Company No: 197301000792 (14389-U)

Affin Hwang Investment Bank Berhad

(Incorporated in Malaysia)

PILLAR 3 DISCLOSURES
for the financial year ended 31 December 2020

Affin Hwang Investment Bank Berhad
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PILLAR 3 DISCLOSURES

Glossary

Terms	Descriptions
AICB	Asian Institute of Chartered Bankers
ALCO	Asset and Liability Committee
Basel II	Basel II Capital Accord
Basel III	Basel III Capital Accord
BCRC	Board Credit Review Committee
BNM	Bank Negara Malaysia
Board	Board of Directors
BRMC	Board Risk Management Committee
CET 1	Common Equity Tier 1
CIS	Collective Investment Scheme
CMD	Credit Management Department
CRC	Credit Resolution Committee
CRM	Credit Risk Mitigation
CROC	Compliance and Risk Oversight Committee
CSA	Credit Support Annex
DFIs	Development Financial Institutions
EAD	Exposure At Default
ECAIs	External Credit Assessment Institutions
ECL	Expected Credit Loss
EVE	Economic Value of Equity
Fitch	Fitch Ratings
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value through Profit or Loss
GMCC	Group Management Credit Committee
ICAAP	Internal Capital Adequacy Assessment Process
IRRBB	Interest Rate Risk in Banking Book
ISDA	International Swap and Derivative Association
KRI	Key Risk Indicator
LGD	Loss Given Default
MARC	Malaysian Rating Corporation Berhad
MCM-GRC	Management Committee Meeting - Group Risk And Compliance
MDBs	Multilateral Development Banks
MFRS	Malaysian Financial Reporting Standards
Moody's	Moody's Investors Service
NII	Net Interest Income
ORMU	Operational Risk Management Unit
OTC	Over-the-Counter
PCC	Professional Credit Certification
PD	Probability of Default
R&I	Rating and Investment Information, Inc.
R&R	Rescheduling and Restructuring
RAM	RAM Rating Services Berhad
RCSA	Risk and Control Self Assessment
RMD	Risk Management Department
RWA	Risk-Weighted Asset
RWCAF	Risk-Weighted Capital Adequacy Framework
S&P	Standard & Poor's Rating Services
VaR	Value-at-Risk

PILLAR 3 DISCLOSURES

OVERVIEW

Bank Negara Malaysia ("BNM")'s Risk-Weighted Capital Adequacy Framework ("RWCAF") (Basel II) – Disclosure Requirements (Pillar 3) aims to improve the transparency of financial institution activities and risks, which is a key element of an effectively supervised financial system.

Pillar 3 Disclosures is governed by BNM RWCAF - Pillar 3 and Capital Adequacy Framework (Capital Components) issued by BNM, which spells out the guidelines in determining the contents (including materiality, appropriateness and confidentiality), frequency, medium, location of public disclosures, as well as internal controls over the disclosure verification process.

The following disclosure information is based on 31 December 2020 financial year end data and has been independently reviewed by the Internal Audit Department. However, where the disclosure is reliant upon the disclosure in the Bank's audited financial statements, the disclosure in the audited financial statements has been subjected to the formal review and verification process by the external auditor.

The Pillar 3 Disclosures is published on the Bank's corporate website at http://www.affinhwang.com.

PILLAR 3 DISCLOSURES

1 SCOPE OF APPLICATION

The Pillar 3 Disclosures attached herewith relates to the Bank and its subsidiaries (“the Group”). This Pillar 3 Disclosures is published for the financial year ended 31 December 2020, with comparative information for both the Bank and the Group for the financial year ended 31 December 2019.

For financial reporting purposes, the basis for consolidation of the Group financial statements is in accordance to the Malaysian Financial Reporting Standards.

The basis for accounting consolidation is as disclosed in Note B 'Summary of significant accounting policies for the financial year ended 31 December 2020' of the financial statements of the Bank. Further information on the Bank’s consolidated entities can be referenced to Note 12 of the Bank’s financial statements.

The principal activities of the Bank are in investment banking, stockbroking activities, dealing in options and futures and related financial services. The principal activities of the subsidiaries are asset management, management of unit trust funds and private retirement schemes, Islamic fund management, trustee services and nominee services.

During the financial year, the Group did not encounter any restriction or impediment in the distribution of

2 CAPITAL MANAGEMENT

The Group and the Bank's objectives when managing capital are to comply with:

i) The minimum capital requirement of 10.50% (2019: 10.50%) under BNM RWCAF;

ii) The Board-approved Internal Capital Adequacy Assessment Process ("ICAAP"), which amongst others:

- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns to the shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

2.1 Capital Adequacy Ratios

The capital adequacy ratios of the Group consist of total capital and risk-weighted assets derived from the consolidated financials of the Bank and the Group. The Group and the Bank have adopted the following approaches to assess its regulatory capital requirements under BNM RWCAF Pillar 1:

- Credit risk (Standardised Approach)
- Market risk (Standardised Approach)
- Operational risk (Basic Indicator Approach)

The total capital and capital adequacy ratios of the Group and the Bank are computed in accordance with Bank Negara Malaysia’s Capital Adequacy Framework (Capital Components) updated on 9 December 2020.

As permitted under the Capital Adequacy Framework (Capital Components) updated on 9 December 2020, the Group and the Bank has elected to apply transitional arrangement for four financial years beginning on 1 January 2020. Under the transitional arrangements, amount of loss allowances measured at an amount equal to 12 months ECL and lifetime ECL to the extent they are ascribed to non-credit-impaired exposures (which is Stage 1 and Stage 2 provisions), are added back in the calculation of CET1 capital ratio.

In line with the Bank Negara Malaysia's Capital Adequacy Framework (Capital Components), the minimum capital adequacy requirement for Common Equity Tier 1 Capital Ratio (‘‘CET 1’’) and Tier 1 Capital Ratio are 7.00% (2019: 7.00%) and 8.50% (2019: 8.50%) respectively for the financial year ended 31 December 2020. The minimum regulatory capital adequacy requirement at 10.50% (2019: 10.50%) for total capital ratio.

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The following table depicts the risk weighted assets ("RWA") and the corresponding regulatory capital requirements:

Table 1: Risk-Weighted Assets and Capital Requirements
The Group

As at 31 December 2020	**Gross exposures RM'000**	**Net exposures RM'000**	**Risk Weighted Assets RM'000**	**Capital requirements RM'000**
(i) Credit risk				
Exposure Class				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	3,523,696	3,523,696	2,075	166
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	1,008,159	1,008,158	206,801	16,544
Insurance Companies, Securities Firms & Fund Managers	5,232	5,232	5,232	419
Corporates	1,262,367	1,227,174	912,367	72,989
Regulatory Retail	607,739	5,771	4,329	346
Other Assets	384,789	384,789	384,752	30,780
Defaulted Exposures	70,318	70,318	103,399	8,272
Total for on-balance sheet exposures	**6,862,300**	**6,225,138**	**1,618,955**	**129,516**
Off-Balance Sheet Exposures				
Over-the-counter ("OTC") derivatives	389,936	389,936	161,521	12,922
Non-OTC Derivatives	38,173	38,173	38,172	3,054
Total for off-balance sheet exposures	**428,109**	**428,109**	**199,693**	**15,976**
Total credit risk exposures	**7,290,409**	**6,653,247**	**1,818,648**	**145,492**
(ii) Large exposures risk requirements	-	-	-	-

(iii) Market risk	**Gross exposures RM'000**		**Net exposures RM'000**	**Risk Weighted Assets RM'000**	**Capital requirements RM'000**
	Long Position RM'000	**Short Position RM'000**			
Interest rate risk	11,351,547	11,346,780	4,767	127,911	10,233
Foreign currency risk	3,897,207	3,906,077	(8,870)	37,326	2,986
Equity risk	110,998	404	110,594	304,472	24,358
Option risk	17,792	-	17,792	24,464	1,957
Total market risk exposures	**15,377,544**	**15,253,261**	**124,283**	**494,173**	**39,534**

(iv) Operational risk	**Risk Weighted Assets RM'000**	**Capital requirements RM'000**
Operational risk	1,026,536	82,123
Total risk-weighted assets and capital requirements	**3,339,357**	**267,149**

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Table 1: Risk-Weighted Assets and Capital Requirements (Continued)

The Bank

As at 31 December 2020	Gross exposures RM'000	Net exposures RM'000	Risk Weighted Assets RM'000	Capital requirements RM'000
(i) Credit risk				
Exposure Class				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	3,520,204	3,520,204	-	-
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	540,605	540,605	108,225	8,658
Insurance Companies, Securities Firms & Fund Managers	5,232	5,232	5,232	419
Corporates	1,115,037	1,079,843	776,906	62,152
Regulatory Retail	607,739	5,771	4,329	346
Other Assets	89,639	89,639	89,605	7,168
Defaulted Exposures	70,318	70,318	103,399	8,272
Total for on-balance sheet exposures	**5,948,774**	**5,311,612**	**1,087,696**	**87,015**
Off-Balance Sheet Exposures				
Over-the-counter ("OTC") derivatives	389,936	389,936	161,521	12,922
Non-OTC Derivatives	38,173	38,173	38,172	3,054
Total for off-balance sheet exposures	**428,109**	**428,109**	**199,693**	**15,976**
Total credit risk exposures	**6,376,883**	**5,739,721**	**1,287,389**	**102,991**
(ii) Large exposures risk requirements	-	-	-	-

(iii) Market risk	Gross exposures RM'000		Net exposures RM'000	Risk Weighted Assets RM'000	Capital requirements RM'000
	Long Position RM'000	**Short Position RM'000**			
Interest rate risk	11,251,519	11,249,133	2,386	124,757	9,981
Foreign currency risk	3,802,134	3,818,314	(16,180)	38,602	3,088
Equity risk	110,941	404	110,546	304,308	24,345
Option risk	17,792	-	17,792	24,464	1,957
Total market risk exposures	**15,182,386**	**15,067,851**	**114,544**	**492,131**	**39,371**

(iv) Operational risk	Risk Weighted Assets RM'000	Capital requirements RM'000
Operational risk	509,161	40,733
Total risk-weighted assets and capital requirements	**2,288,681**	**183,095**

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Table 1: Risk-Weighted Assets and Capital Requirements (Continued)
The Group

As at 31 December 2019 **(i) Credit risk**	**Gross exposures RM'000**	**Net exposures RM'000**	**Risk Weighted Assets RM'000**	**Capital requirements RM'000**
Exposure Class				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	3,670,407	3,670,407	4,259	341
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	824,475	824,475	167,138	13,371
Insurance Companies, Securities Firms & Fund Managers	307	307	307	25
Corporates	2,136,764	2,109,442	1,285,310	102,825
Regulatory Retail	509,540	6,054	4,541	363
Other Assets	362,308	362,308	362,271	28,982
Defaulted Exposures	88,175	88,175	119,425	9,554
Total for on-balance sheet exposures	**7,591,976**	**7,061,168**	**1,943,251**	**155,461**
Off-Balance Sheet Exposures				
Over-the-counter ("OTC") derivatives	208,149	208,149	87,484	6,999
Non-OTC Derivatives	37,599	37,599	37,591	3,007
Total for off-balance sheet exposures	**245,748**	**245,748**	**125,075**	**10,006**
Total credit risk exposures	**7,837,724**	**7,306,916**	**2,068,326**	**165,467**
(ii) Large exposures risk requirements	-	-	-	-

(iii) Market risk	**Gross exposures RM'000**		**Net exposures RM'000**	**Risk Weighted Assets RM'000**	**Capital requirements RM'000**
	Long Position RM'000	**Short Position RM'000**			
Interest rate risk	7,049,729	6,909,741	139,988	159,562	12,765
Foreign currency risk	2,623,559	2,666,834	(43,275)	60,559	4,845
Equity risk	47,527	4,289	43,238	133,326	10,666
Option risk	-	-	-	-	-
Total market risk exposures	**9,720,815**	**9,580,864**	**139,951**	**353,447**	**28,276**

(iv) Operational risk	**Risk Weighted Assets RM'000**	**Capital requirements RM'000**
Operational risk	926,744	74,140
Total risk-weighted assets and capital requirements	**3,348,517**	**267,883**

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Table 1: Risk-Weighted Assets and Capital Requirements (Continued)

The Bank

As at 31 December 2019 **(i) Credit risk**	**Gross exposures RM'000**	**Net exposures RM'000**	**Risk Weighted Assets RM'000**	**Capital requirements RM'000**
Exposure Class				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	3,670,407	3,670,407	4,259	341
Banks, Development Financial Institutions ("DFIs") & Multilateral Development Banks ("MDBs")	334,712	334,712	66,942	5,355
Insurance Companies, Securities Firms & Fund Managers	307	307	307	25
Corporates	2,039,250	2,011,927	1,194,571	95,566
Regulatory Retail	509,540	6,054	4,541	363
Other Assets	82,300	82,300	82,265	6,581
Defaulted Exposures	88,175	88,175	119,425	9,554
Total for on-balance sheet exposures	**6,724,691**	**6,193,882**	**1,472,310**	**117,785**
Off-Balance Sheet Exposures				
Over-the-counter ("OTC") derivatives	208,149	208,149	87,484	6,999
Non-OTC Derivatives	37,599	37,599	37,591	3,007
Total for off-balance sheet exposures	**245,748**	**245,748**	**125,075**	**10,006**
Total credit risk exposures	**6,970,439**	**6,439,630**	**1,597,385**	**127,791**
(ii) Large exposures risk requirements	-	-	-	-

(iii) Market risk	**Gross exposures RM'000**		**Net exposures RM'000**	**Risk Weighted Assets RM'000**	**Capital requirements RM'000**
	Long Position RM'000	**Short Position RM'000**			
Interest rate risk	6,993,278	6,854,295	138,983	158,220	12,658
Foreign currency risk	2,551,516	2,611,388	(59,872)	62,731	5,018
Equity risk	47,527	4,289	43,244	133,321	10,666
Option risk	-	-	-	-	-
Total market risk exposures	**9,592,321**	**9,469,972**	**122,355**	**354,272**	**28,342**

(iv) Operational risk	**Risk Weighted Assets RM'000**	**Capital requirements RM'000**
Operational risk	457,202	36,576
Total risk-weighted assets and capital requirements	**2,408,859**	**192,709**

2.2 Capital Structure

For regulatory purposes, capital is categorised into Common Equity Tier 1 ("CET 1") Capital, Additional Tier 1 Capital and Tier 2 Capital which are described below:

CET 1 Capital
CET 1 Capital /Tier I Capital (Basel III) comprises ordinary paid-up share capital, statutory reserve, audited retained profits, other disclosed reserves, unrealised gains on FVOCI instruments and net of regulatory adjustments namely goodwill, intangible assets, 55% of cummulative gains on FVOCI instruments, deferred tax assets, other CET1 regulatory adjustments specified by BNM, investment in subsidiaries and investment in associates.

Share capital is the issued and fully paid share capital and there is no obligation to pay a coupon or dividend to the shareholders. Retained profits and statutory reserve are accumulated resources included in Total Equity in the Statement of Financial Position.

Additional Tier 1 Capital
Additional Tier 1 capital comprises of qualifying non-controlling interest.

Tier 2 Capital
Tier 2 capital comprises of expected credit loss for financial assets, subject to a maximum of 1.25% of total credit risk RWA.

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Table 2: Constituents of Eligible Capital and Capital Adequacy Ratios

	The Group		The Bank	
	31.12.2020 RM'000	**31.12.2019 RM'000**	**31.12.2020 RM'000**	**31.12.2019 RM'000**
Common Equity Tier (CET) 1 Capital :				
Share capital	999,800	999,800	999,800	999,800
Foreign exchange translation reserve	(205)	135	-	-
Retained profits	580,490	539,352	521,880	506,507
Other reserve	(65,909)	(61,010)	-	-
Unrealised gains on FVOCI instruments	76,991	77,210	76,936	77,155
	1,591,167	1,555,487	1,598,616	1,583,462
Less : Regulatory adjustment				
Goodwill and other Intangible assets	(324,861)	(323,194)	(315,375)	(316,243)
Investment in associates/subsidiaries	(4,108)	(3,594)	(133,184)	(131,384)
Regulatory reserve	(10,972)	(23,731)	(10,972)	(23,731)
55% of cummulative gains on FVOCI instruments	(42,345)	(42,466)	(42,315)	(42,435)
Other CET1 regulatory adjustments specified by BNM	10,063	-	10,000	-
Deferred tax assets	(46,205)	(9,533)	(29,713)	-
Total CET 1 Capital	1,172,739	1,152,969	1,077,057	1,069,669
Additional Tier 1 Capital				
Qualifying non-controlling interests	31,015	25,241	-	-
Tier 1 Capital	1,203,754	1,178,210	1,077,057	1,069,669
Tier 2 capital				
Expected Credit Loss	13,886	25,854	13,860	19,967
Total Tier 2 capital	13,886	25,854	13,860	19,967
Total Capital	1,217,640	1,204,064	1,090,917	1,089,636
Proposed dividends	35,000	40,000	35,000	40,000
Capital Ratios				
With transitional arrangements:				
CET 1 capital ratio	35.119%	34.432%	47.060%	44.406%
Tier 1 capital ratio	36.047%	35.186%	47.060%	44.406%
Total capital ratio	36.463%	35.958%	47.666%	45.235%
CET 1 capital ratio (net of proposed dividends)	34.071%	33.238%	45.531%	42.745%
Tier 1 capital ratio (net of proposed dividends)	34.999%	33.991%	45.531%	42.745%
Total capital ratio (net of proposed dividends)	35.415%	34.764%	46.136%	43.574%
Before transitional arrangements:				
CET 1 capital ratio	34.817%	34.432%	46.623%	44.406%
Tier 1 capital ratio	35.746%	35.186%	46.623%	44.406%
Total capital ratio	36.427%	35.958%	47.326%	45.235%
CET 1 capital ratio (net of proposed dividends)	33.769%	33.238%	45.094%	42.745%
Tier 1 capital ratio (net of proposed dividends)	34.698%	33.991%	45.094%	42.745%
Total capital ratio (net of proposed dividends)	35.379%	34.764%	45.797%	43.574%
Credit risk	1,818,648	2,068,326	1,287,389	1,597,385
Market risk	494,173	353,447	492,131	354,272
Operational risk	1,026,536	926,744	509,161	457,202
Total RWA	3,339,357	3,348,517	2,288,681	2,408,859

3 RISK MANAGEMENT

As a full-fledged investment bank, the Bank has established robust and comprehensive risk management framework and policies, based on best practices, to ensure that the salient risk elements in the operations of the Bank are adequately managed and mitigated. The Bank's framework for the management of financial risks is congruent with the primary corporate objective of creating and enhancing shareholders' value, guided by a prudent and robust framework of risk management methodologies and policies.

The Bank's risk management framework and policies are reviewed periodically to ensure that they are comprehensive in addressing the multi-faceted risks associated with the investment banking sector.

The Risk Management Department ("RMD") is primarily responsible for the development and maintenance of the risk management framework and policies of the Bank and supports the functions of the Asset and Liability Committee ("ALCO"), Compliance and Risk Oversight Committee ("CROC"), Board Risk Management Committee ("BRMC") as well as Group committees of the Affin Bank Group.

Risk Governance

Appropriate risk governance structure is cascaded throughout all levels of the Bank which comprise of Board of Directors ("Board"), relevant committees, business units and support units.

The Board is ultimately responsible for assuming the risks inherent in the Bank's business activities and defining the policies for governing those activities. BRMC is responsible to support the Board in the oversight of the Bank's risk management framework and policies.

BRMC is authorised by the Board in overseeing all risk-taking activities in the Bank. Its key responsibilities involve reviewing and recommending risk management strategies, risk tolerance, new products, capital allocation process; and assessing the adequacy of risk management policies, framework, infrastructure and resources for implementation of risk strategies. For monitoring purpose, BRMC reviews periodic reports on risk exposures, risk portfolio composition and risk management activities. These reports, prepared by RMD cover credit, market, liquidity, operational and technology risks.

At management level, CROC and ALCO assist the BRMC and the Board in their supervisory roles in the management of credit, market, liquidity, operational and technology risks as well as assets and liabilities management of the Bank. These two committees provide an executive forum for discussions and decisions on all aspects of credit, market, liquidity and operational risks, as well as assets and liabilities management matters.

Under the Credit Authority Framework approved by the Board, Group Management Credit Committee ("GMCC") and Board Credit Review Committee ("BCRC") are authorised to review and approve, reject or modify proposals for credit and underwriting applications. Impaired credits are independently managed by Credit Resolution Committee ("CRC").

Internal Audit provides reasonable assurance on the adequacy and effectiveness of internal control systems of the business and support units, examines adherence to policies and procedures and assesses compliance with external laws and regulations.

RMD acts as an independent and neutral party in providing comprehensive and independent views of Bank-wide risks.

Risk Measurement

The risk measurement tools employed by the Bank are commonly used in market practices and commensurate with the size and complexity of the Bank's business operations.

Stress Testing

The Bank has deployed stress testing in assessing the impact of stressed market conditions on its capital, profit, liquidity and asset quality in accordance with the Group Stress Test Framework and Methodology.

Stress testing results are periodically reported to ALCO and BRMC to enable them to consider the implications on the Bank's overall business strategy, capital management, risk profile and to consider appropriate corrective measures when necessary. The stress testing is also performed periodically to meet both internal and regulatory external reporting requirements.

Internal Audit acts as an independent party in performing an annual review of the Bank's stress testing policy, procedures and processes including the stress scenarios used to ensure the quality and effectiveness of the programme.

The stress testing methodology covers a range of risks and business areas and there are two types of stress testing currently in use:

- Sensitivity Analysis, which moves a single risk factor by a magnitude of shock. This method can be processed relatively quickly and can be used to form a first approximation and assessment of the impact.

- Scenario Analysis, which contains simultaneous moves in a number of market risk factors (e.g. equity prices, interest rates, foreign exchange rates and etc.). A stress test scenario analysis can be based on historical scenario, hypothetical scenario, forward looking scenario and second round/spill-over effect. Scenario analysis can be performed on a portfolio-driven approach or event-driven approach.

Risk Reporting and Monitoring

The Bank's risk appetite (i.e. risk tolerance) and business plans determine the amount of risk capital set aside (i.e. risk capacity) to support its operational and market activities as well as capital allocation to respective business units. This forms a basis in setting risk limits for business units.

RMD is responsible for the monitoring and timely reporting of risk exposures against the established risk limits. Any breaches in risk limits are subject to the exception escalation procedures that aim to rectify any excesses within a reasonable time frame and within the specified authority level. There is a formal process for risk reporting to the Group Managing Director, business units, relevant management/ board committees to facilitate the making of informed decisions and strategies. BRMC reviews and monitors any significant risk issues and reports to the Board.

Risk limits are reviewed on an annual basis or as and when required, to ensure their relevance with regards to the risk taking activities of the Bank and current banking regulations.

4 CREDIT RISK

Credit risk is the risk that a counterparty will fail to meet its contractual obligations which could result in a financial loss to the Bank. The Bank's exposure to credit risks arises primarily from share trading, share margin financing, securities borrowing and lending, corporate/inter-bank lending activities, bond investment, foreign exchange trading, equity and debt underwriting as well as from participation in securities settlements and payment transactions.

Risk Governance

The management of credit risk is governed by a set of approved credit policies, guidelines and procedures to ensure that the overall lending objectives are in compliance with the internal and regulatory requirements. The risk management policies are subject to review by the BRMC, a sub-committee of the Board that reviews the adequacy of the Bank’s risk framework and policies.

The Bank’s credit risk framework is further strengthened through an established process for the approval and review of proposals that comprises the GMCC and the BCRC. The GMCC represents the approving authority for credit and underwriting proposals, whilst the BCRC is the committee that reviews proposals that exceed specified limits and criteria, as well as to consider whether to reject the proposal or modify the terms of the proposal.

The Bank recognises that learning is a continuous journey and is committed to enhancing the knowledge and skills set of its staff. It places strong emphasis on creating and enhancing risk awareness in the organisation. The Bank is supportive of credit officers in taking the Professional Credit Certification ("PCC") programme offered by the Asian Institute of Chartered Bankers ("AICB"). Upon attaining the PCC certification, credit officers are expected to demonstrate sound understanding of credit process and competence to undertake credit roles and responsibilities.

Credit Risk Evaluation

(a) Corporate Credit and Financing

Credit evaluation is the process of analysing the creditworthiness of the prospective customer against the Bank’s underwriting criteria and the ability of the Bank to make a return commensurate to the level of risk undertaken. A critical element in the evaluation process is the assignment of a credit risk grade to the counterparty. This assists in the risk assessment and decision making process. The Bank has developed internal rating models to support the assessment and quantification of credit risk.

A number of qualitative and quantitative factors are taken into consideration in the identification and analysis of a counterparty’s credit risk. Each counterparty is assigned a credit rating which considers factors such as competitive position, operating performance, cash flow strength and management strength.

All corporate lending, underwritings and corporate debt securities investments are independently evaluated by the Bank’s credit management function and approved by the relevant approving authorities based on the Authority Matrix approved by the Board.

(b) Stockbroking

For stockbroking brokerage business, daily management and monitoring of credit risk associated with securities brokerage is undertaken by Credit Control team to ensure compliance with approved policies and procedures of the Bank and regulatory requirements.

In addition, RMD reviews the overall stockbroking credit exposures and CMD assess/approve trading limit proposals that exceed specified limits. The assessment is based on clients and/or dealer’s representatives risk profiles, creditworthiness, past trading records and pledged collaterals.

(c) Share Margin

For share margin financing, all new margin applications as well as applications for increase in facility limits are subject to credit review by the Margin Operations. It will be forwarded to CMD for independent credit evaluation if the proposals exceed specified limits before recommending to the Approving Authorities. Credit risk exposures associated with share margin trading are reviewed and monitored closely on daily basis by designated staff from Margin Operations, Credit Management and independently by RMD, who will review amongst others, credit limit utilization, exposure to single security or client/ group of counterparty and equity positions against collateral.

Credit Risk Limit Control and Mitigation Policies

The Bank employs various policies and practices to control and mitigate credit risk.

The Bank establishes internal limits and related lending guidelines to manage large exposures and avoid undue concentration of credit risk in its credit portfolio. The limits include single customer groupings, connected parties, geographical and industry segments. These risks are monitored regularly and the limits reviewed annually or sooner depending on changing market and economic conditions.

The credit risk exposure for derivatives due to potential exposure arising from market movements, and loan books are managed on an aggregated basis as part of the overall lending limits with customers.

Credit Risk Measurement

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. For example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically takes into consideration a number of relevant factors when identifying and analysing of counterparty credit risk. These factors determines the credit rating under the Credit Risk Grading Policy, which considers factors such as competitive position, operating performance, cash flow strength and management strength. The Bank’s leverages on its holding company's Affin Bank Berhad’s models for loans, advances and financing and bonds.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on quantitative modelling, the remaining lifetime PD is determined to have increased by more than a predetermined percentage/range.

Using expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

Determining whether credit risk has increased significantly (continued)

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days or 1 month past due. Days or months past due are determined by counting the number of days or month since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk via regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1) and lifetime PD (Stage 2).

Measurement of Expected Credit Loss ("ECL")

The Group and the Bank use three categories for financial instruments at amortised cost for recognising ECL:

Category	Definition	Basis for recognising
Performing accounts (Stage 1)	· Financial assets that do not have significant increase in credit risk since initial recognition of the asset and therefore, less likely to default; · Performing accounts with credit grade 13 or better; · Accounts past due less than or equal to 30 days; or · For early control acounts that have risk or potential weakness which if left unchecked, may result in significant deterioration of repayment prospect and transfer to Underperforming status (Stage 2) or worse.	12 months ECL
Underperforming accounts (Stage 2)	· An account with significant increase in credit risk since initial recognition and if left uncorrected, may result in impairment of the account within the next 12 months; · Accounts past due more than 30 days or 1 month but less than 90 days or 3 months; · Accounts demonstrating critical level of risk and therefore, credit graded to 14 and placed under Watchlist.	Lifetime ECL - not credit impaired
Impaired accounts (Stage 3)	· Impaired credit; · Credit grade 15 or worse; · Accounts past due more than 90 days or 3 months.	Lifetime ECL - credit impaired
Write-off	· Evidence indicating that there is no reasonable expectation of recovery based on unavailability of debtor's sources of income or; · Assets unable to generate sufficient future cash flow to repay the amount.	Asset is written off

The Bank has not used the loan credit risk exemption for any financial instrument for the financial year ended 31 December 2020.

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.

Measurement of ECL (continued)

The key inputs into the measurement of ECL comprise the following variables:

- probability of default ("PD");
- loss given default ("LGD"); and
- exposure at default ("EAD").

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD is the likelihood of a counterparty defaulting on its contractual obligations to a financial institution over a given time horizon and are estimates at a certain date, which are calculated based on statistical models. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes or changes in past due status, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

Credit risk grades and past due status are a primary input into the determination of the term structure of PD for exposures. The Bank’s holding company collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading. For some portfolios, information from external credit reference agencies are also used.

The Bank leverages on its holding company's statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

LGD is the magnitude of the likely loss if there is a default. LGD parameters are estimated based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

ECL is determined by projecting the PD, LGD and EAD at each future point on a yearly basis on individual exposure, or collective segment, and discounting these monthly expected losses back to the reporting date. The discount rate used in the ECL calculation is the original interest rate or an approximation thereof.

Measurement of ECL (continued)

As described, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Forward looking economic information is also included in determining the 12 month and lifetime PD, LGD and EAD.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- product/instrument type;
- past due status;
- credit risk gradings;
- collateral type;
- date of initial recognition; and
- remaining term to maturity.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

There have been no significant changes in estimation technique or significant assumptions made during the reporting period that have material impact to the ECL.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A "base case" view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios are formulated.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 3 years.

Credit risk monitoring

Corporate credits and large individual accounts are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. This is to ensure that the credit grades remain appropriate and to detect any signs of weaknesses or deterioration in the credit quality. Remedial action is taken where evidence of deterioration exists.

Significant Increase in Credit Risk Process is in place as part of a means to pro-actively identify, report and manage deteriorating credit quality. Watchlist accounts are closely reviewed and monitored with corrective measures initiated to prevent them from turning non-performing. As a rule, Watchlist accounts are either worked up or worked out within a period of twelve months.

The Bank has established MFRS 9 - Stage Transfer Policy to provide guidance in determining significant increases in credit risk of financial assets. There are 3 stages to differentiate the credit risk of financial assets in conjunction with MFRS 9 standards: Performing Accounts (Stage 1), Underperforming Accounts (Stage 2) and Impaired Accounts (Stage 3).

Active portfolio monitoring as well as exceptions reporting is in place to manage the overall risk profile, identify, analyze and mitigate adverse trends or specific areas of risk concerns.

The Bank conducts post-mortem reviews on newly impaired loans to determine the key reason(s) and/or driver(s) leading to the account being classified as impaired, take appropriate remedial actions or measures and establish lessons learned to minimize potential or future credit loss from similar or repeat events.

In addition, an independent credit review is undertaken by RMD to ensure that credit decision-making is consistent with the Bank's overall credit risk appetite and strategy.

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4.1 Distribution of Credit Exposures

(i) The following table depicts the geographical distribution of the Bank's gross credit exposures, based on the country of incorporation or residence:

Table 3: Gross Credit Exposures by Geographical Distribution

The Group

As at 31 December 2020	**Malaysia**	**Other Countries**	**Total**
Exposure Class	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures			
Sovereign / Central Banks	3,520,204	3,492	**3,523,696**
Banks, DFIs & MDBs	998,626	9,533	**1,008,159**
Insurance Companies, Securities Firms & Fund Managers	5,232	-	**5,232**
Corporates	1,206,483	55,884	**1,262,367**
Regulatory Retail	607,739	-	**607,739**
Other assets	384,789	-	**384,789**
Defaulted Exposures	70,318	-	**70,318**
Total On-Balance Sheet Exposures	**6,793,391**	**68,909**	**6,862,300**
Off-Balance Sheet Exposures			
OTC Derivatives	389,934	2	**389,936**
Non-OTC Derivatives	38,173	-	**38,173**
Total Off-Balance Sheet Exposures	**428,107**	**2**	**428,109**
Total Gross Credit Exposures	**7,221,498**	**68,911**	**7,290,409**

The Bank

As at 31 December 2020	**Malaysia**	**Other Countries**	**Total**
Exposure Class	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures			
Sovereign / Central Banks	3,520,204	-	**3,520,204**
Banks, DFIs & MDBs	540,603	2	**540,605**
Insurance Companies, Securities Firms & Fund Managers	5,232	-	**5,232**
Corporates	1,090,619	24,418	**1,115,037**
Regulatory Retail	607,739	-	**607,739**
Other assets	89,639	-	**89,639**
Defaulted Exposures	70,318	-	**70,318**
Total On-Balance Sheet Exposures	**5,924,354**	**24,420**	**5,948,774**
Off-Balance Sheet Exposures			
OTC Derivatives	389,934	2	**389,936**
Non-OTC Derivatives	38,173	-	**38,173**
Total Off-Balance Sheet Exposures	**428,107**	**2**	**428,109**
Total Gross Credit Exposures	**6,352,461**	**24,422**	**6,376,883**

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Table 3: Gross Credit Exposures by Geographical Distribution (Continued)

The Group

As at 31 December 2019 **Exposure Class**	**Malaysia** **RM'000**	**Other Countries** **RM'000**	**Total** **RM'000**
On-Balance Sheet Exposures			
Sovereign / Central Banks	3,670,407	-	**3,670,407**
Banks, DFIs & MDBs	819,373	5,102	**824,475**
Insurance Companies, Securities Firms & Fund Managers	307	-	**307**
Corporates	2,067,532	69,232	**2,136,764**
Regulatory Retail	509,540	-	**509,540**
Other assets	362,308	-	**362,308**
Defaulted Exposures	88,175	-	**88,175**
Total On-Balance Sheet Exposures	**7,517,642**	**74,334**	**7,591,976**
Off-Balance Sheet Exposures			
OTC Derivatives	208,124	25	**208,149**
Non-OTC Derivatives	37,599	-	**37,599**
Total Off-Balance Sheet Exposures	**245,723**	**25**	**245,748**
Total Gross Credit Exposures	**7,763,365**	**74,359**	**7,837,724**

The Bank

As at 31 December 2019 **Exposure Class**	**Malaysia** **RM'000**	**Other Countries** **RM'000**	**Total** **RM'000**
On-Balance Sheet Exposures			
Sovereign / Central Banks	3,670,407	-	**3,670,407**
Banks, DFIs & MDBs	334,687	25	**334,712**
Insurance Companies, Securities Firms & Fund Managers	307	-	**307**
Corporates	1,991,427	47,823	**2,039,250**
Regulatory Retail	509,540	-	**509,540**
Other assets	82,300	-	**82,300**
Defaulted Exposures	88,175	-	**88,175**
Total On-Balance Sheet Exposures	**6,676,843**	**47,848**	**6,724,691**
Off-Balance Sheet Exposures			
OTC Derivatives	208,124	25	**208,149**
Non-OTC Derivatives	37,599	-	**37,599**
Total Off-Balance Sheet Exposures	**245,723**	**25**	**245,748**
Total Gross Credit Exposures	**6,922,566**	**47,873**	**6,970,439**

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(ii) The following table depicts the Bank's gross credit exposures by sector analysis or industrial distribution:

Table 4: Gross Credit Exposures by Sectorial Analysis or Industrial Distribution

The Group **As at 31 December 2020**	**Primary Agriculture**	**Mining and Quarrying**	**Manufacturing (including Agro-based)**	**Electricity, Gas and Water Supply**	**Construction**	**Wholesale, Retail Trade, Restaurants and Hotels**	**Transport, Storage and Communication**	**Finance, Insurance and Business Activities**	**Real Estate**	**Education, Health and Others**	**Household**	**Others**	**Total**
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	26,957	185,071	-	313,701	2,380,312	-	434,000	-	183,655	**3,523,696**
Banks, DFIs & MDBs	-	-	-	-	-	-	-	1,008,159	-	-	-	-	**1,008,159**
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	-	-	-	5,232	-	-	-	-	**5,232**
Corporates	68,683	862	36,724	88,865	133,232	115,061	84,089	468,170	63,123	41,812	48,156	113,590	**1,262,367**
Regulatory Retail	-	-	-	-	4,911	146	29,603	192,157	64,582	9,616	306,724	-	**607,739**
Other assets	-	-	-	-	-	-	-	-	-	-	-	384,789	**384,789**
Defaulted Exposures	-	-	-	-	36,545	-	7,747	2,077	23,949	-	-	-	**70,318**
Total On-Balance Sheet Exposures	**68,683**	**862**	**36,724**	**115,822**	**359,759**	**115,207**	**435,140**	**4,056,107**	**151,654**	**485,428**	**354,880**	**682,034**	**6,862,300**
Off Balance Sheet Exposures													
OTC Derivatives	-	-	-	-	-	-	-	389,936	-	-	-	-	**389,936**
Non-OTC Derivatives	-	-	9,400	1,000	22,618	289	600	113	-	-	4,153	-	**38,173**
Total Off-Balance Sheet Exposures	**-**	**-**	**9,400**	**1,000**	**22,618**	**289**	**600**	**390,049**	**-**	**-**	**4,153**	**-**	**428,109**
Total Gross Credit Exposures	**68,683**	**862**	**46,124**	**116,822**	**382,377**	**115,496**	**435,740**	**4,446,156**	**151,654**	**485,428**	**359,033**	**682,034**	**7,290,409**

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Table 4: Gross Credit Exposures by Sectorial Analysis or Industrial Distribution (Continued)

The Bank As at 31 December 2020 Exposure class	Primary Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing (including Agro-based) RM'000	Electricity, Gas and Water Supply RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurants and Hotels RM'000	Transport, Storage and Communication RM'000	Finance, Insurance and Business Activities RM'000	Real Estate RM'000	Education, Health and Others RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	26,957	185,071	-	313,701	2,376,820	-	434,000	-	183,655	**3,520,204**
Banks, DFIs & MDBs	-	-	-	-	-	-	-	540,605	-	-	-	-	**540,605**
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	-	-	-	5,232	-	-	-	-	**5,232**
Corporates	68,683	-	33,329	77,398	129,415	115,061	77,976	353,115	56,502	41,812	48,156	113,590	**1,115,037**
Regulatory Retail	-	-	-	-	4,911	146	29,603	192,157	64,582	9,616	306,724	-	**607,739**
Other assets	-	-	-	-	-	-	-	-	-	-	-	89,639	**89,639**
Defaulted Exposures	-	-	-	-	36,545	-	7,747	2,077	23,949	-	-	-	**70,318**
Total On-Balance Sheet Exposures	**68,683**	**-**	**33,329**	**104,355**	**355,942**	**115,207**	**429,027**	**3,470,006**	**145,033**	**485,428**	**354,880**	**386,884**	**5,948,774**
Off Balance Sheet Exposures													
OTC Derivatives	-	-	-	-	-	-	-	389,936	-	-	-	-	**389,936**
Non-OTC Derivatives	-	-	9,400	1,000	22,618	289	600	113	-	-	4,153	-	**38,173**
Total Off-Balance Sheet Exposures	**-**	**-**	**9,400**	**1,000**	**22,618**	**289**	**600**	**390,049**	**-**	**-**	**4,153**	**-**	**428,109**
Total Gross Credit Exposures	**68,683**	**-**	**42,729**	**105,355**	**378,560**	**115,496**	**429,627**	**3,860,055**	**145,033**	**485,428**	**359,033**	**386,884**	**6,376,883**

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Table 4: Gross Credit Exposures by Sectorial Analysis or Industrial Distribution (Continued)

The Group **As at 31 December 2019**	**Primary Agriculture**	**Mining and Quarrying**	**Manufacturing (including Agro-based)**	**Electricity, Gas and Water Supply**	**Construction**	**Wholesale, Retail Trade, Restaurants and Hotels**	**Transport, Storage and Communication**	**Finance, Insurance and Business Activities**	**Real Estate**	**Education, Health and Others**	**Household**	**Others**	**Total**
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	167,546	372,926	-	134,088	1,976,965	-	867,065	-	151,817	**3,670,407**
Banks, DFIs & MDBs	-	-	-	-	-	-	-	824,475	-	-	-	-	**824,475**
Insurance Companies, Securities													**-**
Firms & Fund Managers	-	-	-	-	-	-	-	307	-	-	-	-	**307**
Corporates	108,826	17,284	118,724	237,602	333,027	126,110	136,331	631,123	222,957	165,129	39,651	-	**2,136,764**
Regulatory Retail	7,647	-	15,351	-	4,961	29,553	28,122	49,996	168,069	-	159,166	46,675	**509,540**
Other assets	-	-	-	-	-	-	-	-	-	-	-	362,308	**362,308**
Defaulted Exposures	-	1,051	14,909	-	36,545	-	9,784	4,220	14,100	7,566	-	-	**88,175**
Total On-Balance Sheet Exposures	**116,473**	**18,335**	**148,984**	**405,148**	**747,459**	**155,663**	**308,325**	**3,487,086**	**405,126**	**1,039,760**	**198,817**	**560,800**	**7,591,976**
Off Balance Sheet Exposures													
OTC Derivatives	-	-	-	-	-	-	-	208,149	-	-	-	-	**208,149**
Non-OTC Derivatives	500	600	10,000	24,022	-	-	400	24	-	-	2,053	-	**37,599**
Total Off-Balance Sheet Exposures	**500**	**600**	**10,000**	**24,022**	**-**	**-**	**400**	**208,173**	**-**	**-**	**2,053**	**-**	**245,748**
Total Gross Credit Exposures	**116,973**	**18,935**	**158,984**	**429,170**	**747,459**	**155,663**	**308,725**	**3,695,259**	**405,126**	**1,039,760**	**200,870**	**560,800**	**7,837,724**

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Table 4: Gross Credit Exposures by Sectorial Analysis or Industrial Distribution (Continued)

The Bank As at 31 December 2019	Primary Agriculture	Mining and Quarrying	Manufacturing (including Agro-based)	Electricity, Gas and Water Supply	Construction	Wholesale, Retail Trade, Restaurants and Hotels	Transport, Storage and Communication	Finance, Insurance and Business Activities	Real Estate	Education, Health and Others	Household	Others	Total
Exposure class	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On-Balance Sheet Exposures													
Sovereign/Central Banks	-	-	-	167,546	372,926	-	134,088	1,976,965	-	867,065	-	151,817	**3,670,407**
Banks, DFIs & MDBs	-	-	-	-	-	-	-	334,712	-	-	-	-	**334,712**
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	-	-	-	307	-	-	-	-	**307**
Corporates	108,826	15,612	116,163	234,956	332,190	126,110	132,920	544,736	222,957	165,129	39,651	-	**2,039,250**
Regulatory Retail	7,647	-	15,351	-	4,961	29,553	28,122	49,996	168,069	-	159,166	46,675	**509,540**
Other assets	-	-	-	-	-	-	-	-	-	-	-	82,300	**82,300**
Defaulted Exposures	-	1,051	14,909	-	36,545	-	9,784	4,220	14,100	7,566	-	-	**88,175**
Total On-Balance Sheet Exposures	**116,473**	**16,663**	**146,423**	**402,502**	**746,622**	**155,663**	**304,914**	**2,910,936**	**405,126**	**1,039,760**	**198,817**	**280,792**	**6,724,691**
Off Balance Sheet Exposures													
OTC Derivatives	-	-	-	-	-	-	-	208,149	-	-	-	-	**208,149**
Non-OTC Derivatives	500	600	10,000	24,022	-	-	400	24	-	-	2,053	-	**37,599**
Total Off-Balance Sheet Exposures	**500**	**600**	**10,000**	**24,022**	**-**	**-**	**400**	**208,173**	**-**	**-**	**2,053**	**-**	**245,748**
Total Gross Credit Exposures	**116,973**	**17,263**	**156,423**	**426,524**	**746,622**	**155,663**	**305,314**	**3,119,109**	**405,126**	**1,039,760**	**200,870**	**280,792**	**6,970,439**

(iii) The following table depicts the Bank's gross credit exposures analysed by residual contractual maturity analysis:

Table 5: Gross Credit Exposures by Residual Contractual Maturity Analysis

The Group

As at 31 December 2020 Exposure class	< 1 year RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
On-Balance Sheet Exposures					
Sovereign/Central Banks	250,445	997,925	2,256,042	19,284	**3,523,696**
Banks, DFIs & MDBs	935,691	66,684	5,784	-	**1,008,159**
Insurance Companies, Securities Firms & Fund Managers	5,232	-	-	-	**5,232**
Corporates	232,772	614,472	88,649	326,474	**1,262,367**
Regulatory Retail	601,800	2,467	3,472	-	**607,739**
Other assets	-	-	-	384,789	**384,789**
Defaulted Exposures	5,090	7,747	57,481	-	**70,318**
Total On-Balance Sheet Exposures	**2,031,030**	**1,689,295**	**2,411,428**	**730,547**	**6,862,300**
Off Balance Sheet Exposures					
OTC Derivatives	204,598	185,338	-	-	**389,936**
Non-OTC Derivatives	35,421	2,752	-	-	**38,173**
Total Off-Balance Sheet Exposures	**240,019**	**188,090**	**-**	**-**	**428,109**
Total Gross Credit Exposures	**2,271,049**	**1,877,385**	**2,411,428**	**730,547**	**7,290,409**

The Bank

As at 31 December 2020 Exposure class	< 1 year RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
On-Balance Sheet Exposures					
Sovereign/Central Banks	250,445	997,038	2,253,437	19,284	**3,520,204**
Banks, DFIs & MDBs	478,537	62,068	-	-	**540,605**
Insurance Companies, Securities Firms & Fund Managers	5,232	-	-	-	**5,232**
Corporates	231,141	599,215	61,959	222,722	**1,115,037**
Regulatory Retail	601,800	2,467	3,472	-	**607,739**
Other assets	-	-	-	89,639	**89,639**
Defaulted Exposures	5,090	7,747	57,481	-	**70,318**
Total On-Balance Sheet Exposures	**1,572,245**	**1,668,535**	**2,376,349**	**331,645**	**5,948,774**
Off Balance Sheet Exposures					
OTC Derivatives	204,598	185,338	-	-	**389,936**
Non-OTC Derivatives	35,421	2,752	-	-	**38,173**
Total Off-Balance Sheet Exposures	**240,019**	**188,090**	**-**	**-**	**428,109**
Total Gross Credit Exposures	**1,812,264**	**1,856,625**	**2,376,349**	**331,645**	**6,376,883**

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Table 5: Gross Credit Exposures by Residual Contractual Maturity Analysis (Continued)

The Group

As at 31 December 2019 Exposure class	< 1 year RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
On-Balance Sheet Exposures					
Sovereign/Central Banks	5,065	500,650	3,012,875	151,817	**3,670,407**
Banks, DFIs & MDBs	798,377	23,358	2,740	-	**824,475**
Insurance Companies, Securities Firms & Fund Managers	307	-	-	-	**307**
Corporates	532,156	1,147,755	163,363	293,490	**2,136,764**
Regulatory Retail	503,831	3,399	2,310	-	**509,540**
Other assets	-	-	-	362,308	**362,308**
Defaulted Exposures	69,682	18,493	-	-	**88,175**
Total On-Balance Sheet Exposures	**1,909,418**	**1,693,655**	**3,181,288**	**807,615**	**7,591,976**
Off Balance Sheet Exposures					
OTC Derivatives	75,420	130,172	2,557	-	**208,149**
Non-OTC Derivatives	35,922	1,677	-	-	**37,599**
Total Off-Balance Sheet Exposures	**111,342**	**131,849**	**2,557**	**-**	**245,748**
Total Gross Credit Exposures	**2,020,760**	**1,825,504**	**3,183,845**	**807,615**	**7,837,724**

The Bank

As at 31 December 2019 Exposure class	< 1 year RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	No specific maturity RM'000	Total RM'000
On-Balance Sheet Exposures					
Sovereign/Central Banks	5,065	500,650	3,012,875	151,817	**3,670,407**
Banks, DFIs & MDBs	312,873	20,782	1,057	-	**334,712**
Insurance Companies, Securities Firms & Fund Managers	307	-	-	-	**307**
Corporates	528,873	1,135,065	152,117	223,195	**2,039,250**
Regulatory Retail	503,831	3,399	2,310	-	**509,540**
Other assets	-	-	-	82,300	**82,300**
Defaulted Exposures	69,682	18,493	-	-	**88,175**
Total On-Balance Sheet Exposures	**1,420,631**	**1,678,389**	**3,168,359**	**457,312**	**6,724,691**
Off Balance Sheet Exposures					
OTC Derivatives	75,420	130,172	2,557	-	**208,149**
Non-OTC Derivatives	35,922	1,677	-	-	**37,599**
Total Off-Balance Sheet Exposures	**111,342**	**131,849**	**2,557**	**-**	**245,748**
Total Gross Credit Exposures	**1,531,973**	**1,810,238**	**3,170,916**	**457,312**	**6,970,439**

4.2 Past Due And Impaired Loans, Advances And Financing

The Group and the Bank define a financial instrument as default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the mandatory and/or judgmental indicators, which include amongst others, the following criteria:

(i) Mandatory indicators

- failure to make contractual payment within 90 days or 3 months of when they fall due;
- bankruptcy or winding up order issued;
- account turns fraud;
- internal rating deteriorated to default credit grade or worse;
- financial cashflow problems, classify as stressed company with evidence of business failure by Bursa;
- collateral coverage ratio falls below 100% (for share margin financing).

(ii) Judgemental indicators

- evidence of three or more judgemental events;
- account is past due or in excess of approved limit but less than or equal to 30 days;
- non compliance with financial covenants imposed and evidence of misuse and diversion of funds or monies;
- weakening in financial statements with sign of over-leveraging, erosion in capital base, deterioration in profitability and cash flow;
- credit deterioration such as adverse change in payment pattern and default in other related accounts;
- legal proceedings that have negative impact to the credit profile;
- sign of operational weakness or distributions arising from change in company's operations and management activities;
- company/director/management involved in fraudulent activities;
- consistently require margin call or unable to meet margin call (for share margin financing).
- rescheduling and/or restructuring ("R&R") with significant increase in credit risk, however, business operation remains viable post R&R.

The Group and the Bank first assess whether objective evidence of impairment exists for financial assets which are individually significant. If the Group and the Bank determine that objective evidence of impairment exists, i.e. credit impaired, for an individually assessed financial asset, a lifetime ECL will be recognised.

Financial assets which are individually significant but non-impaired and not individually significant are grouped on the basis of similar credit risk characteristics (such as credit quality, instrument type, credit risk ratings, credit utilisation, customer types and other relevant factors) for collective assessment.

<u>Write-off policy</u>

The Group and the Bank write-off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

Indicators that there is no reasonable expectation of recovery include:

(i) ceasing enforcement activity and
(ii) where the Groups recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

Modification of loans/financing

The Group and the Bank sometime renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group and the Bank assess whether or not the new terms are substantially different to the original terms. The Group and the Bank do this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan/financing is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan/financing.

If the terms are substantially different, the Group and the Bank derecognise the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group and the Bank also assess whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group and the Bank recalculate the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group and the Bank transfer substantially all the risks and rewards of ownership, or (ii) the Group and the Bank neither transfer nor retain substantially all the risks and rewards of ownership and the Group and the Bank have not retained control.

The Group and the Bank enter into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as "pass through" transfers that result in derecognition if the Group and the Bank:

i) Have no obligation to make payments unless it collects equivalent amounts from the assets;
ii) Are prohibited from selling or pledging the assets; and
iii) Have obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group and the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group and the Bank retain substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group and the Bank retain a subordinated residual interest/profit.

Regulatory reserve requirements

Pursuant to BNM Financial Reporting policy dated 27 September 2019, the Group and the Bank shall maintain, in aggregate, loss allowance for non-credit-impaired exposures and regulatory reserves of no less than 1% of all credit exposures, net of loss allowance for credit-impaired exposures.

(i) The sectorial analysis of past due and impaired loans, advances and financing and the expected credit loss by sectors are depicted below:

Table 6: Past Due and Impaired Loans, Advances and Financing by Sectorial Analysis

	< ------------------------ Gross Carrying Amount			------------------------ >	
	Past Due But Not Credit-impaired		**Impaired**		
The Group and The Bank	**12 Month ECL**	**Lifetime ECL non Credit Impaired**	**Lifetime ECL Credit Impaired**		
As at 31 December 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Written-off**
By Sector	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Mining and Quarrying	-	-	2,369	**2,369**	-
Manufacturing (including Agro-based)	-	-	7,369	**7,369**	-
Construction	-	-	36,545	**36,545**	-
Wholesale, Retail Trade, Restaurants and Hotels	-	-	-	**-**	-
Transport, Storage and Communication	-	-	7,920	**7,920**	-
Real Estate	-	-	35,089	**35,089**	-
Education, Health and Others	-	-	-	**-**	(20,626)
Household	-	-	-	**-**	-
Total	**-**	**-**	**89,292**	**89,292**	**(20,626)**

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Table 6: Past Due and Impaired Loans, Advances and Financing by Sectorial Analysis (Continued)

The Group and The Bank	< --------------------- Expected Credit Losses (ECL) --------------------- >				
As at 31 December 2020	**12 Month ECL Stage 1**	**Lifetime ECL non Credit Impaired Stage 2**	**Lifetime ECL Credit Impaired Stage 3**	**Total**	**Written-off**
By Sector	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Primary Agriculture	195	-	-	**195**	-
Mining and Quarrying	-	-	2,369	**2,369**	-
Manufacturing (including Agro-based)	-	3,467	7,369	**10,836**	-
Construction	423	-	-	**423**	-
Wholesale, Retail Trade, Restaurants and Hotels	748	-	-	**748**	-
Transport, Storage and Communication	47	4,676	174	**4,897**	-
Finance, Insurance and Business Activities	39	-	-	**39**	-
Real Estate	231	7	11,140	**11,378**	-
Education, Health and Others	2	-	-	**2**	(20,626)
Household	96	-	-	**96**	-
Total	**1,781**	**8,150**	**21,052**	**30,983**	**(20,626)**

Table 6: Past Due and Impaired Loans, Advances and Financing by Sectorial Analysis (Continued)

The Group and The Bank As at 31 December 2019	< ------------------------ Gross Carrying Amount			------------------------ >	
	Past Due But Not Credit-impaired		Impaired		
	12 Month ECL Stage 1	Lifetime ECL non Credit Impaired Stage 2	Lifetime ECL Credit Impaired Stage 3	Total	Written-off
By Sector	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Mining and Quarrying	-	-	2,581	**2,581**	-
Manufacturing (including Agro-based)	-	-	14,952	**14,952**	-
Construction	-	-	36,545	**36,545**	-
Wholesale, Retail Trade, Restaurants and Hotels	-	-	-	**-**	(94)
Transport, Storage and Communication	-	-	9,958	**9,958**	-
Real Estate	-	-	14,119	**14,119**	-
Education, Health and Others	-	-	20,626	**20,626**	-
Household	-	-	1	**1**	(1)
Total	**-**	**-**	**98,782**	**98,782**	**(95)**

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Table 6: Past Due and Impaired Loans, Advances and Financing by Sectorial Analysis (Continued)

The Group and The Bank	< --------------------- Expected Credit Losses (ECL)		--------------------- >		
As at 31 December 2019	12 Month ECL Stage 1	Lifetime ECL non Credit Impaired Stage 2	Lifetime ECL Credit Impaired Stage 3	Total	Written-off
By Sector	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Primary Agriculture	175	-	-	**175**	-
Mining and Quarrying	-	-	1,530	**1,530**	-
Manufacturing (including Agro-based)	255	676	43	**974**	-
Construction	230	-	-	**230**	-
Wholesale, Retail Trade, Restaurants and Hotels	49	-	-	**49**	(94)
Transport, Storage and Communication	686	-	174	**860**	-
Finance, Insurance and Business Activities	18	-	-	**18**	-
Real Estate	555	-	20	**575**	-
Education, Health and Others	-	-	13,059	**13,059**	-
Household	39	-	1	**40**	(1)
Total	**2,007**	**676**	**14,827**	**17,510**	**(95)**

(ii) The geographic analysis of past due and impaired loans, advances and financing and the expected credit loss by geographical distribution can be analysed as follows:

Table 7: Past Due And Impaired Loans, Advances And Financing By Geographic Distribution

Past Due And Impaired Loans, Advances And Financing

The Group and The Bank	< ---- Gross Carrying Amount			---- >	
	Past Due But Not Credit-impaired		Impaired		
As at 31 December 2020	12 Month ECL Stage 1	Lifetime ECL non Credit Impaired Stage 2	Lifetime ECL Credit Impaired Stage 3	Total	Written-off
By Geographic Distribution	RM'000	RM'000	RM'000	RM'000	
Malaysia	-	-	89,292	**89,292**	(20,626)
Other Countries	-	-	-	**-**	-
Total	**-**	**-**	**89,292**	**89,292**	**(20,626)**

The Group and The Bank	< ---- Expected Credit Losses (ECL)			---- >	
As at 31 December 2020	12 Month ECL Stage 1	Lifetime ECL non Credit Impaired Stage 2	Lifetime ECL Credit Impaired Stage 3	Total	Written-off
By Geographical Distribution	RM'000	RM'000	RM'000	RM'000	
Malaysia	1,781	8,150	21,052	**30,983**	(20,626)
Other Countries	-	-	-	**-**	-
Total	**1,781**	**8,150**	**21,052**	**30,983**	**(20,626)**

Table 7: Past Due And Impaired Loans, Advances And Financing By Geographic Distribution (Continued)

Past Due And Impaired Loans, Advances And Financing

	< ------------------------------ Gross Carrying Amount			------------------------------ >	
	Past Due But Not Credit-impaired		Impaired		
The Group and The Bank		**Lifetime ECL non**	**Lifetime ECL**		
	12 Month ECL	**Credit Impaired**	**Credit Impaired**		
As at 31 December 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Written-off**
By Geographic Distribution	**RM'000**	**RM'000**	**RM'000**	**RM'000**	
Malaysia	-	-	98,782	**98,782**	(95)
Other Countries	-	-	-	**-**	-
Total	**-**	**-**	**98,782**	**98,782**	**(95)**

	< -------------------------- Expected Credit Losses (ECL)			-------------------------- >	
The Group and The Bank		**Lifetime ECL non**	**Lifetime ECL**		
	12 Month ECL	**Credit Impaired**	**Credit Impaired**		
As at 31 December 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Written-off**
By Geographical Distribution	**RM'000**	**RM'000**	**RM'000**	**RM'000**	
Malaysia	2,007	676	14,827	**17,510**	(95)
Other Countries	-	-	-	**-**	-
Total	**2,007**	**676**	**14,827**	**17,510**	**(95)**

(iii) The table below depicts the movement of expected credit losses:

Table 8: Movement in expected credit loss for Loans, Advances & Financing

The Group and the Bank	Total	12 months ECL Stage 1	Lifetime ECL non Credit Impaired Stage 2	Lifetime ECL Credit Impaired Stage 3
	31.12.2020 RM'000	31.12.2020 RM'000	31.12.2020 RM'000	31.12.2020 RM'000
Expected credit loss				
At beginning of the financial year	**17,510**	2,007	676	14,827
Total transfer between stages	**-**	116	1,035	(1,151)
Loans/Financing derecognised during the financial year (other than write-offs)	**(319)**	(143)	(27)	(149)
New loans/financing originated or purchased	**43**	43	-	-
Changes due to change in credit risk	**34,514**	(321)	6,684	28,151
Changes in models/risk parameters	**47**	47	-	-
Write-off	**(20,626)**	-	-	(20,626)
Other adjustments:				
- Foreign exchange and other adjustments	**(186)**	32	(218)	-
At the end of the financial year	**30,983**	**1,781**	**8,150**	**21,052**

The Group and the Bank	Total	12 months ECL Stage 1	Lifetime ECL non Credit Impaired Stage 2	Lifetime ECL Credit Impaired Stage 3
	31.12.2019 RM'000	31.12.2019 RM'000	31.12.2019 RM'000	31.12.2019 RM'000
Expected credit loss				
At beginning of the financial year	**9,861**	4,065	223	5,573
Total transfer between stages	**-**	(292)	55	237
Loans/Financing derecognised during the financial year (other than write-offs)	**(316)**	(316)	-	-
New loans/financing originated or purchased	**92**	92	-	-
Changes due to change in credit risk	**7,883**	(1,624)	395	9,112
Changes in models/risk parameters	**93**	90	3	-
Write-off	**(95)**	-	-	(95)
Other adjustments:				
- Foreign exchange and other adjustments	**(8)**	(8)	-	-
At the end of the financial year	**17,510**	**2,007**	**676**	**14,827**

4.3 Credit Risk Assessment Under Standardised Approach

In the assessment of credit risk under the Standardised Approach, the Bank is guided by BNM's pre-determined risk weights for certain classes of exposure that uses external ratings issued by an ECAI recognised by BNM.

The ECAIs recognised by BNM are as follows:

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

The ratings of the above ECAIs are used in the credit risk assessment for the following classes of exposure:

- Sovereigns and Central Banks
- Banking Institutions
- Corporates
- Insurance Companies, Securities Firms and Fund Managers

If more than one rating is available for a specific exposure, the selection criteria as set out under the Single and Multiple Assessment in BNM RWCAF is applied in determining the relevant risk weight for the capital calculation. An exposure cannot be assigned with a risk weight that is lower than that of the sovereign risk of the country in which the asset is located. Where a rating is not available, the Bank follows the provisions stipulated under BNM RWCAF and deems the exposure as unrated.

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4.3 Credit Risk Assessment Under Standardised Approach

(i) Credit Exposure By Risk Weights

The following table depicts the credit risk exposure of the Bank by risk weight:

Table 9: Credit Risk Exposure by Risk Weight

Exposure after netting and credit risk mitigation

The Group As at 31 December 2020	Sovereign / Central Banks	Banks, DFIs & MDBs	Insurance Companies, Securities Firms & Fund Manager	Corporates	Regulatory Retail	Other Assets	Default (On Balance Sheet)	OTC Derivatives	Non-OTC Derivatives	Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
Risk Weights	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
0%	3,520,204	-	-	-	-	37	-	-	-	3,520,241	-
20%	1,771	995,084	-	358,841	-	-	-	283,206	-	1,638,902	327,780
50%	-	10,580	-	55,466	-	-	2,078	3,700	-	71,824	35,912
75%	-	-	-	-	5,771	-	-	-	6	5,777	4,333
100%	1,721	2,494	5,232	812,867	-	384,752	-	103,030	38,167	1,348,263	1,348,263
150%	-	-	-	-	-	-	68,240	-	-	68,240	102,360
Total	**3,523,696**	**1,008,158**	**5,232**	**1,227,174**	**5,771**	**384,789**	**70,318**	**389,936**	**38,173**	**6,653,247**	**1,818,648**
Deduction from total capital	-	-	-	-	-	4,108	-	-	-	4,108	-
Average risk weight											**27%**

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Table 9: Credit Risk Exposure by Risk Weight (Continued)

Exposure after netting and credit risk mitigation

The Bank As at 31 December 2020	Sovereign / Central Banks	Banks, DFIs & MDBs	Insurance Companies, Securities Firms & Fund Manager	Corporates	Regulatory Retail	Other Assets	Default (On Balance Sheet)	OTC Derivatives	Non-OTC Derivatives	Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
Risk Weights	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
0%	3,520,204	-	-	-	-	34	-	-	-	3,520,238	-
20%	-	540,258	-	352,974	-	-	-	283,206	-	1,176,438	235,288
50%	-	347	-	41,115	-	-	2,078	3,700	-	47,240	23,620
75%	-	-	-	-	5,771	-	-	-	6	5,777	4,333
100%	-	-	5,232	685,754	-	89,605	-	103,030	38,167	921,788	921,788
150%	-	-	-	-	-	-	68,240	-	-	68,240	102,360
Total	**3,520,204**	**540,605**	**5,232**	**1,079,843**	**5,771**	**89,639**	**70,318**	**389,936**	**38,173**	**5,739,721**	**1,287,389**
Deduction from total capital	-	-	-	-	-	133,184	-	-	-	133,184	-
Average risk weight											**22%**

Table 9: Credit Risk Exposure by Risk Weight (Continued)

Exposure after netting and credit risk mitigation

The Group As at 31 December 2019 Risk Weights	Sovereign / Central Banks RM'000	Banks, DFIs & MDBs RM'000	Insurance Companies, Securities Firms & Fund Manager RM'000	Corporates RM'000	Regulatory Retail RM'000	Other Assets RM'000	Default (On Balance Sheet) RM'000	OTC Derivatives RM'000	Non-OTC Derivatives RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
0%	3,649,110	-	-	-	-	38	-	-	-	3,649,148	-
20%	21,297	819,803	-	960,496	-	-	-	147,347	-	1,948,943	389,789
50%	-	2,989	-	111,472	-	-	12,837	5,575	-	132,873	66,437
75%	-	-	-	-	6,054	-	-	-	30	6,084	4,563
100%	-	1,683	307	1,037,474	-	362,270	-	55,227	37,569	1,494,530	1,494,530
150%	-	-	-	-	-	-	75,338	-	-	75,338	113,007
Total	**3,670,407**	**824,475**	**307**	**2,109,442**	**6,054**	**362,308**	**88,175**	**208,149**	**37,599**	**7,306,916**	**2,068,326**
Deduction from total capital	-	-	-	-	-	3,594	-	-	-	3,594	-
Average risk weight											**28%**

Table 9: Credit Risk Exposure by Risk Weight (Continued)

Exposure after netting and credit risk mitigation

The Bank As at 31 December 2019	Sovereign / Central Banks	Banks, DFIs & MDBs	Insurance Companies, Securities Firms & Fund Manager	Corporates	Regulatory Retail	Other Assets	Default (On Balance Sheet)	OTC Derivatives	Non-OTC Derivatives	Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
Risk Weights	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
0%	3,649,110	-	-	-	-	35	-	-	-	3,649,145	-
20%	21,297	334,712	-	959,483	-	-	-	147,347	-	1,462,839	292,568
50%	-	-	-	99,541	-	-	12,837	5,575	-	117,953	58,976
75%	-	-	-	-	6,054	-	-	-	30	6,084	4,563
100%	-	-	307	952,903	-	82,265	-	55,227	37,569	1,128,271	1,128,271
150%	-	-	-	-	-	-	75,338	-	-	75,338	113,007
Total	**3,670,407**	**334,712**	**307**	**2,011,927**	**6,054**	**82,300**	**88,175**	**208,149**	**37,599**	**6,439,630**	**1,597,385**
Deduction from total capital	-	-	-	-	-	131,384	-	-	-	131,384	-
Average risk weight											**25%**

(ii) Credit Exposure By Risk Weight (Long Term Rating)

The following is a summary of the prescribed rules governing the Standardised Approach for rated, unrated and preferential / special risk weight of the exposures.

Table 10A: Long Term Credit Rating Category by ECAIs under Standardised Approach

Rating Category	External Credit Assessment Institutions (ECAIs)					
	S&P	**Moody's**	**Fitch**	**R&I**	**RAM**	**MARC**
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA-	AAA to AA3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-	BBB1 to BBB3	BBB+ to BBB-
4	BB+ to B-	Ba1 to B3	BB+ to B-	BB+ to B-	BB1 to B3	BB+ to B-
5	CCC+ to D	Caa1 to C	CCC+ to D	CCC+ to C	C1 to D	C+ to D
Unrated	Unrated					

Table 10B: Long term Credit Rating Risk Weight Category by ECAIs under Standardised Approach for Banking Institution, Corporate and Sovereign & Central Bank

Rating Category	Risk weights based on Credit Ratings of the Counterparty Exposure Class		
	Banking Institutions	**Corporate**	**Sovereign & Central Bank**
1	20%	20%	0%
2	50%	50%	20%
3	50%	100%	50%
4	100%	150%	100%
5	150%	150%	150%
Unrated	50%	100%	100%

Table 11: Preferential / Special Risk Weight Allocation under Standardised Approach (for Long Term & Short Term)

	Exposure Category	**Risk Weight**
1	Exposures including debts securities issued by or guaranteed by Federal Government of Malaysia and/or BNM denominated and funded in Ringgit Malaysia	0%
2	Cash & Gold	0%
3	Investment in the ABF Malaysia Bond Index Fund	0%
4	Exposure on Bank for International Settlements, International Monetary Fund, European Central Bank & European	0%
5	Exposure to Multilateral Development Banks specified by Basel Committee of Banking Supervision	0%
6	Exposures including debts securities issued by or guaranteed by Federal Government and/or Central Bank denominated and funded in foreign currency	20%
7	Exposure to local Stock Exchange & Clearing House	20%
8	Unit Trust & Property Trust Fund	100%
9	Publicly Traded Equity Investment in Banking Book	100%
10	Equity held for socio-economic purpose	100%
11	Investment in Subsidiaries (other commercial entities)	1250%

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The following table shows rated and unrated exposure to Banking Institution, Corporate and Sovereign and Central Banks using of long term ratings by the ECAIs and Preferential Risk Weight.

Table 12: Gross Credit Risk Exposure (Long Term)

The Group						**Risk Weighted Allocation**									
As at 31 December 2020			**Rated**			**Preferential / Special Risk Weight**					**Unrated**				
Risk Weights	**0%**	**20%**	**50%**	**100%**	**150%**	**0%**	**20%**	**100%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Categories of Exposure														
On and Off Balance-Sheet Exposures														
Sovereign and Central Banks	-	-	-	-	-	3,520,204	1,771	1,721	-	-	-	-	-	**3,523,696**
Banks, DFIs and MDBs	-	1,278,291	14,280	865	-	-	-	-	-	-	-	1,629	-	**1,295,065**
Credit Exposures (using Corporate Risk Weights)														
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	-	-	-	-	-	-	-	15,243	-	**15,243**
Corporates	-	358,842	55,465	21,890	-	-	-	-	-	-	3,738	953,618	-	**1,393,553**
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	607,745	-	-	**607,745**
Other Assets	-	-	-	-	-	37	-	-	-	-	-	384,752	-	**384,789**
Defaulted Exposures	-	-	-	-	-	-	-	-	-	2,078	-	-	68,240	**70,318**
Total	**-**	**1,637,133**	**69,745**	**22,755**	**-**	**3,520,241**	**1,771**	**1,721**	**-**	**2,078**	**611,483**	**1,355,242**	**68,240**	**7,290,409**

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Table 12: Gross Credit Risk Exposure (Long Term) (Continued)

The Bank						**Risk Weighted Allocation**								
As at 31 December 2020	**Rated**					**Preferential / Special Risk Weight**			**Unrated**					
Risk Weights	**0% RM'000**	**20% RM'000**	**50% RM'000**	**100% RM'000**	**150% RM'000**	**0% RM'000**	**20% RM'000**	**100% RM'000**	**20% RM'000**	**50% RM'000**	**75% RM'000**	**100% RM'000**	**150% RM'000**	**Total RM'000**
Categories of Exposure														
On and Off Balance-Sheet Exposures														
Sovereign and Central Banks	-	-	-	-	-	3,520,204	-	-	-	-	-	-	-	**3,520,204**
Banks, DFIs and MDBs	-	823,464	4,047	-	-	-	-	-	-	-	-	-	-	**827,511**
Credit Exposures (using Corporate Risk Weights)														
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	-	-	-	-	-	-	-	15,243	-	**15,243**
Corporates	-	352,974	41,115	-	-	-	-	-	-	-	3,738	848,396	-	**1,246,223**
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	607,745	-	-	**607,745**
Other Assets	-	-	-	-	-	34	-	-	-	-	-	89,605	-	**89,639**
Defaulted Exposures	-	-	-	-	-	-	-	-	-	2,078	-	-	68,240	**70,318**
Total	**-**	**1,176,438**	**45,162**	**-**	**-**	**3,520,238**	**-**	**-**	**-**	**2,078**	**611,483**	**953,244**	**68,240**	**6,376,883**

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Table 12: Gross Credit Risk Exposure (Long Term) (Continued)

The Group						**Risk Weighted Allocation**								
As at 31 December 2019			**Rated**			**Preferential / Special Risk Weight**					**Unrated**			
Risk Weights	**0%**	**20%**	**50%**	**100%**	**150%**	**0%**	**20%**	**100%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Categories of Exposure														
On and Off Balance-Sheet Exposures														
Sovereign and Central Banks	-	21,297	-	-	-	3,649,110	-	-	-	-	-	-	-	**3,670,407**
Banks, DFIs and MDBs	-	967,150	8,564	-	-	-	-	-	-	-	-	1,683	-	**977,397**
Credit Exposures (using Corporate Risk Weights)														
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	-	-	-	-	-	-	-	4,705	-	**4,705**
Corporates	-	960,497	111,471	11,116	-	-	-	-	-	-	-	1,142,078	-	**2,225,162**
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	509,570	-	-	**509,570**
Other Assets	-	-	-	-	-	35	-	-	-	-	-	362,273	-	**362,308**
Defaulted Exposures	-	-	-	-	-	-	-	-	-	12,837	-	-	75,338	**88,175**
Total	**-**	**1,948,944**	**120,035**	**11,116**	**-**	**3,649,145**	**-**	**-**	**-**	**12,837**	**509,570**	**1,510,739**	**75,338**	**7,837,724**

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Table 12: Gross Credit Risk Exposure (Long Term) (Continued)

The Bank						**Risk Weighted Allocation**								
As at 31 December 2019	**Rated**					**Preferential / Special Risk Weight**			**Unrated**					
Risk Weights	**0% RM'000**	**20% RM'000**	**50% RM'000**	**100% RM'000**	**150% RM'000**	**0% RM'000**	**20% RM'000**	**100% RM'000**	**20% RM'000**	**50% RM'000**	**75% RM'000**	**100% RM'000**	**150% RM'000**	**Total RM'000**
Categories of Exposure														
On and Off Balance-Sheet Exposures														
Sovereign and Central Banks	-	21,297	-	-	-	3,649,110	-	-	-	-	-	-	-	**3,670,407**
Banks, DFIs and MDBs	-	482,059	5,575	-	-	-	-	-	-	-	-	-	-	**487,634**
Credit Exposures (using Corporate Risk Weights)														
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	-	-	-	-	-	-	-	4,705	-	**4,705**
Corporates	-	959,483	99,541	-	-	-	-	-	-	-	-	1,068,624	-	**2,127,648**
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	509,570	-	-	**509,570**
Other Assets	-	-	-	-	-	35	-	-	-	-	-	82,265	-	**82,300**
Defaulted Exposures	-	-	-	-	-	-	-	-	-	12,837	-	-	75,338	**88,175**
Total	**-**	**1,462,839**	**105,116**	**-**	**-**	**3,649,145**	**-**	**-**	**-**	**12,837**	**509,570**	**1,155,594**	**75,338**	**6,970,439**

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(iii) Credit Exposure By Risk Weight (Short Term Rating)

The following is summary of the prescribed rules governing the Standardised Approach for rated, unrated and preferential risk weight of the exposures.

Table 13: Short term Credit Rating Category by ECAIs under Standardised Approach

	External Credit Assessment Institutions (ECAIs)					
Rating Category	**S&P**	**Moody's**	**Fitch**	**R&I**	**RAM**	**MARC**
1	A-1	P-1	F1+. F1	a-1+, a-1	P-1	MARC-1
2	A-2	P-2	F2	a-2	P-2	MARC-2
3	A-3	P-3	F3	a-3	P-3	MARC-3
4	Others	Others	B to D	b, c	NP	MARC-4

Table 14: Short term Credit Rating Risk Weight Category by ECAIs under Standardised Approach for Banking Institution and Corporate

	Risk weights based on Credit Ratings of the Counterparty Exposure Class	
Rating Category	**Banking Institutions**	**Corporate**
1	20%	20%
2	50%	50%
3	100%	100%
4	150%	150%

The following table shows rated and unrated exposure to Banking Institution, Corporate and Sovereign and Central Banks using of short term ratings by the external credit assessment institutions (ECAIs) and Preferential Risk Weight / Special Risk Weight.

Table 15: Rated and Unrated Gross Credit Risk Exposure (Short Term Rating)

The Group and the Bank	Risk Weighted Allocation										
As at 31 December 2020	Rated					Preferential / Special Risk Weight			Unrated		
Risk Weights	**0%**	**20%**	**50%**	**100%**	**150%**	**0%**	**20%**	**100%**	**50%**	**100%**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Categories of Exposure											
On and Off Balance-Sheet Exposures											
Sovereign and Central Banks	-	-	-	-	-	-	-	-	-	-	-
Banks, DFIs and MDBs	-	-	-	-	-	-	-	-	-	-	-
Credit Exposures (using Corporate Risk Weights)											-
Insurance Companies, Securities Firms & Fund											-
Managers	-	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-	-	-	-
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	-
Defaulted Exposures	-	-	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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Table 15: Rated and Unrated Gross Credit Risk Exposure (Short Term Rating) (Continued)

The Group and the Bank	**Risk Weighted Allocation**										
As at 31 December 2019	**Rated**					**Preferential / Special Risk Weight**			**Unrated**		
Risk Weights	**0%**	**20%**	**50%**	**100%**	**150%**	**0%**	**20%**	**100%**	**50%**	**100%**	**Total**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Categories of Exposure											
<u>On and Off Balance-Sheet Exposures</u>											
Sovereign and Central Banks	-	-	-	-	-	-	-	-	-	-	-
Banks, DFIs and MDBs	-	-	-	-	-	-	-	-	-	-	-
<u>Credit Exposures (using Corporate Risk Weights)</u>											-
Insurance Companies, Securities Firms & Fund											-
Managers	-	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-	-	-	-
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	-
Defaulted Exposures	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-

4.4 Credit Risk Mitigation Techniques Under Standardised Approach

The Bank uses a variety of techniques to mitigate credit risk, one of which is to evaluate and assess the creditworthiness and ability of a customer to service the debt facility without distress.

The Bank commonly obtains securities as collateral for loan and stockbroking trading portfolio. The Bank ensures that the collateral held is sufficiently liquid, legally effective, enforceable and regularly valued.

The Bank proactively manages its credit exposures and when weaknesses in exposures are detected either in individual exposures or in groups of exposures, prompt action is taken to mitigate the risks. These include steps to manage the exposure through discussion with the customers, borrowers, dealers' representatives or other relevant counterparties.

The Bank also uses legal agreements to reduce credit risk, including netting agreements which permits it to offset positive and negative balances with the same counterparties to minimise the exposure, financial guarantees and use of covenants in loan agreements.

Credit risk mitigation to address risk concentration takes several dimension, in which limits are set and monitored for individual and group counterparty level:

- Limits are set against all types of exposure to a counterparty name, in accordance with an agreed methodology for each exposure type, i.e. on and off-balance sheet exposures. This includes credit risk exposure on individual derivative transactions, which incorporates potential future exposures from market movements.

- Aggregate facility levels by counterparty are set and monitored in accordance to regulatory requirement. Any limit breaches are subject to escalation procedures.

- Credit risk management includes control and review on sector exposures (for corporate loans and debt securities) to reflect the Bank’s risk appetite and managing exposures to high risk and more vulnerable sectors and unfavourable rated debt securities. Exposures are monitored to prevent excessive concentration of risk.

- The Bank has limited exposure to external country risks as most of its exposures are concentrated in Malaysia.

Collateral

The Bank maintains guidelines on the acceptability of specific classes of collateral. The principal collateral types for loans and stockbroking trading accounts are:

- cash or deposits;
- debt securities and equities; and
- land or properties.

To mitigate credit risk while dealing in derivative products, the Bank makes use of margining arrangements under International Swap and Derivative Association (“ISDA”) agreements, in which both counterparties are required to post collateral in the form of cash or liquid securities permitted under the agreements with applicable haircut as appropriate to cover outstanding trading positions if margining thresholds stated under Credit Support Annex (“CSA”) of the ISDA Agreement are breached.

4.4 Credit Risk Mitigation Techniques Under Standardised Approach (Continued)

It is the Bank's policy that collateral should be valued by an independent qualified source at inception. Collateral is reviewed on a regular basis in accordance with the credit policies applicable for Affin Bank Group, which will vary according to the type of exposures and collateral involved.

Tracking and controls over receipt and withdrawal of collaterals are maintained by a department independent from the business unit. For the collaterals in the form of securities, these are safeguarded by the custodian appointed by the Bank.

In order to minimise the credit loss, the Bank may seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans or when dealers' representatives have deficit cash collateral due to the deduction of cash collaterals against clients' overdue contra losses and interests under stockbroking trading accounts.

Guarantees

A guarantee is a legally binding contractual commitment made to the Bank that ensures that the guarantor is legally responsible to meet the obligations of a borrower in the event the borrower fails to pay.

The following table depicts the Bank's exposures covered by guarantees and collaterals:

Table 16: Exposures Covered by Credit Risk Mitigation

The Group **As at 31 December 2020**	**Exposures before CRM** **RM'000**	**Exposures Covered by Guarantees** **RM'000**	**Exposures Covered by Eligible Financial Collateral** **RM'000**	**Exposures Covered by Other Eligible Collateral** **RM'000**
Exposure Class				
<u>On-Balance Sheet Exposures</u>				
Sovereigns/Central Banks	3,523,696	-	-	-
Banks, DFIs and MDBs	1,008,159	-	-	-
Insurance Companies, Securities Firms & Fund Managers	5,232	-	-	-
Corporates	1,262,367	-	35,194	-
Regulatory Retail	607,739	-	601,968	-
Other assets	384,789	-	-	-
Defaulted exposures	70,318	-	-	-
Total On-Balance Sheet Exposures	**6,862,300**	**-**	**637,162**	**-**
<u>Off-Balance Sheet Exposures</u>				
OTC Derivatives	389,936	-	-	-
Non-OTC Derivatives	38,173	-	-	-
Total Off-Balance Sheet Exposures	**428,109**	**-**	**-**	**-**
Total Gross Credit Exposures	**7,290,409**	**-**	**637,162**	**-**

The Bank **As at 31 December 2020**	**Exposures before CRM** **RM'000**	**Exposures Covered by Guarantees** **RM'000**	**Exposures Covered by Eligible Financial Collateral** **RM'000**	**Exposures Covered by Other Eligible Collateral** **RM'000**
Exposure Class				
<u>On-Balance Sheet Exposures</u>				
Sovereigns/Central Banks	3,520,204	-	-	-
Banks, DFIs and MDBs	540,605	-	-	-
Insurance Companies, Securities Firms & Fund Managers	5,232	-	-	-
Corporates	1,115,037	-	35,194	-
Regulatory Retail	607,739	-	601,968	-
Other assets	89,639	-	-	-
Defaulted exposures	70,318	-	-	-
Total On-Balance Sheet Exposures	**5,948,774**	**-**	**637,162**	**-**
<u>Off-Balance Sheet Exposures</u>				
OTC Derivatives	389,936	-	-	-
Non-OTC Derivatives	38,173	-	-	-
Total Off-Balance Sheet Exposures	**428,109**	**-**	**-**	**-**
Total Gross Credit Exposures	**6,376,883**	**-**	**637,162**	**-**

Table 16: Exposures Covered by Credit Risk Mitigation (Continued)

The Group **As at 31 December 2019**	**Exposures before CRM** **RM'000**	**Exposures Covered by Guarantees** **RM'000**	**Exposures Covered by Eligible Financial Collateral** **RM'000**	**Exposures Covered by Other Eligible Collateral** **RM'000**
Exposure Class				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	3,670,407	-	-	-
Banks, DFIs and MDBs	824,475	-	-	-
Insurance Companies, Securities Firms & Fund Managers	307	-	-	-
Corporates	2,136,764	-	27,322	-
Regulatory Retail	509,540	-	503,486	-
Other assets	362,308	-	-	-
Defaulted exposures	88,175	-	-	-
Total On-Balance Sheet Exposures	**7,591,976**	**-**	**530,808**	**-**
Off-Balance Sheet Exposures				
OTC Derivatives	208,149	-	-	-
Non-OTC Derivatives	37,599	-	-	-
Total Off-Balance Sheet Exposures	**245,748**	**-**	**-**	**-**
Total Gross Credit Exposures	**7,837,724**	**-**	**530,808**	**-**

The Bank **As at 31 December 2019**	**Exposures before CRM** **RM'000**	**Exposures Covered by Guarantees** **RM'000**	**Exposures Covered by Eligible Financial Collateral** **RM'000**	**Exposures Covered by Other Eligible Collateral** **RM'000**
Exposure Class				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	3,670,407	-	-	-
Banks, DFIs and MDBs	334,712	-	-	-
Insurance Companies, Securities Firms & Fund Managers	307	-	-	-
Corporates	2,039,250	-	27,322	-
Regulatory Retail	509,540	-	503,486	-
Other assets	82,300	-	-	-
Defaulted exposures	88,175	-	-	-
Total On-Balance Sheet Exposures	**6,724,691**	**-**	**530,808**	**-**
Off-Balance Sheet Exposures				
OTC Derivatives	208,149	-	-	-
Non-OTC Derivatives	37,599	-	-	-
Total Off-Balance Sheet Exposures	**245,748**	**-**	**-**	**-**
Total Gross Credit Exposures	**6,970,439**	**-**	**530,808**	**-**

4.5 Off-Balance Sheet Exposure and Counterparty Credit Risk

Counterparty Credit Risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Transactions refer to contracts for financial instruments including derivative contracts and unsettled securities.

Credit risk arising from derivative transaction can be mitigated in several ways, including the use of:

- Collateral, which may be liquidated and satisfy the counterparty's obligations to the Bank upon closeout.
- Netting, which gives the Bank the right to close out and net all transactions under market standard master netting agreements such as the ISDA Master Agreement and CSA;

The above risk mitigation techniques are employed where possible and are explained as below:

Collateral

The Bank will negotiate for CSA under ISDA Master Agreement with selected counterparties on a case-by-case basis, where collateral is deemed necessary mitigator to the risk exposure. The terms of the CSA specified in each legal document are required to be approved by Compliance, Legal and Corporate Services Department. The nature of the collateral will be specified in the legal document and can be cash or selected government securities. Any non-cash collateral taken will be subject to a 'haircut' which is negotiated at time of signing of the collateral agreement and this will be largely based on liquidity and price volatility of the underlying collateral security.

A daily operational process takes place to calculate the mark-to-market on all trades and collateral captured under the CSA. Additional collateral will be called from the counterparty if total uncollateralised marked-to-market exposure exceeds the threshold and minimum transfer amount specified in the CSA. Additional collateral may be required from the counterparty to provide an extra buffer to the daily variation margin process.

4.5 Off-Balance Sheet Exposure and Counterparty Credit Risk (Continued)

Bilateral Netting Agreement

The Bank further reduces its credit exposures to counterparty by entering into contractual netting agreement which creates a single legal obligation, covering all transactions that the Bank could have either a claim to receive or obligation to pay only the net sum of the positive (amounts owed by the counterparty) and negative (amounts owed by the Bank) mark-to-market values of all transactions including individuals in the event a counterparty fails to perform due to default, bankruptcy, liquidation or similar circumstances.

ISDA Master Agreement is the Bank's preferred agreement as it encompasses the largest number of products and thus provides the greatest cross-product netting benefits.

Credit Equivalent Limits

All credit exposures are approved either by approval of an individual facility (e.g. loan) or under a system of credit limits (e.g. derivatives, securities, stockbroking trading exposures). Credit exposure is monitored daily to ensure it does not exceed the approved credit limit. These credit limits are set either on notional exposure or pre-settlement credit exposure basis (e.g. for derivatives). Credit Equivalent Limit is an estimate of the potential exposure in the event that the counterparty default prior to settlement of the contract.

Collateral Requirement in the Event Of a Downgrade in Credit Ratings

A significant increase in the level of collateral would be required in the event of a credit ratings downgrade of the counterparties as allowable in the collateral agreements.

PILLAR 3 DISCLOSURES

4.5 Off-Balance Sheet Exposure and Counterparty Credit Risk

The following table depicts disclosure of off-balance sheet and counterparty credit risk:

Table 17: Off-Balance Sheet and Counterparty Credit Risk

The Group As at 31 December 2020	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
Description	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Transaction related contingent Items	86,606	-	30,328	30,328
Foreign exchange related contracts				
One year or less	7,827,363	96,757	202,934	96,521
Over one year to five years	812,309	12,585	77,673	42,025
Over five years	-	-	-	-
Interest rate related contracts				
One year or less	390,000	930	1,665	333
Over one year to five years	2,550,000	50,064	107,664	22,643
Over five years	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	5,569	-	2,752	2,752
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	25,464	-	5,093	5,091
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 borrower's creditworthiness	783,018	-	-	-
Total	**12,480,329**	**160,336**	**428,109**	**199,693**

PILLAR 3 DISCLOSURES

Table 17: Off-Balance Sheet and Counterparty Credit Risk

The Bank As at 31 December 2020 Description	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Transaction related contingent Items	86,606	-	30,328	30,328
Foreign exchange related contracts				
One year or less	7,827,363	94,329	202,934	96,521
Over one year to five years	812,309	12,585	77,673	42,025
Over five years	-	-	-	-
Interest rate related contracts				
One year or less	390,000	930	1,665	333
Over one year to five years	2,550,000	50,064	107,664	22,643
Over five years	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	5,569	-	2,752	2,752
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	25,464	-	5,093	5,091
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 borrower's creditworthiness	783,018	-	-	-
Total	**12,480,329**	**157,908**	**428,109**	**199,693**

Affin Hwang Investment Bank Berhad

(Incorporated in Malaysia)

PILLAR 3 DISCLOSURES

Table 17: Off-Balance Sheet and Counterparty Credit Risk (Continued)

The Group **As at 31 December 2019** **Description**	**Principal Amount** **RM'000**	**Positive Fair Value of Derivative Contracts** **RM'000**	**Credit Equivalent Amount** **RM'000**	**Risk Weighted Assets** **RM'000**
Transaction related contingent Items	91,106	-	33,178	33,178
Foreign exchange related contracts				
One year or less	3,407,478	24,556	73,505	35,208
Over one year to five years	720,391	12,686	58,953	35,465
Over five years	-	-	-	-
Interest rate related contracts				
One year or less	850,000	565	1,915	495
Over one year to five years	2,230,000	13,719	71,219	15,804
Over five years	30,000	1,057	2,557	511
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	3,361	-	1,677	1,677
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	13,721	-	2,744	2,737
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 borrower's creditworthiness	507,889	-	-	-
Total	**7,853,946**	**52,583**	**245,748**	**125,075**

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(Incorporated in Malaysia)

PILLAR 3 DISCLOSURES

Table 17: Off-Balance Sheet and Counterparty Credit Risk

The Bank **As at 31 December 2019** **Description**	**Principal Amount RM'000**	**Positive Fair Value of Derivative Contracts RM'000**	**Credit Equivalent Amount RM'000**	**Risk Weighted Assets RM'000**
Transaction related contingent Items	91,106	-	33,178	33,178
Foreign exchange related contracts				
One year or less	3,407,478	23,558	73,505	35,208
Over one year to five years	720,391	12,686	58,953	35,465
Over five years	-	-	-	-
Interest rate related contracts				
One year or less	850,000	565	1,915	495
Over one year to five years	2,230,000	13,719	71,219	15,804
Over five years	30,000	1,057	2,557	511
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	3,361	-	1,677	1,677
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	13,721	-	2,744	2,737
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 borrower's creditworthiness	507,889	-	-	-
Total	**7,853,946**	**51,585**	**245,748**	**125,075**

5 SECURITISATION

The Group and the Bank currently do not have any securitisation activities.

6 MARKET RISK

Market risk is the risk of losses to the Bank’s positions in financial instruments that are adversely affected by movements in market risk factors such as interest rates, foreign exchange rates, equity prices or commodity prices. The Bank's primary market risk exposures are in the trading and investment portfolios. The Bank’s risk management process involves the identification and measurement, mitigation and control, monitoring and testing as well as reporting and review of risk.

Risk Governance

The Bank manages market risk through a comprehensive set of market risk controls. Key risk governance committees such as the ALCO and the BRMC establish and monitor controls with oversight by the Board of Directors. Market risk controls are established to ensure that the Bank's market risk profile remains within the boundaries of the Bank's risk appetite.

Policies and Approaches

The market risk policy of the Bank establishes the base standards on management of market and liquidity risks within the Bank. Together with the Bank’s other existing policies, detailed guidelines/ methodologies in managing market and liquidity risks are laid down to cover the following areas:

- Market risk management principles;
- Market risk measurement methodologies;
- Trading and banking book classification;
- Valuation methodology;
- Market risk limit structure and management;
- Stress testing approach; and
- Internal controls and standards on validation of valuation models and market risk models

The principal measurement methodology used by the Bank to measure and control market risk exposures arising from the trading book portfolio is Value-at-Risk (“VaR”). VaR is a statistical measure of potential portfolio market value loss resulting from changes in market variables such as foreign exchange rates and interest rates, over a given holding period, measured at a specific confidence level. The Bank uses a variance-covariance method based on a 1-day holding period and a 99% confidence interval as its market risk VaR methodology. The VaR model is back-tested regularly to validate its robustness.

In addition, the Bank also uses other market risk controls, such as stop loss control, which sets a threshold on the net cumulative loss of the trading book over a defined period of time; and present value basis point, an interest rate sensitivity tool.

Stress testing complements the VaR framework in measuring market risks. Specifically, stress tests are conducted to attempt to quantify potential market risk losses arising from low probability abnormal market movements. Stress tests measure the changes in values arising from movements in relevant market risk factors based on past experience and simulated stress scenarios. For more detailed information, please see Stress Testing as discussed in Section 3 of this report.

Risk Reporting and Monitoring

RMD is responsible in the monitoring and tracking of market risk limits based on the frequencies as set out in the Bank's relevant risk policies. Any limit excesses are reported in accordance with the exception escalation procedures, which may be followed by the appropriate remedial processes, if necessary.

The Bank also sets trigger limits in alerting any potential limit breaches and unusual movements of certain indicators to prompt early investigative action and escalation process. This is part of the daily trading disciplines on the trading book activities. Review of the market risk limits is conducted annually.

Market risk reports are submitted on periodical basis to ALCO and BRMC in order to facilitate their effective oversight of market risk management activities through evaluation of the nature, level and trend of market risk undertaken by the Bank.

Regulatory Capital Treatment

The Bank is adopting the Standardised Approach in calculating market risk RWA. Market risk is measured for interest rate and equity risks pertaining to financial instruments in the trading book and foreign exchange risk in both the trading and banking books, as well as options risk arising from underwriting activities; as defined under BNM RWCAF for regulatory capital computation purpose.

7 OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, action on or by people, infrastructure or technology or events which are beyond the Bank's immediate control which have an operational impact, including natural disasters, fraudulent activities and cyber threats.

The Bank manages operational risk through a control based environment in which policies and procedures are formulated after taking into account individual unit's business activities, the market in which they are operating and the regulatory requirements in force.

Risk Governance

The process is facililtated by RMD and a Risk Control Self Assessment ("RCSA") process has been implemented to enable management to identify and assess the risks under their areas of supervision and control on a continual basis. This serves as a trigger point to determine Key Risk Indicators ("KRIs") for operational risk monitoring purposes.

The Operational Risk Management Unit ("ORMU") plays a centralised function for operational risk management oversight within the RMD and it is independent of any other functions within the Bank. Exception reports are produced on a regular basis, highlighting material operational risk related issues to the Compliance and Risk Oversight Committee ("CROC"), BRMC as well as the Management Committee Meeting - Group Risk And Compliance ("MCM-GRC") for risk monitoring and appropriate level of management decision making. Relevant training relating to Operational Risk areas such as Business Continuity Planning and Management are also provided.

Concerns and breaches, if any, will be escalated to the Group Managing Director, CROC, MCM-GRC, BRMC and the Board. The same will be escalated to the Board committee(s) at the Group level.

Policies and Approaches

Affin Hwang Investment Bank Berhad adopts the Group Operational Risk Management Policy which governs the operational risk management framework and methodology used to ensure that operational risks within the Bank are identified, monitored and managed in a systematic and consistent manner.

Risk Measurement

Operational Risk Measurement Tools

Risk is identified through the use of assessment tools and measured using threshold/limits mapped against a risk matrix. Monitoring and control procedures include the use of key control standards, independent tracking of risk, back-up procedures and contingency plans, including disaster recovery and business continuity plans. This is supported by periodic reviews undertaken by Group Internal Audit to ensure adequacy and effectiveness of the operational risk management process.

Risk Reporting and Monitoring

The Bank gathers, analyses and reports operational risk loss and 'near miss' events to the CROC and BRMC. Appropriate preventive and remedial actions are reviewed for effectiveness and implemented to minimise the recurrence of such events.

As a matter of requirement, all Operational Risk Coordinators must satisfy an Internal Operational Risk (including business continuity management) Certification Program. These coordinators will first go through an on-line self learning exercise before attempting on-line assessments to measure their skills and knowledge level. This will enable Group Risk Management to prescribe appropriate training and development activities for the coordinators.

Regulatory Capital Treatment

The Bank adopts the Basic Indicator Approach in calculating the operational risk RWA as at 31 December 2020.

8 EQUITIES IN THE BANKING BOOK

The Bank's banking book equity investment consists of:

- Investments held for yield and/or long term capital gains; and
- Strategic stakes in entities held as part of growth initiatives and/or in support of business operations.

Investment in equity or Collective Investment Scheme ("CIS") investments are subject to limits which are set based on the Bank's total capital and/or notional limits.

Accounting for Equity or CIS Holdings in the Banking Book

Different equity investment positions have different accounting treatments depending on the nature of the exposures. Where the equity investment is not subject to the significant influence or joint control of the Bank, it is held as a direct investment, which is classified as either fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL") in accordance to MFRS 9.

FVOCI and FVTPL securities are initially stated at fair value except for investments in equity/CIS that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, will be stated at cost. Consistent with the valuation of financial instruments, fair value of equity securities is initially and subsequently determined using, where available, quoted prices in active markets or valuation techniques where quoted prices in active markets are not available.

The Group and the Bank subsequently measure all equity investments at fair value. Where the Group's and the Bank's management have elected to present fair value gains and losses on equity investments in FVOCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's and the Bank's right to receive payments is established.

Changes in the fair value of equity investments at FVTPL are recognised in "net gains and losses on financial instruments" in the income statement.

The following table depicts the fair value and risk weighted assets of and gains and losses on equity/ CIS investments under banking book:

Table 18: Equities under Banking Book

The Group **As at 31 December 2020** **Type of Equity Investments**	**Fair Value** **RM'000**	**Risk Weighted Assets** **RM'000**
Publicly traded	70,752	70,752
Privately held	254,697	254,697
Total	**325,449**	**325,449**

	RM'000
Cumulative realised gains/(losses) from sales and liquidations of equity investments	5,892
Total unrealised gains/(losses) in other comprehensive income	3,515

The Bank **As at 31 December 2020** **Type of Equity Investments**	**Fair Value** **RM'000**	**Risk Weighted Assets** **RM'000**
Publicly traded	113	113
Privately held	222,609	222,609
Total	**222,722**	**222,722**

	RM'000
Cumulative realised gains/(losses) from sales and liquidations of equity investments	4,088
Total unrealised gains/(losses) in other comprehensive income	(3,677)

Table 18: Equities under Banking Book (Continued)

The Group **As at 31 December 2019** **Type of Equity Investments**	**Fair Value** **RM'000**	**Risk Weighted Assets** **RM'000**
Publicly traded	37,697	113
Privately held	254,779	254,779
Total	**292,476**	**254,892**

	RM'000
Cumulative realised gains/(losses) from sales and liquidations of equity investments	8,833
Total unrealised gains/(losses) in other comprehensive income	8,149

The Bank **As at 31 December 2019** **Type of Equity Investments**	**Fair Value** **RM'000**	**Risk Weighted Assets** **RM'000**
Publicly traded	113	113
Privately held	223,082	223,082
Total	**223,195**	**223,195**

	RM'000
Cumulative realised gains/(losses) from sales and liquidations of equity investments	6,409
Total unrealised gains/(losses) in other comprehensive income	4,291

9 INTEREST RATE RISK IN THE BANKING BOOK

The Bank is exposed to interest rate risk in banking book (“IRRBB”) arising from differences in the repricing mismatch between rate sensitive assets and liabilities. The Bank measures and monitors the IRRBB exposures through the short-term Net Interest Income ("NII") sensitivity and changes in the Economic Value of Equity ("EVE").

Policies and Approaches

The management of IRRBB is governed under the Asset Liability Management Policy.

The objective of the management of IRRBB is to maintain an acceptable mismatch in interest-sensitive assets, liabilities and derivative financial instruments in the banking book, while achieving a desired level of earnings.

Risk Measurement

In managing IRRBB, both the earnings and economic value approaches are adopted. Interest-sensitive assets, liabilities and derivative financial instruments are grouped into time buckets based on the earlier of remaining period to maturity or next re-pricing; before a parallel interest rate shock is applied to arrive at the sensitivity shocks on earnings and economic value.

The earnings approach focuses on the impact of interest rate movement on the Bank’s near term earnings. The economic value approach provides a more comprehensive view of the impact of interest rate movements on the economic value of the Bank’s overall positions.

Risk Reporting and Monitoring

The impact of interest rate movements quantified using the economic value approach is subject to approved limit and monitored on daily basis. Review of the risk limit is conducted annually.

Impact on earnings and economic value are periodically reported to ALCO and BRMC to facilitate their effective oversight of interest rate risk in banking book. Any non-compliance is subject to a set of escalation procedures.

The following table depicts the sensitivity shocks on earnings and economic value of the Bank's positions in banking book, to a parallel interest rate shock of +/- 100 basis points ("bps"):

Table 19: Sensitivity of the banking book to interest rate changes

	The Group Increase / (Decrease) in RM'000		The Bank Increase / (Decrease) in RM'000	
As at 31 December 2020	**+100 bps**	**-100 bps**	**+100 bps**	**-100 bps**
***Impact on Earnings**				
MYR	(21,603)	21,603	(21,603)	21,603
USD	(921)	921	(930)	930
SGD	(80)	80	(80)	80
Others	-	-	-	-
Total	**(22,604)**	**22,604**	**(22,612)**	**22,612**
~Impact on Economic Value				
MYR	200,406	(200,406)	200,392	(200,392)
USD	2,916	(2,916)	(100)	100
SGD	344	(344)	344	(344)
Others	-	-	-	-
Total	**203,666**	**(203,666)**	**200,637**	**(200,637)**

	The Group Increase / (Decrease) in RM'000		The Bank Increase / (Decrease) in RM'000	
As at 31 December 2019	**+100 bps**	**-100 bps**	**+100 bps**	**-100 bps**
***Impact on Earnings**				
MYR	(26,233)	26,233	(26,233)	26,233
USD	(2,063)	2,063	(2,089)	2,089
SGD	167	(167)	167	(167)
Others	-	-	-	-
Total	**(28,129)**	**28,129**	**(28,155)**	**28,155**
~Impact on Economic Value				
MYR	245,775	(245,775)	245,752	(245,752)
USD	2,874	(2,874)	1,376	(1,376)
SGD	1,728	(1,728)	1,728	(1,728)
Others	-	-	-	-
Total	**250,377**	**(250,377)**	**248,855**	**(248,855)**

** The earnings approach focuses on the impact of interest rate movement on the Bank's near term earnings (within 1 year).*

~ The economic value approach provides a more comprehensive view of the impact of interest rate movement on the economic value of the Bank's overall positions.