	-	14,343,713	17,065,353

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2016

RM '000

Exposure Class	Short Term Rating Category					Total
	1	2	3	4	5	
On and Off Balance Sheet Exposures						
(i) Total rated exposures						
Sovereigns & Central Banks						
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	2,507,185	-	-		2,507,185
PSEs						
- Exposures risk-weighted using ratings of Corporates	150,000	-	-	-		150,000
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	69,442	-	-	-		69,442
Corporates						
- Exposures risk-weighted using ratings of Corporates	306,289	55,641	-	-		361,930
	525,731	2,562,826	-	-	-	3,088,557
(ii) Total unrated exposures						
					-	-
Total Short Term Exposures	525,731	2,562,826	-	-	-	3,088,557
Total Long Term and Short Term Exposures:						20,153,910

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2015
RM '000

Exposure Class	Long Term Rating Category							Total
	1	2	3	4	5	6	7	
On and Off Balance Sheet Exposures								
(i) Total rated exposures								
Sovereigns & Central Banks								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	1,712,128	-	-	-	-	-	1,712,128
PSEs								
- Exposures risk-weighted using ratings of Corporates	27,524	67,396	87,852	-	-	-	-	182,772
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	376,802	202,175	68,751	98	67	-	-	647,893
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	4,176	-	-	-	-	-	4,176
- Exposures risk-weighted using ratings of Corporates	578,762	22,884	804,636	-	-	-	-	1,406,282
	983,088	2,008,759	961,239	98	67	-	-	3,953,251
(ii) Total unrated exposures								
							13,190,174	13,190,174
Total Long Term Exposures	983,088	2,008,759	961,239	98	67	-	13,190,174	17,143,425

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAs (Cont'd)

31 Dec 2015

RM '000

Exposure Class	Short Term Rating Category					Total
	1	2	3	4	5	
On and Off Balance Sheet Exposures						
(i) Total rated exposures						
Sovereigns & Central Banks						
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	4,716,592	-	-		4,716,592
PSEs						
- Exposures risk-weighted using ratings of Corporates	-	150,000	-	-		150,000
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	606,570	1,794	9,917	-		618,281
Corporates						
- Exposures risk-weighted using ratings of Corporates	41,803	286,029	-	-		327,832
	648,373	5,154,415	9,917	-	-	5,812,705
(ii) Total unrated exposures					-	-
Total Short Term Exposures	648,373	5,154,415	9,917	-	-	5,812,705
Total Long Term and Short Term Exposures						22,956,130

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

PSEs - Public Sector Entities

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

ii) Credit risk mitigation (CRM)

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The Bank's policy when granting credit facilities is on the basis of the customer's capacity to pay, rather than placing primary reliance on credit risk mitigants. Depending on the customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is nevertheless a key aspect of effective risk management and in the Bank, takes many forms.

The Bank's general policy is to promote the use of CRM, justified by commercial prudence and good practice as well as capital efficiency. Specific, detailed policies cover acceptability, structuring and terms of various types of business with regard to the availability of credit risk mitigants, for example in the form of collateral security, and these policies, together with the determination of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfill their intended purpose.

The most common method of mitigating credit risk is to take collateral. The principal collateral types employed by the Bank are as follows:

- under the residential and real estate business; mortgages over residential and financed properties;
- under certain Islamic specialised financing and leasing transactions (such as machinery financing) where physical assets form the principal source of facility repayment, physical collateral is typically taken;
- in the commercial and industrial sectors, charges over business assets such as premises, stock and debtors;
- facilities provided to small and medium enterprises are commonly granted against guarantees by their owners/directors;
- guarantees from third parties can arise where facilities are extended without the benefit of any alternative form of security, e.g. where the Bank issues a bid or performance sukuk in favour of a non-customer at the request of another bank;
- under the institutional sector, certain trading facilities are supported by charges over financial instruments such as cash, debt securities and equities;
- financial collateral in the form of cash and marketable securities are used in much of the over-the-counter (OTC) derivatives activities and in the Bank's securities financing business; and
- netting is used where appropriate, and supported by market standard documentation.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt of cash, securities or equities. Daily settlement limits are established for counterparties to cover the aggregate of all the settlement risk arising from all the transactions involved on a single day. Settlement risk on many transactions, particularly those involving securities and equities, is substantially mitigated by settling through assured payment systems or on a delivery-versus-payment basis.

Policies and procedures govern the protection of the Bank's position from the outset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations and through controls over the integrity, current valuation and, if necessary, realisation of collateral security.

The valuation of credit risk mitigants seeks to monitor and ensure that they will continue to provide the secured repayment source anticipated at the time they were taken. The Bank's policy prescribes valuation at intervals of up to three years, or more frequently as the need may arise, for impaired accounts. For property taken as collateral for new or additional facilities, a valuation report is required from a panel valuer. For auction purposes, full valuations are compulsory. This is to avoid the risk of the settlement sum being challenged by the customer/charger on the grounds that the correct valuation was not applied.

The Bank's panel of approved valuers is subject to an annual review. This takes into consideration the company's financial standing, accreditations, experience, amount of professional liability insurance, major clients and size of its branch network.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

ii) CRM (Cont'd)

The table below shows the on and off balance sheet exposures before and after CRM.

31 Dec 2016

RM'000

Exposure Class	Exposures Before Credit Risk Mitigation	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Financial Collateral
<u>Credit Risk</u>			
<i>On-Balance Sheet Exposures</i>			
Sovereigns/Central Banks	3,886,272	-	-
PSEs	315,320	-	-
Banks, DFIs & MDBs	118,083	-	45,132
Corporates	4,549,758	134,184	116,727
Regulatory Retail	2,468,620	14,316	30,803
House Financing	4,342,868	-	2,874
Other Assets	141,895	-	-
Defaulted Exposures	182,491	1,851	1,970
Total for On-Balance Sheet Exposures	16,005,307	150,351	197,506
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	826,006	-	264,304
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,321,479	111,695	97,878
Defaulted Exposures	1,118	-	-
Total for Off-Balance Sheet Exposures	4,148,603	111,695	362,182
Total On and Off-Balance Sheet Exposures	20,153,910	262,046	559,688

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

ii) CRM (Cont'd)

The table below shows the on and off balance sheet exposures before and after CRM.

31 Dec 2015
RM'000

Exposure Class	Exposures Before Credit Risk Mitigation	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Financial Collateral
<i>Credit Risk</i>			
<i>On-Balance Sheet Exposures</i>			
Sovereigns/Central Banks	6,428,717	-	-
PSEs	310,813	-	-
Banks, DFIs & MDBs	561,634	-	25,854
Corporates	5,069,498	223,754	100,043
Regulatory Retail	2,260,232	4,365	28,619
House Financing	4,197,208	-	3,201
Other Assets	120,994	-	-
Defaulted Exposures	141,688	1,500	818
Total for On-Balance Sheet Exposures	19,090,784	229,619	158,535
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	807,265	-	324,146
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,057,095	70,026	67,168
Defaulted Exposures	986	-	-
Total for Off-Balance Sheet Exposures	3,865,346	70,026	391,314
Total On and Off-Balance Sheet Exposures	22,956,130	299,645	549,849

Note:

MDBs - Multilateral Development Banks
DFIs - Development Financial Institutions
PSEs - Public Sector Entities
OTC - Over the Counter

Refer to Note 35 of the financial statements at 31 December 2016 for disclosure of off-balance sheet.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

iii) Counterparty Credit Risk

In respect of counterparty credit risk exposures which arise from OTC derivative transactions, a credit limit for counterparty credit risk (CCR) is assigned, monitored and reported in accordance with the Bank's risk methodology. The credit limit established takes into account the gross contract amount and the future potential exposure measured on the basis of 95 percentile potential worst case loss estimates for the product involved. These methods of calculating credit exposures apply to all counterparties and differences in credit quality are reflected in the size of the limits.

The credit equivalent amount and risk-weighted amount of the relevant transaction is determined following the regulatory capital requirements. The risk-weighted amount is calculated in accordance with the counterparty risk weighting as per the standardised approach.

The policy for secured collateral on derivatives is guided by the Bank's Internal Best Practice Guidelines ensuring the due diligence necessary to fully understand the effectiveness of netting and collateralisation by jurisdiction, counterparty, product and agreement type is fully assessed and that the due-diligence standards are high and consistently applied.

4) Rate of return risk

A summary of the Value at Risk position of the Bank's trading portfolios at the reporting date is as follows:-

RM'000	31 Dec 2016	Average	Maximum	Minimum
Foreign currency risk	61	44	248	8
Profit rate risk	294	487	673	401
Credit spread risk	-	2	8	-
Overall	311	491	685	35

RM'000	31 Dec 2015	Average	Maximum	Minimum
Foreign currency risk	299	50	321	8
Profit rate risk	387	235	408	36
Credit spread risk	8	-	16	-
Overall	436	242	459	37

Sensitivity of projected Net Profit/Finance Income

The profit rate sensitivities set out in the table below are illustrative only and are based on simplified scenarios.

Change in projected net finance income in next 12 months arising from a shift in profit rates of:

	RM'000			
	31 Dec 2016		31 Dec 2015	
Basis point parallel shift in yield curves	+ 100 bps	- 100 bps	+ 100 bps	- 100 bps
MYR	(22,711)	12,490	45,092	(45,057)
USD	(4,767)	2,204	8,961	(6,878)
Others	(482)	(126)	3,807	(2,934)
	(27,960)	14,568	57,860	(54,869)

The increase or decline in economic value for upward and downward rate shocks for measuring profit rate risk/rate of return risk in the banking book are as follows:

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

4) Rate of return risk (Cont'd)

Change in projected economic value of equity arising from a shift in profit rates of :

	RM'000			
	31 Dec 2016		31 Dec 2015	
Basis point parallel shift in yield curves	+ 200 bps	- 200 bps	+ 200 bps	- 200 bps
MYR	(179,135)	201,096	(38,879)	38,879
USD	(31,024)	23,763	(21,600)	8,640
Others	2,844	(850)	8,640	(4,320)
	(207,315)	224,009	(51,839)	43,199

The sensitivity of reported reserves in 'other comprehensive income' to profit rate movements are monitored on a monthly basis by assessing the expected reduction in valuation of available-for-sale portfolios to parallel movements of plus or minus 100 basis points in all yield curves.

Sensitivity of reported reserves in 'other comprehensive income' to profit rate movements

	RM'000			
	31 Dec 2016		31 Dec 2015	
Basis point parallel shift in yield curves	+ 100bps	- 100bps	+ 100bps	- 100bps
MYR	(27,046)	27,046	(30,349)	30,349

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

5) Shariah Governance

Overview

Shariah compliance is a cornerstone of Islamic banking and finance industry. An effective Shariah governance policy enhances the diligent oversight of the BOD, the Shariah Committee and the Management to ensure that the operations and business activities of the Bank remains consistent with Shariah principles and its requirements.

To ensure Shariah compliance in all aspects of day-to-day Islamic finance activities, the Malaysian regulatory bodies such as BNM and Securities Commission have spelled out several provisions in relation to the establishment of a Shariah Committee and an internal Shariah Department in an Islamic Financial Institution (IFI). The Shariah Committee is an independent Shariah advisory body which plays a vital role in providing Shariah views and rulings pertaining to Islamic finance. The Shariah Committee also performs an oversight role on Shariah matters related to the Bank's business operations and activities. At the institutional level, the Shariah Department acts as an intermediary between the Shariah Committee and the Management team of the IFI. The Shariah Department together with the Shariah Committee has the role to assist the Management in ensuring that all activities of the IFI are in compliance with the Shariah rules and principles, in accordance with the guidelines laid down by Shariah Governance Framework (SGF) of BNM. However, the accountability to ensure Shariah compliance remains with the IFI's BOD.

Qualitative Disclosures - Key Components and Core Shariah Functions in Implementing and Monitoring the Shariah Governance Practices as per the Shariah Governance Framework

The governance structure of the Bank and the primary responsibilities of each function are set out below:

a. Board of Directors

To be ultimately accountable for the overall Shariah governance framework and Shariah compliance of the Bank.

b. Shariah Committee

To maintain an oversight on the operations and business activities of the Bank and to be accountable for its decisions, views and opinions on Shariah matters.

c. CEO and Management

To be responsible in day-to-day compliance with Shariah in all aspects of its business activities by observing and implementing the Shariah rulings and decisions made by the Shariah Advisory Council of BNM (SAC) and the Shariah Committee and to identify and refer any Shariah issues to the Shariah Committee for its decisions, views and opinions.

d. Shariah Audit

To conduct periodical assessment to provide an independent assessment and objective assurance of the effectiveness on the internal control system for Shariah compliance.

e. Shariah Risk Management

To assist in developing and implementing a risk identification process, measurement of the potential impact and monitoring of Shariah non-compliance risks and operational/reputation risk within the Bank.

To formulate and recommend appropriate Shariah non-compliance risk management policies and procedures and risk awareness programmes.

f. Shariah Department

i) Shariah Review

To examine and evaluate the Bank's level of compliance with the applicable Shariah rulings and regulations, and consequently to provide remedial rectification measures to resolve non-compliance and to ensure that proper control mechanism is in place to avoid recurrences.

To ensure that all procedural guidelines, rules and regulations issued by BNM and other regulatory bodies relating to Shariah as well as internal guidelines, policies and procedures, manuals and all Shariah rules and principles issued by the Shariah Committee and Shariah Department are adhered to, with due regard to the business needs and Shariah requirements.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

5) Shariah Governance (Cont'd)

Qualitative Disclosures - Key Components and Core Shariah Functions in Implementing and Monitoring the Shariah Governance Practices as per the SGF (Cont'd)

f. Shariah Department (Cont'd)

ii) Shariah Advisory

To provide day-to-day Shariah advice and consultancy to relevant parties, including those involved in the product development process as well as the supporting functions.

iii) Shariah Research

To conduct in-depth research and studies on Shariah issues.

iv) Shariah Secretariat

To coordinate meetings, compile proposal papers, prepare and keep accurate record of minutes of the decisions and resolutions made by the Shariah Committee, disseminate Shariah decisions to relevant stakeholders and engage with relevant parties who wish to seek further deliberations from the Shariah Committee.

v) Knowledge and Skills Monitoring

To monitor the level of Shariah related knowledge and skills by the staff involved in the cycle of the Bank's products.

Quantitative Disclosure

a. Shariah Non-Compliance Events:

During the financial year ended 31 December 2016, no actual Shariah non-compliance event has been identified.

b. Shariah Non-Compliance Income:

During the financial year ended 31 December 2016 the following amounts are recorded in the Shariah Penalty & Impure Income Account (the Account):

- i) The amount of RM70,237 in the Account was carried forward from 2015 to 2016.
- ii) Income from inadvertent Shariah non-compliance activities identified by the Bank's management amounted to RM77,637 as at 31 December 2016 is itemised as follows:-
 - RM1,162 received from income not supported by the underlying transaction in HSBC Amanah Staff Sundry and Vehicle Financing-i (identified in 2015).
 - RM76,475 received from transactions via Nostro Accounts has been reversed to the Account.
- iii) The amount of RM36,460 was received for Fast-a-Thon purposes.
- iv) The amount distributed as at 31 December 2016 are as follows:-
 - RM16,000 was donated to individual staff.
 - RM40,000 was donated to Muslim Professionals Forum (MPF).
 - RM36,460 was transferred for Fast-a-Thon purposes.
 - RM87,461 was debited for tax imposed on Shariah Non-Compliance Amount.

The balance of RM4,413 in the Account is pending distribution in 2017.

Other than the above, there were no other Shariah non-compliance income or other amounts recorded during the financial year ended 31 December 2016.