

**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 2023**

**DIRECTOR'S ATTESTATION**

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I, Dato' Omar Siddiq bin Amin Noer Rashid, being the Non-Independent Executive Director 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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**DATO' OMAR SIDDIQ BIN AMIN NOER RASHID**

NON-INDEPENDENT EXECUTIVE DIRECTOR  
21 July 2023

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

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The Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures at 30 June 2023 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 2022 and the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures at 31 December 2022.

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 2022. 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 is a key part of our risk management and capital and liquidity planning. Stress testing provides management with key insights into the impact of adverse events, and provides confidence to regulators on the Bank's financial stability.

As well as undertaking regulatory-driven stress tests, the Bank conducts 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 to understand the nature and extent of vulnerabilities to which the Bank is exposed to and informed decisions about capital or liquidity levels.

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) or Executive Committee (EXCO) and Risk Committee (RC) to the Board for approval.

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

### **Capital structure**

The Bank's regulatory capital comprises of 2 categories - Tier 1 and Tier 2.

- Tier 1 capital <sup>[1]</sup> is divided into Common Equity Tier 1 (CET1) Capital and Additional Tier 1 (AT1) Capital. CET1 Capital includes ordinary share capital <sup>[2]</sup>, retained earnings, reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. On 19 August 2022, the Bank had issued AT1 capital in the form of Wakalah Financing Facility which was fully subscribed by HSBC Bank Malaysia Berhad (HBMV).
- Tier 2 capital <sup>[1]</sup>, which includes 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. On 19 August 2022, the Bank had fully redeemed its Tier 2 subordinated commodity murabahah financing.

Pursuant to BNM's Guidelines on Capital Adequacy Framework for Islamic Banks (Capital Components) 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 CET1, 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 June 2023 (RM'000)**

Regulatory Capital	With Transitional Arrangement		Without Transitional Arrangement	
	Amount	%	Amount	%
CET1 Capital	2,302,748	15.649	2,281,824	15.506
Tier 1 Capital	2,803,811	19.054	2,782,887	18.912
Tier 2 Capital	168,032	-	168,032	-
Total Capital	2,971,843	20.196	2,950,919	20.053

### **31 Dec 2022 (RM'000)**

Regulatory Capital	With Transitional Arrangement		Without Transitional Arrangement	
	Amount	%	Amount	%
CET1 Capital	2,141,137	14.465	2,141,137	14.465
Tier 1 Capital	2,642,200	17.849	2,642,200	17.849
Tier 2 Capital	169,287	-	169,287	-
Total Capital	2,811,487	18.993	2,811,487	18.993

<sup>[1]</sup> Refer to Note 33 of the unaudited condensed interim financial statements as at 30 June 2023 for the amount and breakdown of capital components.

<sup>[2]</sup> Refer to Note 26 of the financial statements as at 31 December 2022 for further details on ordinary share capital. All ordinary shares in issue confer identical rights in respect of capital, dividends and voting.

**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 June 2023**  
**(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	7,194,714	7,194,714	315,641	25,251
PSEs	739,554	739,554	294,790	23,583
Banks, DFIs & MDBs	1,044,778	1,044,778	448,011	35,841
Corporates	6,487,081	6,378,544	5,846,131	467,690
Regulatory Retail	2,145,351	2,133,079	1,697,738	135,819
House Financing	3,528,171	3,528,171	1,324,318	105,945
Higher Risk Assets	3,747	3,597	5,395	432
Other Assets	122,470	122,470	41,872	3,350
Defaulted Exposures	326,300	325,280	350,532	28,043
<b>Total for On-Balance Sheet Exposures</b>	<b>21,592,166</b>	<b>21,470,187</b>	<b>10,324,428</b>	<b>825,954</b>
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	677,652	428,059	426,633	34,131
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,832,063	3,729,553	2,683,842	214,707
Defaulted Exposures	5,215	5,215	7,639	611
<b>Total for Off-Balance Sheet Exposures</b>	<b>4,514,930</b>	<b>4,162,827</b>	<b>3,118,114</b>	<b>249,449</b>
<b>Total On and Off-Balance Sheet Exposures <sup>[1]</sup></b>	<b>26,107,096</b>	<b>25,633,014</b>	<b>13,442,542</b>	<b>1,075,403</b>
<b>Market Risk (Standardised Approach)</b>				
	<u>Long position</u>	<u>Short position</u>		
Profit Rate Risk	1,046,903	3,100,729	(2,053,826)	171,709
Foreign Currency Risk	3,532	2,802	3,532	283
	<b>1,050,435</b>	<b>3,103,531</b>	<b>(2,050,294)</b>	<b>175,241</b>
<b>Operational Risk (Basic Indicator Approach)</b>	-	-	-	1,097,530
<b>Total RWA and Capital Requirement</b>	-	-	-	<b>14,715,313</b>
				<b>1,177,225</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 2022  
(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	7,405,631	7,405,631	316,847	25,348
PSEs	688,543	688,543	270,532	21,643
Banks, DFIs & MDBs	1,137,108	1,137,108	451,161	36,093
Corporates	6,528,440	6,389,355	6,043,695	483,496
Regulatory Retail	2,239,306	2,229,038	1,782,551	142,604
House Financing	3,577,658	3,577,658	1,340,043	107,203
Higher Risk Assets	5,057	4,906	7,360	589
Other Assets	223,296	223,296	52,307	4,185
Defaulted Exposures	281,525	280,387	279,042	22,323
<b>Total for On-Balance Sheet Exposures</b>	<b>22,086,564</b>	<b>21,935,922</b>	<b>10,543,538</b>	<b>843,484</b>
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	491,190	107,822	107,243	8,579
Off balance sheet exposures other than OTC derivatives or credit derivatives	4,047,256	3,938,607	2,882,131	230,570
Defaulted Exposures	9,531	9,531	10,044	804
<b>Total for Off-Balance Sheet Exposures</b>	<b>4,547,977</b>	<b>4,055,960</b>	<b>2,999,418</b>	<b>239,953</b>
<b>Total On and Off-Balance Sheet Exposures <sup>[1]</sup></b>	<b>26,634,541</b>	<b>25,991,882</b>	<b>13,542,956</b>	<b>1,083,437</b>
<b>Market Risk (Standardised Approach)</b>				
	<u>Long position</u>	<u>Short position</u>		
Profit Rate Risk	3,383,174	5,543,033	(2,159,859)	16,465
Foreign Currency Risk	1,269	2,954	2,954	236
	<b>3,384,443</b>	<b>5,545,987</b>	<b>(2,156,905)</b>	<b>16,701</b>
<b>Operational Risk (Basic Indicator Approach)</b>	-	-	-	84,077
<b>Total RWA and Capital Requirement</b>	-	-	-	<b>1,184,215</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 33 of the unaudited condensed interim financial statements as at 30 June 2023 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 for credit risk of the Bank at balance sheet date.

**30 June 2023**  
(RM'000)

Risk Weights	Exposures after Netting and Credit Risk Mitigation								Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	PSEs	Banks, DFIs & MDBs	Corporates	Regulatory Retail	House Financing	Higher Risk Assets	Other Assets		
0%	5,635,507	-	-	41,750	16,366	-	-	80,597	5,774,220	-
20%	1,578,207	645,799	464,317	794,576	-	-	-	-	3,482,899	696,580
35%	-	-	-	-	-	3,634,721	-	-	3,634,721	1,272,152
50%	-	-	692,952	391,774	25,157	259,445	-	-	1,369,328	684,664
75%	-	-	-	-	2,409,491	124,723	-	-	2,534,214	1,900,661
100%	-	604,083	66,631	7,336,167	499,270	187,904	-	41,872	8,735,927	8,735,927
150%	-	-	-	13,701	49,177	33,951	4,876	-	101,705	152,558
<b>Total</b>									<b>25,633,014</b>	<b>13,442,542</b>
<b>Average Risk Weight</b>	<b>4%</b>	<b>59%</b>	<b>41%</b>	<b>90%</b>	<b>80%</b>	<b>41%</b>	<b>150%</b>	<b>34%</b>	<b>52%</b>	

**31 Dec 2022**  
(RM'000)

Risk Weights	Exposures after Netting and Credit Risk Mitigation								Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	PSEs	Banks, DFIs & MDBs	Corporates	Regulatory Retail	House Financing	Higher Risk Assets	Other Assets		
0%	5,840,396	-	-	21,510	12,379	-	-	170,989	6,045,274	-
20%	1,584,235	710,086	598,396	656,365	-	-	-	-	3,549,082	709,816
35%	-	-	-	-	-	3,667,070	-	-	3,667,070	1,283,475
50%	-	-	649,120	193,100	25,406	265,534	-	-	1,133,160	566,580
75%	-	-	-	-	2,466,688	122,535	-	-	2,589,223	1,941,917
100%	-	270,276	67,630	7,850,167	539,861	161,643	-	52,307	8,941,884	8,941,884
150%	-	-	-	10,676	18,704	31,427	5,382	-	66,189	99,284
<b>Total</b>									<b>25,991,882</b>	<b>13,542,956</b>
<b>Average Risk Weight</b>	<b>4%</b>	<b>42%</b>	<b>39%</b>	<b>93%</b>	<b>79%</b>	<b>40%</b>	<b>150%</b>	<b>23%</b>	<b>52%</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 June 2023				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	20,491	22,652	40,838	-	83,981
Term financing					
House financing	464,192	411,353	2,638,644	106,028	3,620,217
Syndicated term financing	34,699	-	1,227,778	-	1,262,477
Hire purchase receivables	57,512	98,891	54,340	20,020	230,763
Other term financing	311,355	470,077	3,325,310	124,355	4,231,097
Bills receivables	74,350	71,262	898,526	-	1,044,138
Trust receipts	19,924	22,135	384,740	-	426,799
Claims on customers under acceptance credits	115,812	32,145	76,608	946	225,511
Staff financing-i	363	-	1,062	-	1,425
Credit cards-i	208,998	198,355	722,298	52,375	1,182,026
Revolving financing	116,113	204,617	1,462,803	-	1,783,533
Other financing	377	299	1,711	14	2,401
	<b>1,424,186</b>	<b>1,531,786</b>	<b>10,834,658</b>	<b>303,738</b>	<b>14,094,368</b>

	31 Dec 2022				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	19,923	27,766	36,708	-	84,397
Term financing					
House financing	476,656	424,368	2,655,924	109,298	3,666,246
Syndicated term financing	33,798	-	841,099	-	874,897
Hire purchase receivables	63,310	105,427	51,050	14,601	234,388
Other term financing	325,646	496,238	3,700,472	128,419	4,650,775
Bills receivables	94,174	44,784	830,721	-	969,679
Trust receipts	4,339	45,003	694,418	-	743,760
Claims on customers under acceptance credits	65,145	35,568	94,325	907	195,945
Staff financing-i	406	4	1,238	-	1,648
Credit cards-i	212,048	197,816	722,134	53,410	1,185,408
Revolving financing	141,903	71,481	1,522,590	-	1,735,974
Other financing	316	434	1,439	27	2,216
	<b>1,437,664</b>	<b>1,448,889</b>	<b>11,152,118</b>	<b>306,662</b>	<b>14,345,333</b>

Concentration by location for financing and advances is based on the location of branches where facilities were captured.

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 June 2023				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	-	4,340	3,024	-	7,364
Term financing					
House financing	27,802	43,038	241,316	6,312	318,468
Hire purchase receivables	8,070	6	172	-	8,248
Other term financing	7,651	10,165	211,561	6,772	236,149
Bills receivables	-	1,674	9,067	-	10,741
Credit cards-i	2,373	1,992	8,373	589	13,327
Revolving credit	-	-	152,599	-	152,599
Other financing	362	173	1,515	10	2,060
	<b>46,258</b>	<b>61,388</b>	<b>627,627</b>	<b>13,683</b>	<b>748,956</b>

  

	31 Dec 2022				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	-	2,437	3,194	-	5,631
Term financing					
House financing	38,747	53,423	319,357	7,534	419,061
Hire purchase receivables	-	-	172	-	172
Other term financing	11,352	11,874	248,239	10,188	281,653
Bills receivables	-	874	26,883	-	27,757
Credit cards-i	3,221	3,485	11,241	1,017	18,964
Revolving credit	-	-	216,747	-	216,747
Other financing	296	368	1,256	26	1,946
	<b>53,616</b>	<b>72,461</b>	<b>827,089</b>	<b>18,765</b>	<b>971,931</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 June 2023			
RM'000	Maturing within one year	More than one year to three years	More than three years to five years	More than five years	Total
Cash line-i	83,981	-	-	-	83,981
Term financing					
House financing	21,779	6,312	24,577	3,567,549	3,620,217
Syndicated term financing	39,174	1,082,967	140,336	-	1,262,477
Hire purchase receivables	16,964	74,772	135,382	3,645	230,763
Other term financing	640,560	766,225	1,595,750	1,228,562	4,231,097
Bills receivables	1,044,138	-	-	-	1,044,138
Trust receipts	426,799	-	-	-	426,799
Claims on customers under acceptance credits	225,511	-	-	-	225,511
Staff financing-i	10	98	411	906	1,425
Credit cards-i	1,182,026	-	-	-	1,182,026
Revolving financing	1,783,533	-	-	-	1,783,533
Other financing	2,401	-	-	-	2,401
	<b>5,466,876</b>	<b>1,930,374</b>	<b>1,896,456</b>	<b>4,800,662</b>	<b>14,094,368</b>

		31 Dec 2022			
RM'000	Maturing within one year	More than one year to three years	More than three years to five years	More than five years	Total
Cash line-i	84,397	-	-	-	84,397
Term financing					
House financing	22,876	6,162	22,878	3,614,330	3,666,246
Syndicated term financing	-	599,968	274,929	-	874,897
Hire purchase receivables	14,351	73,538	146,499	-	234,388
Other term financing	159,146	1,642,038	1,459,951	1,389,640	4,650,775
Bills receivables	969,679	-	-	-	969,679
Trust receipts	743,760	-	-	-	743,760
Claims on customers under acceptance credits	195,945	-	-	-	195,945
Staff financing-i	18	216	366	1,048	1,648
Credit cards-i	1,185,408	-	-	-	1,185,408
Revolving financing	1,735,974	-	-	-	1,735,974
Other financing	2,216	-	-	-	2,216
	<b>5,113,770</b>	<b>2,321,922</b>	<b>1,904,623</b>	<b>5,005,018</b>	<b>14,345,333</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 June 2023 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	-	-	1,993	4,938	-	-	-	-	-	-	-	6,931
Mining and quarrying	7,358	-	4,032	2	29,058	-	2,335	-	-	5,014	-	47,799
Manufacturing	17,940	-	151,377	139,710	567,199	188,163	59,079	124,628	-	147,438	40	1,395,574
Electricity, gas and water	-	-	-	4,383	916	-	1,973	-	-	59,759	-	67,031
Construction	11,690	-	164,698	150	324,167	53,994	9,867	-	-	491,875	-	1,056,441
Real estate	-	-	349,782	-	857,548	-	-	-	-	104,327	-	1,311,657
Wholesale & retail trade and restaurants & hotels	17,832	-	-	19,165	185,748	306,385	298,417	85,002	-	79,251	7	991,807
Transport, storage and communication	192	-	-	30,230	170,745	24,245	1,027	325	-	23,264	28	250,056
Finance, takaful and business services	15,371	-	-	2,894	348,512	14,879	-	1,381	-	540,563	-	923,600
Household-retail	33	3,620,217	-	-	1,070,135	-	-	-	1,425	1,182,026	-	5,876,162
Others	13,565	-	596,620	32,589	697,720	426,498	68,276	-	-	332,042	-	2,167,310
<b>83,981</b>	<b>3,620,217</b>	<b>1,262,477</b>	<b>230,763</b>	<b>4,231,097</b>	<b>1,044,138</b>	<b>426,799</b>	<b>225,511</b>	<b>1,425</b>	<b>1,182,026</b>	<b>1,783,533</b>	<b>2,401</b>	<b>14,094,368</b>

  

31 Dec 2022 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	40	-	2,229	5,653	-	-	-	-	-	-	-	7,922
Mining and quarrying	4,286	-	516	2	24,310	-	3,544	-	-	16,928	-	49,586
Manufacturing	26,309	-	146,660	629,981	144,108	337,330	69,811	-	-	94,018	33	1,613,701
Electricity, gas and water	-	-	-	5,051	3,016	-	2,011	-	-	57,826	-	67,904
Construction	11,196	-	177	355,477	44,371	-	16,783	-	-	401,695	-	976,846
Real estate	-	-	-	1,130,502	-	-	-	-	-	137,886	-	1,268,388
Wholesale & retail trade and restaurants & hotels	13,878	-	18,237	184,900	476,869	276,565	100,451	-	-	54,093	4	1,124,997
Transport, storage and communication	14	-	22,426	172,725	18,848	50,330	249	-	-	41,156	-	305,748
Finance, takaful and business services	16,144	-	4,460	321,072	40,209	-	3,096	-	-	792,946	-	1,177,927
Household-retail	62	3,666,246	-	1,132,018	-	-	-	1,648	1,185,408	-	2,178	5,987,560
Others	12,468	-	39,683	713,394	217,948	79,535	-	-	-	139,426	1	1,764,754
<b>84,397</b>	<b>3,666,246</b>	<b>874,897</b>	<b>234,388</b>	<b>4,650,775</b>	<b>969,679</b>	<b>743,760</b>	<b>195,945</b>	<b>1,648</b>	<b>1,185,408</b>	<b>1,735,974</b>	<b>2,216</b>	<b>14,345,333</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 June 2023								
	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	-	-	-	452	-	-	-	-	452
Manufacturing	4,354	-	172	3,398	4,323	-	-	40	12,287
Electricity, gas and water	-	-	-	-	-	-	59,695	-	59,695
Construction	-	-	5	1,139	-	-	92,904	-	94,048
Real estate	-	-	-	3,448	-	-	-	-	3,448
Wholesale & retail trade and restaurants & hotels	2,135	-	8,071	1,099	1,857	-	-	7	13,169
Transport, storage and communication	-	-	-	1,878	1,507	-	-	28	3,413
Finance, takaful and business services	870	-	-	-	3,054	-	-	-	3,924
Household-retail	5	318,468	-	224,735	-	13,327	-	1,985	558,520
	<b>7,364</b>	<b>318,468</b>	<b>8,248</b>	<b>236,149</b>	<b>10,741</b>	<b>13,327</b>	<b>152,599</b>	<b>2,060</b>	<b>748,956</b>

  

	31 Dec 2022								
	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	40	-	-	-	-	-	-	-	40
Manufacturing	4,643	-	172	4,120	5,061	-	-	33	14,029
Electricity, gas and water	-	-	-	-	-	-	57,826	-	57,826
Construction	-	-	-	1,229	-	-	114,841	-	116,070
Real estate	-	-	-	3,639	-	-	-	-	3,639
Wholesale & retail trade and restaurants & hotels	-	-	-	3,552	517	-	-	4	4,073
Transport, storage and communication	-	-	-	-	1,532	-	-	-	1,532
Finance, takaful and business services	946	-	-	5,814	3,036	-	44,080	-	53,876
Household-retail	2	419,061	-	262,558	-	18,964	-	1,908	702,493
Others	-	-	-	741	17,611	-	-	1	18,353
	<b>5,631</b>	<b>419,061</b>	<b>172</b>	<b>281,653</b>	<b>27,757</b>	<b>18,964</b>	<b>216,747</b>	<b>1,946</b>	<b>971,931</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>**

	<b>30 June 2023</b>	<b>31 Dec 2022</b>
	<b>RM'000</b>	<b>RM'000</b>
Agricultural, hunting, forestry and fishing	452	492
Manufacturing	14,476	13,451
Electricity, gas and water	59,759	57,970
Construction	5,654	9,228
Real estate	1,164	4,168
Wholesale & retail trade and restaurants & hotels	14,640	12,011
Transport, storage and communication	28	842
Finance, takaful and business services	2,843	52,152
Household-retail	659,894	722,411
Others	628	23,475
	<b>759,538</b>	<b>896,200</b>

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

	<b>30 June 2023</b>	<b>31 Dec 2022</b>
	<b>RM'000</b>	<b>RM'000</b>
Northern region	85,293	92,131
Southern region	91,724	97,368
Central region	565,049	678,975
Eastern region	17,472	27,726
	<b>759,538</b>	<b>896,200</b>

<sup>[1]</sup> of which the portion of impaired financing and advances breakdown by sector and geographical location is disclosed in Note 16 (iii) and 16 (v) of the unaudited condensed interim financial statements as at 30 June 2023 respectively.

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

	<b>30 June 2023</b>	<b>31 Dec 2022</b>
	<b>RM'000</b>	<b>RM'000</b>
Agricultural, hunting, forestry and fishing	23	30
Mining and quarrying	52	45
Manufacturing	13,746	9,921
Electricity, gas and water	57,908	56,488
Construction	101,880	101,417
Real estate	4,746	3,359
Wholesale & retail trade and restaurants & hotels	12,365	1,645
Transport, storage and communication	2,019	1,253
Finance, insurance/takaful and business services	2,751	51,502
Household-retail	254,998	258,387
Others	1,869	18,275
	<b>452,357</b>	<b>502,322</b>

**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 June 2023</b>	31 Dec 2022
	<b>RM'000</b>	RM'000
Northern region	<b>36,079</b>	24,964
Southern region	<b>35,755</b>	29,777
Central region	<b>371,417</b>	439,601
Eastern region	<b>9,106</b>	7,980
	<b>452,357</b>	502,322

The breakdown of financing impairment allowance during the period is disclosed in Note 17 (i) of the unaudited condensed interim financial statements as at 30 June 2023.

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

<i>(Releases) / Charges</i>	<b>30 June 2023</b>	30 Jun 2022
	<b>RM'000</b>	RM'000
Agricultural, hunting, forestry and fishing	<b>(8)</b>	2
Mining and quarrying	<b>6</b>	43
Manufacturing	<b>1,452</b>	(3,908)
Electricity, gas and water	<b>(1,917)</b>	54,253
Construction	<b>461</b>	(2,260)
Real estate	<b>1,388</b>	(6,259)
Wholesale & retail trade and restaurants & hotels	<b>10,710</b>	(229)
Transport, storage and communication	<b>685</b>	643
Finance, insurance/takaful and business services	<b>880</b>	232
Household-retail	<b>27,883</b>	(20,139)
Others	<b>682</b>	(1,496)
	<b>42,222</b>	20,882

The breakdown of financing net impairment allowance during the period is disclosed in Note 29 (i) of the unaudited condensed interim financial statements as at 30 June 2023.

## **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

For the purpose of Pillar 3 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) ECAs (Cont'd)**

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

**30 June 2023**  
**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	4,251,187	1,578,207	-	-	-	-		5,829,394
<b>PSEs</b>								
- Exposures risk-weighted using ratings of Corporates	247,089	-	-	-	-	-		247,089
<b>Banks, DFIs &amp; MDBs</b>								
- Exposures risk-weighted using ratings of Banking Institutions	333,613	650,585	-	-	922	-		985,120
<b>Corporates</b>								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	22,739	-	-	-	-	-		22,739
- Exposures risk-weighted using ratings of Corporates	616,679	4,089	13,627	-	-	-		634,395
	5,471,307	2,232,881	13,627	-	922	-		7,718,737
<b>(ii) Total unrated exposures</b>								
							15,952,400	15,952,400
<b>Total Long Term Exposure</b>	<b>5,471,307</b>	<b>2,232,881</b>	<b>13,627</b>	<b>-</b>	<b>922</b>	<b>-</b>	<b>15,952,400</b>	<b>23,671,137</b>



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

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

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

30 June 2023

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>Sovereigns &amp; Central Banks</b>						
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	1,384,320	-	-		1,384,320
<b>PSEs</b>						
- Exposures risk-weighted using ratings of Corporates	9,956	-	-	-		9,956
<b>Banks, DFIs &amp; MDBs</b>						
- Exposures risk-weighted using ratings of Banking Institutions	399,746	495	-	-		400,241
<b>Corporates</b>						
- Exposures risk-weighted using ratings of Corporates	641,442	-	-	-		641,442
	1,051,144	1,384,815	-	-	-	2,435,959
<b>(ii) Total unrated exposures</b>						
					-	-
<b>Total Short Term Exposures</b>	<b>1,051,144</b>	<b>1,384,815</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,435,959</b>
<b>Total Long Term and Short Term Exposures:</b>						<b>26,107,096</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 2022  
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	5,644,987	1,584,235	-	-	-	-		7,229,222
PSEs								
- Exposures risk-weighted using ratings of Corporates	98,747	-	-	-	-	-		98,747
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	464,204	617,892	-	-	4,889	-		1,086,985
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	4,891	-	-	-	-	-		4,891
- Exposures risk-weighted using ratings of Corporates	657,927	41,085	12,856	-	-	-		711,868
	6,870,756	2,243,212	12,856	-	4,889	-		9,131,713
(ii) Total unrated exposures							16,427,730	16,427,730
<b>Total Long Term Exposures</b>	<b>6,870,756</b>	<b>2,243,212</b>	<b>12,856</b>	<b>-</b>	<b>4,889</b>	<b>-</b>	<b>16,427,730</b>	<b>25,559,443</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 2022  
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	-	195,409	-	-		195,409
PSEs						
- Exposures risk-weighted using ratings of Corporates	118,648	-	-	-		118,648
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	542,915	2,588	1,059	-		546,562
Corporates						
- Exposures risk-weighted using ratings of Corporates	214,479	-	-	-		214,479
	876,042	197,997	1,059	-	-	1,075,098
(ii) Total unrated exposures					-	-
<b>Total Short Term Exposures</b>	<b>876,042</b>	<b>197,997</b>	<b>1,059</b>	<b>-</b>	<b>-</b>	<b>1,075,098</b>
<b>Total Long Term and Short Term Exposures</b>						<b>26,634,541</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 fulfil 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 annually, 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 June 2023**

**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	7,194,714	-	-
PSEs	739,554	-	-
Banks, DFIs & MDBs	1,044,778	-	-
Corporates	6,487,081	120,130	108,537
Regulatory Retail	2,145,351	13,041	12,272
House Financing	3,528,171	-	-
Higher Risk Assets	3,747	-	150
Other Assets	122,470	-	-
Defaulted Exposures	326,300	5,946	1,020
<b>Total for On-Balance Sheet Exposures</b>	<b>21,592,166</b>	<b>139,117</b>	<b>121,979</b>
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	677,652	-	249,593
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,832,063	78,587	102,510
Defaulted Exposures	5,215	-	-
<b>Total for Off-Balance Sheet Exposures</b>	<b>4,514,930</b>	<b>78,587</b>	<b>352,103</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>26,107,096</b>	<b>217,704</b>	<b>474,082</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 2022

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	7,405,631	-	-
PSEs	688,543	-	-
Banks, DFIs & MDBs	1,137,108	-	-
Corporates	6,528,440	106,169	139,085
Regulatory Retail	2,239,306	9,764	10,268
House Financing	3,577,658	-	-
Higher Risk Assets	5,057	-	151
Other Assets	223,296	-	-
Defaulted Exposures	281,525	5,408	1,138
<b>Total for On-Balance Sheet Exposures</b>	<b>22,086,564</b>	<b>121,341</b>	<b>150,642</b>
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	491,190	-	383,368
Off balance sheet exposures other than OTC derivatives or credit derivatives	4,047,256	71,915	108,649
Defaulted Exposures	9,531	-	-
<b>Total for Off-Balance Sheet Exposures</b>	<b>4,547,977</b>	<b>71,915</b>	<b>492,017</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>26,634,541</b>	<b>193,256</b>	<b>642,659</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 June 2023		31 Dec 2022	
Basis point parallel shift in yield curves	+ 100 bps	- 100 bps	+ 100 bps	- 100 bps
MYR	51,120	(47,881)	6,038	(7,000)
USD	4,999	(4,983)	17,966	(17,947)
Others	3,646	(3,627)	7,074	(7,056)
	<b>59,765</b>	<b>(56,491)</b>	<b>31,078</b>	<b>(32,003)</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:

**Sensitivity of projected Economic value of equity**

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

	RM'000			
	30 June 2023		31 Dec 2022	
Basis point parallel shift in yield curves	+ 200 bps	- 200 bps	+ 200 bps	- 200 bps
MYR	(2,040)	7,187	(42,339)	50,566
USD	(1,021)	1,746	(1,807)	2,671
Others	830	(400)	900	(416)
	<b>(2,231)</b>	<b>8,533</b>	<b>(43,246)</b>	<b>52,821</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 June 2023		31 Dec 2022	
Basis point parallel shift in yield curves	+ 100bps	- 100bps	+ 100bps	- 100bps
MYR	(14,260)	14,260	(12,959)	12,959
	<b>(14,260)</b>	<b>14,260</b>	<b>(12,959)</b>	<b>12,959</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 industry. An effective Shariah governance policy enhances the diligent oversight accountabilities of the Board of Directors (BOD), the Shariah Committee (SC) and the Management to ensure that the operations and business activities of the IFI remain consistent with Shariah principles and 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 Malaysia have outlined several laws and regulations on Shariah in particular the provisions on the establishment of a SC and internal Shariah control functions. The SC is an independent Shariah advisory body which plays a vital role in providing Shariah views and decisions and performs an oversight role on Shariah governance implementation related to the IFI's business operations and activities. At the institutional level, the Shariah Department acts as a delegated authority of the SC in providing Shariah advisory to the Management team of the IFI. The Shariah control functions 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 (SAC) of BNM and SAC of Securities Commission Malaysia, as well as decisions of the SC, and to identify and refer any Shariah issues to the SC 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 coordinate the identification, measurement, monitoring and reporting of Shariah non-compliance risks in the operations, businesses, affairs and activities of the Bank and 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 SC and Shariah Department are adhered to, with due regard to the business needs and Shariah requirements.

###### **ii) Shariah Risk Stewardship**

To implement the identification, measurement, monitoring and reporting of Shariah non-compliance risks in the operations, businesses, affairs and activities of the Bank, as well as to formulate and recommend appropriate Shariah compliance controls.

###### **iii) Shariah Research and Advisory**

To perform in-depth research as and when required by the SC 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 SC to the relevant stakeholders, including the Management, product development and business teams as well as the supporting functions.

###### **iv) Shariah Secretariat**

To serve and provide operational support for effective functioning of the SC which includes to coordinate, communicate and disseminate information among the SC, the Board and senior management, and to ensure proper dissemination of decisions or advice of the SC within the Bank.

###### **v) 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 end-to-end life cycle of the Bank's products.

##### **Quantitative Disclosure**

###### **a. Shariah Non-Compliance Events:**

During the financial period ending 30 June 2023, no actual Shariah non-compliance event has been identified.

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

During the financial period ending 30 June 2023 the following amounts are recorded in the Shariah Penalty & Impure Income Account (the Account):

- i) The amount of RM3,104 in the Account was carried forward from 2022 to 2023.
- ii) Income from inadvertent Shariah non-compliant activities identified by the Bank's management as at 30 June 2023 is itemised as follows:-
  - RM124,851 received from transactions via Nostro Accounts has been reversed to the Account.

The balance of RM127,955 in the Account is pending distribution in the second half of 2023.

Other than the above, there were no other Shariah non-compliance income or other amounts recorded during the financial period ending 30 June 2023.