

HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
(Incorporated in Malaysia)
Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures
at 30 June 2018

CHIEF EXECUTIVE OFFICER'S ATTESTATION

I, Arsalaan Ahmed, being the Chief Executive Officer of HSBC Amanah Malaysia Berhad, do hereby state that, in my opinion, the Pillar 3 Interim Disclosures set out on pages 2 to 24 have been prepared according to the Risk Weighted Capital Adequacy Framework (Basel II), and are accurate and complete.

.....
ARSALAN AHMED

CHIEF EXECUTIVE OFFICER
18 July 2018

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 2018 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 2017 and the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures at 31 December 2017.

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 2017. There are no material changes relating to qualitative disclosures during the interim reporting period.

Stress Testing

Our stress testing programme examines the sensitivities and resilience of our capital plans and unplanned demand for regulatory capital under a number of scenarios and ensures that top and emerging risks are appropriately considered. These scenarios include, but are not limited to, adverse macroeconomic events, failures at country, sector and counterparty levels, geopolitical occurrences and a variety of projected major operational risk events. Scenarios are translated into financial impacts to assess the sensitivities and resilience of our capital demand. Action plans are developed to mitigate identified risks. The Bank's Risk Committee (RC) is informed and consulted on the entity's stress testing activities, as appropriate.

Reverse stress testing is run annually. It is used to strengthen our resilience by identifying potential stresses and vulnerabilities which the entity might face and helping to inform early-warning triggers, management actions and contingency plans designed to mitigate their effect, were they to occur.

Stress testing and scenario analysis form an integral part of Internal Capital Adequacy Assessment Process (ICAAP) to demonstrate that the Bank can maintain risk capital sufficient enough to sustain operations during an economic downturn.

Governance

The Stress Test Working Group (STWG) will actively manage and drive cohesion and consistency across all stress testing activities, including the execution of enterprise wide stress tests and enhancements to stress testing and data capability. Stress test results and the proposed mitigating actions will be recommended by Risk Management Meeting (RMM) and RC of the Board for approval.

Refer to Note 33 of the unaudited condensed interim financial statements at 30 June 2018 for the total risk weighted capital ratio, Common Equity Tier 1 and Tier 1 capital ratio, and risk weighted assets and capital requirements for credit risk, market risk and operational risk.

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

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 2018

(RM'000)

Exposure Class	Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Minimum Capital Requirement at 8%
Credit Risk (Standardised Approach)				
<i>On-Balance Sheet Exposures</i>				
Sovereigns/Central Banks	5,153,563	5,153,563	-	-
PSEs	601,398	601,398	400,888	32,071
Banks, DFIs & MDBs	541,509	343,578	129,893	10,391
Corporates	5,843,617	5,709,760	5,355,333	428,427
Regulatory Retail	2,335,012	2,317,565	1,847,039	147,763
House Financing	4,368,436	4,365,553	1,585,469	126,838
Other Assets	114,730	114,730	22,800	1,824
Defaulted Exposures	176,576	173,527	207,348	16,588
Total for On-Balance Sheet Exposures	19,134,841	18,779,674	9,548,770	763,902
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	456,695	431,695	258,696	20,696
Off balance sheet exposures other than OTC derivatives or credit derivatives	2,916,776	2,830,099	1,832,666	146,613
Defaulted Exposures	1,017	1,017	1,521	122
Total for Off-Balance Sheet Exposures	3,374,488	3,262,811	2,092,883	167,431
Total On and Off-Balance Sheet Exposures ⁽¹⁾	22,509,329	22,042,485	11,641,653	931,333
Market Risk (Standardised Approach)				
	<u>Long position</u>	<u>Short position</u>		
Profit Rate Risk	260,686	704,084	(443,398)	43,763
Foreign Currency Risk	2,831	1,997	2,831	226
	263,517	706,081	(440,567)	46,594
Operational Risk (Basic Indicator Approach)	-	-	-	929,685
Total RWA and Capital Requirement	-	-	-	12,617,932

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

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

1) RWA and Capital Requirement (Cont'd)

31 Dec 2017
(RM'000)

Exposure Class	Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Minimum Capital Requirement at 8%
Credit Risk (Standardised Approach)				
<i>On-Balance Sheet Exposures</i>				
Sovereigns/Central Banks	3,708,282	3,708,282	-	-
PSEs	1,050,728	1,050,728	850,171	68,014
Banks, DFIs & MDBs	448,294	448,294	150,924	12,074
Corporates	5,378,025	5,268,424	5,066,700	405,336
Regulatory Retail	2,389,174	2,369,561	1,866,826	149,346
House Financing	4,359,676	4,356,800	1,579,340	126,347
Other Assets	121,705	121,705	20,211	1,617
Defaulted Exposures	169,678	165,869	184,943	14,795
Total for On-Balance Sheet Exposures	17,625,562	17,489,663	9,719,115	777,529
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	556,859	531,859	303,975	24,318
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,019,277	2,936,542	1,915,155	153,212
Defaulted Exposures	1,467	1,467	2,095	168
Total for Off-Balance Sheet Exposures	3,577,603	3,469,868	2,221,225	177,698
Total On and Off-Balance Sheet Exposures ⁽¹⁾	21,203,165	20,959,531	11,940,340	955,227
Market Risk (Standardised Approach)				
	<u>Long position</u>	<u>Short position</u>		
Profit Rate Risk	118,472	237,232	(118,760)	362
Foreign Currency Risk	2,320	4,920	4,920	394
	120,792	242,152	(113,840)	756
Operational Risk (Basic Indicator Approach)	-	-	-	72,880
Total RWA and Capital Requirement	-	-	-	1,028,863

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

PSEs - Public Sector Entities

OTC - Over the counter

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

Refer to Note 33 and Note 34 of the unaudited condensed interim financial statements at 30 June 2018 for disclosure on RWA breakdown by various categories of risk weights and off-balance sheet respectively.

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

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 2018
(RM'000)

Risk Weights	Exposures after Netting and Credit Risk Mitigation							Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	PSEs	Banks, DFIs & MDBs	Corporates	Regulatory Retail	House Financing	Other Assets		
0%	5,153,563	-	-	6,303	6,321	-	91,931	5,258,118	-
20%	-	400,638	165,654	512,204	5,505	-	-	1,084,001	216,800
35%	-	-	-	-	-	4,571,038	-	4,571,038	1,599,863
50%	-	-	665,709	533,780	6,814	149,088	-	1,355,391	677,696
75%	-	-	-	-	2,570,021	114,102	-	2,684,123	2,013,092
100%	-	394,722	-	6,041,833	463,091	78,593	22,800	7,001,039	7,001,039
150%	-	-	-	1,685	58,335	28,755	-	88,775	133,163
Total								22,042,485	11,641,653
Weight	0%	60%	44%	90%	80%	38%	20%	53%	

31 Dec 2017
(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	Other Assets		
0%	3,708,282	-	-	7,263	5,856	-	101,494	3,822,895	-
20%	-	400,696	286,222	467,155	6,631	-	-	1,160,704	232,141
35%	-	-	-	-	-	4,579,155	-	4,579,155	1,602,704
50%	-	-	769,617	345,318	245	127,555	-	1,242,735	621,368
75%	-	-	-	-	2,642,229	140,951	-	2,783,180	2,087,385
100%	-	855,125	-	5,949,473	390,693	103,600	20,211	7,319,102	7,319,102
150%	-	-	-	5,552	10,159	36,049	-	51,760	77,640
Total								20,959,531	11,940,340
Weight	0%	74%	42%	92%	78%	39%	17%	57%	

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

PSEs - Public Sector Entities

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

3) Credit Risk

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

	30 Jun 2018				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	11,622	26,098	47,143	504	85,367
Term financing					
House financing	582,031	563,638	3,054,686	164,561	4,364,916
Syndicated term financing	-	-	1,368,005	-	1,368,005
Hire purchase receivables	42,794	53,824	60,605	13,809	171,032
Lease receivables	-	-	960	-	960
Other term financing	423,803	502,146	3,004,422	186,010	4,116,381
Bills receivables	76,258	6,190	135,186	-	217,634
Trust receipts	42,484	20,071	736,167	-	798,722
Claims on customers under acceptance credits	112,027	92,282	251,924	1,314	457,547
Staff financing-i	822	72	2,593	88	3,575
Credit cards-i	171,641	157,077	561,395	45,272	935,385
Revolving financing	-	3,867	1,350,962	-	1,354,829
Other financing	737	259	1,255	37	2,288
	1,464,219	1,425,524	10,575,303	411,595	13,876,641

	31 Dec 2017				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	12,406	23,930	45,329	518	82,183
Term financing					
House financing	596,285	582,230	3,051,392	171,668	4,401,575
Syndicated term financing	-	-	2,140,665	-	2,140,665
Hire purchase receivables	37,529	58,885	57,492	15,946	169,852
Lease receivables	-	-	1,379	-	1,379
Other term financing	382,756	559,000	3,022,546	207,625	4,171,927
Bills receivables	10,309	4,876	93,880	-	109,065
Trust receipts	167,613	27,889	546,580	-	742,082
Claims on customers under acceptance credits	112,392	92,816	217,042	664	422,914
Staff financing-i	812	332	3,395	108	4,647
Credit cards-i	173,629	152,721	554,420	44,647	925,417
Revolving financing	2,200	3,817	560,239	-	566,256
Other financing	539	164	804	141	1,648
	1,496,470	1,506,660	10,295,163	441,317	13,739,610

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

3) Credit Risk (Cont'd)

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

	30 Jun 2018				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	1,771	1,843	3,510	-	7,124
Term financing					
House financing	20,831	19,265	78,591	2,268	120,955
Hire purchase receivables	1,956	2,628	65	2,814	7,463
Other term financing	12,940	8,011	164,138	2,977	188,066
Bills receivables	2,260	2,323	18,558	-	23,141
Staff financing-i	383	-	-	-	383
Credit cards-i	1,871	2,074	5,005	603	9,553
Other financing	697	215	1,155	34	2,101
	42,709	36,359	271,022	8,696	358,786

	31 Dec 2017				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	1,820	1,869	3,955	-	7,644
Term financing					
House financing	31,606	20,508	107,131	3,527	162,772
Hire purchase receivables	3,502	3,248	160	2,931	9,841
Other term financing	12,642	8,059	131,428	4,527	156,656
Bills receivables	2,390	2,198	16,664	-	21,252
Staff financing-i	199	35	11	1	246
Credit cards-i	4,016	3,253	11,419	1,103	19,791
Revolving financing	2,200	-	-	-	2,200
Other financing	538	164	804	141	1,647
	58,913	39,334	271,572	12,230	382,049

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

3) Credit Risk (Cont'd)

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

		30 Jun 2018			
RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line-i	85,367	-	-	-	85,367
Term financing					
House financing	11,161	3,161	14,252	4,336,342	4,364,916
Syndicated term financing	963,244	323,253	-	81,508	1,368,005
Hire purchase receivables	14,675	66,737	89,620	-	171,032
Lease receivables	153	807	-	-	960
Other term financing	964,588	1,157,407	463,733	1,530,653	4,116,381
Bills receivables	217,634	-	-	-	217,634
Trust receipts	798,722	-	-	-	798,722
Claims on customers under acceptance credits	457,547	-	-	-	457,547
Staff financing-i	102	396	876	2,201	3,575
Credit cards-i	935,385	-	-	-	935,385
Revolving financing	1,354,829	-	-	-	1,354,829
Other financing	2,288	-	-	-	2,288
	5,805,695	1,551,761	568,481	5,950,704	13,876,641

		31 Dec 2017			
RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line-i	82,183	-	-	-	82,183
Term financing					
House financing	11,702	3,235	15,041	4,371,597	4,401,575
Syndicated term financing	1,731,235	324,304	-	85,126	2,140,665
Hire purchase receivables	21,476	64,609	83,767	-	169,852
Lease receivables	10	1,369	-	-	1,379
Other term financing	1,236,689	588,248	801,825	1,545,165	4,171,927
Bills receivables	109,065	-	-	-	109,065
Trust receipts	742,082	-	-	-	742,082
Claims on customers under acceptance credits	422,914	-	-	-	422,914
Staff financing-i	68	378	1,241	2,960	4,647
Credit cards-i	925,417	-	-	-	925,417
Revolving financing	566,256	-	-	-	566,256
Other financing	1,648	-	-	-	1,648
	5,850,745	982,143	901,874	6,004,848	13,739,610

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

3) Credit Risk (Cont'd)

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

30 Jun 2018														
RM'000														
Cash line-i	House financing	Syndicated Term Financing	Hire purchase receivables	Lease receivables	Other term financing	Bills receivables	Trust receipts	Claims on customers under acceptance credits	Staff financing-i	Credit card-i	Revolving financing	Other financing	Total	
Agricultural, hunting, forestry and fishing	1,778	-	-	4,583	-	40,378	-	-	3,501	-	-	2	50,242	
Mining and quarrying	1,482	-	-	9,704	-	201,507	-	-	-	-	-	10	212,703	
Manufacturing	25,384	-	361,089	89,873	-	626,544	89,496	79,889	223,622	-	104,918	2	1,600,817	
Electricity, gas and water	1,328	-	-	153	-	106,352	-	10,771	4,974	-	-	-	123,578	
Construction	6,473	-	-	9,317	-	227,714	52,525	28,478	11,536	-	224,856	-	560,899	
Real estate	-	-	389,566	-	-	233,736	-	-	-	-	-	-	623,302	
Wholesale & retail trade and restaurants & hotels	19,460	-	17,203	9,483	-	182,499	19,267	567,807	192,132	-	74,369	152	1,082,372	
Transport, storage and communication	238	-	-	26,713	-	88,740	-	11,113	10,006	-	10,186	-	146,996	
Finance, takaful and business services	27,758	-	159,895	10,057	960	349,060	13,524	4,484	10,525	-	795,645	56	1,371,964	
Household-retail	17	4,364,916	-	-	-	1,379,229	-	-	3,575	935,385	-	2,057	6,685,179	
Others	1,449	-	440,252	11,149	-	680,622	42,822	96,180	1,251	-	144,855	9	1,418,589	
	85,367	4,364,916	1,368,005	171,032	960	4,116,381	217,634	798,722	457,547	3,575	935,385	1,354,829	2,288	13,876,641

31 Dec 2017													
RM'000													
Cash line-i	House financing	Syndicated Term Financing	Hire purchase receivables	Lease receivables	Other term financing	Bills receivables	Trust receipts	Claims on customers under acceptance credits	Staff financing-i	Credit Card-i	Revolving financing	Other financing	Total
Agricultural, hunting, forestry and fishing	828	-	-	5,552	-	84,407	-	-	6,631	-	-	-	97,418
Mining and quarrying	1,380	-	-	433	-	84,901	-	9,662	-	-	-	-	96,376
Manufacturing	22,905	-	367,767	91,514	-	695,327	20,945	200,675	203,470	-	63,170	17	1,665,790
Electricity, gas and water	1,045	-	-	189	-	44,241	-	12,899	4,896	-	-	-	63,270
Construction	7,232	-	25,935	12,305	-	173,733	14,235	12,528	12,561	-	173,604	-	432,133
Real estate	335	-	571,172	-	-	472,125	-	-	-	-	30,208	-	1,073,840
Wholesale & retail trade and restaurants & hotels	17,302	-	25,808	12,752	-	186,374	9,530	387,750	172,940	-	92,159	150	904,765
Transport, storage and communication	287	-	406,205	20,138	-	75,180	-	24,890	12,500	-	10,182	-	549,382
Finance, takaful and business services	28,986	-	250,696	11,866	1,379	617,976	12,503	5,042	9,073	-	56,077	6	993,604
Household-retail	10	4,401,575	-	-	-	1,405,837	-	-	4,647	925,417	-	1,474	6,738,960
Others	1,873	-	493,082	15,103	-	331,826	51,852	88,636	843	-	140,856	1	1,124,072
	82,183	4,401,575	2,140,665	169,852	1,379	4,171,927	109,065	742,082	422,914	4,647	925,417	1,648	13,739,610

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

3) Credit Risk (Cont'd)

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

30 Jun 2018 RM'000										
	Cash line-i	House financing	Hire purchase receivables	Other term financing	Bills receivables	Staff financing-i	Credit cards-i	Revolving financing	Other financing	Total
Mining and quarrying	-	-	-	710	-	-	-	-	10	720
Manufacturing	1,352	-	3,039	1,760	6,940	-	-	-	2	13,093
Wholesale & retail trade and restaurants & hotels	1,586	-	-	4,413	4,322	-	-	-	152	10,473
Transport, storage and communication	-	-	4,267	-	-	-	-	-	-	4,267
Finance, takaful and business services	3,410	-	157	13,892	11,168	-	-	-	56	28,683
Household-retail	-	120,955	-	167,291	-	383	9,553	-	1,872	300,054
Others	776	-	-	-	711	-	-	-	9	1,496
	7,124	120,955	7,463	188,066	23,141	383	9,553	-	2,101	358,786

31 Dec 2017 RM'000										
	Cash line-i	House financing	Hire purchase receivables	Other term financing	Bills receivables	Staff financing-i	Credit cards-i	Revolving financing	Other financing	Total
Mining and quarrying	-	-	-	765	-	-	-	-	-	765
Manufacturing	1,380	-	5,130	2,048	7,036	-	-	2,200	17	17,811
Wholesale & retail trade and restaurants & hotels	1,798	-	-	5,298	2,164	-	-	-	150	9,410
Transport, storage and communication	-	-	4,549	-	-	-	-	-	-	4,549
Finance, takaful and business services	3,688	-	162	14,113	11,341	-	-	-	6	29,310
Household-retail	2	162,772	-	134,432	-	246	19,791	-	1,473	318,716
Others	776	-	-	-	711	-	-	-	1	1,488
	7,644	162,772	9,841	156,656	21,252	246	19,791	2,200	1,647	382,049

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

3) Credit Risk (Cont'd)

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

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	232	-
Mining and quarrying	720	2,496
Manufacturing	35,453	58,119
Construction	4,339	-
Real estate	16,343	-
Wholesale & retail trade and restaurants & hotels	11,330	30,706
Transport, storage and communication	4,279	14,844
Finance, takaful and business services	81,404	95,642
Household-retail	991,870	1,040,009
Others	2,296	4,856
	1,148,266	1,246,672

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

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Northern region	138,666	192,240
Southern region	156,138	128,352
Central region	810,597	886,172
Eastern region	42,865	39,908
	1,148,266	1,246,672

^[1] of which the portion of impaired financing and advances breakdown by sector and geographical location is disclosed in Note 16 (v) and 16 (vii) of the unaudited condensed interim financial statements at 30 June 2018 respectively.

Table 8: Individual impairment allowance breakdown by sector

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Manufacturing	-	10,499
Wholesale & retail trade and restaurants & hotels	-	4,766
Transport, storage and communication	-	4,541
Finance, takaful and business services	-	19,110
Household-retail	-	74,535
Others	-	1,448
	-	114,899

Table 8a: Collective impairment allowance breakdown by sector

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	-	5
Manufacturing	-	53,930
Electricity, gas and water	-	15,631
Construction	-	153
Real estate	-	5,153
Wholesale & retail trade and restaurants & hotels	-	1,550
Transport, storage and communication	-	25
Household-retail	-	162,809
Others	-	1,652
	-	240,908

Table 8b: Impairment allowance breakdown by sector

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	146	-
Mining and quarrying	4	-
Manufacturing	9,612	-
Electricity, gas and water	247	-
Construction	592	-
Real estate	19,875	-
Wholesale & retail trade and restaurants & hotels	5,128	-
Transport, storage and communication	4,713	-
Finance, insurance/takaful and business services	1,580	-
Household-retail	264,821	-
Others	4,620	-
	311,338	-

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

3) Credit Risk (Cont'd)

Table 9: Individual impairment allowance breakdown by geographical location

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Northern region	-	6,268
Southern region	-	5,932
Central region	-	99,489
Eastern region	-	3,210
	-	114,899

Table 9a: Collective impairment allowance breakdown by geographical location

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Northern region	-	29,303
Southern region	-	27,571
Central region	-	174,465
Eastern region	-	9,569
	-	240,908

Table 9b: Impairment allowance breakdown by geographical location

	30 Jun 2018	31 Dec 2017
	RM'000	RM'000
Northern region	31,279	-
Southern region	32,938	-
Central region	235,745	-
Eastern region	11,376	-
	311,338	-

The reconciliation of changes in financing impairment provisions is disclosed in Note 17 (i) of the unaudited condensed interim financial statements at 30 June 2018.

Table 10: Charges for individual impairment allowance for the period breakdown by sector

	30 Jun 2018	30 Jun 2017
	RM'000	RM'000
Manufacturing	-	1,027
Wholesale & retail trade and restaurants & hotels	-	722
Finance, takaful and business services	-	11,641
Household-retail	-	20,166
	-	33,556

Table 10a: Charges for write-offs for individual impairment allowance for the period breakdown by sector

	30 Jun 2018	30 Jun 2017
	RM'000	RM'000
Manufacturing	-	2
Construction	-	80
Wholesale & retail trade and restaurants & hotels	-	155
Household-retail	-	2,256
	-	2,493

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

<i>Charges / (Release)</i>	30 Jun 2018	30 Jun 2017
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	13	-
Mining and quarrying	(1)	-
Manufacturing	(1,776)	-
Electricity, gas and water	60	-
Construction	47	-
Real estate	(202)	-
Wholesale & retail trade and restaurants & hotels	1,641	-
Transport, storage and communication	(401)	-
Finance, insurance/takaful and business services	831	-
Household-retail	40,537	-
Others	2,064	-
	42,813	-

The reconciliation of changes in financing impairment provisions is disclosed in Note 29 (i) of the unaudited condensed interim financial statements at 30 June 2018.

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

3) Credit Risk (Cont'd)

i) External Credit Assessment Institutions (ECAIs)

The standardised approach requires banks to use risk assessments prepared by ECAIs to determine the risk weightings applied to rated counterparties.

ECAIs are used by the Bank as part of the determination of risk weightings for the following classes of exposure:

- Sovereigns and Central Banks
- Multilateral development banks
- Public sector entities
- Corporates
- Banks
- Securities firms

For the purpose of Pillar 1 reporting to BNM, the Bank uses the external credit ratings from the following ECAIs:

- Standard & Poor's Rating Services (S&P)
- Moody's Investors Services (Moody's)
- Fitch Ratings (Fitch)
- RAM Rating Services Berhad (RAM)
- Malaysian Rating Corporation Berhad (MARC)

Data files of external ratings from the nominated ECAIs are matched with the customer records in the Bank's centralised credit database. When calculating the risk-weighted value of any exposure under the standardised approach, the customer in question is identified and matched to a rating, according to BNM's selection rules. The relevant risk weight is then derived using BNM's prescribed risk weights and rating categories. All other exposure classes are assigned risk weightings as prescribed in BNM Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets).

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

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

Below are the summary tables of long and short term ratings governing the high level assignment of risk weights under the standardised approach:

Long Term Rating Category		1	2	3	4	5	6	7
Rating Agency	S & P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	B1 to B3	Caa1 and below	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to BB3	B1 to B3	C1 and below	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	C+ and below	Unrated

Short Term Rating Category		1	2	3	4	5
Rating Agency	S & P	A-1	A-2	A-3	Others	Unrated
	Moody's	P-1	P-2	P-3	Others	Unrated
	Fitch	F1+,F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated

Risk Weights Based on Credit Rating of the Counterparty Exposure Class						
Rating Category	Long Term Rating					Short Term Rating
	Sovereigns and Central Banks	Corporates	Banking Institutions			
			Risk weight (original maturity greater than 6 months)	Risk weight (original maturity of 6 months or less)	Risk weight (original maturity of 3 months or less)	
1	0%	20%	20%	20%	20%	20%
2	20%	50%	50%	20%	20%	50%
3	50%	100%	50%	20%	20%	100%
4	100%	100%	100%	50%	20%	150%
5	100%	150%	100%	50%	20%	N/A
6	150%	150%	150%	150%	20%	N/A
7	100%	100%	50%	20%	20%	N/A

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

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

Risk weights under the Standardised Approach at the reporting date are reflected in page 5 and 6. Rated and unrated exposures according to ratings by ECAIs at reporting date are as follows:-

30 Jun 2018

RM '000

Exposure Class	Long Term Rating Category							Total
	1	2	3	4	5	6	7	
On and Off Balance Sheet Exposures								
(i) Total rated exposures								
Sovereigns & Central Banks								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	2,536,819	-	-	-	-	-	2,536,819
PSEs								
- Exposures risk-weighted using ratings of Corporates	-	-	323,253	-	-	-	-	323,253
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	25,398	414,298	230,101	-	-	-	-	669,797
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	8,812	-	-	-	-	-	8,812
- Exposures risk-weighted using ratings of Banking Institution	2,709	-	-	-	-	-	-	2,709
- Exposures risk-weighted using ratings of Corporates	426,179	9,129	43,257	-	-	-	-	478,565
	454,286	2,969,058	596,611	-	-	-	-	4,019,955
(ii) Total unrated exposures								
							15,043,661	15,043,661
Total Long Term Exposure	454,286	2,969,058	596,611	-	-	-	15,043,661	19,063,616

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

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

30 Jun 2018

RM '000

Exposure Class	Short Term Rating Category					Total
	1	2	3	4	5	
On and Off Balance Sheet Exposures						
(i) Total rated exposures						
Sovereigns & Central Banks						
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	2,616,743	-	-		2,616,743
PSEs						
- Exposures risk-weighted using ratings of Corporates	150,000	-	-	-		150,000
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	36,081	1,038	939	-		38,058
Corporates						
- Exposures risk-weighted using ratings of Corporates	184,880	417,892	38,140	-		640,912
	370,961	3,035,673	39,079	-	-	3,445,713
(ii) Total unrated exposures						
					-	-
Total Short Term Exposures	370,961	3,035,673	39,079	-	-	3,445,713
Total Long Term and Short Term Exposures:						22,509,329

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

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2017

RM '000

Exposure Class	Long Term Rating Category							Total
	1	2	3	4	5	6	7	
On and Off Balance Sheet Exposures								
(i) Total rated exposures								
Sovereigns & Central Banks								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	8,069	2,425,277	-	-	-	-		2,433,346
PSEs								
- Exposures risk-weighted using ratings of Corporates	-	-	763,726	-	-	-		763,726
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	135,695	541,141	41,924	-	-	-		718,760
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	8,636	-	-	-	-		8,636
- Exposures risk-weighted using ratings of Banking Institution	2,728	-	-	-	-	-		2,728
- Exposures risk-weighted using ratings of Corporates	440,409	17,367	24,410	-	-	-		482,186
	586,901	2,992,421	830,060	-	-	-		4,409,382
(ii) Total unrated exposures								
							14,929,241	14,929,241
Total Long Term Exposures								
	586,901	2,992,421	830,060	-	-	-	14,929,241	19,338,623

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

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2017

RM '000

Exposure Class	Short Term Rating Category					Total
	1	2	3	4	5	
On and Off Balance Sheet Exposures						
(i) Total rated exposures						
Sovereigns & Central Banks						
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	1,274,936	-	-	-	1,274,936
PSEs						
- Exposures risk-weighted using ratings of Corporates	150,000	-	-	-	-	150,000
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	35,335	1,940	178	-	-	37,453
Corporates						
- Exposures risk-weighted using ratings of Corporates	156,899	190,090	55,164	-	-	402,153
	342,234	1,466,966	55,342	-	-	1,864,542
(ii) Total unrated exposures						
Total Short Term Exposures	342,234	1,466,966	55,342	-	-	1,864,542

Total Long Term and Short Term Exposures						21,203,165
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Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

PSEs - Public Sector Entities

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

3) Credit Risk (Cont'd)

ii) Credit Risk Mitigation (CRM)

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The Bank's policy when granting credit facilities is on the basis of the customer's capacity to repay, rather than placing primary reliance on credit risk mitigants. Depending on the customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is nevertheless a key aspect of effective risk management in the Bank, takes many forms.

The Bank's general policy is to promote the use of CRM, justified by commercial prudence and good practice as well as capital efficiency. Specific, detailed policies cover acceptability, structuring and terms of various types of business with regard to the availability of credit risk mitigants, for example in the form of collateral security, and these policies, together with the determination of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfill their intended purpose.

The most common method of mitigating credit risk is to take collateral. The principal collateral types employed by the Bank are as follows:

- under the residential and real estate business; mortgages over residential and financed properties;
- under certain Islamic specialised financing and leasing transactions (such as machinery financing) where physical assets form the principal source of facility repayment, physical collateral is typically taken;
- in the commercial and industrial sectors, charges over business assets such as premises, stock and debtors;
- facilities provided to small and medium enterprises are commonly granted against guarantees by their owners/directors;
- guarantees from third parties can arise where facilities are extended without the benefit of any alternative form of security, e.g. where the Bank issues a bid or performance sukuk in favour of a non-customer at the request of another bank;
- under the institutional sector, certain trading facilities are supported by charges over financial instruments such as cash, debt securities and equities;
- financial collateral in the form of cash and marketable securities are used in much of the over-the-counter (OTC) derivatives activities and in the Bank's securities financing business; and
- netting is used where appropriate, and supported by market standard documentation.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt of cash, securities or equities. Daily settlement limits are established for counterparties to cover the aggregate of all the settlement risk arising from all the transactions involved on a single day. Settlement risk on many transactions, particularly those involving securities and equities, is substantially mitigated by settling through assured payment systems or on a delivery-versus-payment basis.

Policies and procedures govern the protection of the Bank's position from the outset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations and through controls over the integrity, current valuation and, if necessary, realisation of collateral security.

The valuation of credit risk mitigants seeks to monitor and ensure that they will continue to provide the secured repayment source anticipated at the time they were taken. The Bank's policy prescribes valuation at intervals of up to three years, or more frequently as the need may arise, for impaired accounts. For property taken as collateral for new or additional facilities, a valuation report is required from a panel valuer. For auction purposes, full valuations are compulsory. This is to avoid the risk of the settlement sum being challenged by the customer/charger on the grounds that the correct valuation was not applied.

The appointment of panel valuers is conducted via Vendor Risk Management whereby due diligence is undertaken in accordance with Suppliers Risk Management and Third Party Associated Persons Bribery Risk Assessment and Due Diligence Policy at the origination of the relationship in accordance with Group Third Party Risk Management Policy.

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

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 2018

RM'000

Exposure Class	Exposures Before Credit Risk Mitigation	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Financial Collateral
<u>Credit Risk</u>			
<i>On-Balance Sheet Exposures</i>			
Sovereigns/Central Banks	5,153,563	-	-
PSEs	601,398	-	-
Banks, DFIs & MDBs	541,509	-	197,931
Corporates	5,843,617	38,060	133,857
Regulatory Retail	2,335,012	10,332	17,447
House Financing	4,368,436	-	2,883
Other Assets	114,730	-	-
Defaulted Exposures	176,576	5,855	3,049
Total for On-Balance Sheet Exposures	19,134,841	54,247	355,167
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	456,695	-	25,000
Off balance sheet exposures other than OTC derivatives or credit derivatives	2,916,776	154,940	86,677
Defaulted Exposures	1,017	-	-
Total for Off-Balance Sheet Exposures	3,374,488	154,940	111,677
Total On and Off-Balance Sheet Exposures	22,509,329	209,187	466,844

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

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 2017

RM'000

Exposure Class	Exposures Before Credit Risk Mitigation	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Financial Collateral
<u>Credit Risk</u>			
<i>On-Balance Sheet Exposures</i>			
Sovereigns/Central Banks	3,708,282	-	-
PSEs	1,050,728	-	-
Banks, DFIs & MDBs	448,294	-	-
Corporates	5,378,025	6,411	109,601
Regulatory Retail	2,389,174	11,927	19,613
House Financing	4,359,676	-	2,876
Other Assets	121,705	-	-
Defaulted Exposures	169,678	4,781	3,809
Total for On-Balance Sheet Exposures	17,625,562	23,119	135,899
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	556,859	-	25,000
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,019,277	170,293	82,735
Defaulted Exposures	1,467	-	-
Total for Off-Balance Sheet Exposures	3,577,603	170,293	107,735
Total On and Off-Balance Sheet Exposures	21,203,165	193,412	243,634

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

(f) Risk management policies (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 2018		31 Dec 2017	
Basis point parallel shift in yield curves	+ 100 bps	- 100 bps	+ 100 bps	- 100 bps
MYR	(27,135)	20,020	(29,797)	18,274
USD	9,372	(11,391)	8,462	(9,966)
Others	6,712	(7,616)	(432)	(495)
	(11,051)	1,013	(21,767)	7,813

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 2018		31 Dec 2017	
Basis point parallel shift in yield curves	+ 200 bps	- 200 bps	+ 200 bps	- 200 bps
MYR	(75,291)	89,449	(85,346)	98,501
USD	(9,977)	3,344	(368)	(1,732)
Others	3,768	(6,387)	(678)	887
	(81,500)	86,406	(86,392)	97,656

The sensitivity of reported reserves in 'other comprehensive income' to profit rate movements are monitored on a monthly basis by assessing the expected reduction in valuation of available-for-sale portfolios to parallel movements of plus or minus 100 basis points in all yield curves.

Sensitivity of reported reserves in 'other comprehensive income' to profit rate movements

	RM'000			
	30 Jun 2018		31 Dec 2017	
Basis point parallel shift in yield curves	+ 100bps	- 100bps	+ 100bps	- 100bps
MYR	(31,330)	31,330	(35,388)	35,388
	(31,330)	31,330	(35,388)	35,388

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

5) Shariah Governance

Overview

Shariah compliance is a cornerstone of Islamic banking and finance industry. An effective Shariah governance policy enhances the diligent oversight of the BOD, the Shariah Committee and the Management to ensure that the operations and business activities of the Bank remains consistent with Shariah principles and its requirements.

To ensure Shariah compliance in all aspects of day-to-day Islamic finance activities, the Malaysian regulatory bodies such as BNM and Securities Commission have spelled out several provisions in relation to the establishment of a Shariah Committee and an internal Shariah Department in an Islamic Financial Institution (IFI). The Shariah Committee is an independent Shariah advisory body which plays a vital role in providing Shariah views and rulings pertaining to Islamic finance. The Shariah Committee also performs an oversight role on Shariah matters related to the Bank's business operations and activities. At the institutional level, the Shariah Department acts as an intermediary between the Shariah Committee and the Management team of the IFI. The Shariah Department together with the Shariah Committee has the role to assist the Management in ensuring that all activities of the IFI are in compliance with the Shariah rules and principles, in accordance with the guidelines laid down by Shariah Governance Framework (SGF) of BNM. However, the accountability to ensure Shariah compliance remains with the IFI's BOD.

Qualitative Disclosures - Key Components and Core Shariah Functions in Implementing and Monitoring the Shariah Governance Practices as per the Shariah Governance Framework

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

a. Board of Directors

To be ultimately accountable for the overall Shariah governance framework and Shariah compliance of the Bank.

b. Shariah Committee

To maintain an oversight on the operations and business activities of the Bank and to be accountable for its decisions, views and opinions on Shariah matters.

c. CEO and Management

To be responsible in day-to-day compliance with Shariah in all aspects of its business activities by observing and implementing the Shariah rulings and decisions made by the Shariah Advisory Council of BNM (SAC) and the Shariah Committee and to identify and refer any Shariah issues to the Shariah Committee for its decisions, views and opinions.

d. Shariah Audit

To conduct periodical assessment to provide an independent assessment and objective assurance of the effectiveness on the internal control system for Shariah compliance.

e. Shariah Risk Management

To assist in developing and implementing a risk identification process, measurement of the potential impact and monitoring of Shariah non-compliance risks and operational/reputation risk within the Bank.

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

f. Shariah Department

i) Shariah Review

To examine and evaluate the Bank's level of compliance with the applicable Shariah rulings and regulations, and consequently to provide remedial rectification measures to resolve non-compliance and to ensure that proper control mechanism is in place to avoid recurrences.

To ensure that all procedural guidelines, rules and regulations issued by BNM and other regulatory bodies relating to Shariah as well as internal guidelines, policies and procedures, manuals and all Shariah rules and principles issued by the Shariah Committee and Shariah Department are adhered to, with due regard to the business needs and Shariah requirements.

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

5) Shariah Governance (Cont'd)

Qualitative Disclosures - Key Components and Core Shariah Functions in Implementing and Monitoring the Shariah Governance Practices as per the SGF (Cont'd)

f. Shariah Department (Cont'd)

ii) Shariah Advisory

To provide day-to-day Shariah advice and consultancy to relevant parties, including those involved in the product development process as well as the supporting functions.

iii) Shariah Research

To conduct in-depth research and studies on Shariah issues.

iv) Shariah Secretariat

To coordinate meetings, compile proposal papers, prepare and keep accurate record of minutes of the decisions and resolutions made by the Shariah Committee, disseminate Shariah decisions to relevant stakeholders and engage with relevant parties who wish to seek further deliberations from the Shariah Committee.

v) Knowledge and Skills Monitoring

To monitor the level of Shariah related knowledge and skills by the staff involved in the cycle of the Bank's products.

Quantitative Disclosure

a. Shariah Non-Compliance Events:

During the financial period ending 30 June 2018, no actual Shariah non-compliance event has been identified.

b. Shariah Non-Compliance Income:

During the financial period ending 30 June 2018 the following amounts are recorded in the Shariah Penalty & Impure Income Account (the Account):

- i) The amount of RM688 in the Account was carried forward from 2017 to 2018.
- ii) Income from inadvertent Shariah non-compliance activities identified by the Bank's management amounted to RM11,297 as at 30 June 2018 received from transactions via Nostro Accounts has been reversed to the Account.

The balance of RM11,985 in the Account is pending distribution in second half of 2018.

Other than the above, there were no other Shariah non-compliance income or other amounts recorded during the financial period ended 30 June 2018.