

**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 2021**

**CHIEF EXECUTIVE OFFICER'S ATTESTATION**

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I, Raja Amir Shah bin Raja Azwa, 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 25 have been prepared according to the Risk Weighted Capital Adequacy Framework (Basel II), and are accurate and complete.

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**RAJA AMIR SHAH BIN RAJA AZWA**

CHIEF EXECUTIVE OFFICER  
28 July 2021

## **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 2021 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 2020 and the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures at 31 December 2020.

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 2020. 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.

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

### **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 <sup>[1]</sup> is divided into Common Equity Tier 1 (CET1) Capital and Additional Tier 1 Capital. CET1 Capital includes ordinary share capital <sup>[2]</sup>, 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 30 June 2021.
- Tier 2 capital <sup>[1]</sup>, which includes qualifying subordinated liabilities <sup>[3]</sup> 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:

- the Capital Ratios computed in accordance with the transitional arrangement
- the Capital Ratios, had the transitional arrangement not been applied.

#### **30 Jun 2021 (RM'000)**

Regulatory Capital	With Transitional Arrangement		Without Transitional Arrangement	
	Amount	%	Amount	%
CET1 Capital	1,851,038	14.275	1,851,038	14.275
Tier 1 Capital	1,851,038	14.275	1,851,038	14.275
Tier 2 Capital	562,911	-	562,911	-
Total Capital	2,413,949	18.616	2,413,949	18.616

#### **31 Dec 2020 (RM'000)**

Regulatory Capital	With Transitional Arrangement		Without Transitional Arrangement	
	Amount	%	Amount	%
CET1 Capital	2,035,167	16.210	1,985,117	15.811
Tier 1 Capital	2,035,167	16.210	1,985,117	15.811
Tier 2 Capital	636,897	-	660,010	-
Total Capital	2,672,064	21.282	2,645,128	21.068

<sup>[1]</sup> Refer to Note 32 of the unaudited condensed interim financial statements as at 30 June 2021 for the amount and breakdown of capital components.

<sup>[2]</sup> 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.

<sup>[3]</sup> Refer to Note 25 of the unaudited condensed interim financial statements as at 30 June 2021 for terms and conditions of the subordinated financing.

**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 2021

(RM'000)

Exposure Class	Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Minimum Capital Requirement at 8%
<b>Credit Risk (Standardised Approach)</b>				
<i>On-Balance Sheet Exposures</i>				
Sovereigns/Central Banks	4,977,135	4,977,135	136,983	10,959
PSEs	480,160	480,160	280,122	22,410
Banks, DFIs & MDBs	616,430	616,430	289,972	23,198
Corporates	5,547,630	5,440,611	5,127,809	410,225
Regulatory Retail	2,093,607	2,079,639	1,696,711	135,737
House Financing	3,833,796	3,833,796	1,416,626	113,330
Higher Risk Assets	5,048	4,899	7,347	588
Other Assets	266,396	266,396	77,667	6,213
Defaulted Exposures	434,483	420,229	388,489	31,079
<b>Total for On-Balance Sheet Exposures</b>	<b>18,254,685</b>	<b>18,119,295</b>	<b>9,421,726</b>	<b>753,739</b>
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	469,164	272,058	210,263	16,821
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,383,791	3,302,238	2,268,232	181,459
Defaulted Exposures	28,230	28,230	20,136	1,611
<b>Total for Off-Balance Sheet Exposures</b>	<b>3,881,185</b>	<b>3,602,526</b>	<b>2,498,631</b>	<b>199,891</b>
<b>Total On and Off-Balance Sheet Exposures <sup>[1]</sup></b>	<b>22,135,870</b>	<b>21,721,821</b>	<b>11,920,357</b>	<b>953,630</b>
<b>Market Risk (Standardised Approach)</b>				
	<u>Long position</u>	<u>Short position</u>		
Profit Rate Risk	1,378,644	2,446,679	(1,068,035)	2,812
Foreign Currency Risk	2,909	837	2,909	233
	<b>1,381,553</b>	<b>2,447,516</b>	<b>(1,065,126)</b>	<b>3,045</b>
<b>Operational Risk (Basic Indicator Approach)</b>	-	-	-	1,008,762
<b>Total RWA and Capital Requirement</b>	-	-	-	<b>12,967,183</b>
				<b>1,037,376</b>

<sup>[1]</sup> 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 2020  
(RM'000)

Exposure Class	Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Minimum Capital Requirement at 8%
<b>Credit Risk (Standardised Approach)</b>				
<i>On-Balance Sheet Exposures</i>				
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
<b>Total for On-Balance Sheet Exposures</b>	<b>18,345,246</b>	<b>18,020,245</b>	<b>9,581,608</b>	<b>766,528</b>
<i>Off-Balance Sheet Exposures</i>				
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
<b>Total for Off-Balance Sheet Exposures</b>	<b>3,336,630</b>	<b>3,069,542</b>	<b>1,916,429</b>	<b>153,315</b>
<b>Total On and Off-Balance Sheet Exposures <sup>[1]</sup></b>	<b>21,681,876</b>	<b>21,089,787</b>	<b>11,498,037</b>	<b>919,843</b>
<b>Market Risk (Standardised Approach)</b>				
	<u>Long position</u>	<u>Short position</u>		
Profit Rate Risk	904,696	1,988,803	(1,084,107)	3,431
Foreign Currency Risk	2,802	9,667	9,667	773
	<b>907,498</b>	<b>1,998,470</b>	<b>(1,074,440)</b>	<b>4,204</b>
Operational Risk (Basic Indicator Approach)	-	-	-	80,373
<b>Total RWA and Capital Requirement</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,004,420</b>

Note:

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

<sup>[1]</sup> 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 2021 for disclosure on RWA breakdown by various risk categories.

**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 2021**  
**(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%	4,311,020	-	-	11,092	10,392	-	-	188,729	4,521,233	-
20%	684,915	426,465	191,355	629,502	351	-	-	-	1,932,588	386,518
35%	-	-	-	-	-	3,996,746	-	-	3,996,746	1,398,861
50%	-	-	637,785	306,129	13,045	240,333	-	-	1,197,292	598,646
75%	-	-	-	-	2,343,235	25,436	-	-	2,368,671	1,776,503
100%	-	398,846	1,799	6,308,757	676,129	133,018	-	77,667	7,596,216	7,596,216
150%	-	-	1,311	2,792	64,632	34,578	5,762	-	109,075	163,613
<b>Total</b>									<b>21,721,821</b>	<b>11,920,357</b>
<b>Average Risk Weight</b>	<b>3%</b>	<b>59%</b>	<b>43%</b>	<b>91%</b>	<b>82%</b>	<b>39%</b>	<b>150%</b>	<b>29%</b>	<b>55%</b>	

**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
<b>Total</b>									<b>21,089,787</b>	<b>11,498,037</b>
<b>Average Risk Weight</b>	<b>1%</b>	<b>53%</b>	<b>41%</b>	<b>88%</b>	<b>82%</b>	<b>39%</b>	<b>150%</b>	<b>26%</b>	<b>55%</b>	

*Note:*

*MDBs - Multilateral Development Banks*

*DFIs - Development Financial Institutions*

**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 2021				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	36,484	17,058	42,621	-	96,163
Term financing					
House financing	509,412	478,842	2,813,716	125,184	3,927,154
Syndicated term financing	58,939	-	1,172,293	-	1,231,232
Factoring receivables	-	-	18,000	-	18,000
Hire purchase receivables	70,491	53,411	78,582	17,626	220,110
Other term financing	270,028	598,181	2,256,017	132,281	3,256,507
Bills receivables	41,031	63,552	665,640	-	770,223
Trust receipts	24,731	3,529	332,528	-	360,788
Claims on customers under acceptance credits	69,772	57,714	98,401	454	226,341
Staff financing-i	1,104	10	1,607	-	2,721
Credit cards-i	171,812	162,863	582,148	49,085	965,908
Revolving financing	36,936	84,945	2,122,037	-	2,243,918
Other financing	928	650	2,266	38	3,882
	<b>1,291,668</b>	<b>1,520,755</b>	<b>10,185,856</b>	<b>324,668</b>	<b>13,322,947</b>

	31 Dec 2020				
RM'000	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
	<b>1,229,704</b>	<b>1,682,219</b>	<b>10,580,814</b>	<b>348,154</b>	<b>13,840,891</b>

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 2021				
RM'000		Northern	Southern	Central	Eastern	Total
Cash line-i		393	4,056	4,516	-	8,965
Term financing						
House financing		50,657	72,614	341,844	11,027	476,142
Hire purchase receivables		-	182	172	-	354
Other term financing		19,003	19,971	274,686	8,728	322,388
Bills receivables		30	3,718	90,925	-	94,673
Credit cards-i		2,882	3,530	9,360	792	16,564
Revolving credit		-	-	237,200	-	237,200
Other financing		916	564	2,148	32	3,660
		<b>73,881</b>	<b>104,635</b>	<b>960,851</b>	<b>20,579</b>	<b>1,159,946</b>

  

		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
		<b>51,444</b>	<b>63,554</b>	<b>477,282</b>	<b>14,415</b>	<b>606,695</b>

**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 2021			
RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line-i	96,163	-	-	-	96,163
Term financing					
House financing	10,364	3,871	14,670	3,898,249	3,927,154
Syndicated term financing	591,930	418,886	87,608	132,808	1,231,232
Factoring receivables	18,000	-	-	-	18,000
Hire purchase receivables	11,279	95,809	113,022	-	220,110
Other term financing	149,680	713,830	893,855	1,499,142	3,256,507
Bills receivables	770,223	-	-	-	770,223
Trust receipts	360,788	-	-	-	360,788
Claims on customers under acceptance credits	226,341	-	-	-	226,341
Staff financing-i	26	117	535	2,043	2,721
Credit cards-i	965,908	-	-	-	965,908
Revolving financing	2,243,918	-	-	-	2,243,918
Other financing	3,882	-	-	-	3,882
	<b>5,448,502</b>	<b>1,232,513</b>	<b>1,109,690</b>	<b>5,532,242</b>	<b>13,322,947</b>

		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
	<b>5,163,910</b>	<b>1,995,288</b>	<b>906,313</b>	<b>5,775,380</b>	<b>13,840,891</b>

**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 2021 RM'000													
Cash line-i	House financing	Syndicated term financing	Factoring receivables	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	1,765	-	-	-	8,183	-	-	1,346	-	-	-	-	11,294
Mining and quarrying	4,659	-	-	-	880	9,079	-	1,386	-	-	5,006	-	108,295
Manufacturing	26,449	-	220,415	-	120,846	104,748	71,793	102,317	-	-	153,557	550	1,475,753
Electricity, gas and water	950	-	-	-	-	1,785	-	722	-	-	138,897	-	148,239
Construction	30,665	-	-	18,000	1,743	209,770	-	4,628	-	-	525,234	15	850,590
Real estate	-	-	295,792	-	-	392,124	-	-	-	-	275,592	-	963,508
Wholesale & retail trade and restaurants & hotels	11,438	-	-	-	26,899	273,494	197,745	105,779	-	-	47,157	135	829,732
Transport, storage and communication	921	-	-	-	28,343	7,515	27,702	7,168	-	-	57,154	-	144,575
Finance, takaful and business services	6,611	-	-	-	9,811	112,477	6,143	2,995	-	-	885,619	119	1,023,775
Household-retail	10	3,927,154	-	-	1,304,005	-	-	-	2,721	965,908	-	3,049	6,202,847
Others	12,695	-	715,025	-	31,588	278,843	306,924	63,548	-	-	155,702	14	1,564,339
	<b>96,163</b>	<b>3,927,154</b>	<b>1,231,232</b>	<b>18,000</b>	<b>220,110</b>	<b>770,223</b>	<b>360,788</b>	<b>226,341</b>	<b>2,721</b>	<b>965,908</b>	<b>2,243,918</b>	<b>3,882</b>	<b>13,322,947</b>

31 Dec 2020

31 Dec 2020 RM'000													
Cash line-i	House financing	Syndicated term financing	Factoring receivables	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	804,710	132,127	40,043	142,898	-	-	94,703	494	1,393,054
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	148,058	13,110	-	1,567	-	-	912,053	113	1,096,363
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
	<b>70,597</b>	<b>4,044,001</b>	<b>1,164,754</b>	<b>206,548</b>	<b>3,669,486</b>	<b>652,868</b>	<b>447,183</b>	<b>282,094</b>	<b>2,286</b>	<b>1,090,323</b>	<b>2,207,130</b>	<b>3,621</b>	<b>13,840,891</b>

**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 2021							
		RM'000							
	Cash line-i	House financing	Hire purchase receivables	Other term financing	Bills receivables	Credit cards-i	Revolving financing	Other financing	Total
Agricultural, hunting, forestry and fishing	264	-	-	-	-	-	-	-	264
Manufacturing	5,505	-	172	4,747	15,058	-	-	550	26,032
Construction	1,039	-	182	927	1,328	-	132,903	15	136,394
Wholesale & retail trade and restaurants & hotels	454	-	-	7,257	2,478	-	-	135	10,324
Finance, takaful and business services	1,702	-	-	8,452	3,698	-	104,297	119	118,268
Household-retail	1	476,142	-	298,741	-	16,564	-	2,827	794,275
Others	-	-	-	2,264	72,111	-	-	14	74,389
	<b>8,965</b>	<b>476,142</b>	<b>354</b>	<b>322,388</b>	<b>94,673</b>	<b>16,564</b>	<b>237,200</b>	<b>3,660</b>	<b>1,159,946</b>

  

		31 Dec 2020							
		RM'000							
	Cash line-i	House financing	Hire purchase receivables	Other term financing	Bills receivables	Credit cards-i	Revolving financing	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
	<b>6,697</b>	<b>264,300</b>	<b>435</b>	<b>288,150</b>	<b>16,109</b>	<b>27,480</b>	<b>-</b>	<b>3,524</b>	<b>606,695</b>

**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 <sup>[1]</sup>**

	<u>30 Jun 2021</u>	<u>31 Dec 2020</u>
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	264	319
Manufacturing	16,147	6,817
Construction	3,344	3,562
Real estate	21,477	506
Wholesale & retail trade and restaurants & hotels	10,840	17,410
Transport, storage and communication	-	213
Household-retail	570,423	635,975
Others	21,851	4,003
	<u>644,346</u>	<u>668,805</u>

**Table 7: All past due financing and advances breakdown by geographical location <sup>[1]</sup>**

	<u>30 Jun 2021</u>	<u>31 Dec 2020</u>
	RM'000	RM'000
Northern region	79,635	80,615
Southern region	88,420	91,816
Central region	456,804	471,881
Eastern region	19,487	24,493
	<u>644,346</u>	<u>668,805</u>

<sup>[1]</sup> 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 2021 respectively.

**Table 8: Impairment allowance breakdown by sector**

	<u>30 Jun 2021</u>	<u>31 Dec 2020</u>
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	47	83
Mining and quarrying	255	25
Manufacturing	12,210	7,995
Electricity, gas and water	45	2
Construction	98,902	4,845
Real estate	9,978	6,266
Wholesale & retail trade and restaurants & hotels	1,946	2,605
Transport, storage and communication	102	891
Finance, insurance/takaful and business services	33,992	66
Household-retail	269,466	320,412
Others	63,953	5,125
	<u>490,896</u>	<u>348,315</u>

**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**

	<b>30 Jun 2021</b>	31 Dec 2020
	<b>RM'000</b>	RM'000
Northern region	<b>28,336</b>	35,613
Southern region	<b>33,619</b>	39,923
Central region	<b>421,051</b>	261,571
Eastern region	<b>7,890</b>	11,208
	<b>490,896</b>	348,315

The breakdown of financing impairment provisions during the period is disclosed in Note 16 (i) of the unaudited condensed interim financial statements as at 30 June 2021.

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

<i>Charges / (Release)</i>	<b>30 Jun 2021</b>	30 Jun 2020
	<b>RM'000</b>	RM'000
Agricultural, hunting, forestry and fishing	<b>(32)</b>	90
Mining and quarrying	<b>230</b>	129
Manufacturing	<b>4,160</b>	5,680
Electricity, gas and water	<b>37</b>	13,770
Construction	<b>94,060</b>	1,846
Real estate	<b>3,706</b>	7,048
Wholesale & retail trade and restaurants & hotels	<b>(642)</b>	4,361
Transport, storage and communication	<b>(654)</b>	(254)
Finance, insurance/takaful and business services	<b>33,925</b>	(372)
Household-retail	<b>(29,674)</b>	90,231
Others	<b>58,693</b>	6,046
	<b>163,809</b>	128,575

The breakdown of financing impairment provisions during the period is disclosed in Note 28 (i) of the unaudited condensed interim financial statements as at 30 June 2021.

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

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### **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 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	<b>S &amp; P</b>	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	<b>Moody's</b>	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	B1 to B3	Caa1 and below	Unrated
	<b>Fitch</b>	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	<b>RAM</b>	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to BB3	B1 to B3	C1 and below	Unrated
	<b>MARC</b>	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	<b>S &amp; P</b>	A-1	A-2	A-3	Others	Unrated
	<b>Moody's</b>	P-1	P-2	P-3	Others	Unrated
	<b>Fitch</b>	F1+,F1	F2	F3	B to D	Unrated
	<b>RAM</b>	P-1	P-2	P-3	NP	Unrated
	<b>MARC</b>	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 2021

RM '000

Exposure Class	Long Term Rating Category							Total
	1	2	3	4	5	6	7	
<b>On and Off Balance Sheet Exposures</b>								
<b>(i) Total rated exposures</b>								
<b>Sovereigns &amp; Central Banks</b>								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	4,311,020	684,915	-	-	-	-		4,995,935
<b>PSEs</b>								
- Exposures risk-weighted using ratings of Corporates	28,745	-	-	-	-	-		28,745
<b>Banks, DFIs &amp; MDBs</b>								
- Exposures risk-weighted using ratings of Banking Institutions	311,504	623,874	-	-	-	-		935,378
<b>Corporates</b>								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	1,759	-	-	-	-	-		1,759
- Exposures risk-weighted using ratings of Corporates	577,858	67,089	58,755	-	-	-		703,702
	5,230,886	1,375,878	58,755	-	-	-		6,665,519
<b>(ii) Total unrated exposures</b>							15,063,134	15,063,134
<b>Total Long Term Exposure</b>	5,230,886	1,375,878	58,755	-	-	-	15,063,134	21,728,653

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

**3) Credit Risk (Cont'd)**

**i) ECAIs (Cont'd)**

30 Jun 2021

RM '000

Exposure Class	Short Term Rating Category					Total
	1	2	3	4	5	
<b>On and Off Balance Sheet Exposures</b>						
<b>(i) Total rated exposures</b>						
<b>PSEs</b>						
- Exposures risk-weighted using ratings of Corporates	147,673	-	-	-		147,673
<b>Banks, DFIs &amp; MDBs</b>						
- Exposures risk-weighted using ratings of Banking Institutions	79,488	745	-	-		80,233
<b>Corporates</b>						
- Exposures risk-weighted using ratings of Corporates	179,311	-	-	-		179,311
	406,472	745	-	-	-	407,217
<b>(ii) Total unrated exposures</b>						
					-	-
<b>Total Short Term Exposures</b>	<b>406,472</b>	<b>745</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>407,217</b>
<b>Total Long Term and Short Term Exposures:</b>						<b>22,135,870</b>

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

**3) Credit Risk (Cont'd)**

**i) ECAIs (Cont'd)**

31 Dec 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	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
<b>Total Long Term Exposures</b>	<b>5,153,375</b>	<b>1,006,325</b>	<b>316,988</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,542,084</b>	<b>21,018,772</b>

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

**3) Credit Risk (Cont'd)**

**i) ECAIs (Cont'd)**

31 Dec 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						
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					-	-
<b>Total Short Term Exposures</b>	<b>662,056</b>	<b>1,048</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>663,104</b>
<b>Total Long Term and Short Term Exposures</b>						<b>21,681,876</b>

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)**

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### **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 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 2021**

**RM'000**

<b>Exposure Class</b>	<b>Exposures Before Credit Risk Mitigation</b>	<b>Exposures Covered by Guarantees / Credit Derivatives</b>	<b>Exposures Covered by Eligible Financial Collateral</b>
<b><u>Credit Risk</u></b>			
<i>On-Balance Sheet Exposures</i>			
Sovereigns/Central Banks	4,977,135	-	-
PSEs	480,160	-	-
Banks, DFIs & MDBs	616,430	-	-
Corporates	5,547,630	138,259	107,019
Regulatory Retail	2,093,607	8,867	13,968
House Financing	3,833,796	-	-
Higher Risk Assets	5,048	-	149
Other Assets	266,396	-	-
Defaulted Exposures	434,483	6,001	14,254
<b>Total for On-Balance Sheet Exposures</b>	<b>18,254,685</b>	<b>153,127</b>	<b>135,390</b>
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	469,164	-	197,106
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,383,791	38,281	81,553
Defaulted Exposures	28,230	-	-
<b>Total for Off-Balance Sheet Exposures</b>	<b>3,881,185</b>	<b>38,281</b>	<b>278,659</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>22,135,870</b>	<b>191,408</b>	<b>414,049</b>

**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 2020

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	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
<b>Total for On-Balance Sheet Exposures</b>	<b>18,345,246</b>	<b>153,851</b>	<b>325,001</b>
<i>Off-Balance Sheet Exposures</i>			
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	-	-
<b>Total for Off-Balance Sheet Exposures</b>	<b>3,336,630</b>	<b>39,704</b>	<b>267,088</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>21,681,876</b>	<b>193,555</b>	<b>592,089</b>

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 2021		31 Dec 2020	
Basis point parallel shift in yield curves	+ 100 bps	- 100 bps	+ 100 bps	- 100 bps
MYR	(12,907)	3,135	(14,418)	6,671
USD	4,855	(1,264)	2,380	(256)
Others	1,355	(482)	6,554	1,566
	<b>(6,697)</b>	<b>1,389</b>	<b>(5,484)</b>	<b>7,981</b>

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 2021		31 Dec 2020	
Basis point parallel shift in yield curves	+ 200 bps	- 200 bps	+ 200 bps	- 200 bps
MYR	(103,104)	117,354	(107,964)	124,123
USD	(2,094)	912	(13,375)	6,919
Others	(606)	397	(2,042)	1,113
	<b>(105,804)</b>	<b>118,663</b>	<b>(123,381)</b>	<b>132,155</b>

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 2021		31 Dec 2020	
Basis point parallel shift in yield curves	+ 100bps	- 100bps	+ 100bps	- 100bps
MYR	(28,165)	28,165	(23,675)	23,675
	<b>(28,165)</b>	<b>28,165</b>	<b>(23,675)</b>	<b>23,675</b>

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

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### **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 Document (SGPD) 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 SGPD**

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)**

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### **5) Shariah Governance (Cont'd)**

#### **Qualitative Disclosures - Key Components and Core Shariah Functions in Implementing and Monitoring the Shariah Governance Practices as per the SGPD (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 2021, no actual Shariah non-compliance event has been identified.

###### **b. Shariah Non-Compliance Income:**

During the financial period ending 30 June 2021 the following amounts are recorded in the Shariah Penalty & Impure Income Account (the Account):

- i) The amount of RM944 in the Account was carried forward from 2020 to 2021.
- ii) Income from inadvertent Shariah non-compliance activities identified by the Bank's management amounted to RM949 as at 30 June 2021 received from transactions via Nostro Accounts has been reversed to the Account.

The balance of RM1,893 in the Account is pending distribution in second half of 2021.

Other than the above, there were no other Shariah non-compliance income or other amounts recorded during the financial period ending 30 June 2021.