

HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
(Incorporated in Malaysia)
Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures
at 31 December 2018

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 26 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
11 February 2019

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(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 2018. 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 2018.

(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

(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 37 of the financial statements at 31 December 2018 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

Our stress testing programme examines the sensitivities and resilience of our capital plans and unplanned demand for regulatory capital under a number of scenarios and ensures that top and emerging risks are appropriately considered. These scenarios include, but are not limited to, adverse macroeconomic events, failures at country, sector and counterparty levels, geopolitical occurrences and a variety of projected major operational risk events. Scenarios are translated into financial impacts to assess the sensitivities and resilience of our capital demand. Action plans are developed to mitigate identified risks. The Bank's Risk Committee (RC) is informed and consulted on the entity's stress testing activities, as appropriate.

Reverse stress testing is run annually. It is used to strengthen our resilience by identifying potential stresses and vulnerabilities which the entity might face and helping to inform early-warning triggers, management actions and contingency plans designed to mitigate their effect, were they to occur.

Governance

The Stress Test Working Group (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 proposed mitigating actions will be recommended by Risk Management Meeting (RMM) and RC of the Board for approval.

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.

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

(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^[1] is divided into Common Equity Tier 1 (CET1) Capital and Additional Tier 1 Capital. CET1 Capital includes ordinary share capital^[2], 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 2018.
- Tier 2 capital^[1] includes qualifying subordinated liabilities^[3], impairment allowances equal to 12-months and lifetime expected credit losses for non credit impaired loans (commonly known as Stage 1 and 2 provisions), regulatory reserve and the element of the fair value reserve relating to revaluation of property which are disclosed as regulatory adjustments.

(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 5 of the financial statements at 31 December 2018 for the Bank's risk management policies on the above mentioned risks.

^[1] Refer to Note 37 of the financial statements at 31 December 2018 for the amount and breakdown of capital components.

^[2] Refer to Note 26 of the financial statements at 31 December 2018 for further details on ordinary share capital. All ordinary shares in issue confer identical rights in respect of capital, dividends and voting.

^[3] Refer to Note 25 of the financial statements at 31 December 2018 for terms and conditions of the subordinated liabilities.

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

(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 2018

(RM'000)

Exposure Class	Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Minimum Capital Requirement at 8%
Credit Risk (Standardised Approach)				
<i>On-Balance Sheet Exposures</i>				
Sovereigns/Central Banks	5,751,456	5,751,456	-	-
PSEs	581,731	581,731	381,327	30,506
Banks, DFIs & MDBs	460,108	257,264	114,060	9,125
Corporates	6,334,629	6,169,477	5,585,693	446,855
Regulatory Retail	2,373,046	2,360,984	1,884,086	150,727
House Financing	4,290,957	4,290,957	1,574,917	125,993
Higher Risk Assets	6,201	6,051	9,077	726
Other Assets	123,664	123,664	24,329	1,946
Defaulted Exposures	276,682	276,099	348,743	27,899
Total for On-Balance Sheet Exposures	20,198,474	19,817,683	9,922,232	793,777
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	455,963	430,963	274,975	21,998
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,115,363	3,039,159	2,021,566	161,725
Defaulted Exposures	2,029	2,029	2,892	231
Total for Off-Balance Sheet Exposures	3,573,355	3,472,151	2,299,433	183,954
Total On and Off-Balance Sheet Exposures ⁽¹⁾	23,771,829	23,289,834	12,221,665	977,731
Market Risk (Standardised Approach)				
	<u>Long position</u>	<u>Short position</u>		
Profit Rate Risk	138,542	1,005,036	(866,494)	80,470
Foreign Currency Risk	2,097	11,381	11,381	910
	140,639	1,016,417	(855,113)	91,851
Operational Risk (Basic Indicator Approach)	-	-	-	943,049
Total RWA and Capital Requirement	-	-	13,256,565	1,060,523

⁽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

(f) Risk management policies (Cont'd)

1) RWA and Capital Requirement (Cont'd)

31 Dec 2017

(RM'000)

Exposure Class	Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Minimum Capital Requirement at 8%
Credit Risk (Standardised Approach)				
<i>On-Balance Sheet Exposures</i>				
Sovereigns/Central Banks	3,708,282	3,708,282	-	-
PSEs	1,050,728	1,050,728	850,171	68,014
Banks, DFIs & MDBs	448,294	448,294	150,924	12,074
Corporates	5,378,025	5,268,424	5,066,700	405,336
Regulatory Retail	2,389,174	2,369,561	1,866,826	149,346
House Financing	4,359,676	4,356,800	1,579,340	126,347
Other Assets	121,705	121,705	20,211	1,617
Defaulted Exposures	169,678	165,869	184,943	14,795
Total for On-Balance Sheet Exposures	17,625,562	17,489,663	9,719,115	777,529
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	556,859	531,859	303,975	24,318
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,019,277	2,936,542	1,915,155	153,212
Defaulted Exposures	1,467	1,467	2,095	168
Total for Off-Balance Sheet Exposures	3,577,603	3,469,868	2,221,225	177,698
Total On and Off-Balance Sheet Exposures ⁽¹⁾	21,203,165	20,959,531	11,940,340	955,227
Market Risk (Standardised Approach)				
	<u>Long position</u>	<u>Short position</u>		
Profit Rate Risk	118,472	237,232	(118,760)	362
Foreign Currency Risk	2,320	4,920	4,920	394
	120,792	242,152	(113,840)	756
Operational Risk (Basic Indicator Approach)	-	-	-	910,994
Total RWA and Capital Requirement	-	-	-	1,028,863

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 37 and Note 38 of the financial statements at 31 December 2018 for disclosure on RWA breakdown by various categories of risk weights and off-balance sheet respectively.

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

(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 2018
(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	Higher Risk Assets	Other Assets		
0%	5,751,456	-	-	10,481	12,751	-	-	99,335	5,874,023	-
20%	-	450,505	93,608	781,625	3,301	-	-	-	1,329,039	265,808
35%	-	-	-	-	-	4,454,681	-	-	4,454,681	1,559,138
50%	-	-	637,414	485,777	6,673	163,008	-	-	1,292,872	646,436
75%	-	-	-	-	2,613,182	88,969	-	-	2,702,151	2,026,613
100%	-	390,398	39,111	6,385,523	485,788	138,716	-	24,329	7,463,865	7,463,865
150%	-	-	-	32,370	86,030	46,298	8,505	-	173,203	259,805
Total									23,289,834	12,221,665
Average Risk Weight	0%	57%	49%	89%	80%	39%	150%	20%	52%	

31 Dec 2017
(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	Higher Risk Assets	Other Assets		
0%	3,708,282	-	-	7,263	5,856	-	-	101,494	3,822,895	-
20%	-	400,696	286,222	467,155	6,631	-	-	-	1,160,704	232,141
35%	-	-	-	-	-	4,579,155	-	-	4,579,155	1,602,704
50%	-	-	769,617	345,318	245	127,555	-	-	1,242,735	621,368
75%	-	-	-	-	2,642,229	140,951	-	-	2,783,180	2,087,385
100%	-	855,125	-	5,949,473	390,693	103,600	-	20,211	7,319,102	7,319,102
150%	-	-	-	5,552	10,159	36,049	-	-	51,760	77,640
Total									20,959,531	11,940,340
Average Risk Weight	0%	74%	42%	92%	78%	39%	0%	17%	57%	

Note:

MDBs - Multilateral Development Banks
DFIs - Development Financial Institutions
PSEs - Public Sector Entities

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

(f) Risk management policies (Cont'd)

3) Credit Risk

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

RM'000	31 Dec 2018				
	Northern	Southern	Central	Eastern	Total
Cash line-i	9,480	22,956	42,509	389	75,334
Term financing					
House financing	576,167	554,850	3,038,952	159,251	4,329,220
Syndicated term financing	-	-	1,334,656	-	1,334,656
Hire purchase receivables	37,599	53,722	92,872	11,443	195,636
Lease receivables	-	-	539	-	539
Other term financing	439,181	513,389	3,262,537	176,314	4,391,421
Bills receivables	103,071	6,485	347,022	-	456,578
Trust receipts	21,131	25,603	476,891	-	523,625
Claims on customers under acceptance credits	115,727	94,077	211,072	1,417	422,293
Staff financing-i	754	104	2,248	38	3,144
Credit cards-i	194,828	183,118	646,419	51,269	1,075,634
Revolving financing	-	10,404	1,623,961	-	1,634,365
Other financing	1,082	291	2,026	27	3,426
	1,499,020	1,464,999	11,081,704	400,148	14,445,871

RM'000	31 Dec 2017 (Restated)				
	Northern	Southern	Central	Eastern	Total
Cash line-i	12,406	23,930	45,329	518	82,183
Term financing					
House financing	596,285	582,230	3,051,392	171,668	4,401,575
Syndicated term financing	-	-	1,889,969	-	1,889,969
Hire purchase receivables	37,529	58,885	57,492	15,946	169,852
Lease receivables	-	-	1,379	-	1,379
Other term financing	382,756	559,000	3,022,546	207,625	4,171,927
Bills receivables	10,309	4,876	93,880	-	109,065
Trust receipts	167,613	27,889	546,580	-	742,082
Claims on customers under acceptance credits	112,392	92,816	217,042	664	422,914
Staff financing-i	812	332	3,395	108	4,647
Credit cards-i	173,629	152,721	554,420	44,647	925,417
Revolving financing	2,200	3,817	810,935	-	816,952
Other financing	539	164	804	141	1,648
	1,496,470	1,506,660	10,295,163	441,317	13,739,610

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, 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.

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

(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 2018				
RM'000		Northern	Southern	Central	Eastern	Total
Cash line-i		1,727	4,921	3,508	-	10,156
Term financing						
House financing		18,892	19,704	85,414	978	124,988
Hire purchase receivables		1,435	2,107	12	2,814	6,368
Other term financing		12,294	5,886	231,389	2,412	251,981
Bills receivables		2,260	4,751	17,962	-	24,973
Trust receipts		-	724	-	-	724
Credit cards-i		1,798	1,936	3,791	405	7,930
Other financing		1,053	254	1,860	26	3,193
		39,459	40,283	343,936	6,635	430,313

		31 Dec 2017				
RM'000		Northern	Southern	Central	Eastern	Total
Cash line-i		1,820	1,869	3,955	-	7,644
Term financing						
House financing		31,606	20,508	107,131	3,527	162,772
Hire purchase receivables		3,502	3,248	160	2,931	9,841
Other term financing		12,642	8,059	131,428	4,527	156,656
Bills receivables		2,390	2,198	16,664	-	21,252
Staff financing-i		199	35	11	1	246
Credit cards-i		4,016	3,253	11,419	1,103	19,791
Revolving financing		2,200	-	-	-	2,200
Other financing		538	164	804	141	1,647
		58,913	39,334	271,572	12,230	382,049

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

(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 2018			
RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line-i	75,334	-	-	-	75,334
Term financing					
House financing	10,896	3,483	13,132	4,301,709	4,329,220
Syndicated term financing	926,222	331,226	-	77,208	1,334,656
Hire purchase receivables	15,330	63,770	116,536	-	195,636
Lease receivables	539	-	-	-	539
Other term financing	751,686	768,837	1,168,225	1,702,673	4,391,421
Bills receivables	456,578	-	-	-	456,578
Trust receipts	523,625	-	-	-	523,625
Claims on customers under acceptance credits	422,293	-	-	-	422,293
Staff financing-i	67	443	714	1,920	3,144
Credit cards-i	1,075,634	-	-	-	1,075,634
Revolving financing	1,634,365	-	-	-	1,634,365
Other financing	3,426	-	-	-	3,426
	5,895,995	1,167,759	1,298,607	6,083,510	14,445,871

		31 Dec 2017 (Restated)			
RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line-i	82,183	-	-	-	82,183
Term financing					
House financing	11,702	3,235	15,041	4,371,597	4,401,575
Syndicated term financing	1,480,539	324,304	-	85,126	1,889,969
Hire purchase receivables	21,476	64,609	83,767	-	169,852
Lease receivables	10	1,369	-	-	1,379
Other term financing	1,236,689	588,248	801,825	1,545,165	4,171,927
Bills receivables	109,065	-	-	-	109,065
Trust receipts	742,082	-	-	-	742,082
Claims on customers under acceptance credits	422,914	-	-	-	422,914
Staff financing-i	68	378	1,241	2,960	4,647
Credit cards-i	925,417	-	-	-	925,417
Revolving financing	816,952	-	-	-	816,952
Other financing	1,648	-	-	-	1,648
	5,850,745	982,143	901,874	6,004,848	13,739,610

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

(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 2018													
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 cards-i	Revolving financing	Other financing	Total
Agricultural, hunting, forestry and fishing	2,238	-	-	3,612	-	12,041	-	-	1,095	-	-	-	18,986
Mining and quarrying	1,604	-	-	8,861	-	194,732	-	1,445	-	-	25,021	11	231,674
Manufacturing	13,875	-	363,427	114,453	-	567,546	117,260	53,353	214,031	-	51,145	2	1,495,092
Electricity, gas and water	1,115	-	-	116	-	115,010	50	11,177	794	-	-	-	128,262
Construction	6,799	-	-	4,886	-	234,718	16,338	32,373	5,897	-	482,677	-	783,688
Real estate	-	-	492,142	-	-	638,309	-	-	-	-	5,051	5	1,135,507
Wholesale & retail trade and restaurants & hotels	17,107	-	-	10,786	-	199,254	271,012	235,391	176,668	-	85,179	172	995,569
Transport, storage and communication	8,368	-	-	32,844	-	121,699	-	27,302	10,044	-	14,008	26	214,291
Finance, takaful and business services	21,828	-	-	12,795	539	167,933	13,282	5,344	11,236	-	807,349	366	1,040,672
Household-retail	29	4,329,220	-	-	-	1,369,278	-	-	-	3,144	1,075,634	2,841	6,780,146
Others	2,371	-	479,087	7,283	-	770,901	38,636	158,685	1,083	-	163,935	3	1,621,984
	75,334	4,329,220	1,334,656	195,636	539	4,391,421	456,578	523,625	422,293	3,144	1,075,634	3,426	14,445,871

31 Dec 2017 (Restated)													
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 cards-i	Revolving financing	Other financing	Total
Agricultural, hunting, forestry and fishing	828	-	-	5,552	-	84,407	-	-	6,631	-	-	-	97,418
Mining and quarrying	1,380	-	-	433	-	84,901	-	9,662	-	-	-	-	96,376
Manufacturing	22,905	-	367,767	91,514	-	695,327	20,945	200,675	203,470	-	63,170	17	1,665,790
Electricity, gas and water	1,045	-	-	189	-	44,241	-	12,899	4,896	-	-	-	63,270
Construction	7,232	-	25,935	12,305	-	173,733	14,235	12,528	12,561	-	173,604	-	432,133
Real estate	335	-	571,172	-	-	472,125	-	-	-	-	30,208	-	1,073,840
Wholesale & retail trade and restaurants & hotels	17,302	-	25,808	12,752	-	186,374	9,530	387,750	172,940	-	92,159	150	904,765
Transport, storage and communication	287	-	406,205	20,138	-	75,180	-	24,890	12,500	-	10,182	-	549,382
Finance, takaful and business services	28,986	-	-	11,866	1,379	617,976	12,503	5,042	9,073	-	306,773	6	993,604
Household-retail	10	4,401,575	-	-	-	1,405,838	-	-	-	4,647	925,417	1,473	6,738,960
Others	1,873	-	493,082	15,103	-	331,825	51,852	88,636	843	-	140,856	2	1,124,072
	82,183	4,401,575	1,889,969	169,852	1,379	4,171,927	109,065	742,082	422,914	4,647	925,417	1,648	13,739,610

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

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

31 Dec 2018 RM'000										
Cash line-i	House financing	Hire purchase receivables	Other term financing	Bills receivables	Trust receipts	Staff financing-i	Credit cards-i	Revolving financing	Other financing	Total
Mining and quarrying	-	-	693	-	-	-	-	-	11	704
Manufacturing	3,514	-	1,335	3,425	8,354	724	-	-	2	17,354
Construction	991	-	796	-	1,355	-	-	-	-	3,142
Wholesale & retail trade and restaurants & hotels	2,330	-	-	4,441	4,198	-	-	-	170	11,139
Transport, storage and communication	-	-	4,126	-	-	-	-	-	27	4,153
Finance, takaful and business services	3,321	-	111	13,796	11,066	-	-	-	367	28,661
Household-retail	-	124,988	-	203,803	-	-	7,930	-	2,613	339,334
Others	-	-	25,823	-	-	-	-	-	3	25,826
10,156	124,988	6,368	251,981	24,973	724	-	7,930	-	3,193	430,313

31 Dec 2017 RM'000										
Cash line-i	House financing	Hire purchase receivables	Other term financing	Bills receivables	Trust receipts	Staff financing-i	Credit cards-i	Revolving financing	Other financing	Total
Mining and quarrying	-	-	765	-	-	-	-	-	-	765
Manufacturing	1,380	-	5,130	2,048	7,036	-	-	2,200	17	17,811
Wholesale & retail trade and restaurants & hotels	1,798	-	-	5,298	2,164	-	-	-	150	9,410
Transport, storage and communication	-	-	4,549	-	-	-	-	-	-	4,549
Finance, takaful and business services	3,688	-	162	14,113	11,341	-	-	-	6	29,310
Household-retail	2	162,772	-	134,432	-	246	19,791	-	1,473	318,716
Others	776	-	-	711	-	-	-	-	1	1,488
7,644	162,772	9,841	156,656	21,252	-	246	19,791	2,200	1,647	382,049

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

(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 2018	31 Dec 2017
	RM'000	RM'000
Mining and quarrying	704	2,496
Manufacturing	24,305	58,119
Construction	3,953	-
Real estate	246,554	-
Wholesale & retail trade and restaurants & hotels	18,727	30,706
Transport, storage and communication	4,164	14,844
Finance, takaful and business services	62,577	95,642
Household-retail	847,338	1,040,009
Others	28,245	4,856
	1,236,567	1,246,672

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

	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Northern region	124,756	192,240
Southern region	136,367	128,352
Central region	931,803	886,172
Eastern region	43,641	39,908
	1,236,567	1,246,672

^[1] of which the portion of impaired financing and advances breakdown by sector and geographical location is disclosed in Note 11 (v) and 11 (vii) of the financial statements at 31 December 2018 respectively.

Table 8: Individual impairment allowance breakdown by sector

	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Manufacturing	-	10,499
Wholesale & retail trade and restaurants & hotels	-	4,766
Transport, storage and communication	-	4,541
Finance, takaful and business services	-	19,110
Household-retail	-	74,535
Others	-	1,448
	-	114,899

Table 8a: Collective impairment allowance breakdown by sector

	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	-	5
Manufacturing	-	53,930
Electricity, gas and water	-	15,631
Construction	-	153
Real estate	-	5,153
Wholesale & retail trade and restaurants & hotels	-	1,550
Transport, storage and communication	-	25
Household-retail	-	162,809
Others	-	1,652
	-	240,908

Table 8b: Impairment allowance breakdown by sector

	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	28	-
Mining and quarrying	163	-
Manufacturing	5,128	-
Electricity, gas and water	59	-
Construction	4,341	-
Real estate	25,327	-
Wholesale & retail trade and restaurants & hotels	4,647	-
Transport, storage and communication	4,805	-
Finance, insurance/takaful and business services	64	-
Household-retail	263,006	-
Others	966	-
	308,534	-

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

Table 9: Individual impairment allowance breakdown by geographical location

	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Northern region	-	6,268
Southern region	-	5,932
Central region	-	99,489
Eastern region	-	3,210
	-	114,899

Table 9a: Collective impairment allowance breakdown by geographical location

	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Northern region	-	29,303
Southern region	-	27,571
Central region	-	174,465
Eastern region	-	9,569
	-	240,908

Table 9b: Impairment allowance breakdown by geographical location

	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Northern region	29,370	-
Southern region	30,170	-
Central region	238,635	-
Eastern region	10,359	-
	308,534	-

The reconciliation of changes in financing impairment provisions is disclosed in Note 12 (i) of the financial statements at 31 December 2018.

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

	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Manufacturing	-	11,482
Wholesale & retail trade and restaurants & hotels	-	2,296
Transport, storage and communication	-	1,670
Finance, takaful and business services	-	14,786
Household-retail	-	25,549
Others	-	1,517
	-	57,300

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

	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Manufacturing	-	2
Construction	-	80
Wholesale & retail trade and restaurants & hotels	-	155
Finance, takaful and business services	-	1
Household-retail	-	6,721
	-	6,959

**Table 10b: Net impairment allowance in profit or loss during the year breakdown by sector
(Release)/Charges**

	31 Dec 2018	31 Dec 2017
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	(109)	-
Mining and quarrying	156	-
Manufacturing	(1,643)	-
Electricity, gas and water	(128)	-
Construction	(631)	-
Real estate	4,693	-
Wholesale & retail trade and restaurants & hotels	1,331	-
Transport, storage and communication	(308)	-
Finance, insurance/takaful and business services	(96)	-
Household-retail	66,864	-
Others	180	-
	70,309	-

The reconciliation of changes in financing impairment provisions is disclosed in Note 30 (i) of the financial statements at 31 December 2018.

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

(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)
- 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

(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
	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
	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

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

(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 5 and 6. Rated and unrated exposures according to ratings by ECAIs at reporting date are as follows:-

31 Dec 2018
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	-	2,912,187	-	-	-	-	-	2,912,187
PSEs								
- Exposures risk-weighted using ratings of Corporates	-	-	331,226	-	-	-	-	331,226
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	30,480	406,430	202,844	39,111	-	-	-	678,865
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	8,578	-	-	-	-	-	8,578
- Exposures risk-weighted using ratings of Banking Institution	1,997	-	-	-	-	-	-	1,997
- Exposures risk-weighted using ratings of Corporates	380,403	54,516	1,200	-	-	-	-	436,119
	412,880	3,381,711	535,270	39,111	-	-	-	4,368,972
(ii) Total unrated exposures								
							15,209,265	15,209,265
Total Long Term Exposure	412,880	3,381,711	535,270	39,111	-	-	15,209,265	19,578,237

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAs (Cont'd)

31 Dec 2018

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	-	2,839,269	-	-		2,839,269
PSEs						
- Exposures risk-weighted using ratings of Corporates	150,000	-	-	-		150,000
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	48,483	1,263	461	-		50,207
Corporates						
- Exposures risk-weighted using ratings of Corporates	555,179	452,525	146,412	-		1,154,116
	753,662	3,293,057	146,873	-	-	4,193,592
(ii) Total unrated exposures						
					-	-
Total Short Term Exposures	753,662	3,293,057	146,873	-	-	4,193,592

Total Long Term and Short Term Exposures:	23,771,829
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Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2017

RM '000

Exposure Class	Long Term Rating Category							Total
	1	2	3	4	5	6	7	
<u>On and Off Balance Sheet Exposures</u>								
(i) Total rated exposures								
Sovereigns & Central Banks								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	8,069	2,425,277	-	-	-	-		2,433,346
PSEs								
- Exposures risk-weighted using ratings of Corporates	-	-	763,726	-	-	-		763,726
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	135,695	541,141	41,924	-	-	-		718,760
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	8,636	-	-	-	-		8,636
- Exposures risk-weighted using ratings of Banking Institution	2,728	-	-	-	-	-		2,728
- Exposures risk-weighted using ratings of Corporates	440,409	17,367	24,410	-	-	-		482,186
	586,901	2,992,421	830,060	-	-	-		4,409,382
(ii) Total unrated exposures							14,929,241	14,929,241
Total Long Term Exposures	586,901	2,992,421	830,060	-	-	-	14,929,241	19,338,623

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2017

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	-	1,274,936	-	-		1,274,936
PSEs						
- Exposures risk-weighted using ratings of Corporates	150,000	-	-	-		150,000
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	35,335	1,940	178	-		37,453
Corporates						
- Exposures risk-weighted using ratings of Corporates	156,899	190,090	55,164	-		402,153
	342,234	1,466,966	55,342	-	-	1,864,542
(ii) Total unrated exposures					-	-
Total Short Term Exposures	342,234	1,466,966	55,342	-	-	1,864,542
Total Long Term and Short Term Exposures						21,203,165

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

PSEs - Public Sector Entities

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

(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 repay, 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 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 appointment of panel valuers is conducted via Vendor Risk Management whereby due diligence is undertaken in accordance with Suppliers Risk Management and Third Party Associated Persons Bribery Risk Assessment and Due Diligence Policy at the origination of the relationship in accordance with Group Third Party Risk Management Policy.

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

(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 2018

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	5,751,456	-	-
PSEs	581,731	-	-
Banks, DFIs & MDBs	460,108	-	202,844
Corporates	6,334,629	110,707	165,152
Regulatory Retail	2,373,046	10,892	12,062
House Financing	4,290,957	-	-
Higher Risk Assets	6,201	-	150
Other Assets	123,664	-	-
Defaulted Exposures	276,682	7,046	583
Total for On-Balance Sheet Exposures	20,198,474	128,645	380,791
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	455,963	-	25,000
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,115,363	60,264	76,204
Defaulted Exposures	2,029	-	-
Total for Off-Balance Sheet Exposures	3,573,355	60,264	101,204
Total On and Off-Balance Sheet Exposures	23,771,829	188,909	481,995

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

(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 2017

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	3,708,282	-	-
PSEs	1,050,728	-	-
Banks, DFIs & MDBs	448,294	-	-
Corporates	5,378,025	6,411	109,601
Regulatory Retail	2,389,174	11,927	19,613
House Financing	4,359,676	-	2,876
Other Assets	121,705	-	-
Defaulted Exposures	169,678	4,781	3,809
Total for On-Balance Sheet Exposures	17,625,562	23,119	135,899
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	556,859	-	25,000
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,019,277	170,293	82,735
Defaulted Exposures	1,467	-	-
Total for Off-Balance Sheet Exposures	3,577,603	170,293	107,735
Total On and Off-Balance Sheet Exposures	21,203,165	193,412	243,634

Note:

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

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

(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 mark to market 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 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

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 2018		31 Dec 2017	
Basis point parallel shift in yield curves	+ 100 bps	- 100 bps	+ 100 bps	- 100 bps
MYR	(14,977)	8,821	(29,797)	18,274
USD	12,756	(15,108)	8,462	(9,966)
Others	6,692	(8,568)	(432)	(495)
	4,471	(14,855)	(21,767)	7,813

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:

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

	RM'000			
	31 Dec 2018		31 Dec 2017	
Basis point parallel shift in yield curves	+ 200 bps	- 200 bps	+ 200 bps	- 200 bps
MYR	(66,400)	82,614	(85,346)	98,501
USD	3,242	(5,433)	(368)	(1,732)
Others	564	10	(678)	887
	(62,594)	77,191	(86,392)	97,656

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 2018		31 Dec 2017	
Basis point parallel shift in yield curves	+ 100bps	- 100bps	+ 100bps	- 100bps
MYR	(36,330)	36,330	(35,388)	35,388
	(36,330)	36,330	(35,388)	35,388

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

(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 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

(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 2018, no actual Shariah non-compliance event has been identified.

b. Shariah Non-Compliance Income:

During the financial year ended 31 December 2018 the following amounts are recorded in the Shariah Penalty & Impure Income Account (the Account):

i) The amount of RM688 in the Account was carried forward from 2017 to 2018.

ii) Income from inadvertent Shariah non-compliance activities identified by the Bank's management amounted to RM15,923 as at 31 December 2018 received from transactions via Nostro Accounts has been reversed to the Account.

iii) RM3,154 was deducted for 2017 tax liabilities on Shariah Penalty & Impure Income.

The balance of RM13,457 in the Account is pending distribution in 2019.

Other than the above, there were no other Shariah non-compliance income or other amounts recorded during the financial year ended 31 December 2018.