

HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
(Incorporated in Malaysia)
Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures
at 30 June 2019

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 Interim Disclosures set out on pages 2 to 24 have been prepared according to the Risk Weighted Capital Adequacy Framework (Basel II), and are accurate and complete.

.....
ARSALAN AHMED

CHIEF EXECUTIVE OFFICER
16 July 2019

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

The Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures at 30 June 2019 do not include all of the information required for full (Basel II) Pillar 3 Disclosures, and should be read in conjunction with the audited financial statements of HSBC Amanah Malaysia Berhad (the Bank) for the financial year ended 31 December 2018 and the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures at 31 December 2018.

The tables attached in the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures provide an understanding of the quantitative changes relating to Pillar 3 Disclosures of the Bank since the financial year ended 31 December 2018. There are no material changes relating to qualitative disclosures during the interim reporting period.

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.

Stress testing and scenario analysis form an integral part of Internal Capital Adequacy Assessment Process (ICAAP) to demonstrate that the Bank's capital position remains sufficient to sustain operations during an economic downturn.

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.

Refer to Note 32 of the unaudited condensed interim financial statements at 30 June 2019 for the total risk weighted capital ratio, Common Equity Tier 1 and Tier 1 capital ratio, and risk weighted assets and capital requirements for credit risk, market risk and operational risk.

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

30 Jun 2019
(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	6,523,256	6,523,256	-	-
PSEs	581,511	581,511	381,232	30,499
Banks, DFIs & MDBs	487,357	284,549	122,767	9,821
Corporates	5,923,546	5,825,497	5,238,136	419,051
Regulatory Retail	2,367,030	2,351,279	1,881,496	150,520
House Financing	4,215,937	4,215,937	1,549,027	123,922
Higher Risk Assets	6,851	6,701	10,051	804
Other Assets	176,160	176,160	69,605	5,568
Defaulted Exposures	281,211	280,680	314,100	25,128
Total for On-Balance Sheet Exposures	20,562,859	20,245,570	9,566,414	765,313
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	288,806	288,806	183,692	14,695
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,152,010	3,062,327	2,067,395	165,392
Defaulted Exposures	1,544	1,544	2,241	179
Total for Off-Balance Sheet Exposures	3,442,360	3,352,677	2,253,328	180,266
Total On and Off-Balance Sheet Exposures ^[1]	24,005,219	23,598,247	11,819,742	945,579
Market Risk (Standardised Approach)				
	<u>Long position</u>	<u>Short position</u>		
Profit Rate Risk	2,104,328	3,212,204	(1,107,876)	4,434
Foreign Currency Risk	2,436	4,028	4,028	322
	2,106,764	3,216,232	(1,103,848)	4,756
Operational Risk (Basic Indicator Approach)	-	-	-	960,344
Total RWA and Capital Requirement	-	-	-	12,839,541

^[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 (3) (ii) Credit risk mitigation (CRM) within this disclosure document.

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

1) RWA and Capital Requirement (Cont'd)

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)				
	Long position	Short position		
Profit Rate Risk	138,542	1,005,036	(866,494)	6,438
Foreign Currency Risk	2,097	11,381	11,381	910
	140,639	1,016,417	(855,113)	7,348
Operational Risk (Basic Indicator Approach)	-	-	-	75,444
Total RWA and Capital Requirement	-	-	-	1,060,523

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 (3) (ii) CRM within this disclosure document.

Refer to Note 32 and Note 33 of the unaudited condensed interim financial statements at 30 June 2019 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 Interim Disclosures (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:

30 Jun 2019
(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%	6,523,256	-	-	14,421	13,923	-	-	106,554	6,658,154	-
20%	-	400,349	121,431	715,287	2,686	-	-	-	1,239,753	247,951
35%	-	-	-	-	-	4,390,716	-	-	4,390,716	1,536,751
50%	-	-	550,242	558,136	16,519	161,468	-	-	1,286,365	643,183
75%	-	-	-	-	2,631,463	88,748	-	-	2,720,211	2,040,158
100%	-	359,269	36,025	6,029,363	562,472	149,012	-	69,605	7,205,746	7,205,746
150%	-	-	-	28,768	31,044	28,638	8,852	-	97,302	145,953
Total									23,598,247	11,819,742
Average Risk Weight	0%	58%	47%	88%	80%	39%	150%	40%	50%	

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%	

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

PSEs - Public Sector Entities

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

3) Credit Risk

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

	30 Jun 2019				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	9,434	42,774	35,901	304	88,413
Term financing					
House financing	568,611	545,255	2,980,811	148,985	4,243,662
Syndicated term financing	-	-	1,352,865	-	1,352,865
Hire purchase receivables	42,058	64,681	82,278	7,137	196,154
Lease receivables	-	-	150	-	150
Other term financing	447,371	503,353	2,807,296	170,383	3,928,403
Bills receivables	27,824	8,834	273,540	-	310,198
Trust receipts	28,815	50,768	557,887	3,183	640,653
Claims on customers under acceptance credits	96,604	100,298	162,411	1,033	360,346
Staff financing-i	693	86	1,881	28	2,688
Credit cards-i	196,249	191,900	667,493	52,513	1,108,155
Revolving financing	13,145	7,113	1,621,895	-	1,642,153
Other financing	946	473	2,123	12	3,554
	1,431,750	1,515,535	10,546,531	383,578	13,877,394

	31 Dec 2018 (Restated)				
RM'000	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	437,470	512,559	3,191,662	175,729	4,317,420
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
	1,497,309	1,464,169	11,010,829	399,563	14,371,870

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 Interim Disclosures (Cont'd)

3) Credit Risk (Cont'd)

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

	30 Jun 2019				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	1,686	4,830	1,816	-	8,332
Term financing					
House financing	15,248	18,537	80,190	1,172	115,147
Hire purchase receivables	727	1,316	1,293	-	3,336
Other term financing	11,772	9,254	173,202	5,838	200,066
Bills receivables	2,260	5,379	16,512	-	24,151
Credit cards-i	1,513	1,777	2,783	566	6,639
Other financing	897	453	1,989	12	3,351
	34,103	41,546	277,785	7,588	361,022

	31 Dec 2018 (Restated)				
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	10,583	5,056	160,514	1,827	177,980
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
	37,748	39,453	273,061	6,050	356,312

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

3) Credit Risk (Cont'd)

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

		30 Jun 2019			
RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line-i	88,413	-	-	-	88,413
Term financing					
House financing	10,283	4,346	15,030	4,214,003	4,243,662
Syndicated term financing	1,255,345	-	97,520	-	1,352,865
Hire purchase receivables	9,909	68,809	117,436	-	196,154
Lease receivables	150	-	-	-	150
Other term financing	404,324	908,393	1,001,733	1,613,953	3,928,403
Bills receivables	310,198	-	-	-	310,198
Trust receipts	640,653	-	-	-	640,653
Claims on customers under acceptance credits	360,346	-	-	-	360,346
Staff financing-i	67	330	493	1,798	2,688
Credit cards-i	1,108,155	-	-	-	1,108,155
Revolving financing	1,642,153	-	-	-	1,642,153
Other financing	3,554	-	-	-	3,554
	5,833,550	981,878	1,232,212	5,829,754	13,877,394

		31 Dec 2018 (Restated)			
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	751,518	767,208	1,158,982	1,639,712	4,317,420
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
	5,895,827	1,166,130	1,289,364	6,020,549	14,371,870

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

3) Credit Risk (Cont'd)

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

30 Jun 2019													
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	2,035	-	-	2,746	-	12,776	-	-	1,407	-	-	-	18,964
Mining and quarrying	1,954	-	-	9,115	-	181,398	-	-	2,338	-	15,014	1	209,820
Manufacturing	33,565	-	360,224	106,683	-	535,810	44,605	96,593	170,207	-	69,991	34	1,417,712
Electricity, gas and water	686	-	-	78	-	143,921	1,717	12,844	1,128	-	-	-	160,374
Construction	7,504	-	-	5,398	-	280,434	6,808	58,008	12,019	-	504,574	-	874,745
Real estate	8	-	467,926	-	-	498,149	-	-	-	-	28,068	-	994,151
Wholesale & retail trade and restaurants & hotels	17,365	-	-	8,041	-	171,069	245,136	354,190	150,685	-	59,239	209	1,005,934
Transport, storage and communication	296	-	-	28,642	-	90,170	-	14,268	10,033	-	10,191	8	153,608
Finance, takaful and business services	8,700	-	-	11,143	150	154,998	11,932	-	11,684	-	803,822	469	1,002,898
Household-retail	9	4,243,662	-	-	-	1,278,198	-	-	-	2,688	1,108,155	2,830	6,635,542
Others	16,291	-	524,715	24,308	-	581,480	-	104,750	845	-	151,254	3	1,403,646
	88,413	4,243,662	1,352,865	196,154	150	3,928,403	310,198	640,653	360,346	2,688	1,108,155	3,554	13,877,394

31 Dec 2018 (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	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	-	-	-	1,295,277	-	-	-	3,144	1,075,634	2,841	6,706,145
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	4,317,420	456,578	523,625	422,293	3,144	1,075,634	3,426	14,371,870

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

3) Credit Risk (Cont'd)

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

30 Jun 2019
RM'000

	Cash line-i	House financing	Hire purchase receivables	Other term financing	Bills receivables	Trust receipts	Credit cards-i	Other financing	Total
Mining and quarrying	-	-	-	80	-	-	-	1	81
Manufacturing	3,490	-	728	3,050	9,008	-	-	5	16,281
Construction	1,068	-	945	-	1,328	-	-	-	3,341
Real estate	-	-	-	807	-	-	-	-	807
Wholesale & retail trade and restaurants & hotels	2,175	-	704	11,438	2,648	-	-	203	17,168
Transport, storage and communication	-	-	959	-	-	-	-	8	967
Finance, takaful and business services	1,598	-	-	13,420	11,167	-	-	469	26,654
Household-retail	1	115,147	-	145,214	-	-	6,639	2,662	269,663
Others	-	-	-	26,057	-	-	-	3	26,060
	8,332	115,147	3,336	200,066	24,151	-	6,639	3,351	361,022

31 Dec 2018 (Restated)
RM'000

	Cash line-i	House financing	Hire purchase receivables	Other term financing	Bills receivables	Trust receipts	Credit cards-i	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	-	129,802	-	-	7,930	2,613	265,333
Others	-	-	-	25,823	-	-	-	3	25,826
	10,156	124,988	6,368	177,980	24,973	724	7,930	3,193	356,312

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

3) Credit Risk (Cont'd)

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

	30 Jun 2019	31 Dec 2018 (Restated)
	RM'000	RM'000
Mining and quarrying	46	704
Manufacturing	6,052	24,305
Construction	4,055	3,953
Real estate	21,597	246,554
Wholesale & retail trade and restaurants & hotels	13,518	18,727
Transport, storage and communication	739	4,164
Finance, takaful and business services	78,932	62,577
Household-retail	765,084	826,770
Others	26,061	28,245
	916,084	1,215,999

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

	30 Jun 2019	31 Dec 2018 (Restated)
	RM'000	RM'000
Northern region	114,817	124,087
Southern region	123,776	136,220
Central region	650,629	912,079
Eastern region	26,862	43,613
	916,084	1,215,999

^[1] which the portion of impaired financing and advances breakdown by sector and geographical location is disclosed in Note 15 (iii) and 15 (v) of the unaudited condensed interim financial statements at 30 June 2019 respectively.

Table 8: Impairment allowance breakdown by sector

	30 Jun 2019	31 Dec 2018 (Restated)
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	21	28
Mining and quarrying	79	163
Manufacturing	4,689	5,128
Electricity, gas and water	352	59
Construction	4,503	4,341
Real estate	25,873	25,327
Wholesale & retail trade and restaurants & hotels	4,980	4,647
Transport, storage and communication	1,646	4,805
Finance, insurance/takaful and business services	27	64
Household-retail	197,402	189,005
Others	3,919	966
	243,491	234,533

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

3) Credit Risk (Cont'd)

Table 9: Impairment allowance breakdown by geographical location

	30 Jun 2019	31 Dec 2018 (Restated)
	RM'000	RM'000
Northern region	27,276	29,370
Southern region	27,451	30,170
Central region	180,521	164,634
Eastern region	8,243	10,359
	243,491	234,533

The reconciliation of changes in financing impairment provisions is disclosed in Note 16 (i) of the unaudited condensed interim financial statements at 30 June 2019.

Table 10: Net impairment allowance in profit or loss during the period breakdown by sector

<i>(Release) / Charges</i>	30 Jun 2019	30 Jun 2018
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	(7)	13
Mining and quarrying	(84)	(1)
Manufacturing	(408)	(1,776)
Electricity, gas and water	291	60
Construction	152	47
Real estate	790	(202)
Wholesale & retail trade and restaurants & hotels	401	1,641
Transport, storage and communication	(320)	(401)
Finance, insurance/takaful and business services	(30)	831
Household-retail	37,498	40,537
Others	2,833	2,064
	41,116	42,813

The reconciliation of changes in financing impairment provisions is disclosed in Note 28 (i) of the unaudited condensed interim financial statements at 30 June 2019.

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

30 Jun 2019

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	-	3,331,501	-	-	-	-	-	3,331,501
PSEs								
- Exposures risk-weighted using ratings of Corporates	-	-	331,162	-	-	-	-	331,162
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	52,263	403,603	202,808	36,025	-	-	-	694,699
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	11,424	-	-	-	-	-	11,424
- Exposures risk-weighted using ratings of Banking Institution	1,449	-	-	-	-	-	-	1,449
- Exposures risk-weighted using ratings of Corporates	301,779	9,541	9,819	-	-	-	-	321,139
	355,491	3,756,069	543,789	36,025	-	-	-	4,691,374
(ii) Total unrated exposures							14,660,989	14,660,989
Total Long Term Exposure	355,491	3,756,069	543,789	36,025	-	-	14,660,989	19,352,363

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

3) Credit Risk (Cont'd)

i) ECAs (Cont'd)

30 Jun 2019
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	-	3,191,755	-	-		3,191,755
PSEs						
- Exposures risk-weighted using ratings of Corporates	150,000	-	-	-		150,000
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	32,467	-	-	-		32,467
Corporates						
- Exposures risk-weighted using ratings of Corporates	572,202	513,595	192,837	-		1,278,634
	754,669	3,705,350	192,837	-	-	4,652,856
(ii) Total unrated exposures						
					-	-
Total Short Term Exposures	754,669	3,705,350	192,837	-	-	4,652,856
Total Long Term and Short Term Exposures:						24,005,219

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

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

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 Exposures								
	412,880	3,381,711	535,270	39,111	-	-	15,209,265	19,578,237

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

3) Credit Risk (Cont'd)

i) ECAIs (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

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

PSEs - Public Sector Entities

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

30 Jun 2019

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	6,523,256	-	-
PSEs	581,511	-	-
Banks, DFIs & MDBs	487,357	-	202,808
Corporates	5,923,546	44,952	98,049
Regulatory Retail	2,367,030	11,293	15,751
House Financing	4,215,937	-	-
Higher Risk Assets	6,851	-	150
Other Assets	176,160	-	-
Defaulted Exposures	281,211	1,602	531
Total for On-Balance Sheet Exposures	20,562,859	57,847	317,289
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	288,806	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,152,010	29,940	89,683
Defaulted Exposures	1,544	-	-
Total for Off-Balance Sheet Exposures	3,442,360	29,940	89,683
Total On and Off-Balance Sheet Exposures	24,005,219	87,787	406,972

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (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
<u>Credit Risk</u>			
<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

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 Interim Disclosures (Cont'd)

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			
	30 Jun 2019		31 Dec 2018	
Basis point parallel shift in yield curves	+ 100 bps	- 100 bps	+ 100 bps	- 100 bps
MYR	5,246	(21,580)	(14,977)	8,821
USD	5,044	(10,296)	12,756	(15,108)
Others	(10,928)	7,558	6,692	(8,568)
	(638)	(24,318)	4,471	(14,855)

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			
	30 Jun 2019		31 Dec 2018	
Basis point parallel shift in yield curves	+ 200 bps	- 200 bps	+ 200 bps	- 200 bps
MYR	(60,764)	73,436	(66,400)	82,614
USD	3,518	(6,915)	3,242	(5,433)
Others	(1,260)	1,293	564	10
	(58,506)	67,814	(62,594)	77,191

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			
	30 Jun 2019		31 Dec 2018	
Basis point parallel shift in yield curves	+ 100bps	- 100bps	+ 100bps	- 100bps
MYR	(30,129)	30,129	(36,330)	36,330
	(30,129)	30,129	(36,330)	36,330

5) Restatement of comparative figures

The restatement of 31 December 2018 Pillar 3 Disclosures is to align the presentation for certain portfolio of financing and advances with industry practice. The Bank's prior year profit and loss and retained profits brought forward are not affected by these reclassifications.

Tables affected by the restatement are as below:

- Table 1 : Geographical distribution of financing and advances breakdown by type.
- Table 2 : Geographical distribution of impaired financing and advances breakdown by type.
- Table 3 : Residual contractual maturity of financing and advances breakdown by type.
- Table 4 : Distribution of financing and advances by sector, breakdown by type.
- Table 5 : Distribution of impaired financing and advances by sector, breakdown
- Table 6 : All past due financing and advances breakdown by sector.
- Table 7 : All past due financing and advances breakdown by geographical
- Table 8 : Impairment allowance breakdown by sector.
- Table 9 : Impairment allowance breakdown by geographical location.

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

6) 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 Interim Disclosures (Cont'd)

6) 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 period ending 30 June 2019, one (1) actual Shariah non-compliance event has been identified. The event will be rectified in accordance with the Shariah governance framework.

b. Shariah Non-Compliance Income:

During the financial period ending 30 June 2019 the following amounts are recorded in the Shariah Penalty & Impure Income Account (the Account):

- i) The amount of RM13,457 in the Account was carried forward from 2018 to 2019.
- ii) Income from inadvertent Shariah non-compliance activities identified by the Bank's management amounted to RM2,344 as at 30 June 2019 received from transactions via Nostro Accounts has been reversed to the Account.
- iii) No amount has yet been deducted for 2018 tax liabilities on Shariah Penalty & Impure Income.

The balance of RM15,801 in the Account is pending distribution in second half of 2019.

Other than the above, there were no other Shariah non-compliance income or other amounts recorded during the financial period ending 30 June 2019.