HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)
Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures
As at 31 December 2020

CHIEF EXECUTIVE OFFICER'S ATTESTATION

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

…………………………………
ARSALAAN AHMED

CHIEF EXECUTIVE OFFICER
02 February 2021

(a) Introduction

HSBC Amanah Malaysia Berhad (the Bank) is principally engaged in the provision of Islamic banking business. 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 as at 31 December 2020. 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 2020.

(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.

(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 36 of the financial statements as at 31 December 2020 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

The Bank operates a wide-ranging stress testing programme that supports risk management and capital planning. Stress testing provides management with key insights into the impact of severely adverse events, and provides confidence to regulators on financial stability.

As well as undertaking regulatory-driven stress tests, we conduct our own internal stress tests, in order to understand the nature and level of all material risks, quantify the impact of such risks and develop plausible business as usual mitigating actions.

The stress testing programme assesses capital and liquidity strength through a rigorous examination of resilience to external shocks from a range of stress scenarios. They include potential adverse macroeconomic, geopolitical and operational risk events, and other potential events that are specific to the Bank. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the Bank is exposed and informs decisions about preferred capital or liquidity levels.

Separately, reverse stress tests are conducted at the Bank in order to understand which potential extreme conditions would make the business model non-viable. Reverse stress testing identifies potential stresses and vulnerabilities which the Bank might face, and helps inform early warning triggers, management actions and contingency plans designed to mitigate risks.

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 Risk Committee (RC) of the Board for approval.

Risk Appetite

Risk appetite is a key component of our management of risk. It describes the aggregate level and risk types that we are willing to accept in achieving our medium and long-term strategic goals. At HSBC, risk appetite is managed through a global risk appetite framework and articulated in a Risk Appetite Statement (RAS).

The Bank's risk appetite informs our strategic and financial planning process, defining the desired forward-looking risk profile of the group. It is also integrated within other risk management tools, such as the top and emerging risks report and stress testing, to ensure consistency in risk management.

The Risk Appetite Framework as well as the RAS will be reviewed by all relevant stakeholders namely Risk, Finance and Global Businesses. It will be tabled to the RMM for endorsement, and subsequently tabled to the RC for recommendation to the BOD for approval on bi-annual basis.

(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 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 2020.

- Tier 2 capital [1], which includes qualifying subordinated liabilities [3] and subordinated term financing, impairment allowances equal to 12-months and lifetime expected credit losses for non-credit impaired financing (commonly known as Stage 1 and 2 provisions) and regulatory reserve.

Pursuant to BNM's Guidelines on Capital Adequacy Framework for Islamic Banks (Capital Component) issued on the 9 December 2020, the Bank has elected to apply the transitional arrangement as specified in paragraph 39.

Under the transitional arrangements, the expected credit loss (ECL) allowance measured at an amount equal to 12-month and lifetime ECL to the extent they are related to non-credit-impaired exposures (hereinafter referred to as Stage 1 and Stage 2 provisions), are allowed to be added back to CET-1, subject to a capping. The transitional arrangement commenced from financial year beginning 1 January 2020, with an add-back factor that will gradually reduce over a four-year transitional duration.

As required by the Guideline, below is the disclosure on the capital ratios with comparison of:
(i) the Capital Ratios computed in accordance with the transitional arrangement
(ii) the Capital Ratios, had the transitional arrangement not been applied.

31 Dec 2020
(RM'000)

Regulatory Capital	With Transitional Arrangement		Without Transitional Arrangement	
	Amount	%	Amount	%
CET1 Capital	**2,035,167**	**16.21**	**1,985,117**	**15.81**
Tier 1 Capital	**2,035,167**	**16.21**	**1,985,117**	**15.81**
Tier 2 Capital	**636,897**	**-**	**660,010**	**-**
Total Capital	**2,672,064**	**21.28**	**2,645,128**	**21.07**

[1] *Refer to Note 36 of the financial statements as at 31 December 2020 for the amount and breakdown of capital components.*

[2] *Refer to Note 25 of the financial statements as at 31 December 2020 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 24 of the financial statements as at 31 December 2020 for terms and conditions of the subordinated financing.*

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

(f) Risk management

Risk management framework

We use the Group's risk management framework in managing risk across the organisation and across all risk types. It is underpinned by our risk culture and is reinforced by the HSBC Values. The framework fosters continuous monitoring of the risk environment, and promotes risk awareness and sound operational and strategic decision making. It also ensures we have a consistent approach to monitoring, managing and mitigating the risks we accept and incur in our activities.

Culture

HSBC has long recognised the importance of a strong culture. Our culture is reinforced by our Values. It is instrumental in aligning the behaviours of individuals with our attitude to assuming and managing risk, which helps to ensure that our risk profile remains in line with our risk appetite. The fostering of a strong culture is a key responsibility of our senior executives. Our culture is further reinforced by our approach to remuneration. Individual awards, including those for senior executives, are based on compliance with our Values and the achievement of financial and non-financial objectives that are aligned to our risk appetite and strategy.

Risk governance

The Board has ultimate responsibility for the effective management of risk and approves HSBC’s risk appetite. It is advised on risk-related matters by the group's Risk Committee. Executive accountability for the ongoing monitoring, assessment and management of the risk environment, and the effectiveness of the risk management framework resides with the group’s Chief Risk Officer, supported by the RMM. Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All employees have a role to play in risk management. These roles are defined using the Three Lines of Defence model, which takes into account our business and functional structures. We use a defined executive risk governance structure to ensure appropriate oversight and accountability for risk, which facilitates reporting and escalation to the RMM.

Refer to Note 4 of the financial statements as at 31 December 2020 for the Bank's risk managements policies on the above mentioned risks.

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

(f) Risk management (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 2020
(RM'000)

Exposure Class		Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Minimum Capital Requirement at 8%
Credit Risk (Standardised Approach)					
On-Balance Sheet Exposures					
Sovereigns/Central Banks		4,455,205	4,455,205	62,665	5,013
PSEs		480,465	480,465	280,440	22,435
Banks, DFIs & MDBs		775,567	578,706	273,181	21,854
Corporates		5,874,370	5,759,605	5,226,121	418,090
Regulatory Retail		2,277,374	2,265,686	1,866,232	149,299
House Financing		4,013,725	4,013,725	1,496,942	119,755
Higher Risk Assets		5,894	5,744	8,616	689
Other Assets		166,392	166,392	43,323	3,466
Defaulted Exposures		296,254	294,717	324,088	25,927
Total for On-Balance Sheet Exposures		18,345,246	18,020,245	9,581,608	766,528
Off-Balance Sheet Exposures					
OTC Derivatives		480,884	280,884	135,720	10,858
Off balance sheet exposures other than OTC derivatives or credit derivatives		2,852,691	2,785,603	1,776,361	142,109
Defaulted Exposures		3,055	3,055	4,348	348
Total for Off-Balance Sheet Exposures		3,336,630	3,069,542	1,916,429	153,315
Total On and Off-Balance Sheet Exposures [1]		21,681,876	21,089,787	11,498,037	919,843
Market Risk (Standardised Approach)	**Long position**	**Short position**			
Profit Rate Risk	904,696	1,988,803	(1,084,107)	42,890	3,431
Foreign Currency Risk	2,802	9,667	9,667	9,667	773
	907,498	1,998,470	(1,074,440)	52,557	4,204
Operational Risk (Basic Indicator Approach)	-	-	-	1,004,660	80,373
Total RWA and Capital Requirement	-	-	-	12,555,254	1,004,420

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

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

(f) Risk management (Cont'd)

1) RWA and Capital Requirement (Cont'd)

31 Dec 2019
(RM'000)

Exposure Class		Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Minimum Capital Requirement at 8%
Credit Risk (Standardised Approach)					
On-Balance Sheet Exposures					
Sovereigns/Central Banks		7,780,684	7,780,684	201,036	16,083
PSEs		338,553	338,553	138,375	11,070
Banks, DFIs & MDBs		264,872	64,227	14,880	1,190
Corporates		5,657,832	5,570,907	5,118,660	409,493
Regulatory Retail		2,529,185	2,515,781	2,009,465	160,757
House Financing		4,134,192	4,134,192	1,518,953	121,516
Higher Risk Assets		4,342	4,192	6,288	503
Other Assets		190,825	190,825	47,210	3,777
Defaulted Exposures		303,476	302,164	333,829	26,706
Total for On-Balance Sheet Exposures		21,203,961	20,901,525	9,388,696	751,095
Off-Balance Sheet Exposures					
OTC Derivatives		275,238	250,238	155,738	12,459
Off balance sheet exposures other than OTC derivatives or credit derivatives		3,183,100	3,101,894	2,054,017	164,321
Defaulted Exposures		1,826	1,826	2,699	216
Total for Off-Balance Sheet Exposures		3,460,164	3,353,958	2,212,454	176,996
Total On and Off-Balance Sheet Exposures [1]		24,664,125	24,255,483	11,601,150	928,091
Market Risk (Standardised Approach)	Long position	Short position			
Profit Rate Risk	1,855,403	3,115,067	(1,259,664)	75,976	6,078
Foreign Currency Risk	5,823	512	5,823	5,823	466
	1,861,226	3,115,579	(1,253,841)	81,799	6,544
Operational Risk (Basic Indicator Approach)	-	-	-	996,092	79,687
Total RWA and Capital Requirement	-	-	-	12,679,041	1,014,322

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 36 of the financial statements as at 31 December 2020 for disclosure on RWA breakdown by various risk categories.

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

(f) Risk management (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 2020
(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%	**4,141,879**	**-**	**-**	**16,438**	**8,700**	**-**	**-**	**123,068**	**4,290,085**	**-**
20%	**313,326**	**420,754**	**279,928**	**901,168**	**612**	**-**	**-**	**-**	**1,915,788**	**383,158**
35%	**-**	**-**	**-**	**-**	**-**	**4,114,201**	**-**	**-**	**4,114,201**	**1,439,970**
50%	**-**	**-**	**616,670**	**204,431**	**16,773**	**227,267**	**-**	**-**	**1,065,141**	**532,571**
75%	**-**	**-**	**-**	**-**	**2,363,596**	**75,992**	**-**	**-**	**2,439,588**	**1,829,691**
100%	**-**	**298,522**	**-**	**5,890,964**	**780,379**	**156,471**	**-**	**43,323**	**7,169,659**	**7,169,659**
150%	**-**	**-**	**-**	**16,545**	**37,416**	**35,092**	**6,272**	**-**	**95,325**	**142,988**
Total									**21,089,787**	**11,498,037**
Average Risk Weight	**1%**	**53%**	**41%**	**88%**	**82%**	**39%**	**150%**	**26%**	**55%**	

31 Dec 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%	6,775,504	-	-	28,785	24,728	-	-	143,615	6,972,632	-
20%	1,005,179	400,223	109,261	877,881	2,639	-	-	-	2,395,183	479,037
35%	-	-	-	-	-	4,293,628	-	-	4,293,628	1,502,770
50%	-	-	325,907	119,856	19,753	172,119	-	-	637,635	318,818
75%	-	-	-	-	2,744,956	74,527	-	-	2,819,483	2,114,612
100%	-	109,203	32,687	6,075,580	620,155	154,106	-	47,210	7,038,941	7,038,941
150%	-	-	-	26,974	31,289	33,772	5,946	-	97,981	146,972
Total									24,255,483	11,601,150
Average Risk Weight	3%	37%	46%	89%	79%	39%	150%	25%	48%	

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

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

(f) Risk management (Cont'd)

3) Credit Risk

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

RM'000	31 Dec 2020 Northern	Southern	Central	Eastern	Total
Cash line-i	**11,944**	**18,158**	**40,495**	**-**	**70,597**
Term financing					
House financing	**526,888**	**502,188**	**2,883,822**	**131,103**	**4,044,001**
Syndicated term financing	**-**	**-**	**1,164,754**	**-**	**1,164,754**
Hire purchase receivables	**50,343**	**62,665**	**76,202**	**17,338**	**206,548**
Other term financing	**285,942**	**625,369**	**2,612,656**	**145,519**	**3,669,486**
Bills receivables	**39,972**	**55,450**	**557,446**	**-**	**652,868**
Trust receipts	**5,230**	**17,802**	**424,151**	**-**	**447,183**
Claims on customers under acceptance credits	**73,152**	**104,918**	**103,156**	**868**	**282,094**
Staff financing-i	**725**	**33**	**1,521**	**7**	**2,286**
Credit cards-i	**190,881**	**186,467**	**659,968**	**53,007**	**1,090,323**
Revolving financing	**43,718**	**108,580**	**2,054,546**	**286**	**2,207,130**
Other financing	**909**	**589**	**2,097**	**26**	**3,621**
	1,229,704	**1,682,219**	**10,580,814**	**348,154**	**13,840,891**

RM'000	31 Dec 2019 Northern	Southern	Central	Eastern	Total
Cash line-i	9,503	27,265	36,231	132	73,131
Term financing					
House financing	550,387	519,611	2,952,360	142,014	4,164,372
Syndicated term financing	-	-	728,298	-	728,298
Hire purchase receivables	45,342	64,349	75,526	8,832	194,049
Other term financing	484,082	568,491	2,621,281	165,220	3,839,074
Bills receivables	65,261	51,525	354,134	-	470,920
Trust receipts	53,462	23,950	447,336	1,078	525,826
Claims on customers under acceptance credits	108,371	90,972	122,825	1,104	323,272
Staff financing-i	626	45	1,554	19	2,244
Credit cards-i	218,462	218,681	760,844	60,577	1,258,564
Revolving financing	20,624	5,664	1,689,877	-	1,716,165
Other financing	1,163	351	2,760	29	4,303
	1,557,283	1,570,904	9,793,026	379,005	13,300,218

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 (Cont'd)

(f) Risk management (Cont'd)

3) Credit Risk (Cont'd)

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

	31 Dec 2020				
RM'000	**Northern**	**Southern**	**Central**	**Eastern**	**Total**
Cash line-i	**393**	**4,260**	**2,044**	**-**	**6,697**
Term financing					
House financing	**30,822**	**32,922**	**196,026**	**4,530**	**264,300**
Hire purchase receivables	**-**	**374**	**61**	**-**	**435**
Other term financing	**14,517**	**15,154**	**250,194**	**8,285**	**288,150**
Bills receivables	**30**	**4,072**	**12,007**	**-**	**16,109**
Credit cards-i	**4,806**	**6,196**	**14,902**	**1,576**	**27,480**
Other financing	**876**	**576**	**2,048**	**24**	**3,524**
	51,444	**63,554**	**477,282**	**14,415**	**606,695**

	31 Dec 2019				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	1,661	4,714	3,865	-	10,240
Term financing					
House financing	15,584	17,124	72,658	625	105,991
Hire purchase receivables	227	717	173	-	1,117
Other term financing	10,889	8,839	205,417	5,804	230,949
Bills receivables	2,260	5,384	17,858	-	25,502
Claims on customers under acceptance credits	-	665	-	-	665
Credit cards-i	1,457	1,790	3,076	486	6,809
Other financing	1,100	328	2,590	12	4,030
	33,178	39,561	305,637	6,927	385,303

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

(f) Risk management (Cont'd)

3) Credit Risk (Cont'd)

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

	31 Dec 2020				
RM'000	**Maturing within one year**	**One year to three years**	**Three years to five years**	**Over five years**	**Total**
Cash line-i	**70,597**	**-**	**-**	**-**	**70,597**
Term financing					
House financing	**6,109**	**3,051**	**15,870**	**4,018,971**	**4,044,001**
Syndicated term financing	**56,917**	**984,847**	**34,498**	**88,492**	**1,164,754**
Hire purchase receivables	**11,352**	**92,216**	**102,980**	**-**	**206,548**
Other term financing	**335,667**	**914,985**	**752,237**	**1,666,597**	**3,669,486**
Bills receivables	**652,868**	**-**	**-**	**-**	**652,868**
Trust receipts	**447,183**	**-**	**-**	**-**	**447,183**
Claims on customers under acceptance credits	**282,094**	**-**	**-**	**-**	**282,094**
Staff financing-i	**49**	**189**	**728**	**1,320**	**2,286**
Credit cards-i	**1,090,323**	**-**	**-**	**-**	**1,090,323**
Revolving financing	**2,207,130**	**-**	**-**	**-**	**2,207,130**
Other financing	**3,621**	**-**	**-**	**-**	**3,621**
	5,163,910	**1,995,288**	**906,313**	**5,775,380**	**13,840,891**

	31 Dec 2019				
RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line-i	73,131	-	-	-	73,131
Term financing					
House financing	9,779	5,008	16,515	4,133,070	4,164,372
Syndicated term financing	70,613	464,738	192,947	-	728,298
Hire purchase receivables	5,971	78,625	109,453	-	194,049
Other term financing	83,314	1,206,801	693,334	1,855,625	3,839,074
Bills receivables	470,920	-	-	-	470,920
Trust receipts	525,826	-	-	-	525,826
Claims on customers under acceptance credits	323,272	-	-	-	323,272
Staff financing-i	13	237	584	1,410	2,244
Credit cards-i	1,258,564	-	-	-	1,258,564
Revolving financing	1,716,165	-	-	-	1,716,165
Other financing	4,303	-	-	-	4,303
	4,541,871	1,755,409	1,012,833	5,990,105	13,300,218

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

(f) Risk management (Cont'd)

3) Credit Risk (Cont'd)

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

31 Dec 2020
RM'000

	Cash line-i	**House financing**	**Syndicated Term Financing**	**Hire purchase 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	**1,806**	**-**	**-**	**1,404**	**9,161**	**-**	**-**	**-**	**-**	**-**	**3,021**	**-**	**15,392**
Mining and quarrying	**2,314**	**-**	**-**	**995**	**122,161**	**-**	**-**	**1,795**	**-**	**-**	**5,005**	**-**	**132,270**
Manufacturing	**22,037**	**-**	**40,782**	**115,260**	**816,735**	**132,127**	**40,043**	**142,898**	**-**	**-**	**195,139**	**494**	**1,505,515**
Electricity, gas and water	**3**	**-**	**-**	**-**	**6,221**	**14,507**	**-**	**1,003**	**-**	**-**	**60,308**	**-**	**82,042**
Construction	**7,140**	**-**	**-**	**2,575**	**202,089**	**80,658**	**21,254**	**8,917**	**-**	**-**	**733,738**	**15**	**1,056,386**
Real estate	**-**	**-**	**291,038**	**-**	**442,930**	**-**	**-**	**-**	**-**	**-**	**135,011**	**-**	**868,979**
Wholesale & retail trade and restaurants & hotels	**14,777**	**-**	**-**	**9,543**	**145,612**	**133,679**	**299,510**	**119,119**	**-**	**-**	**64,474**	**115**	**786,829**
Transport, storage and communication	**710**	**-**	**-**	**29,597**	**70,077**	**270**	**43,061**	**6,107**	**-**	**-**	**36,154**	**8**	**185,984**
Finance, takaful and business services	**9,047**	**-**	**-**	**12,415**	**136,033**	**13,110**	**-**	**1,567**	**-**	**-**	**811,617**	**113**	**983,902**
Household-retail	**28**	**4,044,001**	**-**	**-**	**1,379,487**	**-**	**-**	**-**	**2,286**	**1,090,323**	**-**	**2,859**	**6,518,984**
Others	**12,735**	**-**	**832,934**	**34,759**	**338,980**	**278,517**	**43,315**	**688**	**-**	**-**	**162,663**	**17**	**1,704,608**
	70,597	**4,044,001**	**1,164,754**	**206,548**	**3,669,486**	**652,868**	**447,183**	**282,094**	**2,286**	**1,090,323**	**2,207,130**	**3,621**	**13,840,891**

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RM'000

	Cash line-i	House financing	Syndicated Term Financing	Hire purchase 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	1,865	-	-	1,935	11,777	-	-	632	-	-	506	-	16,715
Mining and quarrying	1,954	-	-	8,051	165,792	-	-	3,387	-	-	5,006	-	184,190
Manufacturing	23,313	-	32,897	127,378	565,853	89,982	122,876	165,316	-	-	75,584	34	1,203,233
Electricity, gas and water	700	-	-	40	183,345	14,050	-	1,176	-	-	-	-	199,311
Construction	9,741	-	-	3,351	346,262	55,835	13,541	14,060	-	-	608,287	2	1,051,079
Real estate	2	-	369,718	-	263,206	-	-	-	-	-	126,843	-	759,769
Wholesale & retail trade and restaurants & hotels	13,229	-	-	7,982	157,148	168,212	295,073	126,168	-	-	56,223	279	824,314
Transport, storage and communication	291	-	-	30,934	79,523	640	25,759	10,191	-	-	30,226	8	177,572
Finance, takaful and business services	11,352	-	-	10,311	82,969	14,669	-	1,255	-	-	747,117	636	868,309
Household-retail	10	4,164,372	-	-	1,356,669	-	-	-	2,244	1,258,564	-	3,327	6,785,186
Others	10,674	-	325,683	4,067	626,530	127,532	68,577	1,087	-	-	66,373	17	1,230,540
	73,131	4,164,372	728,298	194,049	3,839,074	470,920	525,826	323,272	2,244	1,258,564	1,716,165	4,303	13,300,218

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

(f) Risk management (Cont'd)

3) Credit Risk (Cont'd)

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

31 Dec 2020
RM'000

	Cash line-i	House financing	Hire purchase receivables	Other term financing	Bills receivables	Claims on customers under acceptance credits	Credit cards-i	Other financing	Total
Agricultural, hunting, forestry and fishing	319	-	-	-	-	-	-	-	319
Manufacturing	3,171	-	-	5,615	7,843	-	-	494	17,123
Construction	1,039	-	230	1,098	1,328	-	-	15	3,710
Wholesale & retail trade and restaurants & hotels	454	-	-	7,571	3,239	-	-	115	11,379
Transport, storage and communication	-	-	205	-	-	-	-	8	213
Finance, takaful and business services	1,713	-	-	463	3,699	-	-	113	5,988
Household-retail	1	264,300	-	251,804	-	-	27,480	2,762	546,347
Others	-	-	-	21,599	-	-	-	17	21,616
	6,697	264,300	435	288,150	16,109	-	27,480	3,524	606,695

31 Dec 2019
RM'000

	Cash line-i	House financing	Hire purchase receivables	Other term financing	Bills receivables	Claims on customers under acceptance credits	Credit cards-i	Other financing	Total
Manufacturing	3,530	-	227	2,778	9,013	665	-	34	16,247
Construction	1,039	-	529	1,301	1,328	-	-	2	4,199
Real estate	-	-	-	35	-	-	-	-	35
Wholesale & retail trade and restaurants & hotels	2,125	-	-	11,606	3,994	-	-	279	18,004
Transport, storage and communication	-	-	361	-	-	-	-	8	369
Finance, takaful and business services	3,546	-	-	13,372	11,167	-	-	636	28,721
Household-retail	-	105,991	-	176,701	-	-	6,809	3,064	292,565
Others	-	-	-	25,156	-	-	-	7	25,163
	10,240	105,991	1,117	230,949	25,502	665	6,809	4,030	385,303

(f) Risk management (Cont'd)

3) Credit Risk (Cont'd)

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

	31 Dec 2020	31 Dec 2019
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	**319**	-
Manufacturing	**6,817**	17,169
Construction	**3,562**	10,033
Real estate	**506**	17,092
Wholesale & retail trade and restaurants & hotels	**17,410**	13,746
Transport, storage and communication	**213**	347
Household-retail	**635,975**	796,217
Others	**4,003**	25,397
	668,805	880,001

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

	31 Dec 2020	31 Dec 2019
	RM'000	RM'000
Northern region	**80,615**	116,145
Southern region	**91,816**	132,865
Central region	**471,881**	604,812
Eastern region	**24,493**	26,179
	668,805	880,001

[1] of which the portion of impaired financing and advances breakdown by sector and geographical location is disclosed in Note 11 (iii) and 11 (v) of the financial statements as at 31 December 2020 respectively.

Table 8: Impairment allowance breakdown by sector

	31 Dec 2020	31 Dec 2019
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	**83**	25
Mining and quarrying	**25**	91
Manufacturing	**8,017**	4,826
Electricity, gas and water	**2**	453
Construction	**4,845**	5,859
Real estate	**6,266**	29,161
Wholesale & retail trade and restaurants & hotels	**2,605**	6,508
Transport, storage and communication	**891**	1,164
Finance, insurance/takaful and business services	**44**	137
Household-retail	**320,412**	206,434
Others	**5,125**	2,607
	348,315	257,265

(f) Risk management (Cont'd)

3) Credit Risk (Cont'd)

Table 9: Impairment allowance breakdown by geographical location

	31 Dec 2020	31 Dec 2019
	RM'000	RM'000
Northern region	**35,613**	29,430
Southern region	**39,923**	29,048
Central region	**261,571**	191,956
Eastern region	**11,208**	6,831
	348,315	257,265

The breakdown of financing impairment provisions during the year is disclosed in Note 12 (i) of the financial statements as at 31 December 2020.

Table 10: Net impairment allowance in profit or loss for the year breakdown by sector

Charges / (Release)	**31 Dec 2020**	31 Dec 2019
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	**58**	(3)
Mining and quarrying	**(29)**	(75)
Manufacturing	**3,205**	(270)
Electricity, gas and water	**(451)**	393
Construction	**(339)**	1,503
Real estate	**3,231**	4,087
Wholesale & retail trade and restaurants & hotels	**1,887**	1,934
Transport, storage and communication	**(272)**	(802)
Finance, insurance/takaful and business services	**(437)**	79
Household-retail	**155,129**	67,370
Others	**2,483**	1,548
	164,465	75,764

The breakdown of financing impairment provisions during the year is disclosed in Note 29 (i) of the financial statements as at 31 December 2020.

(f) Risk management (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 detailed risk weights and rating categories. All other exposure classes are assigned risk weightings as detailed in BNM Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets).

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

(f) Risk management (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						
	Long Term Rating					Short Term Rating
			Banking Institutions			
Rating Category	Sovereigns and Central Banks	Corporates	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 (Cont'd)

(f) Risk management (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

The rated and unrated exposures according to ratings by ECAIs at reporting date are as follows:

31 Dec 2020
RM '000

	Long Term Rating Category							
Exposure Class	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**Total**
On and Off Balance Sheet Exposures								
(i) Total rated exposures								
Sovereigns & Central Banks								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	4,141,879	313,326	-	-	-	-		4,455,205
PSEs								
- Exposures risk-weighted using ratings of Corporates	20,420	-	-	-	-	-		20,420
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	417,244	612,526	196,861	-	-	-		1,226,631
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	3,503	-	-	-	-	-		3,503
- Exposures risk-weighted using ratings of Corporates	570,329	80,473	120,127	-	-	-		770,929
	5,153,375	1,006,325	316,988	-	-	-		6,476,688
(ii) Total unrated exposures							14,542,084	14,542,084
Total Long Term Exposure	5,153,375	1,006,325	316,988	-	-	-	14,542,084	21,018,772

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

(f) Risk management (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2020

RM '000

	Short Term Rating Category					
Exposure Class	**1**	**2**	**3**	**4**	**5**	**Total**
On and Off Balance Sheet Exposures						
(i) Total rated exposures						
Sovereigns & Central Banks						
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	-	-	-		-
PSEs						
- Exposures risk-weighted using ratings of Corporates	150,303	-	-	-		150,303
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	64,601	1,048	-	-		65,649
Corporates						
- Exposures risk-weighted using ratings of Corporates	447,152	-	-	-		447,152
	662,056	1,048	-	-	-	663,104
(ii) Total unrated exposures					-	-
Total Short Term Exposures	662,056	1,048	-	-	-	663,104

Total Long Term and Short Term Exposures:	21,681,876

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

(f) Risk management (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2019
RM '000

Exposure Class	Long Term Rating Category 1	2	3	4	5	6	7	Total
On and Off Balance Sheet Exposures								
(i) Total rated exposures								
Sovereigns & Central Banks								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	3,072,763	-	-	-	-		3,072,763
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	18,640	216,570	200,645	30,161	-	-		466,016
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	25,699	-	-	-	-		25,699
- Exposures risk-weighted using ratings of Corporates	444,262	60,386	203,550	-	-	-		708,198
	462,902	3,375,418	404,195	30,161	-	-	-	4,272,676
(ii) Total unrated exposures							14,961,729	14,961,729
Total Long Term Exposures	462,902	3,375,418	404,195	30,161	-	-	14,961,729	19,234,405

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

(f) Risk management (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2019
RM '000

Exposure Class	Short Term Rating Category					
	1	2	3	4	5	Total
On and Off Balance Sheet Exposures						
(i) Total rated exposures						
Sovereigns & Central Banks						
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	4,705,179	-	-		4,705,179
PSEs						
- Exposures risk-weighted using ratings of Corporates	150,000	-	-	-		150,000
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	62,109	766	-	-		62,875
Corporates						
- Exposures risk-weighted using ratings of Corporates	511,666	-	-	-		511,666
	723,775	4,705,945	-	-	-	5,429,720
(ii) Total unrated exposures					-	-
Total Short Term Exposures	723,775	4,705,945	-	-	-	5,429,720

Total Long Term and Short Term Exposures	24,664,125

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

(f) Risk management (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; or by third party credit guarantee institutions;
- 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 appropariate, 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 (Cont'd)

(f) Risk management (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 2020
RM'000

Exposure Class	Exposures Before Credit Risk Mitigation	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Financial Collateral
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	**4,455,205**	**-**	**-**
PSEs	**480,465**	**-**	**-**
Banks, DFIs & MDBs	**775,567**	**-**	**196,861**
Corporates	**5,874,370**	**142,564**	**114,765**
Regulatory Retail	**2,277,374**	**7,219**	**11,688**
House Financing	**4,013,725**	**-**	**-**
Higher Risk Assets	**5,894**	**-**	**150**
Other Assets	**166,392**	**-**	**-**
Defaulted Exposures	**296,254**	**4,068**	**1,537**
Total for On-Balance Sheet Exposures	**18,345,246**	**153,851**	**325,001**
Off-Balance Sheet Exposures			
OTC Derivatives	**480,884**	**-**	**200,000**
Off balance sheet exposures other than OTC derivatives or credit derivatives	**2,852,691**	**39,704**	**67,088**
Defaulted Exposures	**3,055**	**-**	**-**
Total for Off-Balance Sheet Exposures	**3,336,630**	**39,704**	**267,088**
Total On and Off-Balance Sheet Exposures	**21,681,876**	**193,555**	**592,089**

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

(f) Risk management (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 2019
RM'000

Exposure Class	Exposures Before Credit Risk Mitigation	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Financial Collateral
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	7,780,684	-	-
PSEs	338,553	-	-
Banks, DFIs & MDBs	264,872	-	200,645
Corporates	5,657,832	39,178	86,925
Regulatory Retail	2,529,185	20,245	13,404
House Financing	4,134,192	-	-
Higher Risk Assets	4,342	-	150
Other Assets	190,825	-	-
Defaulted Exposures	303,476	3,125	1,312
Total for On-Balance Sheet Exposures	21,203,961	62,548	302,436
Off-Balance Sheet Exposures			
OTC Derivatives	275,238	-	25,000
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,183,100	42,498	81,206
Defaulted Exposures	1,826	-	-
Total for Off-Balance Sheet Exposures	3,460,164	42,498	106,206
Total On and Off-Balance Sheet Exposures	24,664,125	105,046	408,642

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

PSEs - Public Sector Entities

OTC - Over the Counter

(f) Risk management (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 Group 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 Group'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 2020		31 Dec 2019	
Basis point parallel shift in yield curves	*+ 100 bps*	*- 100 bps*	*+ 100 bps*	*- 100 bps*
MYR	**(14,418)**	**6,671**	17,680	(35,001)
USD	**2,380**	**(256)**	(12,692)	10,457
Others	**6,554**	**1,566**	6,228	(5,880)
	(5,484)	**7,981**	11,216	(30,424)

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 2020		31 Dec 2019	
Basis point parallel shift in yield curves	*+ 200 bps*	*- 200 bps*	*+ 200 bps*	*- 200 bps*
MYR	**(107,964)**	**124,123**	(88,221)	104,135
USD	**(13,375)**	**6,919**	1,017	(1,588)
Others	**(2,042)**	**1,113**	(2,078)	1,770
	(123,381)	**132,155**	(89,282)	104,317

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 financial investments at fair value through other comprehensive income (FVOCI) 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 2020		31 Dec 2019	
Basis point parallel shift in yield curves	*+ 100bps*	*- 100bps*	*+ 100bps*	*- 100bps*
MYR	**(23,675)**	**23,675**	(25,449)	25,449
	(23,675)	**23,675**	(25,449)	25,449

(f) Risk management (Cont'd)

5) Shariah Governance

Overview

Shariah compliance is a cornerstone and is integral to the stability of Islamic banking and finance's industry. An effective Shariah governance policy enhances the diligent oversight accountabilities 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 outlined 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 decisions 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 a delegated authority of the Shariah Committee in providing Shariah advsiory to 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, and expectations for effective Shariah governance arrangements in accordance with the guidelines laid down by Shariah-Regulatory Framework Policy Document (PD) and Shariah Governance Policy (SGP) Document of BNM, respectively. 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 (SGF)

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

a. Board of Directors

To have the ultimate oversight accountability for the institutionalisation of overall Shariah governance framework and Shariah compliance of the Bank.

b. Shariah Committee

To have the oversight responsibility and accountability in providing objective and sound advice or decisions to ensure on the operations, affairs and business activities of the Bank are in compliance with Shariah.

c. CEO and Management

To be primarily responsible over the day-to-day management of the Bank in ensuring compliance with Shariah in all aspects of its operations, affairs and business activities by observing and implementing the Shariah rulings by the Shariah Advisory Council of BNM (SAC) and decisions of 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 provide independent assessment on the quality and effectiveness of the Bank's internal control, risk management systems, governance processes as well as the overall compliance of the Bank's operations, businesses, affairs and activities with Shariah.

e. Shariah Risk Management

To identify, measure, monitor and report Shariah non-compliance risks in the operations, businesses, affairs and activities of the Bank.

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

(f) Risk management (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

i) Shariah Review
To conduct regular assessment on the compliance of the operations, businesses, affairs and activities of the Bank with Shariah requirements.

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.

ii) Shariah Advisory
To perform in-depth research and studies on Shariah issues and to provide day-to-day Shariah advice and approval on Shariah matters based on the rulings of the SAC and decisions or advice of the Shariah committee to relevant parties, including the Management, product development and business teams as well as the supporting functions.

iii) Shariah Secretariat
To coordinate, communicate and disseminate information among the Shariah committee, the board and senior management, and to ensure proper dissemination of decisions or advice of the Shariah Committee within the Bank.

iv) Knowledge and Skills Monitoring
To develop content and learning materials on knowledge relevant to HBMS Products and to run the training programmes and 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 2020, no actual Shariah non-compliance event has been identified.

b. Shariah Non-Compliance Income:

During the financial year ended 31 December 2020 the following amounts are recorded in the Shariah Penalty & Impure Income Account (the Account):

i) The amount of RM3,118 in the Account was carried forward from 2019 to 2020.

ii) Income from inadvertent Shariah non-compliance activities identified by the Bank's management amounted to RM6,974 as at 31 December 2020 received from transactions via Nostro Accounts has been reversed to the Account.

iii) RM9,148 was donated to Pertiwi Soup Kitchen.

The balance of RM944 in the Account is pending distribution in 2021.

Other than the above, there were no other Shariah non-compliance income or other amounts recorded during the financial year ended 31 December 2020.