

HSBC AMANAH MALAYSIA BERHAD
(Company No. 200801006421 (807705-X))
(Incorporated in Malaysia)
Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures
As at 30 June 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 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
23 July 2020

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 2020 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 2019 and the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures at 31 December 2019.

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 2019. There are no material changes relating to qualitative disclosures during the interim reporting period.

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.

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 Risk Committee (RC) of the Board for approval.

Refer to Note 32 of the unaudited condensed interim financial statements at 30 June 2020 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 2020
(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	4,916,269	4,916,269	150,012	12,001
PSEs	600,698	600,698	240,547	19,244
Banks, DFIs & MDBs	1,004,495	794,614	327,242	26,179
Corporates	6,369,689	6,272,827	5,799,043	463,923
Regulatory Retail	2,411,402	2,397,059	1,938,698	155,096
House Financing	4,078,632	4,078,632	1,501,086	120,087
Higher Risk Assets	4,543	4,392	6,589	527
Other Assets	167,722	167,722	50,031	4,002
Defaulted Exposures	302,893	300,813	330,544	26,444
Total for On-Balance Sheet Exposures	19,856,343	19,533,026	10,343,792	827,503
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	276,421	201,416	133,599	10,688
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,031,172	2,938,205	1,835,342	146,827
Defaulted Exposures	2,357	2,357	3,379	270
Total for Off-Balance Sheet Exposures	3,309,950	3,141,978	1,972,320	157,785
Total On and Off-Balance Sheet Exposures ^[1]	23,166,293	22,675,004	12,316,112	985,288
Market Risk (Standardised Approach)				
	<u>Long position</u>		<u>Short position</u>	
Profit Rate Risk	566,684	1,691,697	(1,125,013)	53,669
Foreign Currency Risk	3,359	5,705	5,705	456
	570,043	1,697,402	(1,119,308)	59,374
Operational Risk (Basic Indicator Approach)	-	-	-	1,008,981
Total RWA and Capital Requirement	-	-	-	13,384,467
				1,070,756

^[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 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	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
<i>Off-Balance Sheet Exposures</i>				
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)				
	<u>Long position</u>	<u>Short position</u>		
Profit Rate Risk	1,855,403	3,115,067	(1,259,664)	75,976
Foreign Currency Risk	5,823	512	5,823	466
	1,861,226	3,115,579	(1,253,841)	81,799
Operational Risk (Basic Indicator Approach)	-	-	-	996,092
Total RWA and Capital Requirement	-	-	-	12,679,041

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 of the unaudited condensed interim financial statements as at 30 June 2020 for disclosure on RWA breakdown by various categories of risk weights.

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 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%	4,166,211	-	-	17,545	15,497	-	-	117,692	4,316,945	-
20%	750,058	602,991	284,538	878,270	2,815	-	-	-	2,518,672	503,734
35%	-	-	-	-	-	4,246,711	-	-	4,246,711	1,486,349
50%	-	-	781,141	312,282	18,376	172,402	-	-	1,284,201	642,101
75%	-	-	-	-	2,606,000	80,829	-	-	2,686,829	2,015,122
100%	-	216,854	316	6,425,909	687,799	146,418	-	50,031	7,527,327	7,527,327
150%	-	-	-	25,123	28,856	34,687	5,653	-	94,319	141,479
Total									22,675,004	12,316,112
Average Risk Weight	3%	41%	42%	89%	80%	39%	150%	30%	54%	

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 Interim Disclosures (Cont'd)

3) Credit Risk

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

	30 Jun 2020				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	7,553	26,692	39,062	-	73,307
Term financing					
House financing	536,439	509,340	2,918,019	137,685	4,101,483
Syndicated term financing	-	-	1,345,929	-	1,345,929
Hire purchase receivables	43,286	71,693	77,391	9,408	201,778
Other term financing	503,014	605,760	2,572,077	154,477	3,835,328
Bills receivables	75,057	84,066	837,137	616	996,876
Trust receipts	80,473	23,681	346,917	1,332	452,403
Claims on customers under acceptance credits	63,357	85,430	306,110	462	455,359
Staff financing-i	611	56	1,462	15	2,144
Credit cards-i	192,919	195,313	671,422	54,576	1,114,230
Revolving financing	27,142	8,681	2,032,236	-	2,068,059
Other financing	993	504	2,102	37	3,636
	1,530,844	1,611,216	11,149,864	358,608	14,650,532

	31 Dec 2019				
RM'000	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 Interim Disclosures (Cont'd)

3) Credit Risk (Cont'd)

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

		30 Jun 2020				
RM'000		Northern	Southern	Central	Eastern	Total
Cash line-i		393	4,381	5,636	-	10,410
Term financing						
House financing		17,025	15,636	73,649	2,003	108,313
Hire purchase receivables		-	271	60	-	331
Other term financing		6,768	10,763	204,686	5,778	227,995
Bills receivables		30	4,307	12,838	-	17,175
Credit cards-i		2,139	2,799	3,753	440	9,131
Other financing		965	426	1,992	32	3,415
		27,320	38,583	302,614	8,253	376,770

		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 Interim Disclosures (Cont'd)

3) Credit Risk (Cont'd)

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

		30 Jun 2020				
		Maturing within one year	One year to three years	Three years to five years	Over five years	Total
RM'000	Cash line-i	73,307	-	-	-	73,307
	Term financing					
	House financing	7,954	5,259	15,064	4,073,206	4,101,483
	Syndicated term financing	49,751	1,000,654	218,036	77,488	1,345,929
	Hire purchase receivables	9,053	77,278	109,417	6,030	201,778
	Other term financing	361,472	754,488	775,223	1,944,145	3,835,328
	Bills receivables	996,876	-	-	-	996,876
	Trust receipts	452,403	-	-	-	452,403
	Claims on customers under acceptance credits	455,359	-	-	-	455,359
	Staff financing-i	33	188	596	1,327	2,144
	Credit cards-i	1,114,230	-	-	-	1,114,230
	Revolving financing	2,068,059	-	-	-	2,068,059
	Other financing	3,636	-	-	-	3,636
		5,592,133	1,837,867	1,118,336	6,102,196	14,650,532

		31 Dec 2019				
		Maturing within one year	One year to three years	Three years to five years	Over five years	Total
RM'000	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 Interim Disclosures (Cont'd)

3) Credit Risk (Cont'd)

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

30 Jun 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	1,778	-	-	1,632	10,132	305	-	1,302	-	-	3,025	-	18,174
Mining and quarrying	2,970	-	-	7,533	148,630	3,046	-	408	-	-	5,005	-	167,592
Manufacturing	16,042	-	26,277	112,706	757,644	193,691	107,456	118,341	-	-	233,792	94	1,566,043
Electricity, gas and water	896	-	-	24	207,544	5,543	-	200,165	-	-	-	-	414,172
Construction	9,549	-	-	2,676	220,019	112,818	8,541	12,002	-	-	641,505	15	1,007,125
Real estate	-	-	381,193	-	327,021	-	-	-	-	-	142,048	-	850,262
Wholesale & retail trade and restaurants & hotels	19,674	-	-	7,326	155,983	298,146	271,988	110,987	-	-	54,363	88	918,555
Transport, storage and communication	1,326	-	-	27,202	75,406	594	30,493	10,309	-	-	35,137	8	180,475
Finance, takaful and business services	11,834	-	-	12,180	77,391	6,946	-	765	-	-	784,012	113	893,241
Household-retail	15	4,101,483	-	-	1,408,430	-	-	-	2,144	1,114,230	-	3,303	6,629,605
Others	9,223	-	938,459	30,499	447,128	375,787	33,925	1,080	-	-	169,172	15	2,005,288
	73,307	4,101,483	1,345,929	201,778	3,835,328	996,876	452,403	455,359	2,144	1,114,230	2,068,059	3,636	14,650,532

31 Dec 2019 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 Interim Disclosures (Cont'd)

3) Credit Risk (Cont'd)

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

	30 Jun 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
Manufacturing	3,271	-	-	5,940	7,769	-	-	89	17,069
Construction	1,039	-	60	-	1,496	-	-	16	2,611
Wholesale & retail trade and restaurants & hotels	793	-	-	8,978	1,701	-	-	82	11,554
Transport, storage and communication	-	-	271	-	-	-	-	11	282
Finance, takaful and business services	5,306	-	-	461	6,209	-	-	113	12,089
Household-retail	1	108,313	-	186,953	-	-	9,131	3,087	307,485
Others	-	-	-	25,663	-	-	-	17	25,680
	10,410	108,313	331	227,995	17,175	-	9,131	3,415	376,770

	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

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 2020	31 Dec 2019
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	346	-
Manufacturing	21,354	17,169
Electricity, gas and water	24	-
Construction	2,285	10,033
Real estate	5,419	17,092
Wholesale & retail trade and restaurants & hotels	7,112	13,746
Transport, storage and communication	2,324	347
Household-retail	723,053	796,217
Others	2,346	25,397
	764,263	880,001

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

	30 Jun 2020	31 Dec 2019
	RM'000	RM'000
Northern region	98,132	116,145
Southern region	131,705	132,865
Central region	509,127	604,812
Eastern region	25,299	26,179
	764,263	880,001

^[1] of 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 as at 30 June 2020 respectively.

Table 8: Impairment allowance breakdown by sector

	30 Jun 2020	31 Dec 2019
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	115	25
Mining and quarrying	221	91
Manufacturing	10,473	4,826
Electricity, gas and water	14,223	453
Construction	7,032	5,859
Real estate	13,794	29,161
Wholesale & retail trade and restaurants & hotels	5,093	6,508
Transport, storage and communication	910	1,164
Finance, insurance/takaful and business services	141	137
Household-retail	268,319	206,434
Others	9,034	2,607
	329,355	257,265

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 2020	31 Dec 2019
	RM'000	RM'000
Northern region	47,646	29,430
Southern region	41,503	29,048
Central region	230,236	191,956
Eastern region	9,970	6,831
	329,355	257,265

The reconciliation of changes in financing impairment provisions is disclosed in Note 16 (i) of the unaudited condensed interim financial statements as at 30 June 2020.

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

<i>Charges / (Release)</i>	30 Jun 2020	30 Jun 2019
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	90	(7)
Mining and quarrying	129	(84)
Manufacturing	5,643	(408)
Electricity, gas and water	13,770	291
Construction	1,846	152
Real estate	7,048	790
Wholesale & retail trade and restaurants & hotels	4,361	401
Transport, storage and communication	(254)	(320)
Finance, insurance/takaful and business services	(335)	(30)
Household-retail	90,231	37,498
Others	6,046	2,833
	128,575	41,116

The reconciliation of changes in financing impairment provisions is disclosed in Note 28 (i) of the unaudited condensed interim financial statements as at 30 June 2020.

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)

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

30 Jun 2020

RM '000

Exposure Class	Long Term Rating Category							Total
	1	2	3	4	5	6	7	
<u>On and Off Balance Sheet Exposures</u>								
(i) Total rated exposures								
Sovereigns & Central Banks								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	2,119,607	34,562	-	-	-	-		2,154,169
PSEs								
- Exposures risk-weighted using ratings of Corporates	-	352,955	-	-	-	-		352,955
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	42,917	789,391	209,881	-	-	-		1,042,189
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	12,220	-	-	-	-		12,220
- Exposures risk-weighted using ratings of Corporates	540,770	102,549	164,980	-	-	-		808,299
	2,703,294	1,291,677	374,861	-	-	-		4,369,832
(ii) Total unrated exposures								
							15,251,309	15,251,309
Total Long Term Exposure	2,703,294	1,291,677	374,861	-	-	-	15,251,309	19,621,141

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

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

30 Jun 2020

RM '000

Exposure Class	Short Term Rating Category					Total
	1	2	3	4	5	
<u>On and Off Balance Sheet Exposures</u>						
(i) Total rated exposures						
Sovereigns & Central Banks						
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	2,760,058	-	-		2,760,058
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	239,896	942	-	-		240,838
Corporates						
- Exposures risk-weighted using ratings of Corporates	544,256	-	-	-		544,256
	784,152	2,761,000	-	-	-	3,545,152
(ii) Total unrated exposures						
					-	-
Total Short Term Exposures	784,152	2,761,000	-	-	-	3,545,152
Total Long Term and Short Term Exposures:						23,166,293

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

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 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	-	3,072,763	-	-	-	-	-	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 Interim Disclosures (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2019

RM '000

Exposure Class	Short Term Rating Category					Total
	1	2	3	4	5	
<u>On and Off Balance Sheet Exposures</u>						
(i) Total rated exposures						
Sovereigns & Central Banks						
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	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

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

3) Credit Risk

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 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 2020

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	4,916,269	-	-
PSEs	600,698	-	-
Banks, DFIs & MDBs	1,004,495	-	209,881
Corporates	6,369,689	13,691	96,862
Regulatory Retail	2,411,402	12,860	14,343
House Financing	4,078,632	-	-
Higher Risk Assets	4,543	-	151
Other Assets	167,722	-	-
Defaulted Exposures	302,893	4,706	2,080
Total for On-Balance Sheet Exposures	19,856,343	31,257	323,317
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	276,421	-	75,005
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,031,172	32,959	92,967
Defaulted Exposures	2,357	-	-
Total for Off-Balance Sheet Exposures	3,309,950	32,959	167,972
Total On and Off-Balance Sheet Exposures	23,166,293	64,216	491,289

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 2019

RM'000

Exposure Class	Exposures Before Credit Risk Mitigation	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Financial Collateral
<i>Credit Risk</i>			
<i>On-Balance Sheet Exposures</i>			
Sovereigns/Central Banks	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
<i>Off-Balance Sheet Exposures</i>			
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

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 2020		31 Dec 2019	
Basis point parallel shift in yield curves	+ 100 bps	- 100 bps	+ 100 bps	- 100 bps
MYR	(12,333)	39,915	17,680	(35,001)
USD	8,835	(9,313)	(12,692)	10,457
Others	1,894	(1,944)	6,228	(5,880)
	(1,604)	28,658	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			
	30 Jun 2020		31 Dec 2019	
Basis point parallel shift in yield curves	+ 200 bps	- 200 bps	+ 200 bps	- 200 bps
MYR	(124,869)	143,575	(88,221)	104,135
USD	666	(918)	1,017	(1,588)
Others	547	(484)	(2,078)	1,770
	(123,656)	142,173	(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			
	30 Jun 2020		31 Dec 2019	
Basis point parallel shift in yield curves	+ 100bps	- 100bps	+ 100bps	- 100bps
MYR	(35,161)	35,161	(25,449)	25,449
	(35,161)	35,161	(25,449)	25,449

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

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.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (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 period ending 30 June 2020, no actual Shariah non-compliance event has been identified.

b. Shariah Non-Compliance Income:

During the financial period ending 30 June 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 RM4,397 as at 30 June 2020 received from transactions via Nostro Accounts has been reversed to the Account.

The balance of RM7,514 in the Account is pending distribution in the second half of 2020.

Other than the above, there were no other Shariah non-compliance income or other amounts recorded during the financial period ending 30 June 2020.