PILLAR 3 DISCLOSURE
as at December 2020

OVERVIEW

The Pillar 3 Disclosure for financial year ended 31 December 2020 for Bank Islam Malaysia Berhad ("the Bank") and its subsidiaries ("the Group") describes the risk profile, risk management practices and capital adequacy position in accordance with the disclosure requirements governed by Bank Negara Malaysia's ("BNM") "Capital Adequacy Framework for Islamic Banks ("CAFIB") – Disclosure Requirements ("Pillar 3")".

The Group adopts the following approaches in determining the capital requirements of Pillar 1 in accordance with BNM's Guidelines on CAFIB (Basel II – Risk Weighted Assets ("RWA")) since January 2008:

- Credit and Market Risk – the Standardised Approach ("SA"); and
- Operational Risk – the Basic Indicator Approach ("BIA").

Under the Standardised Approach, standard risk weights are used to assess the capital requirements whilst under the Basic Indicator Approach, the capital requirements are computed based on a fixed percentage over the Group's average gross income for a fixed number of quarterly periods.

As required under Pillar 2, the Group has also developed an Internal Capital Adequacy Assessment Process ("ICAAP") framework which closely integrates the risk and capital assessment processes, and ensures that adequate levels of capital are maintained to support the Group's current and projected demand for capital under expected and stressed conditions. The ICAAP was adopted in 2012 and was fully implemented in 2013. The ICAAP is updated and approved on an annual basis by the Management Committee, Board Risk Committee ("BRC") and Board of Directors ("Board").

BASIS OF DISCLOSURE

The Pillar 3 Disclosure is prepared in accordance with BNM's Pillar 3 Disclosure Guidelines issued in July 2010 and the Group's internal policy on Pillar 3 Disclosure; which aims to enhance transparency on the risk management practices and capital adequacy of the Bank and the Group. The disclosures include both qualitative and quantitative disclosures with respect to capital adequacy, credit risk, market risk, liquidity risk, operational risk, management of Investment Account (IA) and key aspects of Shariah governance.

Whilst this document discloses the Group's assets both in terms of exposures and capital requirements, the information disclosed herein may not be directly comparable with the information in the Full-Year Financial Statements 2020 published by the Group.

These disclosures have been reviewed and verified by the Group Internal Auditor and attested by the Chief Executive Officer.

MEDIUM AND LOCATION OF DISCLOSURE

The Group's Pillar 3 Disclosure is made available at **www.bankislam.com.**

PILLAR 3 DISCLOSURE

as at 31 December 2020

MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Group's main activity is Islamic banking business which focuses on retail banking and financing operations. The following tables show the minimum regulatory capital requirement to support the Group's and the Bank's risk weighted assets.

	31.12.2020		31.12.2019	
Group	**Risk-weighted assets RM'000**	**Minimum capital requirement at 8% RM'000**	**Risk-weighted assets RM'000**	**Minimum capital requirement at 8% RM'000**
Credit Risk	**46,862,577**	**3,749,006**	42,551,894	3,404,152
Less: Credit Risk absorbed by IA	**(9,082,114)**	**(726,569)**	(7,628,353)	(610,268)
Market Risk	**638,925**	**51,114**	580,444	46,436
Operational Risk	**3,719,636**	**297,571**	3,551,083	284,087
Total	**42,139,024**	**3,371,122**	**39,055,068**	**3,124,407**

	31.12.2020		31.12.2019	
Bank	**Risk-weighted assets RM'000**	**Minimum capital requirement at 8% RM'000**	**Risk-weighted assets RM'000**	**Minimum capital requirement at 8% RM'000**
Credit Risk	**46,842,825**	**3,747,426**	42,536,846	3,402,948
Less: Credit Risk absorbed by IA	**(9,082,416)**	**(726,593)**	(7,628,353)	(610,268)
Market Risk	**638,925**	**51,114**	580,444	46,436
Operational Risk	**3,675,867**	**294,069**	3,514,162	281,133
Total	**42,075,201**	**3,366,016**	**39,003,099**	**3,120,249**

The Group does not have any capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in BNM's CAFIB (Risk-Weighted Assets) Guideline.

1. SCOPE OF APPLICATION

The Pillar 3 Disclosure is prepared on a consolidated basis and comprises information on the Bank (including the offshore banking operations in the Federal Territory of Labuan) and its subsidiaries.

There are no significant restrictions or impediments on the transfer of funds or regulatory capital within the Group. There were no capital deficiencies in any of the subsidiary companies of the Group as at the financial year end.

PILLAR 3 DISCLOSURE
as at 31 December 2020

2. CAPITAL ADEQUACY

2.1 Capital Management

The Group's primary objectives when managing capital are to maintain a strong capital position to support business growth and to maintain investors, depositors, customers, and market confidence. In line with this, the Group manages its capital actively and ensures that the capital adequacy ratios which take into account the risk profile of the Group, are above the regulatory minimum requirement.

To ensure that the Group has sufficient capital to support all its business and risk-taking activities, the Group has implemented a sound capital management process in its management systems and processes. A comprehensive capital management framework has been adopted by the Group as a key enabler for value creation which is important to the long-term survival of the Group. This comprehensive capital management process includes thorough risk assessment and risk management techniques that are embedded within the Group's risk governance.

The assessment is based on the approved business plan, its estimation of current risks inherent in the Group and the impact of capital stress tests on the Group's capital plan. The Group aims to achieve the following capital management objectives:

- Meeting regulatory capital requirements;
- Optimising returns to shareholders;
- Maintaining adequate levels and an optimum mix of different sources of capital to support the underlying risks of its business;
- Ensuring adequate capital to withstand shocks and stress;
- Ensuring sufficient capital to expand its business ventures and inorganic growth; and
- Allocating an appropriate amount of capital to business units to optimise return on capital.

The Group's capital management is guided by the Capital Management Plan, approved by the Board, to ensure the management of capital is consistent and aligned with the Group's Risk Appetite Statement and ICAAP Document Policy.

The Group's capital management processes comprise:

- Capital Structuring – ensuring that the amount of regulatory and statutory capital available is consistent with the Group's growth plan, risk appetite, and desired level of capital adequacy. Capital structuring focuses on selecting appropriate, most cost-effective mix of capital instruments;
- Capital Allocation – ensuring that the capital is employed efficiently across the Group based on risk-adjusted return on capital; and
- Capital Optimisation – seeking an optimal level of capital by facilitating the optimisation of the risk profile of the balance sheet. This will be done through:
- reshaping of the balance sheet;
- capital planning, allocation and optimisation; and
- a sound management of the capital buffer.

As such, the four fundamental components of a sound capital planning process include:

- Internal control and governance;
- Capital policy and risk capture;
- Forward-looking view; and
- Management framework for preserving capital.

PILLAR 3 DISCLOSURE

as at 31 December 2020

2. CAPITAL ADEQUACY (CONTINUED)

2.1 Capital Management (continued)

The Group's Capital Management Plan is updated annually and approved by the Board for implementation at the beginning of each financial year. The capital plan is drawn up to cover at least a three year horizon and takes into account, amongst others, the Group's strategic objectives and business plans, regulatory capital requirements, capital benchmarking against the industry, available supply of capital and capital raising options, performance of business sectors based on a Risk Adjusted Return on Capital ("RAROC") approach as well as ICAAP and stress testing results.

The Group has fully issued Subordinated Sukuk Murabahah under its Subordinated Sukuk Murabahah Programme of up to RM1.0 Billion in nominal value ("Subordinated Sukuk Murabahah Programme") which was approved by the Securities Commission Malaysia ("SC") on 7 October 2014. On 6 September 2018, the Group successfully lodged with SC under Lodge and Launch Framework a new Sukuk Murabahah Programme of up to RM10.0 billion in nominal value, which allows issuances of Subordinated Sukuk Murabahah and Senior Sukuk Murabahah. The purpose of the Subordinated Sukuk Murabahah issuance under both programmes is to enhance the capital adequacy of the Group in line with the requirements under the Basel III capital framework. Table below depicts a summary of the Subordinated Sukuk Murabahah under both programmes which are qualified as Tier 2 regulatory capital of the Bank and the Group in accordance with BNM's CAFIB (Capital Components) Guideline.

Capital Instrument	Capital Component	Main Features
1) Subordinated Sukuk Murabahah Programme of up to RM1.0 Billion (Programme 1)		
a) Tranche 1: RM300 million at 5.75% • Issued on 22 April 2015 • Mature on 22 April 2025 Note: Tranche 1 was called on 22 April 2020 b) Tranche 2: RM400 million at 5.50% • Issued on 15 December 2015 • Mature on 15 December 2025 Note: Tranche 2 was called on 15 December 2020 c) Tranche 3: RM300 million at 5.08% • Issued on 13 November 2017 • Mature on 12 November 2027	Tier 2 Capital	• The tenure of both programmes are as follows: i. Programme 1 – up to thirty (30) years from the date of the first issue under the Subordinated Sukuk Murabahah Programme. ii. Programme 2 – perpetual. • The tenure of each issuance of the Subordinated Sukuk Murabahah under both programmes are as follows: i. Programme 1 – shall be not less than five (5) years and up to thirty (30) years from the issue date and provided that the Subordinated Sukuk Murabahah matures on or prior to the expiry of the tenure of the Subordinated Sukuk Murabahah Programme. ii. Programme 2 – shall be not less than five (5) years from the issue date.

PILLAR 3 DISCLOSURE
as at 31 December 2020

2. CAPITAL ADEQUACY (CONTINUED)

2.1 Capital Management (continued)

Capital Instrument	Capital Component	Main Features
2) Sukuk Murabahah Programme of up to RM10.0 Billion (Programme 2)		
a) Tranche 1: RM300 million at 5.15% • Type: Subordinated Sukuk Murabahah • Issued on 7 November 2018 • Mature on 7 November 2028 b) Tranche 2: RM400 million at 3.75% • Type: Subordinated Sukuk Murabahah • Issued on 26 March 2020 • Mature on 26 March 2030 c) RM700 million at 3.60% • Type: Subordinated Sukuk Murabahah • Issued on 21 October 2020 • Mature on 21 October 2030	Tier 2 Capital	• Each of the Subordinated Sukuk Murabahah may have a call option to allow the Bank to redeem the relevant tranche of the Subordinated Sukuk Murabahah (in whole or in part) on any periodic profit payment date after a minimum period of five (5) years from the issue date of that tranche, subject to the relevant early redemption conditions being satisfied. • Unsecured. • Subordinated Sukuk Murabahah shall be utilised to finance the Bank's Islamic banking activities, working capital requirements and other corporate purposes and/or, if required, to redeem any outstanding Sukuk Murabahah issued under both programmes. All utilisation shall be Shariah Compliant. • Upon the occurrence of a Non-Viability Event, BNM, jointly with PIDM, shall have the option to require the entire or part of the nominal value of the outstanding Subordinated Sukuk Murabahah, and all other amounts owing under the Subordinated Sukuk Murabahah, to be written off. • No Conversion into Equity.

Total outstanding Subordinated Sukuk Murabahah issued under both programmes which are qualified as Tier 2 regulatory capital of the Bank and the Group as of 31 December 2020 is RM1.7 billion.

2.2 Internal Capital Adequacy Assessment Process ("ICAAP")

The Group has carried out the internal assessment process on capital as prescribed in BNM's CAFIB - ICAAP ("Pillar 2") to complement its current capital management practices. The first ICAAP Document Policy was formalised and approved by the Board in March 2013 and is being reviewed on an annual basis. The Group's ICAAP helps to suggest the minimum internal capital requirement for its current and future business strategies and financial plans for the next 3 years via a comprehensive risk assessment process on its portfolio risk exposures, its risk management practices towards its material risks and potential capital planning buffer required in the event of stress.

The Group's ICAAP is conducted on a consolidated basis covering all the Bank's legal entities as suggested by BNM's Pillar 2 Guideline.

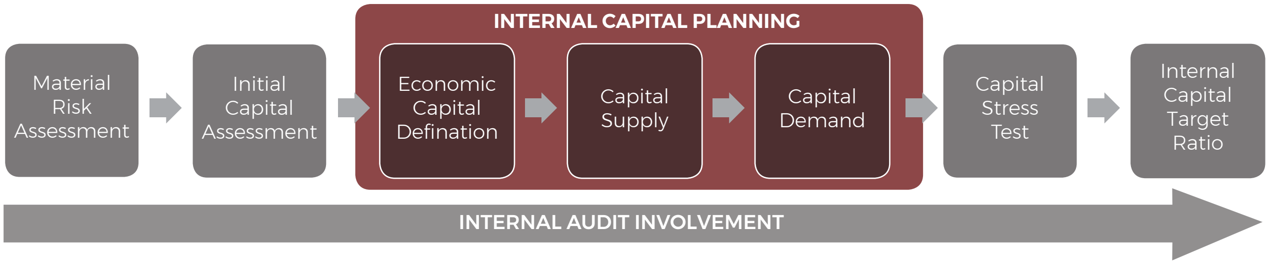
PILLAR 3 DISCLOSURE

as at 31 December 2020

2. CAPITAL ADEQUACY (CONTINUED)

2.2 Internal Capital Adequacy Assessment Process ("ICAAP") (continued)

The Group's ICAAP methodology can be summarized as follows:



Under ICAAP, the following risk types are identified and measured:

- Risks captured under Pillar 1 (i.e. Credit Risk, Market Risk, and Operational Risk);
- Risk not fully captured under Pillar 1 (e.g. Migration and Residual Risk);
- Risk not covered under Pillar 1 (e.g. Credit Concentration Risk, Profit Rate in the Banking Book, Shariah Non-Compliance Risk, Regulatory/Compliance Risk, Contagion Risk, and IT Risk)

2.3 Stress Testing

Regular stress testing (including reverse stress testing) is performed to assess the Group's ability to maintain adequate capital under both normal business cycle and unfavourable economic conditions. The stress testing is embedded within the risk and capital management process of the Group and is a key function of capital planning and business planning processes. Stress Testing also plays an important role in:

- Identifying the possible events or future changes in the financial and economic conditions of the country and globally that could potentially have unfavourable effects on the Group's exposures;
- Identifying the different portfolios response to changes in key economic variables (profit rate, foreign exchange rate, GDP, etc);
- Evaluating the Group's ability to withstand such changes, i.e. its capacity in terms of its capital and earnings, to absorb potentially significant losses; and
- Analysing the Group's ability to meet the minimum regulatory capital requirement at all times throughout a reasonably severe economic crisis.

The Group has put in place a stress testing programme (including reverse stress testing) which has taken into account all risks deemed material to the Group, namely credit risk, market risk, liquidity risk and operational risk including Shariah non-compliance risk, regulatory compliance risk, contagion risk and IT risk.

In line with the Group's Stress Testing Policy, ad-hoc and more frequent stress testing has been conducted to assess the impact of deterioration on specific risk areas in line with stressed macroeconomic variables. The impact of COVID-19 pandemic outbreak such as repayment assistance, vulnerable portfolio and liquidity risk to the Bank were assessed to ensure the Bank's ability to maintain adequate capital under this stressed situation.

PILLAR 3 DISCLOSURE
as at 31 December 2020

2. CAPITAL ADEQUACY (CONTINUED)

2.4 Capital Adequacy Ratios

The Group is required to comply with the Common Equity Tier 1 ("CET 1") Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio ("TCR") as prescribed by BNM. The Group has been in compliance with all prescribed capital adequacy ratios throughout the period.

Total capital and capital adequacy ratios of the Group have been computed based on the updated BNM's CAFIB - Capital Components Guideline issued on 9 December 2020 and BNM's CAFIB – RWA Guideline issued on 3 May 2019. The minimum regulatory capital adequacy ratios requirement for CET 1 capital ratio, Tier 1 capital ratio and TCR including capital buffers i.e. Capital Conservation Buffers ("CCB") are 7.0%, 8.5% and 10.5% respectively.

The CCB is intended to encourage the build-up of capital buffers by individual Islamic banking institutions during normal times that can be drawn down during stress periods.

Arising from the COVID-19 pandemic outbreak, BNM through its Memo titled "Additional Measures to Assist Borrowers/Customers Affected by the COVID-19 Outbreak" dated 24 Mar 2020 allowed banking institutions to withdraw the CCB of 2.5% until 31 December 2020.

With the withdrawal, the minimum regulatory capital adequacy ratios requirement for CET 1 capital ratio, Tier 1 capital ratio and TCR for year 2020 were reduced to 4.50%, 6.00% and 8.00% respectively. However, BNM required all banking institutions to restore its minimum regulatory requirements back to its original position by 30 September 2021.

Table below shows the composition of the regulatory capital and capital adequacy ratios as of 31 December 2020 determined by the requirements of the CAFIB. The capital adequacy ratios of the Group and Bank are set as per below:

(a) The capital adequacy ratios of the Group and of the Bank:

	Group		Bank	
Before effect of IA	**31.12.2020**	**31.12.2019**	**31.12.2020**	**31.12.2019**
Before deducting proposed dividends				
CET 1 Capital Ratio	**12.07%**	11.89%	**12.04%**	11.86%
Tier 1 Capital Ratio	**12.07%**	11.89%	**12.04%**	11.86%
Total Capital Ratio	**16.53%**	15.82%	**16.51%**	15.79%
After deducting proposed dividends				
CET 1 Capital Ratio	**11.79%**	11.57%	**11.77%**	11.54%
Tier 1 Capital Ratio	**11.79%**	11.57%	**11.77%**	11.54%
Total Capital Ratio	**16.26%**	15.49%	**16.24%**	15.47%

PILLAR 3 DISCLOSURE
as at 31 December 2020

2. CAPITAL ADEQUACY (CONTINUED)

2.4 Capital Adequacy Ratios (continued)

(a) The capital adequacy ratios of the Group and of the Bank (continued):

After effect of IA	Group		Bank	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Before deducting proposed dividends				
CET 1 Capital Ratio	**14.67%**	14.21%	**14.64%**	14.19%
Tier 1 Capital Ratio	**14.67%**	14.21%	**14.64%**	14.19%
Total Capital Ratio	**19.82%**	18.66%	**19.80%**	18.64%
After deducting proposed dividends				
CET 1 Capital Ratio	**14.34%**	13.83%	**14.31%**	13.80%
Tier 1 Capital Ratio	**14.34%**	13.83%	**14.31%**	13.80%
Total Capital Ratio	**19.49%**	18.27%	**19.47%**	18.25%

(b) CET I, Tier I and Tier II capital components of the Group and of the Bank:

	31.12.2020	
	Group RM'000	Bank RM'000
Tier I Capital		
Paid-up share capital	3,306,118	3,306,118
Share Premium	–	–
Retained earnings	2,891,023	2,884,760
Other reserves	88,558	88,707
Less: Deferred tax assets	(1,511)	–
Less: 55% of fair value	(103,564)	(103,564)
Less: Regulatory reserve attributable to financing	–	–
Less: Investment in subsidiaries	–	(15,525)
Total Common Equity Tier I Capital	6,180,624	6,160,496
Total Additional Tier I Capital	–	–
Total Tier I Capital	6,180,624	6,160,496
Subordinated Sukuk	1,700,000	1,700,000
Collective assessment allowance ^	472,256	472,005
Total Tier II Capital	2,172,256	2,172,005
Total Capital	8,352,880	8,332,501

^ *Collective assessment allowance on non-impaired financing and regulatory reserve, subject to maximum of 1.25% of total credit risk-weighted assets after deducting IA as Risk Absorbent.*

PILLAR 3 DISCLOSURE
as at 31 December 2020

2. CAPITAL ADEQUACY (CONTINUED)

2.4 Capital Adequacy Ratios (continued)

(b) CET 1, Tier I and Tier II capital components of the Group and of the Bank (continued):

	31.12.2019	
	Group RM'000	**Bank RM'000**
Tier I Capital		
Paid-up share capital	3,012,368	3,012,368
Share Premium	–	–
Retained earnings	2,594,820	2,589,798
Other reserves	107,265	107,398
Less: Deferred tax assets	(33,774)	(32,268)
Less: 55% of fair value	(104,062)	(104,062)
Less: Regulatory reserve attributable to financing	(25,000)	(25,000)
Less: Investment in subsidiaries	–	(15,525)
Total Common Equity Tier I Capital	**5,551,617**	**5,532,709**
Total Additional Tier I Capital	**–**	**–**
Total Tier I Capital	**5,551,617**	**5,532,709**
Subordinated Sukuk	1,300,000	1,300,000
Collective assessment allowance ^	436,544	436,356
Total Tier II Capital	**1,736,544**	**1,736,356**
Total Capital	**7,288,161**	**7,269,065**

^ *Collective assessment allowance on non-impaired financing and regulatory reserve subject to maximum of 1.25% of total credit risk-weighted assets after deducting IA as Risk Absorbent.*

PILLAR 3 DISCLOSURE

as at 31 December 2020

2. CAPITAL ADEQUACY (CONTINUED)

2.4 Capital Adequacy Ratios (continued)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows:

(i) Group

31 December 2020 Exposure Class	Gross Exposure RM'000	Net Exposure RM'000	Risk-Weighted Asset RM'000	Minimum Capital Requirement At 8% RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	8,165,933	8,165,933	-	-
Public Sector Entities	1,600,640	1,587,966	430,688	34,455
Banks, Developments Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	510,976	510,976	103,179	8,254
Corporate	19,584,934	19,226,882	10,505,419	840,434
Regulatory Retail	19,456,154	19,416,328	18,879,252	1,510,340
Residential Mortgages	21,610,415	21,604,144	13,735,734	1,098,859
Higher Risk Assets	3,783	3,783	5,674	454
Other Assets	1,802,897	1,802,897	939,663	75,173
Defaulted Exposures	895,404	860,147	839,948	67,196
Total for On-Balance Sheet Exposures	73,631,136	73,179,056	45,439,557	3,635,165
Off-Balance Sheet Exposures				
Credit-related Exposures	1,461,127	1,454,525	1,329,221	106,338
Derivative Financial Instruments	148,631	148,632	64,632	5,171
Defaulted Exposures	25,822	25,822	29,167	2,333
Total for Off-Balance Sheet Exposures	1,635,580	1,628,979	1,423,020	113,842
Total On and Off-Balance Sheet Exposures	75,266,716	74,808,035	46,862,577	3,749,006
Less: Credit Risk absorbed by IA			(9,082,114)	(726,569)

	Long Position	Short Position			
Market Risk					
Benchmark Rate Risk	9,461,133	(8,518,693)	942,439	313,417	25,073
Foreign Exchange Risk	23,673	(325,509)	(301,836)	325,509	26,041
Inventory Risk			-	-	-
Total Market Risk	9,484,806	(8,844,202)	640,603	638,926	51,114
Operational Risk				3,719,636	297,571
Total RWA and Capital Requirements				42,139,024	3,371,122

Note: As at 31 December 2020, the Group did not have any exposures under securitisation.

PILLAR 3 DISCLOSURE

as at 31 December 2020

2. CAPITAL ADEQUACY (CONTINUED)

2.4 Capital Adequacy Ratios (continued)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows (continued):

(i) Group (continued)

31 December 2019 Exposure Class		Gross Exposure RM'000	Net Exposure RM'000	Risk-Weighted Asset RM'000	Minimum Capital Requirement at 8% RM'000
Credit Risk					
On-Balance Sheet Exposures					
Sovereign/Central Banks		5,678,926	5,678,926	–	–
Public Sector Entities		1,436,018	1,428,892	356,962	28,557
Banks, Developments Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")		303,271	303,271	61,878	4,950
Corporate		19,213,079	19,025,569	10,062,497	805,000
Regulatory Retail		17,344,379	17,237,822	16,700,409	1,336,033
Residential Mortgages		19,642,414	19,635,350	12,359,824	988,786
Higher Risk Assets		4,246	4,246	6,368	509
Other Assets		2,824,066	2,824,065	889,734	71,179
Defaulted Exposures		656,364	638,020	661,036	52,883
Total for On-Balance Sheet Exposures		67,102,763	66,776,161	41,098,708	3,287,897
Off-Balance Sheet Exposures					
Credit-related Exposures		1,571,531	1,559,891	1,389,598	111,168
Derivative Financial Instruments		79,772	79,772	42,897	3,432
Defaulted Exposures		14,687	14,687	20,691	1,655
Total for Off-Balance Sheet Exposures		1,665,990	1,654,350	1,453,186	116,255
Total On and Off-Balance Sheet Exposures		**68,768,753**	**68,430,511**	**42,551,894**	**3,404,152**
Less: Credit Risk absorbed by IA				(7,628,353)	(610,268)
	Long Position	**Short Position**			
Market Risk					
Benchmark Rate Risk	6,679,457	(6,255,630)	423,828	194,136	15,531
Foreign Exchange Risk	20,882	(386,308)	(365,426)	386,308	30,905
Inventory Risk			–	–	–
Total Market Risk	6,700,339	(6,641,938)	58,402	580,444	46,436
Operational Risk				3,551,083	284,087
Total RWA and Capital Requirements				**39,055,068**	**3,124,406**

Note: As at 31 December 2019, the Group did not have any exposures under securitisation.

PILLAR 3 DISCLOSURE
as at 31 December 2020

2. CAPITAL ADEQUACY (CONTINUED)

2.4 Capital Adequacy Ratios (continued)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows (continued):

(ii) Bank

31 December 2020 Exposure Class	Gross Exposure RM'000	Net Exposure RM'000	Risk-Weighted Asset RM'000	Minimum Capital Requirement at 8% RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	8,165,933	8,165,933	–	–
Public Sector Entities	1,600,640	1,587,966	430,688	34,455
Banks, Developments Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	510,893	510,893	103,163	8,253
Corporate	19,584,934	19,226,882	10,505,419	840,434
Regulatory Retail	19,456,154	19,416,328	18,879,252	1,510,340
Residential Mortgages	21,610,415	21,604,144	13,735,734	1,098,859
Higher Risk Assets	3,783	3,783	5,674	454
Other Assets	1,786,255	1,786,255	919,927	73,594
Defaulted Exposures	895,404	860,147	839,948	67,196
Total for On-Balance Sheet Exposures	73,614,411	73,162,332	45,419,804	3,633,584
Off-Balance Sheet Exposures				
Credit-related Exposures	1,461,127	1,454,525	1,329,221	106,338
Derivative Financial Instruments	148,631	148,632	64,632	5,171
Defaulted Exposures	25,822	25,822	29,167	2,333
Total for Off-Balance Sheet Exposures	1,635,580	1,628,979	1,423,020	113,842
Total On and Off-Balance Sheet Exposures	**75,249,991**	**74,791,311**	**46,842,824**	**3,747,426**
Less: Credit Risk absorbed by IA			(9,082,416)	(726,593)

	Long Position	Short Position			
Market Risk					
Benchmark Rate Risk	9,461,133	(8,518,693)	942,439	313,417	25,073
Foreign Exchange Risk	23,673	(325,509)	(301,836)	325,509	26,041
Inventory Risk	–	–	–	–	–
Total Market Risk	9,484,806	(8,844,202)	640,603	638,926	51,114
Operational Risk				3,675,867	294,069
Total RWA and Capital Requirements				**42,075,201**	**3,366,016**

Note: As at 31 December 2020, the Bank did not have any exposures under securitisation.

PILLAR 3 DISCLOSURE

as at 31 December 2020

2. CAPITAL ADEQUACY (CONTINUED)

2.4 Capital Adequacy Ratios (continued)

(c) The breakdown of risk-weighted assets by exposures in each major risk category is as follows (continued):

(ii) Bank (continued)

31 December 2019 Exposure Class		Gross Exposure RM'000	Net Exposure RM'000	Risk-Weighted Asset RM'000	Minimum Capital Requirement at 8% RM'000
Credit Risk					
On-Balance Sheet Exposures					
Sovereign/Central Banks		5,678,926	5,678,926	–	–
Public Sector Entities		1,436,018	1,428,892	356,962	28,557
Banks, Developments Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")		302,847	302,847	61,703	4,936
Corporate		19,213,079	19,025,569	10,062,497	805,000
Regulatory Retail		17,344,379	17,237,822	16,700,409	1,336,033
Residential Mortgages		19,642,414	19,635,350	12,359,824	988,786
Higher Risk Assets		4,246	4,246	6,368	509
Other Assets		2,813,575	2,813,575	874,862	69,989
Defaulted Exposures		656,364	638,020	661,036	52,883
Total for On-Balance Sheet Exposures		67,091,849	66,765,246	41,083,660	3,286,693
Off-Balance Sheet Exposures					
Credit-related Exposures		1,571,531	1,559,891	1,389,598	111,168
Derivative Financial Instruments		79,772	79,772	42,897	3,432
Defaulted Exposures		14,687	14,687	20,691	1,655
Total for Off-Balance Sheet Exposures		1,665,990	1,654,350	1,453,186	116,255
Total On and Off-Balance Sheet Exposures		**68,757,839**	**68,419,596**	**42,536,846**	**3,402,948**
Less: Credit Risk absorbed by IA				(7,628,353)	(610,268)
	Long Position	**Short Position**			
Market Risk					
Benchmark Rate Risk	6,679,457	(6,255,630)	423,828	194,136	15,531
Foreign Exchange Risk	20,882	(386,308)	(365,426)	386,308	30,905
Inventory Risk	–	–	–	–	–
Total Market Risk	6,700,339	(6,641,938)	58,402	580,444	46,436
Operational Risk				3,514,162	281,133
Total RWA and Capital Requirements				**39,003,099**	**3,120,248**

Note: As at 31 December 2019, the Bank did not have any exposures under securitisation.

3. RISK MANAGEMENT

3.1 Overview

The Group's mission with respect to risk management is to advance its risk management capabilities, culture and practices so as to be in line with internationally accepted standards and practices.

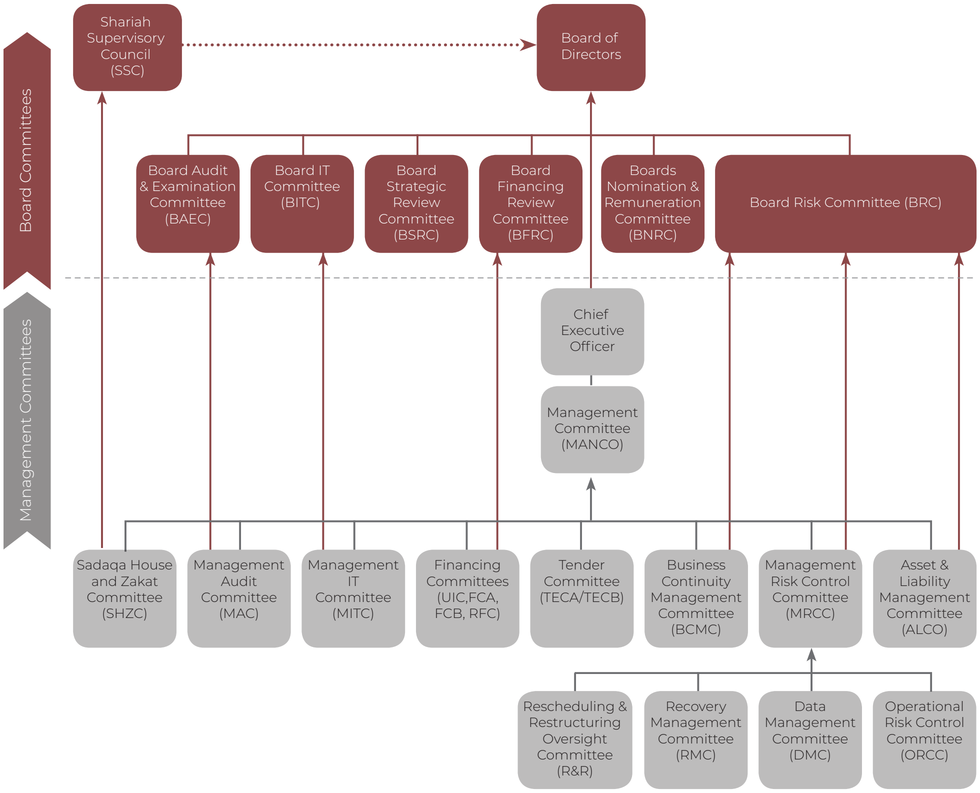
In that regard, the specific objectives of managing risk are to:

- Inculcate a risk-awareness culture throughout the Group;
- Establish a standard approach and methodology in managing risks namely credit, market, liquidity, operational, IT & cyber risk and compliance risks across the Group;
- Clarify functional structures including objectives, roles and responsibilities;
- Implement and use a risk management information system that meets the international standards on confidentiality, integrity and its availability;
- Develop and use tools, such as economic capital, value at risk, and stress testing to support the measurement of risks and enhance risk-based decisions;
- Ensure that risk policies and overall risk appetite are in line with business targets; and
- Ensure that the Group's capital can support current and planned business needs in terms of risk exposures.

3.2 Risk Management Functional and Governance Structure

The Group has aligned its organisational responsibilities with the objective of ensuring a common view of risks across the Group. As a matter of prudence and good governance, the Group's core risk management functions, which report to the Board Risk Committee ("BRC"), are independent and segregated from the business divisions and centralised at head office.

The following illustrates the Group's governance structure:



PILLAR 3 DISCLOSURE

as at 31 December 2020

3. RISK MANAGEMENT (CONTINUED)

3.2 Risk Management Functional and Governance Structure (continued)

The Group recognises the fact that the essence of banking and financial services is centred on risk taking. The Group therefore:

- Recognises that it has to manage risks effectively to achieve its business targets;
- Reaches an optimum level of risk-return in order to maximise stakeholders' value; and
- Ensures effective and integrated risk management processes that are commensurate with the size and complexity of the current and future operations of the Group within its risk appetite and tolerance.

The Group has established a Risk Appetite Statement Policy that forms an integral part of the Group's strategy and business plans. Risk appetite is an expression of the maximum level of risk that the Group is prepared to accept in support of a stated strategy, impacting all businesses from a credit, market and operational risk viewpoint.

4. CREDIT RISK

4.1 Overview

Credit risk is the risk of a customer or counterparty failing to perform its obligations. It arises from all transactions that could lead to actual, contingent or potential claims against any party, customer or obligor (collectively referred to as counterparties). The types of credit risks that the Group considers to be material include: Default Risk, Counterparty Risk, Credit Concentration Risk, Residual/Credit Mitigation Risk and Migration Risk.

4.2 Credit Risk Governance

The management of credit risk is principally carried out by using sets of policies and guidelines approved by the Management Risk Control Committee ("MRCC") and/or BRC, guided by the Boards' approved Risk Appetite Statement Policy.

The Group has several levels of Financing Committees, which assess and approve credits at their specified authority levels.

MRCC is responsible under the authority delegated by the BRC for managing credit risk at strategic level. MRCC reviews the Group's credit risk policies and guidelines, aligns credit risk management with business strategies and planning, reviews credit profile of the credit portfolios and recommends necessary actions to ensure that the credit risk remains within established risk tolerance levels.

The Group's credit risk management governance includes the establishment of detailed credit risk policies, guidelines and procedures which document the Group's financing standards, discretionary powers for financing approval, credit risk ratings methodologies and models, acceptable collaterals and valuation, and the review, rehabilitation and restructuring of problematic and delinquent financing.

4. CREDIT RISK

4.3 Management of Credit Risk

The management of credit risk is being performed by the Credit Management Division ("CMD") and Risk Management Division ("RMD") and two other units outside of the CMD and RMD domain, namely, Credit Administration Department and Recovery & Rehabilitation Division. The combined objectives are, amongst others:

- To build a high quality credit portfolio which is in line with the Group's overall strategy and risk appetite;
- To ensure that the Group is compensated for the risk taken, balancing/optimising the risk/return relationship;
- To develop an increasing ability to recognise, measure and avoid or mitigate potential credit risk problem areas; and
- To conform with statutory, regulatory and internal credit requirements.

The Group monitors its credit exposures either on a portfolio basis or individual basis through annual reviews. Credit risk is proactively monitored through a set of early warning signals that could trigger immediate reviews of (a certain part of) the portfolio. The affected portfolio or financing is placed on a watchlist to enforce close monitoring and prevent financing from turning impaired and to increase chances of full recovery.

A detailed limit structure is in place to ensure that risks taken are within the risk appetite as set by the Board and to avoid credit risk concentration on a single customer, sector, product, etc.

Credit risk arising from dealing and investing activities are managed by the establishment of limits which include counterparty limits and permissible acquisition of private entities' instruments, subject to a specified minimum rating threshold. Furthermore, the dealing and investing activities are monitored by an independent middle office unit.

4.4 Capital Treatment for Credit Risk

The Group adopts the Standardised Approach to compute the credit risk capital requirement under BNM's CAFIB.

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.5 Credit Quality of Gross Financing and Advances

The table below presents the Group's and the Bank's gross financing and advances analysed by credit quality:

	Group and Bank	
	31.12.2020 RM'000	**31.12.2019 RM'000**
Neither past due nor impaired	**54,596,595**	49,231,998
Past due but not impaired	**628,767**	558,970
Impaired	**373,234**	433,001
	55,598,596	**50,223,969**
Gross Impaired Financing as a percentage of Gross Financing and Advances	**0.67%**	**0.86%**

(a) Neither Past Due nor Impaired

Financings classified as neither past due nor impaired are financings of which the customer has not missed a contractual payment (profit or principal) when contractually due and is not impaired as there is no objective evidence of impairment of the financing.

The credit quality of gross financing and advances which are neither past due nor impaired is as follows:

	Group and Bank	
	31.12.2020 RM'000	**31.12.2019 RM'000**
Excellent to Good	**47,226,265**	43,148,587
Satisfactory	**6,995,181**	5,827,662
Fair	**375,149**	255,749
	54,596,595	**49,231,998**

Internal rating definition:

- **Excellent to Good**: Sound financial position of the customer with no difficulty in meeting its obligations.
- **Satisfactory**: Adequate safety of the customer meeting its current obligations but more time is required to meet the entire obligations in full.
- **Fair**: High risks on payment obligations. Financial performance may continue to deteriorate.

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.5 Credit Quality of Gross Financing and Advances (continued)

(b) Past Due but Not Impaired

Financings classified as past due but not impaired are financings of which their contractual profit or principal payments are past due, but the Group and the Bank believe that impairment is not appropriate on the basis of the level of collateral available and/or the stage of collection amounts owed to the Group and the Bank.

Analysis of the past due but not impaired financing and advances by ageing:

	Group and Bank	
By ageing	31.12.2020 RM'000	31.12.2019 RM'000
Month-in-arrears 1	**429,323**	360,615
Month-in-arrears 2	**199,444**	198,355
	628,767	**558,970**

Analysis of the past due but not impaired financing and advances by sector:

	Group and Bank	
	31.12.2020 RM'000	31.12.2019 RM'000
Primary agriculture	**–**	21,081
Mining and quarrying	**3,615**	–
Manufacturing (including agro-based)	**761**	953
Electricity, gas and water	**–**	–
Wholesale & retail trade, and hotels & restaurants	**23,195**	2,809
Construction	**8,215**	9,729
Real estate	**136**	–
Transport, storage and communications	**38,370**	40,995
Finance, insurance and business activities	**8,228**	3,120
Education, health and others	**2,424**	0
Household sectors	**543,823**	480,283
Other sectors	**–**	–
	628,767	**558,970**

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.5 Credit Quality of Gross Financing and Advances (continued)

(c) Impaired Financing and Advances

A financing is classified as impaired when the principal or profit or both are past due for three months or more, or where a financing is in arrears for less than three months, but the financing exhibits indications of significant credit weakness.

The financing or group of financings is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the financing (a 'loss event') and that the loss event has an impact on the estimated future cash flows of the financing or group of financings that can be reliably estimated.

The Group and the Bank first assess individually whether the objective evidence of impairment exists individually for financings which are individually significant, and collectively for financings which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financing, the financing is included in a group of financings with similar credit risk characteristic and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financing's carrying amount and the present value of the estimated future cash flows. The carrying amount of the financing is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.
Impaired financing by assessment type:

	Group and Bank	
	31.12.2020 RM'000	**31.12.2019 RM'000**
Individually Assessed	**219,160**	242,430
of which:		
Month-in-Arrears 0	**23,780**	*35,467*
Month-in-Arrears 1	**6,659**	*9,582*
Month-in-Arrears 2	**17,010**	*3,647*
Month-in-Arrears 3 and above	**171,711**	*193,734*
Collectively Assessed	**154,074**	190,571
	373,234	**433,001**

4. CREDIT RISK (CONTINUED)

4.5 Credit Quality of Gross Financing and Advances (continued)

(c) Impaired Financing and Advances (continued)

31 December 2020 RM '000	Impaired Financing at 31.12.2020	Individual Assessment Allowance				Collective Assessment Allowance at 31.12.2020	Total Impairment Allowances for Financing At 31.12.2020
		Individual Assessment as at 01.01.2020	Net Charge for the Financial Year	Amounts Written Off/ Other Movements	Individual Assessment as at 31.12.2020		
Primary Agriculture	-	-	-	-	-	18,882	18,882
Mining and Quarrying	-	-	-	-	-	2,411	2,411
Manufacturing (including Agro-based)	28,329	25,797	(3,555)	(15,469)	6,775	32,316	39,091
Electricity, Gas and Water	-	-	-	-	-	65,708	65,708
Wholesale & Retail Trade and Restaurants & Hotels	89,812	23,494	3,335	(3,064)	23,765	29,556	53,321
Construction	36,220	11,133	5,358	(2,059)	14,432	89,865	104,297
Real Estate	-	-	-	-	-	-	-
Transport, Storage and Communication	17,801	4,349	218	-	4,567	34,248	38,815
Finance, Insurance and Business Services	6,140	-	258	-	258	106,156	106,414
Education, Health and Others	3,969	3,676	(1,394)	(1,763)	519	15,631	16,150
Household Sectors	190,963	19,598	(3,694)	(1,024)	14,879	467,993	482,872
Other Sectors	-	-	-	-	-	-	-
Total	373,234	88,047	526	(23,379)	65,195	862,766	927,961

4. CREDIT RISK (CONTINUED)

4.5 Credit Quality of Gross Financing and Advances (continued)

(c) *Impaired Financing and Advances (continued)*

31 December 2019 RM'000	Impaired Financing at 31.12.2019	Individual Assessment Allowance: Individual Assessment as at 01.01.2019	Individual Assessment Allowance: Net Charge for the Financial Year	Individual Assessment Allowance: Amounts Written Off/ Other Movements	Individual Assessment Allowance: Individual Assessment as at 31.12.2019	Collective Assessment Allowance at 31.12.2019	Total Impairment Allowances for Financing At 31.12.2019
Primary Agriculture	-	-	-	-	-	31,276	31,276
Mining and Quarrying	-	-	-	-	-	38,292	38,292
Manufacturing (including Agro-based)	45,715	5,438	20,360	-	25,798	36,007	61,805
Electricity, Gas and Water	-	-	-	-	-	45,386	45,386
Wholesale & Retail Trade and Restaurants & Hotels	97,043	28,202	(4,708)	-	23,494	22,793	46,287
Construction	29,361	106,338	7,641	(102,846)	11,133	74,552	85,685
Real Estate	-	-	-	-	-	-	-
Transport, Storage and Communication	10,217	3,434	915	-	4,349	28,924	33,273
Finance, Insurance and Business Services	8,125	762	2,295	(3,058)	-	61,503	61,503
Education, Health and Others	8,179	1,776	1,900	-	3,676	9,922	13,598
Household Sectors	234,361	10,740	9,188	(330)	19,598	293,270	312,868
Other Sectors	-	-	-	-	-	21,475	21,475
Total	**433,001**	**156,691**	**37,590**	**(106,234)**	**88,047**	**663,400**	**751,447**

4. CREDIT RISK (CONTINUED)

4.5 Credit Quality of Gross Financing and Advances (continued)

(d) Gross Financing and Advances – Exposures by Geographical Areas

31 December 2020 RM'000	Gross Financing	Of Which: Past Due But Not Impaired Financing	Of Which: Impaired Financing	Individual Allowances	Collective Allowances
Central Region	**25,745,132**	**326,811**	**174,617**	**47,606**	**496,983**
Eastern Region	**8,757,468**	**80,907**	**86,291**	**15,481**	**94,975**
Northern Region	**7,431,066**	**93,699**	**78,220**	**-**	**93,343**
Southern Region	**9,416,361**	**88,776**	**19,167**	**2,108**	**89,166**
East Malaysia Region	**4,248,569**	**38,574**	**14,939**	**-**	**88,299**
Grand Total	**55,598,596**	**628,767**	**373,234**	**65,195**	**862,766**

31 DECEMBER 2019 RM'000	Gross Financing	Of Which: Past Due But Not Impaired Financing	Of Which: Impaired Financing	Individual Allowances	Collective Allowances
Central Region	23,794,695	280,243	181,730	42,199	384,653
Eastern Region	7,861,683	96,802	101,743	23,890	78,839
Northern Region	6,673,024	69,345	79,976	1,754	66,724
Southern Region	8,278,422	76,877	47,527	18,479	90,860
East Malaysia Region	3,616,145	35,703	22,025	1,725	42,325
Grand Total	**50,223,969**	**558,970**	**433,001**	**88,047**	**663,400**

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.6 Gross Credit Exposures

(a) Geographic Distribution of Credit Exposures

(i) Group

31 December 2020 Exposure Class	Central Region RM'000	Eastern Region RM'000	Northern Region RM'000	Southern Region RM'000	East Malaysia Region RM'000	Total RM'000
Credit Risk						
On-Balance Sheet Exposures						
Sovereign/Central Banks	8,165,933	–	–	–	–	8,165,933
Public Sector Entities	1,060,099	143,574	46,935	344,404	5,628	1,600,640
Banks, Developments Financial Institutions and Multilateral Development Banks	510,556	330	–	90	–	510,976
Corporate	16,313,849	1,058,669	703,735	1,469,709	789,298	20,335,260
Regulatory Retail	7,778,636	3,565,676	3,034,206	3,072,934	2,082,322	19,533,774
Residential Mortgages	8,184,067	3,965,812	3,627,072	4,534,191	1,366,731	21,677,873
Higher Risk Assets	2,083	620	141	118	821	3,783
Other Assets	1,800,176	–	–	–	2,721	1,802,897
Total for On-Balance Sheet Exposures	43,815,399	8,734,681	7,412,089	9,421,446	4,247,521	73,631,136
Off-Balance Sheet Exposures						
Credit-related Exposures	1,217,355	60,569	40,546	120,305	48,174	1,486,949
Derivative Financial Instruments	148,631	–	–	–	–	148,631
Total for Off-Balance Sheet Exposures	1,365,986	60,569	40,546	120,305	48,174	1,635,580
Total On and Off-Balance Sheet Exposures	**45,181,385**	**8,795,250**	**7,452,635**	**9,541,751**	**4,295,695**	**75,266,716**

4. CREDIT RISK (CONTINUED)

4.6 Gross Credit Exposures (continued)

(a) Geographic Distribution of Credit Exposures (continued)

(i) Group (continued)

31 December 2019 Exposure Class	Central Region RM'000	Eastern Region RM'000	Northern Region RM'000	Southern Region RM'000	East Malaysia Region RM'000	Total RM'000
Credit Risk						
On-Balance Sheet Exposures						
Sovereign/Central Banks	5,678,926	–	–	–	–	5,678,926
Public Sector Entities	953,476	146,026	3,577	334,694	–	1,437,773
Banks, Developments Financial Institutions and Multilateral Development Banks	302,838	338	–	95	–	303,271
Corporate	16,403,066	878,478	617,583	1,282,629	535,135	19,716,891
Regulatory Retail	7,001,650	3,222,611	2,663,992	2,688,577	1,841,294	17,418,124
Residential Mortgages	7,579,007	3,584,070	3,373,791	3,950,039	1,232,560	19,719,467
Higher Risk Assets	2,170	790	257	126	903	4,246
Other Assets	2,823,984	–	–	–	82	2,824,066
Total for On-Balance Sheet Exposures	40,745,117	7,832,313	6,659,200	8,256,160	3,609,974	67,102,764
Off-Balance Sheet Exposures						
Credit-related Exposures	1,243,006	73,472	32,178	193,668	43,894	1,586,218
Derivative Financial Instruments	79,772	–	–	–	–	79,772
Total for Off-Balance Sheet Exposures	1,322,778	73,472	32,178	193,668	43,894	1,665,990
Total On and Off-Balance Sheet Exposures	**42,067,895**	**7,905,785**	**6,691,378**	**8,449,828**	**3,653,868**	**68,768,754**

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.6 Gross Credit Exposures (continued)

(a) Geographic Distribution of Credit Exposures (continued)

(ii) Bank

31 December 2020 Exposure Class	Central Region RM'000	Eastern Region RM'000	Northern Region RM'000	Southern Region RM'000	East Malaysia Region RM'000	Total RM'000
Credit Risk						
On-Balance Sheet Exposures						
Sovereign/Central Banks	8,165,933	-	-	-	-	8,165,933
Public Sector Entities	1,060,099	143,574	46,935	344,404	5,628	1,600,640
Banks, Developments Financial Institutions and Multilateral Development Banks	510,473	330	-	90	-	510,893
Corporate	16,313,849	1,058,669	703,735	1,469,709	789,298	20,335,260
Regulatory Retail	7,778,636	3,565,676	3,034,206	3,072,934	2,082,322	19,533,774
Residential Mortgages	8,184,067	3,965,812	3,627,072	4,534,191	1,366,731	21,677,873
Higher Risk Assets	2,083	620	141	118	821	3,783
Other Assets	1,783,533	-	-	-	2,722	1,786,255
Total for On-Balance Sheet Exposures	43,798,673	8,734,681	7,412,089	9,421,446	4,247,522	73,614,411
Off-Balance Sheet Exposures						
Credit-related Exposures	1,217,355	60,569	40,546	120,305	48,174	1,486,949
Derivative Financial Instruments	148,631	-	-	-	-	148,631
Total for Off-Balance Sheet Exposures	1,365,986	60,569	40,546	120,305	48,174	1,635,580
Total On and Off-Balance Sheet Exposures	45,164,659	8,795,250	7,452,635	9,541,751	4,295,696	75,249,991

4. CREDIT RISK (CONTINUED)

4.6 Gross Credit Exposures (continued)

(a) Geographic Distribution of Credit Exposures (continued)

(ii) Bank (continued)

31 December 2019 Exposure Class	Central Region RM'000	Eastern Region RM'000	Northern Region RM'000	Southern Region RM'000	East Malaysia Region RM'000	Total RM'000
Credit Risk						
On-Balance Sheet Exposures						
Sovereign/Central Banks	5,678,926	–	–	–	–	5,678,926
Public Sector Entities	953,476	146,026	3,577	334,694	–	1,437,773
Banks, Developments Financial Institutions and Multilateral Development Banks	302,414	338	–	95	–	302,847
Corporate	16,403,066	878,478	617,583	1,282,629	535,135	19,716,891
Regulatory Retail	7,001,650	3,222,611	2,663,992	2,688,577	1,841,294	17,418,124
Residential Mortgages	7,579,007	3,584,070	3,373,791	3,950,039	1,232,560	19,719,467
Higher Risk Assets	2,170	790	257	126	903	4,246
Other Assets	2,813,493	–	–	–	82	2,813,575
Total for On-Balance Sheet Exposures	40,734,202	7,832,313	6,659,200	8,256,160	3,609,974	67,091,849
Off-Balance Sheet Exposures						
Credit-related Exposures	1,243,006	73,472	32,178	193,668	43,894	1,586,218
Derivative Financial Instruments	79,772	–	–	–	–	79,772
Total for Off-Balance Sheet Exposures	1,322,778	73,472	32,178	193,668	43,894	1,665,990
Total On and Off-Balance Sheet Exposures	**42,056,980**	**7,905,785**	**6,691,378**	**8,449,828**	**3,653,868**	**68,757,839**

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.6 Gross Credit Exposures (continued)

(b) Distribution of Credit Exposures by Sector

(i) Group

31 December 2020 Exposure Class	Primary Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Wholesale & Retail Trade and Restaurant & Hotels RM'000	Construction RM'000	Real Estate RM'000	Transport, Storage & Communication RM '000	Finance, Insurance and Business Services RM'000	Education, Health and Others RM'000	Household Sector RM'000	Other Sectors RM'000	Total RM'000
Credit Risk													
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	5,246,069	-	-	2,919,864	8,165,933
Public Sector Entities	955	-	112,118	-	-	5,019	-	-	197,842	1,284,423	283	-	1,600,640
Banks, Developments Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	358,688	100,010	421	51,857	510,976
Corporate	1,119,668	64,577	1,099,232	3,315,698	660,832	3,539,328	2,015,830	2,024,878	3,869,984	598,072	135,552	1,891,609	20,335,260
Regulatory Retail	1,348	3,086	32,791	866	63,850	62,219	35,318	19,599	72,750	44,918	19,193,791	3,238	19,533,774
Residential Mortgages	-	353	523	-	-	111	-	-	-	-	21,676,886	-	21,677,873
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	3,783	-	3,783
Other Assets	-	-	-	-	-	-	-	-	-	-	-	1,802,897	1,802,897
Total for On-Balance Sheet Exposures	1,121,971	68,016	1,244,664	3,316,564	724,682	3,606,677	2,051,148	2,044,477	9,745,333	2,027,423	41,010,716	6,669,465	73,631,136
Off-Balance Sheet Exposures													
Credit-related Exposures	25,804	12,986	99,159	58,429	81,990	383,333	64,459	64,311	89,116	177,241	259,166	170,955	1,486,949
Derivative Financial Instruments	-	-	72	-	64,886	600	-	-	15,854	37,795	-	29,424	148,631
Total for Off-Balance Sheet Exposures	25,804	12,986	99,231	58,429	146,876	383,933	64,459	64,311	104,970	215,036	259,166	200,379	1,635,580
Total On and Off-Balance Sheet Exposures	1,147,775	81,002	1,343,895	3,374,993	871,558	3,990,610	2,115,607	2,108,788	9,850,303	2,242,459	41,269,882	6,869,844	75,266,716

4. CREDIT RISK (CONTINUED)

4.6 Gross Credit Exposures (continued)

(b) Distribution of Credit Exposures by Sector

(i) Group (continued)

31 December 2019 Exposure Class	Primary Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Wholesale & Retail Trade and Restaurant & Hotels RM'000	Construction RM'000	Real Estate RM'000	Transport, Storage & Communication RM '000	Finance, Insurance and Business Services RM'000	Education, Health and Others RM'000	Household Sector RM'000	Other Sectors RM'000	Total RM'000
Credit Risk													
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	3,425,537	-	-	2,253,389	5,678,926
Public Sector Entities	-	-	-	-	-	-	-	-	188,573	1,236,325	159	12,716	1,437,773
Banks, Developments Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	246,446	-	434	56,391	303,271
Corporate	1,046,970	37,782	807,501	3,420,837	613,618	2,620,144	1,559,804	2,388,599	3,528,760	293,857	73,024	3,325,995	19,716,891
Regulatory Retail	7,420	1,259	22,955	720	44,372	61,132	34,532	11,791	49,621	39,844	17,086,334	58,144	17,418,124
Residential Mortgages	-	662	31	-	-	-	-	-	-	-	19,718,774	-	19,719,467
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	4,246	-	4,246
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,824,066	2,824,066
Total for On-Balance Sheet Exposures	1,054,390	39,703	830,487	3,421,557	657,990	2,681,276	1,594,336	2,400,390	7,438,937	1,570,026	36,882,971	8,530,701	67,102,764
Off-Balance Sheet Exposures													-
Credit-related Exposures	54,341	15,585	99,009	66,521	74,841	330,468	94,380	59,039	92,655	176,097	238,421	284,861	1,586,218
Derivative Financial Instruments	-	-	383	-	32,110	-	-	3	12,889	27,955	-	6,432	79,772
Total for Off-Balance Sheet Exposures	54,341	15,585	99,392	66,521	106,951	330,468	94,380	59,042	105,544	204,052	238,421	291,293	1,665,990
Total On and Off-Balance Sheet Exposures	**1,108,731**	**55,288**	**929,879**	**3,488,078**	**764,941**	**3,011,744**	**1,688,716**	**2,459,432**	**7,544,481**	**1,774,078**	**37,121,392**	**8,821,994**	**68,768,754**

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.6 Gross Credit Exposures (continued)

(b) Distribution of Credit Exposures by Sector

(ii) Bank

31 December 2020 Exposure Class	Primary Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Wholesale & Retail Trade and Restaurant & Hotels RM'000	Construction RM'000	Real Estate RM'000	Transport, Storage & Communication RM '000	Finance, Insurance and Business Services RM'000	Education, Health and Others RM'000	Household Sector RM'000	Other Sectors RM'000	Total RM'000
Credit Risk													
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	5,246,069	-	-	2,919,864	8,165,933
Public Sector Entities	955	-	112,118	-	-	5,019	-	-	197,842	1,284,423	283	-	1,600,640
Banks, Developments Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	358,688	100,010	421	51,774	510,893
Corporate	1,119,668	64,577	1,099,232	3,315,698	660,832	3,539,328	2,015,830	2,024,878	3,869,985	598,072	135,552	1,891,608	20,335,260
Regulatory Retail	1,348	3,086	32,791	866	63,850	62,219	35,318	19,599	72,750	44,918	19,193,791	3,238	19,533,774
Residential Mortgages	-	353	523	-	-	111	-	-	-	-	21,676,886	-	21,677,873
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	3,783	-	3,783
Other Assets	-	-	-	-	-	-	-	-	-	-	-	1,786,255	1,786,255
Total for On-Balance Sheet Exposures	1,121,971	68,016	1,244,664	3,316,564	724,682	3,606,677	2,051,148	2,044,477	9,745,334	2,027,423	41,010,716	6,652,739	73,614,411
Off-Balance Sheet Exposures													-
Credit-related Exposures	25,805	12,986	99,159	58,429	81,990	383,333	64,458	64,311	89,116	177,241	259,166	170,955	1,486,949
Derivative Financial Instruments	-	-	72	-	64,886	600	-	-	15,854	37,795	-	29,424	148,631
Total for Off-Balance Sheet Exposures	25,805	12,986	99,231	58,429	146,876	383,933	64,458	64,311	104,970	215,036	259,166	200,379	1,635,580
Total On and Off-Balance Sheet Exposures	1,147,776	81,002	1,343,895	3,374,993	871,558	3,990,610	2,115,606	2,108,788	9,850,304	2,242,459	41,269,882	6,853,118	75,249,991

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.6 Gross Credit Exposures (continued)

(b) Distribution of Credit Exposures by Sector

(ii) Bank (continued)

31 December 2019 Exposure Class	Primary Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Wholesale & Retail Trade and Restaurant & Hotels RM'000	Construction RM'000	Real Estate RM'000	Transport, Storage & Communication RM '000	Finance, Insurance and Business Services RM'000	Education, Health and Others RM'000	Household Sector RM'000	Other Sectors RM'000	Total RM'000
Credit Risk													
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	-	-	-	-	-	3,425,537	-	-	2,253,389	5,678,926
Public Sector Entities	-	-	-	-	-	-	-	-	188,573	1,236,325	159	12,716	1,437,773
Banks, Developments Financial Institutions and Multilateral Development Banks	-	-	-	-	-	-	-	-	246,446	-	434	55,967	302,847
Corporate	1,046,970	37,782	807,501	3,420,837	613,618	2,620,144	1,559,804	2,388,599	3,528,760	293,857	73,024	3,325,995	19,716,891
Regulatory Retail	7,420	1,259	22,955	720	44,372	61,132	34,532	11,791	49,621	39,844	17,086,334	58,144	17,418,124
Residential Mortgages	-	662	31	-	-	-	-	-	-	-	19,718,774	-	19,719,467
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	4,246	-	4,246
Other Assets	-	-	-	-	-	-	-	-	-	-	-	2,813,575	2,813,575
Total for On-Balance Sheet Exposures	1,054,390	39,703	830,487	3,421,557	657,990	2,681,276	1,594,336	2,400,390	7,438,937	1,570,026	36,882,971	8,519,786	67,091,849
Off-Balance Sheet Exposures													-
Credit-related Exposures	54,341	15,585	99,009	66,521	74,841	330,468	94,380	59,039	92,655	176,097	238,421	284,861	1,586,218
Derivative Financial Instruments	-	-	383	-	32,110	-	-	3	12,889	27,955	-	6,432	79,772
Total for Off-Balance Sheet Exposures	54,341	15,585	99,392	66,521	106,951	330,468	94,380	59,042	105,544	204,052	238,421	291,293	1,665,990
Total On and Off-Balance Sheet Exposures	**1,108,731**	**55,288**	**929,879**	**3,488,078**	**764,941**	**3,011,744**	**1,688,716**	**2,459,432**	**7,544,481**	**1,774,078**	**37,121,392**	**8,811,079**	**68,757,839**

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.6 Gross Credit Exposures (continued)

(c) Residual Contractual Maturity Breakdown

(i) Group

31 December 2020 Exposure Class	Up to 1 Year RM'000	> 1 – 5 Years RM'000	Over 5 Years RM'000	Total RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	5,025,763	1,307,472	1,832,698	8,165,933
Public Sector Entities	126,850	672,694	801,096	1,600,640
Banks, Developments Financial Institutions and Multilateral Development Banks	307,302	201,040	2,634	510,976
Corporate	3,418,150	6,616,986	10,300,124	20,335,260
Regulatory Retail	60,071	3,035,247	16,438,456	19,533,774
Residential Mortgages	10,535	136,323	21,531,015	21,677,873
Higher Risk Assets	–	14	3,769	3,783
Other Assets	351,256	–	1,451,641	1,802,897
Total for On-Balance Sheet Exposures	9,299,927	11,969,776	52,361,433	73,631,136
Off-Balance Sheet Exposures				
Credit-related Exposures	512,097	581,139	393,713	1,486,949
Derivative Financial Instruments	143,217	5,414	–	148,631
Total for Off-Balance Sheet Exposures	655,314	586,553	393,713	1,635,580
Total On and Off-Balance Sheet Exposures	9,955,241	12,556,329	52,755,146	75,266,716

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.6 Gross Credit Exposures (continued)

(c) Residual Contractual Maturity Breakdown (continued)

(i) Group (continued)

31 December 2019 Exposure Class	Up to 1 Year RM'000	> 1 – 5 Years RM'000	Over 5 Years RM'000	Total RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	2,872,565	1,195,014	1,611,347	5,678,926
Public Sector Entities	104,753	674,863	658,157	1,437,773
Banks, Developments Financial Institutions and Multilateral Development Banks	83,507	217,026	2,738	303,271
Corporate	5,063,213	5,571,781	9,081,897	19,716,891
Regulatory Retail	187,285	3,153,282	14,077,557	17,418,124
Residential Mortgages	10,085	136,605	19,572,777	19,719,467
Higher Risk Assets	–	21	4,225	4,246
Other Assets	1,941,202	–	882,864	2,824,066
Total for On-Balance Sheet Exposures	10,262,610	10,948,592	45,891,562	67,102,764
Off-Balance Sheet Exposures				
Credit-related Exposures	561,560	446,468	578,190	1,586,218
Derivative Financial Instruments	73,850	5,922	–	79,772
Total for Off-Balance Sheet Exposures	635,410	452,390	578,190	1,665,990
Total On and Off-Balance Sheet Exposures	**10,898,020**	**11,400,982**	**46,469,752**	**68,768,754**

PILLAR 3 DISCLOSURE

as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.6 Gross Credit Exposures (continued)

(c) Residual Contractual Maturity Breakdown (continued)

(ii) Bank

31 December 2020 Exposure Class	Up to 1 Year RM'000	> 1 – 5 Years RM'000	Over 5 Years RM'000	Total RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	5,025,763	1,307,472	1,832,698	8,165,933
Public Sector Entities	126,850	672,694	801,096	1,600,640
Banks, Developments Financial Institutions and Multilateral Development Banks	307,219	201,040	2,634	510,893
Corporate	3,418,150	6,616,986	10,300,124	20,335,260
Regulatory Retail	60,071	3,035,247	16,438,456	19,533,774
Residential Mortgages	10,535	136,323	21,531,015	21,677,873
Higher Risk Assets	–	14	3,769	3,783
Other Assets	334,615	–	1,451,640	1,786,255
Total for On-Balance Sheet Exposures	9,283,203	11,969,776	52,361,432	73,614,411
Off-Balance Sheet Exposures				
Credit-related Exposures	512,097	581,139	393,713	1,486,949
Derivative Financial Instruments	143,217	5,414	–	148,631
Total for Off-Balance Sheet Exposures	655,314	586,553	393,713	1,635,580
Total On and Off-Balance Sheet Exposures	9,938,517	12,556,329	52,755,145	75,249,991

4. CREDIT RISK (CONTINUED)

4.6 Gross Credit Exposures (continued)

(c) Residual Contractual Maturity Breakdown

(ii) Bank (continued)

31 December 2019 Exposure Class	Up to 1 Year RM'000	> 1 – 5 Years RM'000	Over 5 Years RM'000	Total RM'000
Credit Risk				
On-Balance Sheet Exposures				
Sovereign/Central Banks	2,872,565	1,195,014	1,611,347	5,678,926
Public Sector Entities	104,753	674,863	658,157	1,437,773
Banks, Developments Financial Institutions and Multilateral Development Banks	83,083	217,026	2,738	302,847
Corporate	5,063,213	5,571,781	9,081,897	19,716,891
Regulatory Retail	187,285	3,153,282	14,077,557	17,418,124
Residential Mortgages	10,085	136,605	19,572,777	19,719,467
Higher Risk Assets	–	21	4,225	4,246
Other Assets	1,930,711	–	882,864	2,813,575
Total for On-Balance Sheet Exposures	10,251,695	10,948,592	45,891,562	67,091,849
Off-Balance Sheet Exposures				
Credit-related Exposures	561,560	446,468	578,190	1,586,218
Derivative Financial Instruments	73,850	5,922	–	79,772
Total for Off-Balance Sheet Exposures	635,410	452,390	578,190	1,665,990
Total On and Off-Balance Sheet Exposures	**10,887,105**	**11,400,982**	**46,469,752**	**68,757,839**

4.7 Assignment of Risk Weights for Portfolios Under the Standardised Approach

Under the Standardised Approach, the Group makes use of credit ratings assigned by credit rating agencies in the calculation of credit risk-weighted assets. The following are the rating agencies or External Credit Assessment Institutions ("ECAI") ratings used by the Group and are recognised by BNM as per the CAFIB Guideline:

(a) Standard & Poor's ("S&P")
(b) Moody's Investors Services ("MOODY'S")
(c) Fitch Ratings ("FITCH")
(d) Rating Agency Malaysia Berhad ("RAM")
(e) Malaysian Rating Corporation Berhad ("MARC")

The ECAI ratings accorded to the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

(a) Sovereigns and central banks
(b) Banking institutions
(c) Corporates

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.7 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

Unrated and Rated Counterparties

As a general rule, the rating specific to the credit exposure is used, i.e. the issue rating. Where no specific rating exists, the credit rating assigned to the issuer or counterparty of that particular credit exposure is used. In cases where an exposure has neither an issue nor an issuer rating, it is deemed as unrated or the rating of another rated obligation of the same counterparty may be used if the exposure is ranked at least *pari passu* with the obligation that is rated, as stipulated in the CAFIB Guideline.

Where a counterparty or an exposure is rated by more than one ECAI, the second highest rating is used to determine the risk weight. In cases where the credit exposures are secured by guarantees issued by eligible or rated guarantors, the risk weights similar to that of the guarantor are assigned.

The below table summarises the rules governing the assignment of risk weights under the Standardised Approach:

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

The below table summarises risk weight mapping matrix for each credit quality rating category:

<table>
<tr><th rowspan="3">Rating Category</th><th colspan="5">Risk Weights Based on Credit Rating of the Counterparty Exposure Class</th></tr>
<tr><th rowspan="2">Sovereign and Central Banks</th><th rowspan="2">Corporate</th><th colspan="3">Banking Institutions</th></tr>
<tr><th>Maturity > 6 months</th><th>Maturity <= 6 months</th><th>Maturity <= 3 months</th></tr>
<tr><td>1</td><td>0%</td><td>20%</td><td>20%</td><td>20%</td><td rowspan="7">20%</td></tr>
<tr><td>2</td><td>20%</td><td>50%</td><td>50%</td><td>20%</td></tr>
<tr><td>3</td><td>50%</td><td>100%</td><td>50%</td><td>20%</td></tr>
<tr><td>4</td><td>100%</td><td>100%</td><td>100%</td><td>50%</td></tr>
<tr><td>5</td><td>100%</td><td>150%</td><td>100%</td><td>50%</td></tr>
<tr><td>6</td><td>150%</td><td>150%</td><td>150%</td><td>150%</td></tr>
<tr><td>Unrated</td><td>100%</td><td>100%</td><td>50%</td><td>20%</td></tr>
</table>

Under CAFIB, exposures to and/or guaranteed by the Federal Government of Malaysia and Bank Negara Malaysia are accorded a preferential sovereign risk weight of 0%.

4. CREDIT RISK (CONTINUED)

4.7 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

The following presents the credit exposures by risk weights after the effect of credit risk mitigation of the Group:

(i) As at 31 December 2020

Risk Weights	Exposures After Netting & Credit Risk Mitigation (CRM)								Total Exposures After Netting & CRM RM'000	Total Risk Weighted Asset RM'000
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIS & MDBS RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000		
0%	8,165,933	720,449	-	3,434,129	60,926	-	-	863,234	13,244,671	-
20%	-	204,553	609,193	4,392,176	231	-	-	-	5,206,153	1,041,231
35%	-	-	-	-	-	6,319,435	-	-	6,319,435	2,211,802
50%	-	561,814	5,761	3,860,407	403,363	4,555,665	-	-	9,387,010	4,693,505
75%	-	-	-	449,350	1,180,029	6,169,930	-	-	7,799,309	5,849,482
100%	-	167,431	-	8,693,848	17,817,354	4,802,963	-	939,663	32,421,259	32,421,259
150%	-	-	-	324,094	33,964	59,547	12,594	-	430,199	645,299
Total Exposures	8,165,933	1,654,247	614,954	21,154,004	19,495,867	21,907,540	12,594	1,802,897	74,808,036	46,862,578
RWA by Exposures	-	489,248	124,719	12,325,640	18,955,049	14,009,366	18,891	939,663	46,862,577	
Average Risk Weight	0.0%	29.6%	20.3%	58.3%	97.2%	63.9%	150.0%	52.1%	62.6%	
Deduction from Capital Base										

4. CREDIT RISK (CONTINUED)

4.7 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

The following presents the credit exposures by risk weights after the effect of credit risk mitigation of the Group (continued):

(ii) As at 31 December 2019

Risk Weights	Exposures After Netting & Credit Risk Mitigation (CRM)								Total Exposures After Netting & CRM RM'000	Total Risk Weighted Asset RM'000
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIS & MDBS RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000		
0%	5,679,746	716,516	–	4,065,891	44,621	–	–	1,934,331	12,441,105	–
20%	–	104,415	338,745	4,255,460	594	–	–	–	4,699,214	939,843
35%	–	–	–	–	–	6,211,609	–	–	6,211,609	2,174,063
50%	–	544,322	6,700	3,079,005	394,518	4,599,917	–	–	8,624,462	4,312,231
75%	–	–	–	800,878	1,248,186	3,969,536	–	–	6,018,600	4,513,950
100%	–	130,864	–	8,393,274	15,583,742	5,085,334	–	889,735	30,082,949	30,082,949
150%	–	1,754	–	233,323	42,958	61,406	13,131	–	352,572	528,858
Total Exposures	**5,679,746**	**1,497,871**	**345,445**	**20,827,831**	**17,314,619**	**19,927,802**	**13,131**	**2,824,066**	**68,430,511**	**42,551,894**
RWA by Exposures	–	426,539	71,099	11,734,512	16,781,696	12,628,617	19,697	889,735	42,551,894	
Average Risk Weight	0.0%	28.5%	20.6%	56.3%	96.9%	63.4%	150.0%	31.5%	62.2%	
Deduction from Capital Base										

4. CREDIT RISK (CONTINUED)

4.7 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

The following presents the credit exposures by risk weights after the effect of credit risk mitigation of the Bank:

(i) As at 31 December 2020

Risk Weights	Exposures After Netting & Credit Risk Mitigation (CRM)									
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIS & MDBS RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Total Exposures After Netting & CRM RM'000	Total Risk Weighted Asset RM'000
0%	8,165,934	720,449	-	3,434,128	60,926	-	-	866,328	13,247,765	-
20%	-	204,553	609,110	4,392,176	231	-	-	-	5,206,070	1,041,214
35%	-	-	-	-	-	6,319,435	-	-	6,319,435	2,211,802
50%	-	561,814	5,761	3,860,407	403,363	4,555,665	-	-	9,387,010	4,693,505
75%	-	-	-	449,350	1,180,029	6,169,930	-	-	7,799,309	5,849,482
100%	-	167,431	-	8,693,848	17,817,354	4,802,963	-	919,927	32,401,523	32,401,523
150%	-	-	-	324,094	33,964	59,547	12,594	-	430,199	645,299
Total Exposures	8,165,934	1,654,247	614,871	21,154,003	19,495,867	21,907,540	12,594	1,786,255	74,791,311	46,842,825
RWA by Exposures	-	489,249	124,703	12,325,640	18,955,049	14,009,366	18,891	919,927	46,842,825	
Average Risk Weight	0.0%	29.6%	20.3%	58.3%	97.2%	63.9%	150.0%	51.5%	62.6%	
Deduction from Capital Base										

4. CREDIT RISK (CONTINUED)

4.7 Assignment of Risk Weights for Portfolios Under the Standardised Approach (continued)

The following presents the credit exposures by risk weights after the effect of credit risk mitigation of the Bank (continued):

(ii) As at 31 December 2019

Risk Weights	Exposures After Netting & Credit Risk Mitigation (CRM)								Total Exposures After Netting & CRM RM'000	Total Risk Weighted Asset RM'000
	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIS & MDBS RM'000	Corporate RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000		
0%	5,679,746	716,516	–	4,065,891	44,621	–	–	1,938,713	12,445,487	–
20%	–	104,415	338,621	4,255,460	594	–	–	–	4,699,090	939,818
35%	–	–	–	–	–	6,211,609	–	–	6,211,609	2,174,063
50%	–	544,322	6,400	3,079,005	394,518	4,599,917	–	–	8,624,162	4,312,081
75%	–	–	–	800,878	1,248,186	3,969,536	–	–	6,018,600	4,513,950
100%	–	130,864	–	8,393,274	15,583,742	5,085,334	–	874,862	30,068,076	30,068,076
150%	–	1,754	–	233,323	42,958	61,406	13,131	–	352,572	528,858
Total Exposures	**5,679,746**	**1,497,871**	**345,021**	**20,827,831**	**17,314,619**	**19,927,802**	**13,131**	**2,813,575**	**68,419,596**	**42,536,846**
RWA by Exposures	–	426,539	70,924	11,734,512	16,781,696	12,628,617	19,697	874,862	42,536,846	
Average Risk Weight	0.0%	28.5%	20.6%	56.3%	96.9%	63.4%	150.0%	31.1%	62.2%	
Deduction from Capital Base										

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.8 Disclosures of Rated and Unrated Exposures According to Ratings by ECAI

a) Ratings of Sovereigns and Central Banks by Approved ECAIs

31 December 2020 Exposure Class		Ratings of sovereigns and central banks by approved ECAIS					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
On and Off Balance-Sheet Credit Exposures							
Sovereign and Central Banks*		-	8,165,933	-	-	-	-
Total		**-**	**8,165,933**	**-**	**-**	**-**	**-**

31 December 2019 Exposure Class		Ratings of sovereigns and central banks by approved ECAIS					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
On and Off Balance-Sheet Credit Exposures							
Sovereign and Central Banks*		-	5,679,746	-	-	-	-
Total		**-**	**5,679,746**	**-**	**-**	**-**	**-**

* *These exposures refer to exposures to Federal Government of Malaysia and Bank Negara Malaysia which are accorded a preferential sovereign risk weight of 0%.*

b) Ratings of Corporate by Approved ECAIs

31 December 2020 Exposure Class		Ratings of corporate by approved ECAIS				
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAMs	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Credit Exposures						
Public Sector Entities		204,552	-	-	-	1,449,694
Insurance Cos, Securities Firms & Fund Manager						
Corporate		4,069,429	27,707	83,259	-	16,968,321
Total		**4,273,981**	**27,707**	**83,259**	**-**	**18,418,015**

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.8 Disclosures of Rated and Unrated Exposures According to Ratings by ECAI

b) Ratings of Corporate by Approved ECAIs (continued)

31 December 2019 Exposure Class		Ratings of corporate by approved ECAIS				
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAMs	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Credit Exposures						
Public Sector Entities		104,415	–	–	–	1,393,457
Insurance Cos, Securities Firms & Fund Manager		–	–	–	–	–
Corporate		3,972,160	36,311	91,708	–	16,727,652
Total		**4,076,575**	**36,311**	**91,708**	**-**	**18,121,109**

c) Ratings of Banking Institutions by Approved ECAIs

31 December 2020 Exposure Class		Ratings of banking institutions by approved ECAIS					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1+ to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAMs	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
On and Off Balance-Sheet Credit Exposures							
Banks, MDBs, and DFIs		**450,463**	**5,526**	**-**	**-**	**-**	**158,965**
Total		**450,463**	**5,526**	**-**	**-**	**-**	**158,965**

31 December 2019 Exposure Class		Ratings of banking institutions by approved ECAIS					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1+ to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAMs	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
On and Off Balance-Sheet Credit Exposures							
Banks, MDBs, and DFIs		282,848	1,249	–	–	–	60,923
Total		**282,848**	**1,249**	**-**	**-**	**-**	**60,923**

Note: There are no exposures under Short-term ratings for the period under review.

4. CREDIT RISK (CONTINUED)

4.9 Credit Risk Mitigation (CRM)

As a first way out, the assessment of credit when granting a financing facility is based on a particular customer's cash flows as the main source of payment and not on the collateral offered. However, the acceptance of tangible security as collateral would offer a second way out in the event of business failure thereby improving recovery rates.

The types of collaterals accepted by the Group would have an impact on the calculation of the Group's capital adequacy as the quality and the type of collaterals determine whether the Group is able to obtain capital relief and the extent of such relief. Capital relief is defined as the assignment of a lower or zero risk weight to the counterparty exposure by setting off or reducing the counterparty exposure against the collateral value.

The main types of collaterals obtained by the Group to mitigate credit risks are as follows:

(a) Cash on lien
(b) Landed property
(c) Shariah compliant quoted shares and unit trusts
(d) Malaysian Federal Government Securities
(e) Rated/Unrated Islamic Securities/Sukuk
(f) Guarantee

The reliance that can be placed on CRM is carefully assessed in light of issues such as compliance with Shariah rules and principles, legal enforceability, market value and counterparty credit risk of the guarantor. The Group has put in place policies and procedures which govern the determination of eligibility of various collaterals to protect the Group's position from the onset of a customer relationship on the CRM, for instance in requiring standard terms and conditions or specifically agreed upon documentation to ensure the legal enforceability of the credit risk mitigants.

In order to obtain a fair assessment of collateral securing the financing facility, a valuation is performed periodically ranging from weekly to annually, depending on the type, liquidity and volatility of the collateral value.

In mitigating the counterparty credit risks arising from foreign exchange and derivatives transactions, the Group enters into master agreements that provide for closeout netting with counterparties, whenever possible. A master agreement that governs all transactions between the two parties, creates a greater legal certainty that the netting of outstanding obligations can be enforced upon termination of outstanding transactions if an event of default occurs.

PILLAR 3 DISCLOSURE

as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.9 Credit Risk Mitigation (CRM) (continued)

The Group manages its credit risk concentrations by diversifying its portfolios through several measures. The Group monitors credit risk limits via, among others, sector limits, program limits, deviation limits and Single Counterparty Exposure Limits (SCEL). The following tables disclose the extent to which exposures are covered by eligible credit risk mitigants.

Disclosure of Credit Risk Mitigation (CRM):

31 December 2020 Exposure class	Exposures before CRM RM'000	Exposures covered by guarantees RM'000	Exposures covered by eligible financial and non-financial collateral RM'000
On-Balance Sheet Exposures			
Sovereign/Central Banks	8,165,933	–	–
Public Sector Entities	1,600,640	–	26,565
Banks, DFIs and MDBs	510,893	–	–
Corporates	19,584,934	540,901	1,226,255
Regulatory Retail	19,456,153	56,341	100,260
Residential Mortgages	21,610,415	453	100,804
Higher Risk Assets	3,783	–	–
Other Assets	1,786,255	–	–
Defaulted Exposures	895,405	121,080	81,717
Total for On-Balance Sheet Exposures	73,614,411	718,775	1,535,601
Off-Balance Sheet Exposures			
Credit-related Exposures	1,461,127	13,733	10,523
Derivative Financial Instruments	148,631	–	–
Defaulted Exposures	25,822	–	–
Total for Off-Balance Sheet Exposures	1,635,580	13,733	10,523
Total On and Off-Balance Sheet Exposures	**75,249,991**	**732,508**	**1,546,124**

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.9 Credit Risk Mitigation (CRM) (continued)

Disclosure of Credit Risk Mitigation (CRM) (continued):

31 December 2019 Exposure class	Exposures before CRM RM'000	Exposures covered by guarantees RM'000	Exposures covered by eligible financial and non-financial collateral RM'000
On-Balance Sheet Exposures			
Sovereign/Central Banks	5,678,926	–	–
Public Sector Entities	1,436,018	–	7,127
Banks, DFIs and MDBs	302,847	–	–
Corporates	19,213,079	859,456	874,834
Regulatory Retail	17,344,379	41,971	155,619
Residential Mortgages	19,642,414	455	102,143
Higher Risk Assets	4,246	–	–
Other Assets	2,813,575	–	–
Defaulted Exposures	656,364	97,715	71,738
Total for On-Balance Sheet Exposures	67,091,848	999,597	1,211,461
Off-Balance Sheet Exposures			
Credit-related Exposures	1,571,531	10,368	21,795
Derivative Financial Instruments	79,772	–	–
Defaulted Exposures	14,687	1,303	–
Total for Off-Balance Sheet Exposures	1,665,990	11,671	21,795
Total On and Off-Balance Sheet Exposures	**68,757,838**	**1,011,268**	**1,233,256**

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.10 Off-Balance Sheet and Counterparties Credit Risk for the Group and the Bank

(i) As at 31 December 2020

Nature of item	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk weighted asset RM'000
Credit related Exposures				
Direct credit substitutes	**449,506**		**449,506**	**442,426**
Assets sold with recourse	–		–	–
Transaction related contingent items	**899,541**		**449,770**	**436,481**
Short term self-liquidating trade related contingencies	**592,744**		**118,549**	**117,165**
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	–		–	–
– exceeding one year	**938,247**		**469,124**	**362,317**
Unutilised credit card lines	–		–	–
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	**8,676,980**		–	–
	11,557,018		**1,486,949**	**1,358,389**
Derivative Financial Instruments				
Foreign exchange related contracts				
– less than one year	**8,518,422**	**59,494**	**143,217**	**60,587**
– one year to less than five years	–	–	–	–
– Five years and above	–	–	–	–
Profit rate related contracts				
– less than one year	–	–	–	–
– one year to less than five years	**114,056**	**2,171**	**5,414**	**4,045**
– five years and above	–	–	–	–
Equity related contracts				
– less than one year	–	–	–	–
– one year to less than five years	–	–	–	–
– Five years and above	–	–	–	–
	8,632,478	**61,665**	**148,631**	**64,632**
Total	**20,189,496**	**61,665**	**1,635,580**	**1,423,021**

PILLAR 3 DISCLOSURE
as at 31 December 2020

4. CREDIT RISK (CONTINUED)

4.10 Off-Balance Sheet and Counterparties Credit Risk for the Group and the Bank (continued)

(ii) As at 31 December 2019

Nature of item	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk weighted asset RM'000
Credit related Exposures				
Direct credit substitutes	416,059		416,059	413,653
Assets sold with recourse	–		–	–
Transaction related contingent items	930,689		465,344	442,978
Short term self-liquidating trade related contingencies	603,739		120,748	120,588
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
– not exceeding one year	–		–	–
– exceeding one year	1,168,133		584,067	433,070
Unutilised credit card lines	–		–	–
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	7,892,943		–	–
	11,011,563		1,586,218	1,410,289
Derivative Financial Instruments				
Foreign exchange related contracts				
– less than one year	6,255,520	31,626	72,532	38,011
– one year to less than five years	–	–	–	–
– Five years and above	–	–	–	–
Profit rate related contracts				
– less than one year	–	–	–	–
– one year to less than five years	147,098	1,700	7,240	4,886
– five years and above	–	–	–	–
Equity related contracts				
– less than one year	–	–	–	–
– one year to less than five years	–	–	–	–
– Five years and above	–	–	–	–
	6,402,618	33,326	79,772	42,897
Total	**17,414,181**	**33,326**	**1,665,990**	**1,453,186**

PILLAR 3 DISCLOSURE
as at 31 December 2020

5. MARKET RISK

5.1 Overview

All the Group's financial instruments are subject to the risk that market prices and rates will move, resulting in profit or losses to the Group. The following are the main market risk factors that the Group is exposed to:

- **Profit Rate Risk:** also known as the Rate of Return Risk is the potential impact on the Group's profitability caused by changes in the rate of return, due to general market movements or issuer/customer specific reasons;
- **Foreign Exchange Risk:** the impact of exchange rate movements on the Group's currency positions;
- **Equity Investment Risk:** the profitability impact on the Group's equity positions or investments caused by changes in equity prices or values;

The Group separates the market risk exposures into either trading book or banking book portfolios. Trading book portfolios include those positions arising from market making, proprietary position taking and other marked-to-market positions as per the Board approved Trading Book Policy Statements. Banking book portfolios primarily arise from the Group's profit rate management of the Group's asset & liabilities and investment portfolio mainly for liquidity management.

5.2 Market Risk Governance

The management of market risk is principally carried out by using sets of policies and guidelines approved by Asset & Liability Committee ("ALCO") and/or BRC, guided by the Board's approved Risk Appetite Statement Policy.

ALCO is responsible under the authority delegated by BRC for managing market risk at strategic level.

5.3 Management of Market Risk

The objective is to manage market risk exposures in order to optimise return on risk while maintaining a market risk profile consistent with the Group's approved risk appetite.

All market risk exposures are managed by Treasury, who has the necessary skills, tools, management and governance to manage such risks. The management of market risk is guided by comprehensive limits, policies and guidelines which are periodically reviewed.

Market Risk Management Department ("MRMD") is an independent risk control function and is responsible for ensuring effective implementation of market risk management framework. MRMD is also responsible for developing and reviewing the Group's market risk management guidelines and policies, monitoring tools, behavioural assumptions and limit setting methodologies. Strict escalation procedures are documented and approved by ALCO and/or BRC. In addition, the market risk exposures and limits are regularly reported to ALCO and BRC.

Other controls to ensure that market risk exposures remain within tolerable levels include regular stress testing, ad-hoc simulations and rigorous new product approval procedures. Stress test results are produced regularly to determine the impact of changes in profit rates, foreign exchange rates and other risk factors on the Group's profitability, capital adequacy and liquidity. The stress test provides the Management and BRC with an assessment of the financial impact of identified extreme events on the market risk exposures of the Group.

PILLAR 3 DISCLOSURE

as at 31 December 2020

5. MARKET RISK (CONTINUED)

5.3 Management of Market Risk (continued)

a) Profit rate risk in the banking book portfolio

Profit rate risk in the banking book portfolio is managed and controlled using measurement tools known as Earnings-at-Risk ("EaR") and Economic Value of Equity ("EVE"). The Group monitors the sensitivity of EaR and EVE under varying profit rate scenarios (i.e. simulation modelling). The model is a combination of standard and non-standard scenarios relevant to the local market. The standard scenarios include the parallel fall or rise in the profit rate curve and historical simulation. These scenarios assume no management action. Hence, it does not incorporate actions that would be taken by Treasury to mitigate the impact of the profit rate risk. In reality, depending on the view on future market movements, Treasury would proactively manage and strategise to change the profit rate exposure profile to minimise losses and to optimise net revenues. The Group's hedging and risk mitigation strategies range from the use of derivative financial instruments, such as profit rate swaps, to more intricate hedging strategies to address inordinate profit rate risk exposures.

The table below shows the Group's and Bank's profit rate sensitivity to a 100 basis points parallel shift as at reporting date.

	31 December 2020 (Decrease) / Increase		31 December 2019 (Decrease) / Increase	
Group	-100bps RM million	+100bps RM million	-100bps RM million	+100bps RM million
Impact on EaR	**(131.4)**	**131.4**	(119.6)	119.6
Impact on EVE	**241.0**	**(241.0)**	226.1	(226.1)

	31 December 2020 (Decrease) / Increase		31 December 2019 (Decrease) / Increase	
Bank	-100bps RM million	+100bps RM million	-100bps RM million	+100bps RM million
Impact on EaR	**(131.4)**	**131.4**	(119.4)	119.4
Impact on EVE	**240.9**	**(240.9)**	225.5	(225.5)

PILLAR 3 DISCLOSURE
as at 31 December 2020

5. MARKET RISK (CONTINUED)

5.3 Management of Market Risk (continued)

b) Market Risk in the trading book portfolio

Market risk in the trading book portfolio is monitored and managed using Value-at-Risk ("VaR"). It is a technique that estimates the potential losses that could occur as a result of market rates movements over a specified time horizon and to a given level of confidence. The VaR model used by the Bank is based on historical simulation which derives plausible future scenarios from the past series of recorded market rates and prices. The historical simulation model used by the Bank incorporates the following features:

- Potential market movements are calculated with reference to data from the past two years;
- Historical market rates are calculated with reference to foreign exchange rates and profit rates; and
- VaR is calculated using a 99 per cent confidence level and for a one-day holding period.

A summary of the VaR position of the Bank's trading book portfolios as at the reporting date is as follows:

	As at 31.12.2020	1.1.2019 to 31.12.2020		
Bank	**RM million**	**Average RM million**	**Maximum RM million**	**Minimum RM million**
Profit Rate Risk	**2.76**	**1.88**	**3.32**	**0.01**
Foreign Exchange Risk	**0.42**	**0.47**	**1.02**	**0.23**
Overall	**3.18**	**2.36**	**3.89**	**0.36**

	As at 31.12.2019	1.1.2018 to 31.12.2019		
Bank	**RM million**	**Average RM million**	**Maximum RM million**	**Minimum RM million**
Profit Rate Risk	0.33	1.07	1.60	0.03
Foreign Exchange Risk	0.34	0.47	0.94	0.21
Overall	0.67	1.54	2.26	0.30

PILLAR 3 DISCLOSURE

as at 31 December 2020

5. MARKET RISK (CONTINUED)

5.3 Management of Market Risk (continued)

c) Foreign Exchange Risk

The Bank manages and controls the trading book portfolio's foreign exchange risk by limiting the net open exposure to individual currencies and on an aggregate basis. For the Bank-wide (trading and banking portfolios) foreign exchange risk, the Bank manages and controls by limiting the net open exposure on an aggregate basis.

Sensitivity Analysis

The Bank has a sensitivity limit for managing the foreign exchange risk in place. The foreign currency revaluation sensitivity for the Bank as at reporting date is summarised as follows (only net open position for major currencies are shown in its specific currency in the table below. For other currencies, these exposures are grouped as "Others"):

	31 December 2020		31 December 2019	
Bank	-1% Depreciation RM'000	+1% Appreciation RM'000	-1% Depreciation RM'000	+1% Appreciation RM'000
US Dollar	**8,844**	**(8,844)**	11,611	(11,611)
Euro	**5,072**	**(5,072)**	4,591	(4,591)
Others	**(194)**	**194**	(279)	279

5.4 Capital Treatment for Market Risk

The Group adopts the Standardised Approach to compute the market risk capital requirement under BNM's CAFIB.

6. LIQUIDITY RISK

6.1 Overview

Liquidity risk is the potential inability of the Group to meet its funding needs and regulatory obligation when they fall due, or will have to do it at excessive cost. This risk can arise from mismatches in the timing of cash flows.

The Group maintains a diversified and stable funding base comprising retail and corporate customer deposits. This is augmented by wholesale funding and highly liquid assets portfolios.

The objectives of the Group's liquidity management are to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due and that wholesale market access remains accessible and cost effective.

Savings accounts, current accounts, investment accounts (IA) and term deposits form a critical part of the Group's funding profile and the Group places considerable importance on maintaining their stability. The stability depends upon preserving depositors' confidence in the Group and the Group's capital strength and liquidity, and on competitive and transparent pricing.

PILLAR 3 DISCLOSURE

as at 31 December 2020

6. LIQUIDITY RISK (CONTINUED)

6.1 Overview (continued)

The Group's liquidity management is primarily carried out in accordance with the Bank Negara Malaysia's requirements and the internal limits approved by ALCO and/or BRC. The limits vary taking into account the depth and liquidity of the market in which the Group operates. The Group maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flows are appropriately balanced, and all obligations are met when due.

The Group's liquidity management process includes:

- Daily projection of cash flows and ensuring that the Group has sufficient liquidity surplus and reserves to sustain a sudden liquidity shock;
- Projecting cash flows and considering the level of liquid assets necessary in relation thereto;
- Maintaining liabilities of appropriate term relative to the asset base;
- Maintaining a diverse range of funding sources with adequate back-up facilities;
- Monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- Managing the maturities and diversifying funding liabilities across products and counterparties.

6.2 Liquidity Risk Governance

The management of liquidity risk is principally carried out by using sets of policies and guidelines approved by ALCO and/or BRC, guided by the Board's approved Risk Appetite Statement Policy. ALCO is responsible under the authority delegated by BRC for managing liquidity risk at strategic level.

6.3 Management of Liquidity Risk

All liquidity risk exposures are managed by Treasury, who has the necessary skills, tools, management and governance to manage such risks. Limits and triggers are set to meet the following objectives:

- Maintaining sufficient liquidity surplus and reserves to sustain a sudden liquidity shock;
- Ensuring that cash flows are relatively diversified across all maturities;
- Ensuring that the deposit base is not overly concentrated on a relatively small number of depositors;
- Maintaining sufficient borrowing capacity in the Interbank market and highly liquid financial assets to back it up; and
- Not over-extending financing activities relative to the deposit base.

MRMD is an independent risk control function and is responsible for ensuring efficient implementation of liquidity risk framework. It is also responsible for developing the Group's liquidity risk management guidelines, monitoring tools, behavioural assumptions and limit setting methodologies. Strict escalation procedures are documented and approved by ALCO and/or BRC, with proper authorities to ratify or approve the excess. In addition, the liquidity risk exposures and limits are regularly reported to ALCO and BRC.

Stress testing and scenario analysis are important tools used by the Group to manage the liquidity risk. Stress test results are produced regularly to determine the impact of a sudden liquidity shock. The stress-testing provides the Management and BRC with an assessment of the financial impact of identified extreme events on the liquidity and funding risk exposures of the Group.

Another key control feature of the Group's liquidity risk management is the liquidity contingency management plans. These plans identify the pre-emptive quantitative and qualitative indicators of stress conditions arising from systemic or other crises and provide guidance on actions to be taken in order to minimise the adverse implications to the Group.

7. OPERATIONAL RISK

7.1 Overview

Operational Risk is defined as the "risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, which includes legal risk and Shariah compliance risk but excludes strategic and reputational risk".

It is inherent in all banking products, activities, processes and systems and the effective management of operational risk has always been a fundamental element of a bank's risk management programme.

7.2 Operational Risk Governance

The Group's operational risk management ("ORM") is guided by its ORM Policy, Guideline and Enterprise-Wide Risk Management Policy as well as its Risk Appetite Statement Policy which are designed to provide a sound and well-controlled operational environment within the Group.

BRC is a committee of Board to oversee the Management's activities in managing risks for the Group, including operational risk. Its roles with regard to ORM include reviewing and recommending ORM Policy, strategies and risk appetite for Board's approval.

MRCC, under the authority delegated by BRC is responsible to perform the oversight functions and to ensure effective management of issues relating to operational risk at strategic level. Operational Risk Control Committee ("ORCC") which is a sub-committee of MRCC is primarily responsible in ensuring effective implementation and maintenance of policies, processes and systems for managing operational risk for the Group.

Notwithstanding the above, the various Business & Support Units ("BU/SU") are responsible for managing operational risk within their respective domains on a day-to-day basis and ensuring that their business & operational activities are carried out within the established ORM policies, guidelines, procedures and limits. To reinforce accountability and ownership of risk & control at BU/SU level, a Risk Controller ("RC") for each BU/SU is appointed and Embedded Risk and Compliance Unit ("ERU") is established at selected BU/SU to assist in driving the risk & control programme for the Group.

Ultimately, all staff of the Group is to ensure they properly discharge their day-to-day responsibilities and are well-equipped with the necessary knowledge including the policies and procedures in executing their job functions. This is in line with our Risk Management Tagline, i.e. "Managing Risk is Everyone's Business".

PILLAR 3 DISCLOSURE
as at 31 December 2020

7. OPERATIONAL RISK (CONTINUED)

7.3 Management of Operational Risk

The Group recognises and emphasises the importance of ORM and manages this risk through a control-based environment where processes are documented, authorisation is independent, transactions are reconciled and monitored and business activities are carried out within the established ORM policies, guidelines, procedures and limits.

The Group's overall governance approach in managing operational risk is premised on the Three Lines of Defence Approach:

a) **1st Line of Defence –** The risk owner or risk-taking unit i.e. BU/SU is accountable for putting in place a robust control environment within their respective units. They are responsible for the day to day management of operational risk. To reinforce accountability and ownership of risk and control within 1st Line of Defence, the RC is appointed for each BU/SU and ERU is established at selected BU/SU.

2nd Line of Defence – The Operational Risk Management Department ("ORMD") is responsible for establishing and maintaining the ORM Policy and its supporting guidelines/manuals, developing methodologies and various ORM tools to facilitate the management of operational risk, monitoring the effectiveness of ORM, assessing operational risk issues from the risk owner and escalating operational risk issues to the relevant governance level with recommendations on appropriate risk mitigation strategies. In creating a strong risk culture, ORMD is also responsible to promote risk awareness across the Group. Shariah Risk Management Unit ("SRMU"), which forms part of ORMD, is responsible for managing the Shariah non-compliance risk ("SNCR") by establishing and maintaining appropriate Shariah Risk Management (SRM) guidelines, facilitating the process of identifying, assessing, controlling and monitoring SNCR and promoting SNCR awareness.

Compliance Division, which includes Shariah Compliance Department and Information Security & Governance Division ("ISGD") complement the role of ORMD as the 2nd Line of Defence.

Compliance Division is responsible for ensuring effective oversight on compliance-related risks such as regulatory compliance risk, compliance risk, corruption risk, money laundering and terrorism financing risks through proper classification of risks and developing, reviewing and enhancing compliance-related training programmes as well as conducting trainings that promote awareness creation. Shariah Compliance Department under Compliance Division is responsible for reviewing and monitoring Shariah compliance of the Group's operations, activities and services at BU/SU level.

ISGD is responsible in managing information technology risk by establishing, maintaining and enforcing information technology risk policies/guidelines and it works closely with Information Technology Division in identifying, assessing, mitigating and monitoring of information technology risk in the Bank.

b) **3rd Line of Defence –** Internal Audit including Shariah Audit Department provides independent assurance to the Board and senior management on the effectiveness of the ORM and SRM process.

PILLAR 3 DISCLOSURE
as at 31 December 2020

7. OPERATIONAL RISK (CONTINUED)

7.4 ORM Tools & Mitigation Strategies

The Group employs various tools comprising proactive and reactive tools which are in line with the best practices in managing and mitigating its, namely:

Overview of ORM Tools				
Proactive Tools				Reactive Tools
Risk Control Self-Assessment	Key Risk Indicator	Operational Risk Review	New Product Services Approval Process	Risk Loss Event Management & Reporting
• Self-assessment to identify and assess operational risks by Risk Owners; • The tool creates ownership and increases operational risk awareness.	• A forward-looking tool to identify potential risks and to enable counter measures and risk mitigation actions before an incident occurs (early warning system); • To assist management to focus on high-risk issues.	• End-to-end review of activities to identify risks and ensure appropriate controls are in place and are effective; • To ensure controls are aligned with RCSA and able to mitigate the identified risk.	• To ensure risks are identified and adequate controls are in place prior to launching of new product/ services.	• Centralised group-wide loss database which provides line of business loss reporting overview, tracks frequency of events and facilitates detailed reviews of the incident and its impact.
Risk Analysis & Reporting				
• Analysis and reporting of qualitative and quantitative results from various ORM tools.				
Scenario Analysis				
• A systematic and forward-looking tool of obtaining expert opinions to derive new risks, test the efficiency of existing controls and highlights unexpected risks.				

In addition, a comprehensive Business Continuity Management ("BCM") function has been established within the Group to ensure that in the event of material disruptions from internal or external events, critical business functions can be maintained or restored in a timely manner. This ensures minimal adverse impact on customers, staff and products and services. BCM constitutes an essential component of the Group's risk management process by providing a controlled response to potential operational risk that could have a significant impact on the Group's critical processes and revenue streams.

PILLAR 3 DISCLOSURE
as at 31 December 2020

7. OPERATIONAL RISK (CONTINUED)

7.4 ORM Tools & Mitigation Strategies (continued)

As part of the risk transfer strategy, the Group obtains a 3rd party Takaful coverage to cover for the Group's high impact loss events.

The Group also ensures that the group-wide Operational Risk awareness programme is conducted on an ongoing basis. This training programme emphasises on inculcating an operational risk culture among staff, effective implementation of ORM tools, fraud awareness, BCM and other aspects of ORM.

7.5 Capital Treatment for Operational Risk

Operational Risk capital charge is calculated using the BIA as per BNM's CAFIB. The BIA for operational risk capital charge calculation applies an alpha (15%) to the average of positive gross income that was achieved over the previous three years by the Group. The RWA amount is computed by multiplying the minimum capital required with a multiplier of 12.5 (reciprocal of 8%).

8. SHARIAH GOVERNANCE

8.1 Overview

By virtue of BNM's Shariah Governance Policy Document ("SGPD"), the Group has established a sound and robust Shariah governance framework with the emphasis placed on the roles of its key functionalities, which include having in place an effective and responsible Board and Management and an independent Shariah Supervisory Council ("SSC") that is supported by strong and competent internal Shariah functions.

To date, the Group has put in place the Shariah Compliance Policy to communicate the comprehensive of Shariah governance framework to ensure the Group's business activities and behaviours are in compliance with Shariah rules and principles, provisions of the Islamic Financial Services Act ("IFSA") 2013, BNM's SGPD and its other rules and regulations, and the resolutions of BNM and Securities Commission ("SC")'s Shariah Advisory Council and the SSC.

8.2 Shariah Risk Management

The Group's Shariah risk management as part of operational risk management is guided by Operational Risk Management ("ORM") Policy and Guidelines which set out the high-level framework supporting the Shariah Compliance Policy and detail out the Shariah risk management processes and tools. The policy and guidelines serve to provide a consistent group-wide framework for managing SNCR across the Group.

In addition to this, the Risk Loss Event Management and Reporting (''RLEMR") Guideline provides sound mechanism on Shariah non-compliance ("SNC") management and reporting in order to ensure the Group strictly complies with Shariah rules and principles as well as the regulatory requirements. The guideline has been established to be in line with the mechanism set out by BNM's Operational Risk Reporting Requirement – Operational Risk Integrated Online Network ("ORION") and to ensure compliance with section 28(3) of the IFSA 2013 which requires any SNC event to be immediately reported to BNM. Additionally, pursuant to this guideline, any actual SNC events caused by operational lapses including negligence, breach of policies and lack of due care by staff may be subject to disciplinary action.

Being part of operational risk, the Shariah risk management leverages on the same ORM principles, processes and tools. The responsibility of managing SNCR is spearheaded by the Group's Shariah Risk Management Unit ("SRMU"). In general, all ORM tools are extended to the process of managing SNCR. However, the tools are modified to suit the regulatory requirements on Shariah governance in order to provide a robust and consistent approach in managing SNCR.

8. SHARIAH GOVERNANCE (CONTINUED)

8.2 Shariah Risk Management (continued)

Extensive and continuous Shariah risk awareness initiatives have been conducted for the Group's staff including Shariah sessions for Risk Controllers ("RC") namely Shariah Town Hall sessions where the sessions updated the RCs on new Shariah requirements/rulings issued either by Shariah Division, the SSC or the regulators or upon any occurrence of Shariah non-compliance event. In year 2020, 6 Shariah risk awareness sessions were conducted which gathered almost all sale personnel from branches. Apart from that, it is compulsory for all staff to participate in Shariah training via e-Learning every two years as a refresher course.

8.3 Shariah Non-Compliance ("SNC") Events

An SNC event is a result of the Group's failure to comply with the Shariah rules and principles determined by the SSC.

Throughout the year 2020, there was one (1) incident confirmed by the SSC as SNC event. The SNC event was due to lack of awareness on related Shariah requirements for products offered. The Group, from time to time, makes efforts to prevent similar Shariah breaches from recurring by issuing reminders, conducting on-going awareness trainings, as well as putting additional controls to ensure compliance with Shariah requirements.

8.4 Shariah Non-Compliant Income

31 December 2020	31 December 2019
RM59,960.47	RM89,339.69

The main contributors of the SNC income are:

Commissions from third party investment product offering (RM52,645.36) and commissions from Shariah non-compliant merchants of card business (RM7,226.61). The amount was disposed to charitable causes upon Shariah Supervisory Council's approval.

All SNC events and rectification plans were presented and approved by Board/SSC and reported to BNM in accordance with the prescribed reporting requirement by the regulator.

9. INVESTMENT ACCOUNT

9.1 Overview

Islamic Financial Services Act 2013 ("IFSA") distinguishes investment account (IA) from Islamic deposits, where Shariah contracts that need to be applied for IA products are non-principal guaranteed, while Shariah contracts for deposit products are principal guaranteed.

In line with the implementation of the IFSA, the Group has developed investment account products based on Mudarabah and Wakalah contracts.

Mudarabah is a contract between a customer as capital provider and the Group as an entrepreneur under which the customer provides capital to be managed by the Group and any profit generated is shared according to a mutually agreed profit sharing ratio (PSR) whilst financial losses are borne by the customer provided that such losses are not due to the Group's misconduct, negligence or breach of specified terms.

PILLAR 3 DISCLOSURE
as at 31 December 2020

9. INVESTMENT ACCOUNT (CONTINUED)

9.1 Overview (continued)

Wakalah refers to a contract where a customer, as the principal, authorises the Group as his agent to perform a particular task on matters that may be delegated i.e. investment, with or without imposition of a fee. In this context, the Shariah contract applied is Wakalah bi al-istithmar (Wakalah for the purpose of investment).

In terms of offering, the Group currently has the following two categories of IA:

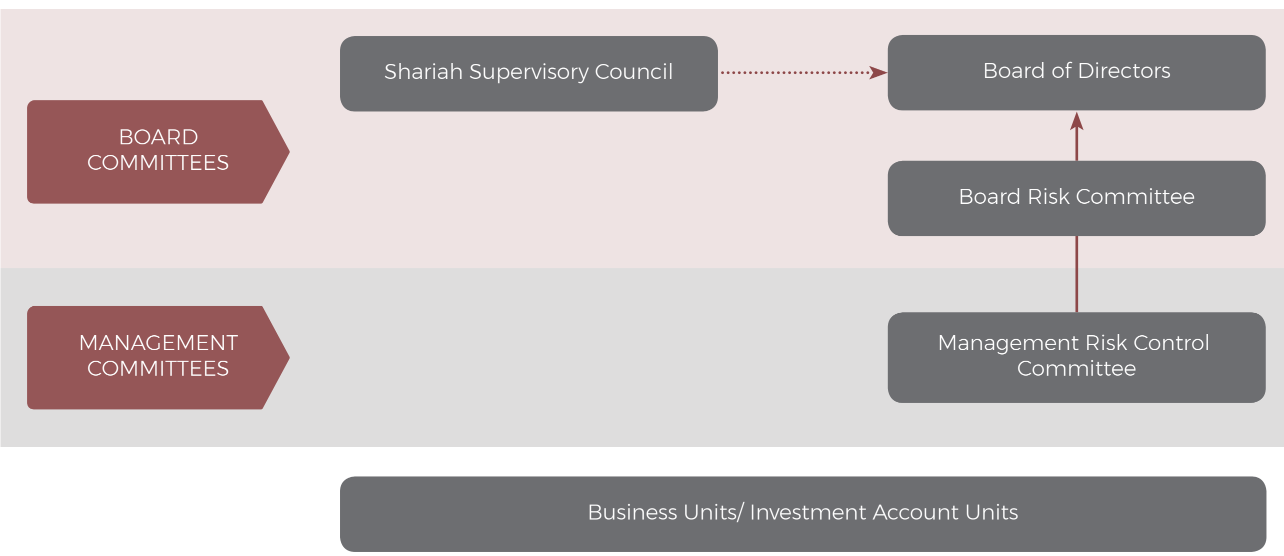
Unrestricted Investment Account (UA)	Restricted Investment Account (RA)
Unrestricted Investment Account refers to a type of investment account whereby the customer/Investment Account Holder (IAH), without specifying any particular restrictions or conditions, provides the Group with the mandate to make the ultimate decision to invest.	Restricted Investment Account (RA) refers to an IA where the IAH provides a specific investment mandate to the Group. The Group also offers RA via Investment Account Platform (IAP) initiated by BNM.

IA product is not capital guaranteed and is not protected by the Perbadanan Insurans Deposit Malaysia (PIDM). The IAHs are made informed of the risks associated with IA which include but not limited to the following:

- Market risk – Invested assets are subjected to fluctuations in the market rates. This may negatively impact the overall income performance of the fund.
- Liquidity risk – This risk occurs if withdrawal/redemption exceeds total investment.
- Credit risk – This arises when substantial amount of the asset tagged to the fund turns default.
- Operational risk – This risk may arise due to failed internal processes or system.
- Legal risk – Such risk may arise from improper product documentation which may expose the Bank to legal action by IAH.

9.2 Governance Structure

To safeguard the IAH's interest, the investment mandate, strategy and parameter are carried out in accordance to the Group's governance set-up. The IA governance structure adopted by the Group is as depicted in the following diagram:



9. INVESTMENT ACCOUNT (CONTINUED)

9.2 Governance Structure (continued)

The roles and responsibilities of the above respective committees are as follows:

Committee	Responsibility
Board of Directors (Board)	Responsible to establish an effective governance arrangement to facilitate effective monitoring and control of the overall management and conduct of the IA. The adequacy of the governance arrangement shall commensurate with the nature, scale, complexity and risk profile associated with the conduct of the IA.
Board Risk Committee (BRC)	Assists the Board in performing independent oversight and provides recommendations in respect of the management, operations and performance of the IA, as well as to play the role of Board Investment Committee.
Shariah Supervisory Council	Advises and provides clarification on relevant Shariah rulings, decisions or policies on Shariah matters and endorses the terms and conditions stipulated in IA documentation and ensures that information published is in compliance with Shariah.
Management Risk Control Committee	Assists BRC in performing independent oversight and provides recommendations in respect of the management, operations and performance of the IA.

9.3 IA Performance

	31 December 2020	31 December 2019
	RM'000	RM'000
Gross Exposure: Financing funded by UA	**RM12,368,896,784.16**	RM10,240,372.64
	%	%
Return on Assets ("ROA")	**4.42%**	5.44%
Average Net Distributable Income	**4.06%**	5.14%
Average/Proportion Net Distributable Income Attributable to the IAH	**1.93%**	2.41%
Average Profit Sharing Ratio/Return to the IAH	**47.56%**	46.94%
	RM'000	RM'000
Impaired assets/financing funded by UA (bank-wide)	**373,233.77**	433,001.03
Total allowance for UA	**40,354.48**	21,485.95
Collective allowance provisions funded by UA	**NA**	NA
Individual allowance provisions funded by UA	**NA**	NA

PILLAR 3 DISCLOSURE
as at 31 December 2020

CHIEF EXECUTIVE OFFICER ATTESTATION

In accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Bank (CAFIB) Disclosure Requirements (Pillar 3), I hereby attest that to the best of my knowledge, the disclosures contained in Bank Islam Malaysia Berhad's Pillar 3 Disclosure report for the financial year ended 31 December 2020 are consistent with the manner in which the Group and the Bank assesses and manages its risk, and are not misleading in any particular way.

Mohd Muazzam Mohamed
Chief Executive, Bank Islam Malaysia Berhad