HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
(Incorporated in Malaysia)
Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures
at 31 December 2015

DIRECTOR'S ATTESTATION

I, Seow Yoo Lin, being the Director of HSBC Amanah Malaysia Berhad, do hereby state that, in my opinion, the Pillar 3 Disclosures set out on pages 2 to 27 have been prepared according to the Risk Weighted Capital Adequacy Framework (Basel II), and are accurate and complete.

…………………….
SEOW YOO LIN

DIRECTOR
1 March 2016

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(a) Introduction

HSBC Amanah Malaysia Berhad (the Bank) is principally engaged in the provision of Islamic banking business and nominee services. At the reporting date, the bank does not have any subsidiaries.

(b) Basel II

The Bank's lead regulator, Bank Negara Malaysia (BNM) sets and monitors capital requirements for the Bank. The Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Bank adopts the Standardised approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

Basel II is structured around three 'pillars'; minimum capital requirements, supervisory review process and market discipline. Pillar 3 aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specific information on the capital management processes, and risk assessment processes, and hence the capital adequacy of the Bank. Disclosures consist of both quantitative and qualitative information. Banks are required to disclose all their material risks as part of the Pillar 3 framework. All material and non-proprietary information required by Pillar 3 is included in the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures at 31 December 2015. BNM permits certain Pillar 3 requirements to be satisfied by inclusion within the financial statements. Where this is the case, references are provided to relevant sections in the Financial Statements at 31 December 2015.

(c) Transferability of capital and funds

The Bank is the primary provider of equity capital to its subsidiaries. Each subsidiary manages its own capital to support its planned business growth. The Group is not aware of any impediments on transfer of funds or regulatory capital.

(d) Internal assessment of capital adequacy

The Bank assesses the adequacy of its capital by considering the resources necessary to cover unexpected losses arising from discretionary risks, such as credit risk and market risk, or non-discretionary risks, such as operational and reputational risk.

The key objective of Internal Capital Adequacy Assessment Process (ICAAP) is to ensure that sufficient capital is maintained, given the risk profile of the Bank on an ongoing and forward looking basis. ICAAP permits the setting of target amounts for internal capital consistent to the Bank's risk profile and the environment in which it pursues business.

The ICAAP is an internal assessment of the Bank's capital adequacy given its risk appetite, risk profile and regulatory minimum requirements. The Bank assesses the adequacy of its capital by considering the resources necessary to cover unexpected losses arising from discretionary risks, such as credit risk and market risk, or non-discretionary risks, such as operational and reputational risk. On a forward looking basis, the ICAAP ensures that the Bank's capital position:

- exceeds the minimum regulatory capital requirements as prescribed by the BNM;
- remains sufficient to support the Bank's Risk Appetite and business strategies;
- remains sufficient to support the underlying and projected risk profile; and
- remains sufficient to sustain business growth and in adverse business or economic conditions.

(d) Internal assessment of capital adequacy (Cont'd)

In order to achieve this, the Bank has a robust ICAAP framework in place which underlines the foundation of its risk and capital management process. It has the following key features:

- a strong and encompassing governance framework;
- a forward-looking risk appetite framework to ensure our business and risk profiles are in line with the Board of Directors' (BOD) expectations;
- a robust capital management, planning and forecasting framework; and
- an internal risk assessment process based on the economic capital and stress testing frameworks to support the Bank's capital adequacy positions.

Refer to Note 35 of the financial statements at 31 December 2015 for the total capital ratio and Tier 1 capital ratio, and risk weighted assets and capital requirements for credit risk, market risk and operational risk.

<u>Stress Testing</u>

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.

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 BNM's Guideline on Stress Testing and the Bank's Policy Paper for Stress Testing, a Stress Test Steering Committee (STSC) 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 STSC, Risk Management Committee (RMC), Risk Committee (RC) and BOD prior to submission to BNM.

<u>Governance</u>

The STSC 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. The STSC is accountable to RMC. Stress test results and the propose mitigating actions will be recommended by RMC and RC of the Board for approval.

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

(d) Internal assessment of capital adequacy (Cont'd)

Risk Appetite

Risk Appetite is a central component of an integrated approach to risk, capital and value management and an important mechanism to realise the Bank's strategic vision and corporate strategy. Risk Appetite forms an integral part of the Bank's ICAAP to ensure sufficient capital resources for the risk profile across customer groups.

The Risk Appetite Framework describes the quantum and types of risk that the Bank is prepared to take in executing its strategy. It aims to introduce a more explicit and consistent consideration of risk and capital into the Bank's strategy formulation, business planning, target setting, execution and measurement/ reporting processes throughout the Bank. It applies to our planning activities, strategic investments and running of our operations across all regions and group businesses.

The Risk Appetite Framework as well as the Risk Appetite Statement (RAS) will be reviewed by all relevant stakeholders namely Risks, Finance and customer groups. It will be tabled to the RMC for endorsement, and subsequently tabled to the the Board Risk Committee (BRC) for recommendation to the BOD for approval.

(e) Capital structure

For regulatory purposes, the Bank's regulatory capital is divided into two categories, or tiers. These are Tier 1 and Tier 2. The main features of capital securities issued by the Bank are disclosed below:

- Tier 1 capital is divided into Common Equity Tier 1 (CET1) Capital and Additional Tier 1 Capital. CET1 Capital includes ordinary share capital [1], share premium, retained earnings, reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. The Bank does not have any Additional Tier 1 Capital as at 31 December 2015. (Refer to Note 35 of the financial statements at 31 December 2015 for the amount of Tier 1 capital and a breakdown of its components).

- Tier 2 capital includes qualifying subordinated liabilities [2], collective impairment allowances (excluding collective impairment allowances attributable to loans classified as impaired) and regulatory reserve, which are disclosed as the regulatory adjustments. (Refer to Note 35 of the financial statements at 31 December 2015 for the amount of Tier 2 capital and a breakdown of its components).

(f) Risk management policies

All of the Bank's activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk (includes foreign exchange and profit rate risk)
- operational risk

Refer to Note 4 of the financial statements at 31 December 2015 for the Bank's risk managements policies on the above

[1] *Refer to Note 23 of the financial statements at 31 December 2015 for further details on ordinary share capital. All ordinary shares in issue confer identical rights in respect of capital, dividends and voting.*

[2] *Refer to Note 22 of the financial statement at 31 December 2015 for terms and conditions of the subordinated liabilities.*

(f) Risk management policies (Cont'd)

1) RWA and Capital Requirement

The table below discloses the gross and net exposures, RWA and capital requirements for credit risk, market risk and operational risk of the Bank at balance sheet date.

31 Dec 2015
(RM'000)

Exposure Class		Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Capital Requirement
Credit Risk (Standardised Approach)					
On-Balance Sheet Exposures					
Sovereigns/Central Banks		6,428,717	6,428,717	-	-
PSEs		310,813	310,813	310,813	24,865
Banks, DFIs & MDBs		561,634	535,780	122,845	9,828
Corporates		5,069,498	4,969,455	4,616,801	369,344
Regulatory Retail		2,260,232	2,231,613	1,683,372	134,670
House Financing		4,197,208	4,194,007	1,574,935	125,995
Other Assets		120,994	120,994	33,515	2,681
Defaulted Exposures		141,688	140,870	158,522	12,682
Total for On-Balance Sheet Exposures		**19,090,784**	**18,932,249**	**8,500,803**	**680,065**
Off-Balance Sheet Exposures					
OTC Derivatives		807,265	483,119	348,121	27,850
Off balance sheet exposures other than OTC derivatives or credit derivatives		3,057,095	2,989,927	2,035,186	162,815
Defaulted Exposures		986	986	1,403	112
Total for Off-Balance Sheet Exposures		**3,865,346**	**3,474,032**	**2,384,710**	**190,777**
Total On and Off-Balance Sheet Exposures [1]		**22,956,130**	**22,406,281**	**10,885,513**	**870,842**
Market Risk (Standardised Approach)	**Long position**	**Short position**			
Profit Rate Risk	878,456	93,489	784,967	83,300	6,664
Foreign Currency Risk	10,666	21,074	10,666	21,074	1,686
	889,122	114,563	795,633	104,374	8,350
Operational Risk (Basic Indicator Approach)	-	-	-	897,064	71,765
Total RWA and Capital Requirement	-	-	-	11,886,951	950,957

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

(f) Risk management policies (Cont'd)

1) RWA and Capital Requirement (Cont'd)

31 Dec 2014
(RM'000)

Exposure Class		Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Capital Requiremnet
Credit Risk (Standardised Approach)					
On-Balance Sheet Exposures					
Sovereigns/Central Banks		4,907,238	4,907,238	-	-
PSEs		376,507	376,507	376,507	30,120
Banks, DFIs & MDBs		648,413	648,413	134,948	10,796
Corporates		4,159,640	4,096,997	3,914,353	313,148
Regulatory Retail		2,067,856	2,038,201	1,534,085	122,727
House Financing		3,841,506	3,838,737	1,570,106	125,609
Other Assets		207,668	207,668	108,198	8,655
Defaulted Exposures		105,079	104,121	112,033	8,963
Total for On-Balance Sheet Exposures		16,313,907	16,217,882	7,750,230	620,018
Off-Balance Sheet Exposures					
OTC Derivatives		452,768	452,768	188,391	15,072
Off balance sheet exposures other than OTC derivatives or credit derivatives		2,749,459	2,691,603	2,053,687	164,295
Defaulted Exposures		6,272	6,177	9,266	741
Total for Off-Balance Sheet Exposures		3,208,499	3,150,548	2,251,344	180,108
Total On and Off-Balance Sheet Exposures [1]		19,522,406	19,368,430	10,001,574	800,126
Market Risk (Standardised Approach)	**Long position**	**Short position**			
Profit Rate Risk	4,267,016	4,855,382	(588,366)	100,444	8,035
Foreign Currency Risk	9,909	2,635	9,909	9,909	793
Total market risk	4,276,925	4,858,017	(578,457)	110,353	8,828
Operational Risk (Basic Indicator Approach)	-	-	-	919,539	73,563
Total RWA and Capital Requirement	-	-	-	11,031,466	882,517

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 (f)(3)(ii) within this disclosure document.*

Refer to Note 35 and Note 36 of the financial statements at 31 December 2015 for disclosure of counterparty credit risk and disclosure of off-balance sheet respectively.

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

(f) Risk management policies (Cont'd)

2) Risk Weight Profile and RWA

The tables below are disclosures on risk weights profile and RWA of the Bank at balance sheet date.

31 Dec 2015
(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%	**6,428,717**	**27,524**	**-**	**2,883**	**2,997**	**-**	**87,479**	**6,549,600**	**-**
20%	**-**	**217,396**	**603,197**	**621,858**	**3,500**	**-**	**-**	**1,445,951**	**289,190**
35%	**-**	**-**	**-**	**-**	**-**	**4,136,858**	**-**	**4,136,858**	**1,447,900**
50%	**-**	**-**	**248,655**	**310,038**	**281**	**287,999**	**-**	**846,973**	**423,487**
75%	**-**	**-**	**-**	**-**	**2,620,330**	**268,606**	**-**	**2,888,936**	**2,166,702**
100%	**-**	**412,746**	**54,938**	**5,845,171**	**85,571**	**65,480**	**33,515**	**6,497,421**	**6,497,421**
150%	**-**	**-**	**-**	**6,644**	**17,022**	**16,876**	**-**	**40,542**	**60,813**
Total								**22,406,281**	**10,885,513**
Weight	**0%**	**69%**	**33%**	**90%**	**76%**	**39%**	**28%**	**49%**	

31 Dec 2014
(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%	4,907,238	-	-	3,785	2,647	-	99,470	5,013,140	-
20%	-	69,832	956,274	645,993	5,073	-	-	1,677,172	335,434
35%	-	-	-	-	-	3,146,726	-	3,146,726	1,101,354
50%	-	-	227,101	84,429	506	302,515	-	614,551	307,275
75%	-	-	-	4,334	2,353,307	330,779	-	2,688,420	2,016,315
100%	-	408,954	53,467	5,109,553	67,870	454,830	108,198	6,202,872	6,202,872
150%	-	-	3,336	2,719	18,039	1,455	-	25,549	38,324
Total								19,368,430	10,001,574
Weight	0%	88%	29%	90%	76%	46%	52%	52%	

Note:
MDBs - Multilateral Development Banks
DFIs - Development Financial Institutions
PSEs - Public Sector Entities

(f) Risk management policies (Cont'd)

3) Credit Risk

Refer to Note 5 of the financial statements at 31 December 2015 for definitions of past due and impaired financing. The approaches for the determination of individual and collective impairment provisions are detailed in Note 10 of the financial statements at 31 December 2015.

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

	31 Dec 2015				
RM'000	**Northern**	**Southern**	**Central**	**Eastern**	**Total**
Cash line-i	**10,218**	**27,999**	**50,736**	**1,447**	**90,400**
Term financing					
House financing	**600,455**	**595,876**	**2,824,926**	**187,509**	**4,208,766**
Hire purchase receivables	**65,021**	**54,213**	**86,143**	**24,175**	**229,552**
Lease receivables	**-**	**-**	**4,103**	**-**	**4,103**
Other term financing	**402,269**	**730,045**	**3,466,215**	**224,562**	**4,823,091**
Trust receipts	**116,734**	**22,931**	**463,534**	**482**	**603,681**
Claims on customers under acceptance credits	**141,641**	**119,180**	**561,055**	**12,094**	**833,970**
Staff financing-i	**554**	**1,356**	**5,105**	**494**	**7,509**
Credit cards-i	**109,711**	**82,004**	**347,881**	**29,762**	**569,358**
Revolving credit	**2,200**	**5,065**	**799,433**	**-**	**806,698**
	1,448,803	**1,638,669**	**8,609,131**	**480,525**	**12,177,128**

	31 Dec 2014 (Restated - refer Note 6)				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	14,459	21,804	55,006	1,939	93,208
Term financing					
House financing	549,994	548,360	2,537,110	185,282	3,820,746
Hire purchase receivables	55,179	45,175	99,297	34,879	234,530
Lease receivables	-	-	5,373	-	5,373
Other term financing	413,894	702,782	3,254,382	220,316	4,591,374
Trust receipts	122,529	18,396	214,705	2,961	358,591
Claims on customers under acceptance credits	87,274	114,970	408,959	8,055	619,258
Staff financing-i	636	874	6,065	462	8,037
Credit cards-i	99,778	74,156	297,987	27,899	499,820
Revolving credit	25,094	3,020	589,962	163	618,239
	1,368,837	1,529,537	7,468,846	481,956	10,849,176

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 Disclosures (Cont'd)

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

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

	31 Dec 2015				
RM'000	**Northern**	**Southern**	**Central**	**Eastern**	**Total**
Cash line-i	**182**	**-**	**3,819**	**-**	**4,001**
Term financing					
House financing	**18,550**	**18,606**	**55,767**	**2,060**	**94,983**
Hire purchase receivables	**1,919**	**56**	**542**	**4,532**	**7,049**
Other term financing	**10,120**	**9,553**	**74,768**	**1,975**	**96,416**
Claims on customers under acceptance credits	**18,283**	**-**	**-**	**-**	**18,283**
Staff financing-i	**13**	**-**	**-**	**8**	**21**
Credit cards-i	**2,835**	**2,052**	**6,868**	**571**	**12,326**
Revolving credit	**2,200**	**-**	**-**	**-**	**2,200**
	54,102	**30,267**	**141,764**	**9,146**	**235,279**

	31 Dec 2014				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line-i	238	-	614	-	852
Term financing					
House financing	13,624	7,595	33,651	1,037	55,907
Hire purchase receivables	6,006	281	737	4,735	11,759
Other term financing	10,356	10,845	54,150	2,788	78,139
Claims on customers under acceptance credits	102	603	715	-	1,420
Credit cards-i	3,538	1,921	8,113	578	14,150
	33,864	21,245	97,980	9,138	162,227

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

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

	31 Dec 2015				
RM'000	**Maturing within one year**	**One year to three years**	**Three years to five years**	**Over five years**	**Total**
Cash line-i	**90,400**	**-**	**-**	**-**	**90,400**
Term financing					
House financing	**15,028**	**3,470**	**13,335**	**4,176,933**	**4,208,766**
Hire purchase receivables	**14,620**	**111,503**	**103,429**	**-**	**229,552**
Lease receivables	**-**	**1,243**	**2,860**	**-**	**4,103**
Other term financing	**1,598,922**	**525,580**	**1,369,003**	**1,329,586**	**4,823,091**
Trust receipts	**603,681**	**-**	**-**	**-**	**603,681**
Claims on customers under acceptance credits	**833,970**	**-**	**-**	**-**	**833,970**
Staff financing-i	**189**	**906**	**1,606**	**4,808**	**7,509**
Credit cards-i	**569,358**	**-**	**-**	**-**	**569,358**
Revolving credit	**806,698**	**-**	**-**	**-**	**806,698**
	4,532,866	**642,702**	**1,490,233**	**5,511,327**	**12,177,128**

	31 Dec 2014 (Restated - refer Note 6)				
RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line-i	93,208	-	-	-	93,208
Term financing					
House financing	16,960	1,294	13,469	3,789,023	3,820,746
Hire purchase receivables	12,108	89,426	132,214	782	234,530
Lease receivables	-	1,696	3,677	-	5,373
Other term financing	2,492,929	309,016	721,940	1,067,489	4,591,374
Trust receipts	358,591	-	-	-	358,591
Claims on customers under acceptance credits	619,258	-	-	-	619,258
Staff financing -i	129	667	2,055	5,186	8,037
Credit cards-i	499,820	-	-	-	499,820
Revolving credit	618,239	-	-	-	618,239
	4,711,242	402,099	873,355	4,862,480	10,849,176

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

(f) Risk management policies (Cont'd)

3) Credit risk (Cont'd)

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

31 Dec 2015
RM'000

	Cash line-i	House financing	Hire purchase receivables	Lease receivables	Other term financing	Trust receipts	Claims on customers under acceptance credits	Staff financing-i	Credit card-i	Revolving credit	Total
Agricultural, hunting, forestry and fishing	3,941	-	6,601	-	608,950	-	4,768	-	-	-	624,260
Mining and quarrying	1,178	-	3,162	-	1,346	49	56,116	-	-	144,443	206,294
Manufacturing	23,468	-	109,269	-	725,112	136,475	305,601	-	-	6,319	1,306,244
Electricity, gas and water	334	-	322	-	-	-	12,094	-	-	2,022	14,772
Construction	12,248	-	9,757	-	391,120	7,441	65,924	-	-	110,665	597,155
Real estate	611	-	-	-	362,104	-	-	-	-	30,219	392,934
Wholesale & retail trade and restaurants & hotels	22,672	-	42,421	-	242,466	380,994	322,099	-	-	78,114	1,088,766
Transport, storage and communication	4,237	-	22,244	-	108,263	1,542	13,906	-	-	16,251	166,443
Finance, takaful and business services	20,427	-	13,506	4,103	703,632	7,481	42,891	-	-	243,422	1,035,462
Household-retail	113	4,208,766	-	-	1,287,977	-	-	7,509	569,358	-	6,073,723
Others	1,171	-	22,270	-	392,121	69,699	10,571	-	-	175,243	671,075
	90,400	4,208,766	229,552	4,103	4,823,091	603,681	833,970	7,509	569,358	806,698	12,177,128

31 Dec 2014 (Restated - refer to Note 6)
RM'000

	Cash line-i	House financing	Hire purchase receivables	Lease receivables	Other term financing	Trust receipts	Claims on customers under acceptance credits	Staff financing-i	Credit Card-i	Revolving credit	Total
Agricultural, hunting, forestry and fishing	2,723	-	6,246	-	255,443	-	1,927	-	-	-	266,339
Mining and quarrying	1,273	-	8,940	-	1,638	-	-	-	-	155,944	167,795
Manufacturing	24,854	-	109,054	-	572,984	192,674	297,090	-	-	36,456	1,233,112
Electricity, gas and water	978	-	-	-	60,250	-	12,962	-	-	2,000	76,190
Construction	9,887	-	14,931	-	559,548	2,990	32,981	-	-	82,260	702,597
Real estate	439	-	-	-	190,587	-	-	-	-	47,000	238,026
Wholesale & retail trade and restaurants & hotels	13,104	-	30,968	-	202,890	159,241	246,113	-	-	141,049	793,365
Transport, storage and communication	5,694	-	20,760	-	170,224	599	3,165	-	-	13,000	213,442
Finance, takaful and business services	27,683	-	16,059	5,373	543,162	2,994	23,920	-	-	69,930	689,121
Household-retail	5,657	3,820,746	-	-	1,193,183	-	-	8,037	499,820	-	5,527,443
Others	916	-	27,572	-	841,465	93	1,100	-	-	70,600	941,746
	93,208	3,820,746	234,530	5,373	4,591,374	358,591	619,258	8,037	499,820	618,239	10,849,176

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

(f) Risk management policies (Cont'd)

3) Credit risk (Cont'd)

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

31 Dec 2015
RM'000

	Cash line-i	**House financing**	**Hire purchase receivables**	**Other term financing**	**Claims on customers under acceptance credits**	**Staff financing-i**	**Credit cards-i**	**Revolving Credit**	**Total**
Manufacturing	**-**	**-**	**678**	**248**	**17,967**	**-**	**-**	**2,200**	**21,093**
Electricity, gas and water	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Construction	**182**	**-**	**-**	**22**	**-**	**-**	**-**	**-**	**204**
Wholesale & retail trade and restaurants & hotels	**-**	**-**	**1,714**	**7,642**	**316**	**-**	**-**	**-**	**9,672**
Transport, storage and communication	**614**	**-**	**3,952**	**877**	**-**	**-**	**-**	**-**	**5,443**
Finance, takaful and business services	**3,065**	**-**	**705**	**1,757**	**-**	**-**	**-**	**-**	**5,527**
Household-retail	**1**	**94,983**	**-**	**85,356**	**-**	**21**	**12,326**	**-**	**192,687**
Others	**139**	**-**	**-**	**514**	**-**	**-**	**-**	**-**	**653**
	4,001	**94,983**	**7,049**	**96,416**	**18,283**	**21**	**12,326**	**2,200**	**235,279**

31 Dec 2014
RM'000

	Cash line-i	House financing	Hire purchase receivables	Other term financing	Claims on customers under acceptance credits	Staff financing-i	Credit cards-i	Revolving Credit	Total
Manufacturing	6	-	5,465	7,518	603	-	-	-	13,592
Electricity, gas and water	-	-	-	3	-	-	-	-	3
Construction	171	-	-	611	-	-	-	-	782
Wholesale & retail trade and restaurants & hotels	-	-	1,356	768	817	-	-	-	2,941
Transport, storage and communication	675	-	4,124	871	-	-	-	-	5,670
Finance, takaful and business services	-	-	623	2	-	-	-	-	625
Household-retail	-	55,907	-	67,960	-	-	14,150	-	138,017
Others	-	-	191	406	-	-	-	-	597
	852	55,907	11,759	78,139	1,420	-	14,150	-	162,227

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

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

	31 Dec 2015	31 Dec 2014
	`	RM'000
Manufacturing	**81,411**	72,022
Electricity, gas and water	**-**	16
Construction	**787**	4,144
Wholesale & retail trade and restaurants & hotels	**37,330**	15,584
Transport, storage and communication	**21,008**	30,044
Finance, takaful and business services	**21,332**	3,312
Household-retail	**743,699**	731,327
Others	**2,520**	3,163
	908,087	859,612

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

	31 Dec 2015	31 Dec 2014
	RM'000	RM'000
Northern region	**208,813**	179,439
Southern region	**116,819**	112,573
Central region	**547,155**	519,179
Eastern region	**35,300**	48,421
	908,087	859,612

[1] of which the portion of impaired financing and advances breakdown by sector and geographical location is disclosed in Note 10(iv) and 10(vi) of the financial statements at 31 December 2015.

Table 8: Individual impairment allowance breakdown by sector

	31 Dec 2015	31 Dec 2014
	RM'000	RM'000 (Restated - refer Note 6)
Manufacturing	**18,828**	5,186
Construction	**120**	134
Real estate	**-**	1,006
Wholesale & retail trade and restaurants & hotels	**1,081**	1,069
Transport, storage and communication	**3,919**	4,341
Finance, takaful and business services	**2,008**	197
Household-retail	**42,691**	31,888
	68,647	43,821

Table 8a: Collective impairment allowance breakdown by sector

	31 Dec 2015	31 Dec 2014
	RM'000	RM'000 (Restated - refer Note 6)
Agricultural, hunting, forestry and fishing	**112**	112
Manufacturing	**24,801**	18,962
Electricity, gas and water	**1,856**	398
Real estate	**-**	520
Wholesale & retail trade and restaurants & hotels	**5,507**	112
Transport, storage and communication	**4,111**	4,700
Household-retail	**101,896**	97,373
Others	**1,981**	2,640
	140,264	124,817

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

Table 9: Individual impairment allowance breakdown by geographical location

	31 Dec 2015	31 Dec 2014
	RM'000	RM'000
Northern region	**18,534**	4,037
Southern region	**607**	737
Central region	**44,923**	34,205
Eastern region	**4,583**	4,842
	68,647	43,821

Table 9a: Collective impairment allowance breakdown by geographical location

	31 Dec 2015	31 Dec 2014
	RM'000	RM'000 (Restated - refer Note 6)
Northern region	**19,107**	16,458
Southern region	**19,846**	18,147
Central region	**94,584**	84,247
Eastern region	**6,727**	5,965
	140,264	124,817

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

	31 Dec 2015	31 Dec 2014
	RM'000	RM'000 (Restated - refer Note 6)
Manufacturing	**23,202**	11,853
Construction	**-**	634
Real estate	**-**	1,165
Wholesale & retail trade and restaurants & hotels	**1,191**	437
Transport, storage and communication	**2,028**	2,641
Finance, takaful and business services	**2,643**	121
Household-retail	**16,765**	16,792
	45,829	33,643

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

	31 Dec 2015	31 Dec 2014
	RM'000	RM'000 (Restated - refer Note 6)
Manufacturing	**427**	1,231
Construction	**5**	-
Wholesale & retail trade and restaurants & hotels	**735**	226
Transport, storage and communication	**2**	-
Finance, takaful and business services	**-**	11
Household-retail	**4,457**	6,680
	5,626	8,148

The reconciliation of changes in loan/financing impairment provisions is disclosed in Note 10(ii) of the financial statements at 31 December 2015.

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) External Credit Assessment Institutions (ECAIs)

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

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

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

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

- Standard & Poor's Rating Services (S&P)
- Moody's Investors Services (Moody's)
- Fitch Ratings (Fitch)
- Rating and Investment Information, Inc (R&I)
- RAM Rating Services Berhad (RAM)
- Malaysian Rating Corporation Berhad (MARC)

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

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

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

Long Term Rating Category		1	2	3	4	5	6	7
Rating Agency	S & P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	B1 to B3	Caa1 and below	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	R & I [1]	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
	R & I [1]	a-1+, a-1	a-2	a-3	b, c	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						
	Long Term Rating					Short Term Rating
			Banking Institutions			
Rating Category	Sovereigns and Central Banks	Corporates	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

[1] External credit assessments produced by R&I on Islamic debt securities are not recognised by BNM in determining the risk weights for exposures as prescribed in BNM Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets).

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

(f) Risk management policies (Cont'd)

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:-

31 Dec 2015
RM '000

	Long Term Rating Category							
Exposure Class	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**Total**
On and Off Balance Sheet Exposures								
(i) Total rated exposures								
Sovereigns & Central Banks								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	1,712,128	-	-	-	-		1,712,128
PSEs								
- Exposures risk-weighted using ratings of Corporates	27,524	67,396	87,852	-	-	-		182,772
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	376,802	202,175	68,751	98	67	-		647,893
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	4,176	-	-	-	-		4,176
- Exposures risk-weighted using ratings of Corporates	578,762	22,884	804,636	-	-	-		1,406,282
	983,088	2,008,759	961,239	98	67	-		3,953,251
(ii) Total unrated exposures							13,190,174	13,190,174
Total Long Term Exposure	983,088	2,008,759	961,239	98	67	-	13,190,174	17,143,425

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2015
RM '000

	Short Term Rating Category					
Exposure Class	**1**	**2**	**3**	**4**	**5**	**Total**
On and Off Balance Sheet Exposures						
(i) Total rated exposures						
Sovereigns & Central Banks						
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	**-**	**4,716,592**	**-**	**-**		**4,716,592**
PSEs						
- Exposures risk-weighted using ratings of Corporates	**-**	**150,000**	**-**	**-**		**150,000**
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	**606,570**	**1,794**	**9,917**	**-**		**618,281**
Corporates						
- Exposures risk-weighted using ratings of Corporates	**41,803**	**286,029**	**-**	**-**		**327,832**
	648,373	**5,154,415**	**9,917**	**-**	**-**	**5,812,705**
(ii) Total unrated exposures					**-**	**-**
Total Short Term Exposures	**648,373**	**5,154,415**	**9,917**	**-**	**-**	**5,812,705**

Total Long Term and Short Term Exposures:	**22,956,130**

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2014
RM '000

Exposure Class	Long Term Rating Category 1	2	3	4	5	6	7	Total
On and Off Balance Sheet Exposures								
(i) Total rated exposures								
Sovereigns & Central Banks								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	3,918,936	-	-	-	-		3,918,936
PSEs								
- Exposures risk-weighted using ratings of Corporates	-	39,832	28,671	-	-	-		68,503
Banks, DFIs & MDBs								
- Exposures risk-weighted using ratings of Banking Institutions	419,062	101,235	233	-	-	-		520,530
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	3,786	-	-	-	-		3,786
- Exposures risk-weighted using ratings of Corporates	461,588	84,425	107,328	-	-	-		653,341
	880,650	4,148,214	136,232	-	-	-		5,165,096
(ii) Total unrated exposures							12,749,066	12,749,066
Total Long Term Exposures	880,650	4,148,214	136,232	-	-	-	12,749,066	17,914,162

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2014
RM '000

Exposure Class	Short Term Rating Category 1	2	3	4	5	Total
On and Off Balance Sheet Exposures						
(i) Total rated exposures						
Sovereigns & Central Banks						
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	983,748	-	-		983,748
PSEs						
- Exposures risk-weighted using ratings of Corporates	-	30,000	-	-		30,000
Banks, DFIs & MDBs						
- Exposures risk-weighted using ratings of Banking Institutions	75,013	149,061	184,678	153		408,905
Corporates						
- Exposures risk-weighted using ratings of Corporates	185,591	-	-	-		185,591
	260,604	1,162,809	184,678	153	-	1,608,244
(ii) Total unrated exposures					-	-
Total Short Term Exposures	260,604	1,162,809	184,678	153	-	1,608,244

Total Long Term and Short Term Exposures	19,522,406

Note:
MDBs - Multilateral Development Banks
DFIs - Development Financial Institutions
PSEs - Public Sector Entities

(f) Risk management policies (Cont'd)

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 pay, 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 and 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 appropariate, 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 Bank's panel of approved valuers is subject to an annual review. This takes into consideration the company's financial standing, accreditations, experience, amount of professional liability insurance, major clients and size of its branch network.

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

ii) CRM (Cont'd)

The table below shows the on and off balance sheet exposures before and after CRM.

31 Dec 2015
RM'000

Exposure Class	Exposures Before Credit Risk Mitigation	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Financial Collateral
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	**6,428,717**	**-**	**-**
PSEs	**310,813**	**-**	**-**
Banks, DFIs & MDBs	**561,634**	**-**	**25,854**
Corporates	**5,069,498**	**223,754**	**100,043**
Regulatory Retail	**2,260,232**	**4,365**	**28,619**
House Financing	**4,197,208**	**-**	**3,201**
Other Assets	**120,994**	**-**	**-**
Defaulted Exposures	**141,688**	**1,500**	**818**
Total for On-Balance Sheet Exposures	**19,090,784**	**229,619**	**158,535**
Off-Balance Sheet Exposures			
OTC Derivatives	**807,265**	**-**	**324,146**
Off balance sheet exposures other than OTC derivatives or credit derivatives	**3,057,095**	**70,026**	**67,168**
Defaulted Exposures	**986**	**-**	**-**
Total for Off-Balance Sheet Exposures	**3,865,346**	**70,026**	**391,314**
Total On and Off-Balance Sheet Exposures	**22,956,130**	**299,645**	**549,849**

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

ii) CRM (Cont'd)

The table below shows the on and off balance sheet exposures before and after CRM.

31 Dec 2014
RM'000

Exposure Class	Exposures Before Credit Risk Mitigation	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Financial Collateral
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	4,907,238	-	-
PSEs	376,507	-	-
Banks, DFIs & MDBs	648,413	-	-
Corporates	4,159,640	87,220	62,643
Regulatory Retail	2,067,856	5,442	29,655
House Financing	3,841,506	-	2,769
Other Assets	207,668	-	-
Defaulted Exposures	105,079	1,899	958
Total for On-Balance Sheet Exposures	16,313,907	94,561	96,025
Off-Balance Sheet Exposures			
OTC Derivatives	452,768	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	2,749,459	26,713	57,856
Defaulted Exposures	6,272	-	95
Total for Off-Balance Sheet Exposures	3,208,499	26,713	57,951
Total On and Off-Balance Sheet Exposures	19,522,406	121,274	153,976

Note:
MDBs - Multilateral Development Banks
DFIs - Development Financial Institutions
PSEs - Public Sector Entities
OTC - Over the Counter

Refer to Note 35 and Note 36 of the financial statements at 31 December 2015 for disclosure of counterparty credit risk and disclosure of off-balance sheet respectively.

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

iii) Counterparty Credit Risk

In respect of counterparty credit risk exposures which arise from OTC derivative transactions, a credit limit for counterparty credit risk (CCR) is assigned, monitored and reported in accordance with the Bank's risk methodology. The credit limit established takes into account the gross contract amount and the future potential exposure measured on the basis of 95 percentile potential worst case loss estimates for the product involved. These methods of calculating credit exposures apply to all counterparties and differences in credit quality are reflected in the size of the limits.

The credit equivalent amount and risk-weighted amount of the relevant transaction is determined following the regulatory capital requirements. The risk-weighted amount is calculated in accordance with the counterparty risk weighting as per the standardised approach.

The policy for secured collateral on derivatives is guided by the Bank's Internal Best Practice Guidelines ensuring the due diligence necessary to fully understand the effectiveness of netting and collateralisation by jurisdiction, counterparty, product and agreement type is fully assessed and that the due-diligence standards are high and consistently applied.

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	**31 Dec 2015**	**Average**	**Maximum**	**Minimum**
Foreign currency risk	**299**	**50**	**321**	**8**
Profit rate risk	**387**	**235**	**408**	**36**
Credit spread risk	**8**	**-**	**16**	**-**
Overall	**436**	**242**	**459**	**37**

RM'000	31 Dec 2014	Average	Maximum	Minimum
Foreign currency risk	74	56	187	7
Profit rate risk	34	39	108	18
Credit spread risk	-	-	-	-
Overall	60	68	203	22

Sensitivity of projected Net Interest/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			
	31 Dec 2015		31 Dec 2014	
Basis point parallel shift in yield curves	*+ 100 bps*	*- 100 bps*	*+ 100 bps*	*- 100 bps*
MYR	**45,092**	**(45,057)**	12,307	(12,286)
USD	**8,961**	**(6,878)**	4,950	(2,131)
Others	**3,807**	**(2,934)**	(319)	349
	57,860	**(54,869)**	16,938	(14,068)

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:

(f) Risk management policies (Cont'd)

4) Rate of return risk (Cont'd)

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

	RM'000			
	31 Dec 2015		31 Dec 2014	
Basis point parallel shift in yield curves	*+ 200 bps*	*- 200 bps*	*+ 200 bps*	*- 200 bps*
MYR	**(38,879)**	**38,879**	(70,804)	84,386
USD	**(21,600)**	**8,640**	7,769	(5,980)
Others	**8,640**	**(4,320)**	7,428	(3,548)
	(51,839)	**43,199**	(55,607)	74,858

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			
	31 Dec 2015		31 Dec 2014	
Basis point parallel shift in yield curves	*+ 100bps*	*- 100bps*	*+ 100bps*	*- 100bps*
MYR	**(30,349)**	**30,349**	(34,937)	34,937

5) Classification and Impairment Provisions for Loans/Financing

The Bank's allowance for impaired financing is in conformity with MFRS 139 and BNM's revised guidelines on 'Classification and Impairment Provisions for Loan/Financing' issued on 6 April 2015.

Affected tables under Risk Management Policies - 3) Credit Risk, pertaining to the revised guidelines are as below:

- Table 2 : Geographical distribution of impaired financing and advances breakdown by type.
- Table 5 : Distribution of impaired financing by sector, breakdown
- Table 8 : Individual impairment allowance breakdown by sector.
- Table 8a : Collective impairment allowance breakdown by sector.
- Table 9 : Individual impairment allowance breakdown by geographical location.
- Table 9a : Collective impairment allowance breakdown by geographical location.

6) Restatement of comparative figures

The presentation and reclassification of items in the current Pillar 3 Disclosure are consistent with the previous financial year, except those balances within the tables below under Risk Management Policies - 3) Credit Risk:

- Table 1 : Geographical distribution of financing breakdown by type.
- Table 3 : Residual contractual maturity of financing breakdown by type.
- Table 4 : Distribution of financing and advances bysector, breakdown by type.
- Table 8 : Individual impairment allowance breakdown by sector.
- Table 8a : Collective impairment allowance breakdown by sector.
- Table 9a : Collective impairment allowance breakdown by geographical location.
- Table 10 : Charges for individual impairment allowance during the year breakdown by sector.
- Table 10a : Charges for write-offs of individual impairment allowance during the year breakdown by sector.

(f) Risk management policies (Cont'd)

7) 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 within the Bank.

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

(f) Risk management policies (Cont'd)

7) Shariah Governance (Cont'd)

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

f. Shariah Department

i) Shariah Review
To 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.

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 year ended 31 December 2015, one (1) actual Shariah non-compliance event has been identified. The event will be rectified in accordance with the Shariah governance framework.

b. Shariah Non-Compliance Income:
During the financial year ended 31 December 2015 the following amounts are recorded in the Shariah Penalty & Impure Income Account (the Account):

i) The amount of RM165,388 in the Account was carried forward from 2014 to 2015.

ii) Income from inadvertent Shariah non-compliant activities identified by the Bank's management amounting to RM 134,721 in 2015 is itemised as follows:-

- RM134,721 received from transactions via Nostro Accounts has been reversed to the Account.

iii) The amount distributed in 2015 are as follows:-

- RM50,000 was donated to National Kidney Foundation Malaysia.
- RM137,218 was donated to Fast-a-Thon program.
- RM42,654 was donated to National Autism Society of Malaysia.

The balance of RM70,237 in the Account is pending distribution in 2016.

Other than the above, there were no other Shariah non-compliance income or other amounts recorded during the financial year ended 31 December 2015.