

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 2017

CHIEF EXECUTIVE OFFICER'S ATTESTATION

I, Arsalaan Ahmed, being the Chief Executive Officer of HSBC Amanah Malaysia Berhad, do hereby state that, in my opinion, the Pillar 3 Disclosures set out on pages 2 to 25 have been prepared according to the Risk Weighted Capital Adequacy Framework (Basel II), and are accurate and complete.

.....
ARSALAN AHMED

CHIEF EXECUTIVE OFFICER
19 July 2017

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 2017 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 2016 and the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures at 31 December 2016.

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 2016. There are no material changes relating to qualitative disclosures during the interim reporting period.

Stress Testing

Stress testing is a key risk management tool used to assess a variety of risks to which the Bank is exposed, including credit risk, market risk, operational risk, etc. Stress testing is integrated into our market risk management tool to evaluate the potential impact on the entity of more extreme, although plausible, events or movements in a set of financial variables. In such abnormal scenarios, losses can be much greater than those predicted by Value at Risk (VaR) modelling.

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.

A key objective of stress testing is to make risk more transparent by estimating the potential losses on the Bank's exposure and impacts on its capital adequacy ratio, capital requirements and profit and loss under abnormal conditions. It will also assess specifically the extent by which risk-weighted assets and capital requirements will increase, and how profit and loss as well as liquidity levels will change. It plays a particularly important role in:

- Providing forward-looking assessments of risk.
- Overcoming limitations of models and historical data.
- Supporting internal and external communication.
- Feeding into capital and liquidity planning process.
- Informing the setting of a banks' risk tolerance.
- Facilitating the development of risk mitigation or contingency plans across a range of stressed conditions.
- Building upon business and strategic planning to the Risk Appetite of the institution.
- Strengthening the Bank's corporate governance and the resilience of the financial system.
- Using the experiences of the past held in local operations in addition to the wider experiences that can be obtained from the diversified operation and management.

Stress testing is considered as the collective quantitative and qualitative techniques used to assess all facets to the risks faced by the Bank. Stress testing is done in collaboration across all customer groups and functions such as Risks and Finance. The results of the analysis will facilitate informed financial and capital management whilst supporting business lines to manage their business through various measures such as establishing triggers and devising mitigation actions which can be readily implemented should the adverse scenarios materialise.

In line with Bank Negara Malaysia (BNM)'s Guideline on Stress Testing and the Bank's Policy Paper for Stress Testing, a Stress Test Working Group (STWG) has been established.

Stress testing is conducted on entity level and on a bank-wide basis. Stress testing will be carried out subject to regulatory and internal management demands as and when needed. At a minimum, a complete stress testing for the entire Bank should be completed on a semi-annual basis. Stress testing results are reviewed by STWG, Risk Management Meeting (RMM) and Risk Committee (RC) or Board Of Directors' (BOD) prior to submission to BNM.

Governance

The 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 propose mitigating actions will be recommended by RMM and RC of the Board for approval.

Refer to Note 30 of the unaudited condensed interim financial statements at 30 June 2017 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 2017
(RM'000)

Exposure Class	Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Capital Requirement
Credit Risk (Standardised Approach)				
<i>On-Balance Sheet Exposures</i>				
Sovereigns/Central Banks	3,515,955	3,515,955	-	-
PSEs	1,071,574	1,071,574	1,071,574	85,726
Banks, DFIs & MDBs	167,065	167,065	33,782	2,703
Corporates	5,248,810	5,136,607	4,833,777	386,702
Regulatory Retail	2,515,302	2,488,530	1,934,150	154,732
House Financing	4,357,203	4,354,173	1,609,281	128,742
Other Assets	136,427	136,427	34,294	2,744
Defaulted Exposures	160,082	154,422	172,286	13,783
Total for On-Balance Sheet Exposures	17,172,418	17,024,753	9,689,144	775,132
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	634,830	609,830	364,305	29,144
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,452,056	3,375,785	2,367,209	189,377
Defaulted Exposures	1,557	1,557	2,262	181
Total for Off-Balance Sheet Exposures	4,088,443	3,987,172	2,733,776	218,702
Total On and Off-Balance Sheet Exposures ^[1]	21,260,861	21,011,925	12,422,920	993,834
Market Risk (Standardised Approach)				
	<u>Long position</u>	<u>Short position</u>		
Profit Rate Risk	155,951	74,152	81,799	10,097
Foreign Currency Risk	5,005	1,145	5,005	400
	160,956	75,297	86,804	15,102
Operational Risk (Basic Indicator Approach)	-	-	-	893,735
Total RWA and Capital Requirement	-	-	13,331,757	1,066,541

^[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 2016
(RM'000)

Exposure Class	Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Capital Requirement
Credit Risk (Standardised Approach)				
<i>On-Balance Sheet Exposures</i>				
Sovereigns/Central Banks	3,886,272	3,886,272	-	-
PSEs	315,320	315,320	315,320	25,226
Banks, DFIs & MDBs	118,083	72,951	14,637	1,171
Corporates	4,549,758	4,433,031	4,208,732	336,699
Regulatory Retail	2,468,620	2,437,817	1,879,646	150,372
House Financing	4,342,868	4,339,994	1,612,759	129,021
Other Assets	141,895	141,895	35,401	2,832
Defaulted Exposures	182,491	180,521	193,648	15,492
Total for On-Balance Sheet Exposures	16,005,307	15,807,801	8,260,143	660,813
<i>Off-Balance Sheet Exposures</i>				
OTC Derivatives	826,006	561,702	376,002	30,080
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,321,479	3,223,601	2,183,119	174,650
Defaulted Exposures	1,118	1,118	1,653	132
Total for Off-Balance Sheet Exposures	4,148,603	3,786,421	2,560,774	204,862
Total On and Off-Balance Sheet Exposures ⁽¹⁾	20,153,910	19,594,222	10,820,917	865,675
Market Risk (Standardised Approach)				
	Long position	Short position		
Profit Rate Risk	44,492	516,905	(472,413)	6,969
Foreign Currency Risk	4,427	1,567	4,427	354
	48,919	518,472	(467,986)	11,396
Operational Risk (Basic Indicator Approach)	-	-	-	894,490
Total RWA and Capital Requirement	-	-	-	11,726,803
				938,146

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 31 of the unaudited condensed interim financial statements at 30 June 2017 for disclosure of off-balance sheet.

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 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%	3,515,955	-	-	730	7,757	-	102,132	3,626,574	-
20%	-	150,000	174,067	493,318	13,510	-	-	830,895	166,179
35%	-	-	-	-	-	4,456,116	-	4,456,116	1,559,641
50%	-	-	667,548	478,920	2,446	217,038	-	1,365,952	682,976
75%	-	-	-	2,901	2,785,624	183,915	-	2,972,440	2,229,330
100%	-	1,177,723	-	6,077,805	317,816	102,619	34,294	7,710,257	7,710,257
150%	-	-	-	13,589	7,910	28,192	-	49,691	74,537
Total								21,011,925	12,422,920
Weight	0%	91%	44%	91%	77%	39%	25%	59%	

31 Dec 2016

(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%	3,886,272	-	-	3,443	4,901	-	106,492	4,001,108	-
20%	-	150,000	162,691	505,467	12,214	-	-	830,372	166,074
35%	-	-	-	-	-	4,409,561	-	4,409,561	1,543,346
50%	-	-	511,474	294,658	576	219,264	-	1,025,972	512,986
75%	-	-	-	-	2,743,074	234,686	-	2,977,760	2,233,320
100%	-	518,187	5,681	5,382,640	281,828	94,228	35,402	6,317,966	6,317,966
150%	-	-	-	3,890	3,729	23,864	-	31,483	47,225
Total								19,594,222	10,820,917
Weight	0%	82%	43%	91%	77%	39%	25%	55%	

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 2017				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	9,577	21,165	54,694	1,440	86,876
Term financing					
House financing	602,056	590,233	3,016,006	179,963	4,388,258
Syndicated term financing	-	-	1,583,374	-	1,583,374
Hire purchase receivables	45,757	61,010	63,194	19,974	189,935
Lease receivables	-	-	2,014	-	2,014
Other term financing	374,799	576,269	2,759,141	214,743	3,924,952
Bills receivables	9,838	11,042	98,955	-	119,835
Trust receipts	113,619	25,430	844,781	1,802	985,632
Claims on customers under acceptance credits	92,449	105,425	214,326	2,406	414,606
Staff financing-i	686	1,102	3,791	292	5,871
Credit cards-i	159,322	132,061	491,349	40,427	823,159
Revolving credit	2,200	2,640	985,603	-	990,443
Other financing	362	151	708	47	1,268
	1,410,665	1,526,528	10,117,936	461,094	13,516,223

	31 Dec 2016				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	10,693	24,937	60,534	1,676	97,840
Term financing					
House financing	611,109	594,238	2,969,372	181,915	4,356,634
Syndicated term financing	-	-	650,266	-	650,266
Hire purchase receivables	50,658	62,391	80,610	15,262	208,921
Lease receivables	-	-	2,738	-	2,738
Other term financing	382,757	637,547	2,626,181	221,018	3,867,503
Bills receivables	6,274	5,959	97,369	670	110,272
Trust receipts	81,973	14,058	362,675	3,529	462,235
Claims on customers under acceptance credits	103,279	101,122	297,956	2,018	504,375
Staff financing-i	606	1,029	4,202	356	6,193
Credit cards-i	155,220	123,146	470,330	39,014	787,710
Revolving credit	2,200	4,832	943,129	-	950,161
Other financing	471	153	541	22	1,187
	1,405,240	1,569,412	8,565,903	465,480	12,006,035

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 and the Federal Territory of Kuala Lumpur.

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 2017				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	1,731	1,117	3,456	-	6,304
Term financing					
House financing	27,921	20,073	99,597	5,582	153,173
Hire purchase receivables	1,006	-	256	3,665	4,927
Other term financing	12,121	5,114	109,585	6,050	132,870
Bills receivables	2,389	2,211	10,645	-	15,245
Claims on customers under acceptance credits	-	-	428	-	428
Staff financing-i	206	39	8	4	257
Credit cards-i	3,693	3,189	11,077	963	18,922
Revolving credit	2,200	-	-	-	2,200
Other financing	361	152	708	47	1,268
	51,628	31,895	235,760	16,311	335,594

	31 Dec 2016				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	1,932	-	4,195	-	6,127
Term financing					
House financing	20,820	20,170	89,883	4,192	135,065
Hire purchase receivables	1,714	-	351	3,665	5,730
Other term financing	14,695	7,503	106,391	3,598	132,187
Bills receivables	2,626	-	1,267	-	3,893
Staff financing-i	-	-	30	5	35
Credit cards-i	3,255	2,780	9,986	1,081	17,102
Revolving credit	2,200	-	-	-	2,200
Other financing	471	153	540	23	1,187
	47,713	30,606	212,643	12,564	303,526

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 2017			
RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line-i	86,876	-	-	-	86,876
Term financing					
House financing	12,299	2,520	12,663	4,360,776	4,388,258
Syndicated term financing	1,151,569	343,819	-	87,986	1,583,374
Hire purchase receivables	12,596	89,802	87,537	-	189,935
Lease receivables	257	1,757	-	-	2,014
Other term financing	941,708	520,580	948,235	1,514,429	3,924,952
Bills receivables	119,835	-	-	-	119,835
Trust receipts	985,632	-	-	-	985,632
Claims on customers under acceptance credits	414,606	-	-	-	414,606
Staff financing-i	153	614	1,446	3,658	5,871
Credit cards-i	823,159	-	-	-	823,159
Revolving credit	990,443	-	-	-	990,443
Other financing	1,268	-	-	-	1,268
	5,540,401	959,092	1,049,881	5,966,849	13,516,223

		31 Dec 2016			
RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line-i	97,840	-	-	-	97,840
Term financing					
House financing	13,283	3,797	7,870	4,331,684	4,356,634
Syndicated term financing	650,266	-	-	-	650,266
Hire purchase receivables	13,860	101,581	93,480	-	208,921
Lease receivables	534	2,204	-	-	2,738
Other term financing	764,396	546,072	1,009,184	1,547,851	3,867,503
Bills receivables	110,272	-	-	-	110,272
Trust receipts	462,235	-	-	-	462,235
Claims on customers under acceptance credits	504,375	-	-	-	504,375
Staff financing-i	67	859	922	4,345	6,193
Credit cards-i	787,710	-	-	-	787,710
Revolving credit	950,161	-	-	-	950,161
Other financing	1,187	-	-	-	1,187
	4,356,186	654,513	1,111,456	5,883,880	12,006,035

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 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 credit	Other financing	Total
Agricultural, hunting, forestry and fishing	1,207	-	6,501	-	92,529	-	513	4,725	-	-	-	-	105,475
Mining and quarrying	1,376	-	718	-	28,087	-	-	-	-	-	214,941	-	245,122
Manufacturing	18,971	392,378	100,453	-	728,690	20,527	220,429	218,230	-	-	6,346	16	1,706,040
Electricity, gas and water	1,271	-	223	-	20,489	-	11,930	928	-	-	-	-	34,841
Construction	8,336	20,629	14,486	-	97,793	17,666	16,176	12,072	-	-	172,246	-	359,404
Real estate	539	349,135	-	-	528,703	-	-	-	-	-	30,205	-	908,582
Wholesale & retail trade and restaurants & hotels	23,623	34,400	16,795	-	203,739	14,504	516,639	154,863	-	-	98,884	147	1,063,594
Transport, storage and communication	442	429,913	24,209	-	78,716	-	16,017	12,565	-	-	16,192	19	578,073
Finance, takaful and business services	29,199	-	14,694	2,014	561,224	13,029	84,467	10,319	-	-	264,857	-	979,803
Household-retail	219	4,388,258	-	-	1,402,377	-	-	-	5,871	823,159	-	1,086	6,620,970
Others	1,693	356,919	11,856	-	182,605	54,109	119,461	904	-	-	186,772	-	914,319
	86,876	4,388,258	1,583,374	2,014	3,924,952	119,835	985,632	414,606	5,871	823,159	990,443	1,268	13,516,223

31 Dec 2016 RM000													
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 credit	Other financing	Total
Agricultural, hunting, forestry and fishing	3,230	-	3,567	-	122,313	-	2,960	4,302	-	-	-	-	136,372
Mining and quarrying	1,052	-	1,269	-	11,144	-	-	-	-	-	204,729	-	218,194
Manufacturing	21,179	48,856	103,494	-	664,803	11,926	103,962	227,362	-	-	6,339	20	1,187,941
Electricity, gas and water	1,148	-	257	-	19,053	-	9,467	963	-	-	2,019	-	32,907
Construction	10,350	-	17,824	-	92,656	28,469	3,753	50,523	-	-	151,048	22	354,645
Real estate	713	293,884	-	-	497,051	-	-	-	-	-	30,206	-	821,854
Wholesale & retail trade and restaurants & hotels	21,671	43,020	18,831	-	217,455	6,868	223,931	187,807	-	-	96,493	247	816,323
Transport, storage and communication	5,854	-	26,077	-	97,167	-	31,403	9,988	-	-	16,232	-	186,721
Finance, takaful and business services	29,928	-	17,767	2,738	583,079	884	159	21,021	-	-	274,138	-	929,714
Household-retail	294	4,356,634	-	-	1,384,976	-	-	-	6,193	787,710	-	888	6,536,695
Others	2,421	264,506	19,835	-	177,806	62,125	86,600	2,409	-	-	168,957	10	784,669
	97,840	4,356,634	650,266	2,738	3,867,503	110,272	462,235	504,375	6,193	787,710	950,161	1,187	12,006,035

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 2017 RM'000										
Cash line-i	House financing	Hire purchase receivables	Other term financing	Bills receivables	Claims on customers under acceptance credits	Staff financing-i	Credit cards-i	Revolving credit	Other financing	Total
Manufacturing	-	-	1,007	-	96	-	-	2,200	16	3,319
Wholesale & retail trade and restaurants & hotels	1,527	-	-	5,549	2,176	-	-	-	147	9,399
Transport, storage and communication	-	-	3,665	-	-	-	-	-	19	3,684
Finance, takaful and business services	3,990	-	255	14,816	10,761	428	-	-	-	30,250
Household-retail	2	153,173	-	112,505	-	257	18,922	-	1,086	285,945
Others	785	-	-	2,212	-	-	-	-	-	2,997
	6,304	153,173	4,927	132,870	15,245	428	18,922	2,200	1,268	335,594

31 Dec 2016 RM'000										
Cash line-i	House financing	Hire purchase receivables	Other term financing	Bills receivables	Claims on customers under acceptance credits	Staff financing-i	Credit cards-i	Revolving credit	Other financing	Total
Manufacturing	454	-	-	267	1,097	-	-	2,200	20	4,038
Construction	182	-	-	-	-	-	-	-	22	204
Wholesale & retail trade and restaurants & hotels	1,197	-	1,713	6,575	2,577	-	-	-	247	12,309
Transport, storage and communication	-	-	3,665	-	-	-	-	-	-	3,665
Finance, takaful and business services	4,128	-	352	18,647	219	-	-	-	-	23,346
Household-retail	30	135,065	-	106,226	-	35	17,102	-	888	259,346
Others	136	-	-	472	-	-	-	-	10	618
	6,127	135,065	5,730	132,187	3,893	35	17,102	2,200	1,187	303,526

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 2017	31 Dec 2016
	RM'000	RM'000
Manufacturing	10,314	15,142
Construction	-	765
Wholesale & retail trade and restaurants & hotels	29,207	46,156
Transport, storage and communication	11,448	13,743
Finance, takaful and business services	94,001	87,543
Household-retail	888,569	972,501
Others	9,313	2,317
	<u>1,042,852</u>	<u>1,138,167</u>

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

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Northern region	160,433	178,915
Southern region	99,113	114,767
Central region	732,620	797,372
Eastern region	50,686	47,113
	<u>1,042,852</u>	<u>1,138,167</u>

^[1] of which the portion of impaired financing and advances breakdown by sector and geographical location is disclosed in Note 15(iv) and 15(vi) of the unaudited condensed interim financial statements at 30 June 2017.

Table 8: Individual impairment allowance breakdown by sector

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Manufacturing	1,105	87
Construction	-	136
Wholesale & retail trade and restaurants & hotels	2,341	2,596
Transport, storage and communication	3,684	3,635
Finance, takaful and business services	16,962	6,312
Household-retail	64,296	49,991
	<u>88,388</u>	<u>62,757</u>

Table 8a: Collective impairment allowance breakdown by sector

	30 Jun 2017	31 Dec 2016
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	12	24
Manufacturing	29,527	33,720
Electricity, gas and water	2,150	2,780
Construction	12	136
Real estate	4,964	3,320
Wholesale & retail trade and restaurants & hotels	2,327	2,893
Transport, storage and communication	2,039	3,267
Household-retail	148,020	151,585
Others	17,396	2,290
	<u>206,447</u>	<u>200,015</u>

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

	<u>30 Jun 2017</u>	<u>31 Dec 2016</u>
	RM'000	RM'000
Northern region	3,363	2,154
Southern region	-	578
Central region	81,169	56,164
Eastern region	3,856	3,861
	<u>88,388</u>	<u>62,757</u>

Table 9a: Collective impairment allowance breakdown by geographical location

	<u>30 Jun 2017</u>	<u>31 Dec 2016</u>
	RM'000	RM'000
Northern region	25,448	26,181
Southern region	25,376	27,437
Central region	146,687	136,945
Eastern region	8,936	9,452
	<u>206,447</u>	<u>200,015</u>

The reconciliation of changes in financing impairment provisions is disclosed in Note 15(ii) of the unaudited condensed interim financial statements at 30 June 2017.

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

	<u>30 Jun 2017</u>	<u>30 Jun 2016</u>
	RM'000	RM'000
Manufacturing	1,027	323
Construction	-	20
Wholesale & retail trade and restaurants & hotels	722	1,432
Finance, takaful and business services	11,641	464
Household-retail	20,166	14,990
	<u>33,556</u>	<u>17,229</u>

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

	<u>30 Jun 2017</u>	<u>30 Jun 2016</u>
	RM'000	RM'000
Manufacturing	2	18,281
Construction	80	-
Wholesale & retail trade and restaurants & hotels	155	81
Finance, takaful and business services	-	103
Household-retail	2,256	3,289
	<u>2,493</u>	<u>21,754</u>

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 3 and 4. Rated and unrated exposures according to ratings by ECAIs at reporting date are as follows:-

30 Jun 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	-	1,630,392	-	-	-	-	-	1,630,392
PSEs								
- Exposures risk-weighted using ratings of Corporates	-	-	465,157	-	-	-	-	465,157
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	124,064	281,351	57,998	-	774	-	-	464,187
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	730	-	-	-	-	-	730
- Exposures risk-weighted using ratings of Banking Institution	-	2,728	-	-	-	-	-	2,728
- Exposures risk-weighted using ratings of Corporates	466,779	12,428	16,860	-	-	-	-	496,067
	590,843	1,927,629	540,015	-	774	-	-	3,059,261
(ii) Total unrated exposures								
							17,428,722	17,428,722
Total Long Term Exposure	590,843	1,927,629	540,015	-	774	-	17,428,722	20,487,983

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

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

30 Jun 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	-	37,602	-	-		37,602
PSEs						
- Exposures risk-weighted using ratings of Corporates	150,000	-	-	-		150,000
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	18,435	916	897	-		20,248
Corporates						
- Exposures risk-weighted using ratings of Corporates	198,556	289,999	76,473	-		565,028
	366,991	328,517	77,370	-	-	772,878
(ii) Total unrated exposures						
					-	-
Total Short Term Exposures	366,991	328,517	77,370	-	-	772,878
Total Long Term and Short Term Exposures:						21,260,861

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

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2016
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	-	1,379,087	-	-	-	-	-	1,379,087
PSEs								
- Exposures risk-weighted using ratings of Corporates	-	-	36,785	-	-	-	-	36,785
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	353,577	183,745	325,632	-	-	-	-	862,954
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	3,443	-	-	-	-	-	3,443
- Exposures risk-weighted using ratings of Banking Institution	-	2,728	-	-	-	-	-	2,728
- Exposures risk-weighted using ratings of Corporates	351,844	83,599	1,200	-	-	-	-	436,643
	705,421	1,652,602	363,617	-	-	-	-	2,721,640
(ii) Total unrated exposures								
							14,343,713	14,343,713
Total Long Term Exposures								
	705,421	1,652,602	363,617	-	-	-	14,343,713	17,065,353

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

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2016

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	-	2,507,185	-	-		2,507,185
PSEs						
- Exposures risk-weighted using ratings of Corporates	150,000	-	-	-		150,000
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	69,442	-	-	-		69,442
Corporates						
- Exposures risk-weighted using ratings of Corporates	306,289	55,641	-	-		361,930
(ii) Total unrated exposures	525,731	2,562,826	-	-	-	3,088,557
						-
Total Short Term Exposures	525,731	2,562,826	-	-	-	3,088,557
Total Long Term and Short Term Exposures						20,153,910

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 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	3,515,955	-	-
PSEs	1,071,574	-	-
Banks, DFIs & MDBs	167,065	-	-
Corporates	5,248,810	55,360	112,203
Regulatory Retail	2,515,302	18,655	26,772
House Financing	4,357,203	-	3,030
Other Assets	136,427	-	-
Defaulted Exposures	160,082	4,851	5,660
Total for On-Balance Sheet Exposures	17,172,418	78,866	147,665
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	634,830	-	25,000
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,452,056	147,951	76,271
Defaulted Exposures	1,557	-	-
Total for Off-Balance Sheet Exposures	4,088,443	147,951	101,271
Total On and Off-Balance Sheet Exposures	21,260,861	226,817	248,936

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 2016

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	3,886,272	-	-
PSEs	315,320	-	-
Banks, DFIs & MDBs	118,083	-	45,132
Corporates	4,549,758	134,184	116,727
Regulatory Retail	2,468,620	14,316	30,803
House Financing	4,342,868	-	2,874
Other Assets	141,895	-	-
Defaulted Exposures	182,491	1,851	1,970
Total for On-Balance Sheet Exposures	16,005,307	150,351	197,506
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	826,006	-	264,304
Off balance sheet exposures other than OTC derivatives or credit derivatives	3,321,479	111,695	97,878
Defaulted Exposures	1,118	-	-
Total for Off-Balance Sheet Exposures	4,148,603	111,695	362,182
Total On and Off-Balance Sheet Exposures	20,153,910	262,046	559,688

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

PSEs - Public Sector Entities

OTC - Over the Counter

Refer to Note 31 of the unaudited condensed interim financial statements at 30 June 2017 for disclosure of off-balance sheet.

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

4) Rate of return risk

A summary of the Value at Risk position of the Bank's trading portfolios at the reporting date is as follows:-

RM'000	30 Jun 2017	Average	Maximum	Minimum
Foreign currency risk	79	51	308	8
Profit rate risk	35	105	265	31
Credit spread risk	-	-	-	-
Overall	82	127	347	39

RM'000	31 Dec 2016	Average	Maximum	Minimum
Foreign currency risk	61	44	248	8
Profit rate risk	294	487	673	401
Credit spread risk	-	2	8	-
Overall	311	491	685	35

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 2017		31 Dec 2016	
Basis point parallel shift in yield curves	+ 100 bps	- 100 bps	+ 100 bps	- 100 bps
MYR	(21,492)	11,778	(22,711)	12,490
USD	3,697	(5,140)	(4,767)	2,204
Others	(834)	19	(482)	(126)
	(18,629)	6,657	(27,960)	14,568

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:

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

4) Rate of return risk (Cont'd)

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

	RM'000			
	30 Jun 2017		31 Dec 2016	
Basis point parallel shift in yield curves	+ 200 bps	- 200 bps	+ 200 bps	- 200 bps
MYR	(74,198)	84,781	(179,135)	201,096
USD	(24,633)	20,170	(31,024)	23,763
Others	29,978	(32,088)	2,844	(850)
	(68,853)	72,863	(207,315)	224,009

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 2017		31 Dec 2016	
Basis point parallel shift in yield curves	+ 100bps	- 100bps	+ 100bps	- 100bps
MYR	(22,950)	22,950	(27,046)	27,046

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 ended 30 June 2017, no actual Shariah non-compliance event has been identified.

b. Shariah Non-Compliance Income:

During the financial period ended 30 June 2017 the following amounts are recorded in the Shariah Penalty & Impure Income Account (the Account):

- i) The amount of RM4,413 in the Account was carried forward from 2016 to 2017.
- ii) Income from inadvertent Shariah non-compliance activities identified by the Bank's management amounted to RM5,110 as at 30 June 2017 received from transactions via Nostro Accounts has been reversed to the Account.
- iii) No amount was distributed as at 30 June 2017.

The balance of RM9,523 in the Account is pending distribution in second half of 2017.

Other than the above, there were no other Shariah non-compliance income or other amounts recorded during the financial period ended 30 June 2017.