HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
(Incorporated in Malaysia)
Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures
at 31 December 2012

CHIEF EXECUTIVE OFFICER'S ATTESTATION

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

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MOHAMED RAFE BIN MOHAMED HANEEF

CHIEF EXECUTIVE OFFICER
20 February 2013

(a) Introduction

HSBC Amanah Malaysia Berhad ('the Bank') is principally engaged in the provision of Islamic banking business and related financial services. As at the reporting date, the Bank doesn't have any subsidiaries.

(b) Basel II

The Bank's lead regulator, Bank Negara Malaysia ('BNM') sets and monitors capital requirements for the Bank. With effect from 2008, the Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Bank adopts the Standardised Approach for Credit and Market Risk in its trading portfolios, whilst the Basic Indicator approach is adopted for Operational Risk.

Basel II is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Pillar 3 aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specific information on the capital management processes, and risk assessment processes, and hence the capital adequacy of the Bank. Disclosures consist of both quantitative and qualitative information and are provided at the consolidated level. Banks are required to disclose all their material risks as part of the Pillar 3 framework. All material and non-proprietary information required by Pillar 3 is included in the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures as at 31 December 2012. BNM permits certain Pillar 3 requirements to be satisfied by inclusion within the financial statements. Where this is the case, references are provided to relevant sections in the Financial Statements as at 31 December 2012.

(c) Transferability of capital and funds

HSBC Bank Malaysia Berhad is the primary provider of equity capital to the Bank. The Bank manages its own capital to support its planned business growth.

(d) Internal assessment of capital adequacy

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

The methods to undertake this assessment is contained in the Bank's Internal Capital Adequacy Assessment Process ('ICAAP'). This process ensures that the Bank's level of capital:

- Remains sufficient to support the Bank's risk profile and outstanding commitments;
- Exceeds the Bank's formal minimum regulatory requirements;
- Is capable of withstanding a severe economic downturn stress scenario; and
- Remains consistent with the Bank's strategic and operational goals, and shareholder and rating agency expectations.

The ICAAP is a comprehensive document designed to evaluate the risk profile, processes for identifying, measuring and controlling risks, capital requirements, capital resources and compliance with standards laid down by BNM. It plays an increasingly crucial role in developing risk-based capital management capabilities, by incorporating different aspects of risk management framework including stress testing and risk appetite.

The ICAAP demonstrates the extent to which capital management is embedded in the Bank. In particular, the ICAAP demonstrates the extent to which the implications of its capital buffers has been considered on a forward-looking basis by providing the analysis that the Bank remains above the minimum Regulatory Capital requirement and established monitoring triggers against the Capital Adequacy Ratio.

Refer to Note 33 of the financial statements at 31 December 2012 for the total risk weighted capital ratio and Tier 1 capital ratio, and risk weighted assets and capital requirements for credit risk, market risk and operational risk.

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

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

Stress Testing
Stress testing and scenario analysis form an integral part of ICAAP to demonstrate that the Bank can maintain risk capital sufficient enough to sustain operations during an economic downturn. Essentially, stress testing is to make risks more transparent by estimating the potential losses on the exposures under the abnormal market or economic conditions. It will also assess specifically the extent by which risk-weighted assets and capital requirements will increase, and how profit and loss as well as liquidity level will change. The results of the analyses will facilitate informed financial and capital management whilst supporting business lines to manage their business through various measures such as establishing triggers and devising mitigation actions which can be readily implemented should the adverse scenarios materialise.

Reverse stress testing is a separate but complementary exercise to scenario stress testing. Reverse stress testing requires assessments of scenarios and circumstances that would render a business model unviable, thereby identifying potential business vulnerabilities. It starts from an outcome of business failures and identifies circumstances under which this might occur. This is different from scenario stress testing which tests for outcomes arising from changes in circumstances.

In line with BNM's Guideline on Stress Testing and the Bank's Policy Paper for Stress Testing, a Stress Test Steering Committee ('STSC') is established. STSC conducts stress testing on a quarterly basis based on the guidelines and methodology endorsed by the Board. Stress tests are performed for different risk types including credit, liquidity,market and operational risk. The analysis makes use of the actual general ledger, profit and loss and risk positions (the base case) to estimate the impact on profits and risk-weighted assets (the gross impact). It also incorporates the impact of management actions to determine whether or not the Bank is able to withstand such an event (the net impact).

Risk Appetite
Risk appetite is a central component of an integrated approach to risk, capital and value management and an important mechanism to realise its strategic vision and corporate strategy. Our risk appetite framework aims to introduce a more explicit and consistent consideration of risk and capital into the Bank's strategy formulation, business planning, execution and measurement/reporting processes so as to achieve the Bank's return on equity ambitions. Risk appetite applies to our planning activities, strategic investments and running of our operations across all regions, functions and global businesses.

The Bank's risk appetite framework provides a structured approach to the management, measurement, and control of risks, by explaining the processes, policies, metrics, governance and other features of how to address risk appetite as part of on-going business. Risk Appetite forms an integral part of the Bank's ICAAP to ensure sufficient capital resources for the risk profile across business lines. The formulation of risk appetite considers risk capacity, financial position, strength of its core earnings and resilience of reputation and brand. It is expressed in both qualitative statements (e.g. describing which risks are taken and why) alongside quantitative measures (e.g. tolerable operational losses).

By incorporating quantitative metrics, the Bank is ensuring that:
- Underlying business activity may be guided and controlled so that it continues to be aligned to the risk appetite framework;
- Key assumptions underpinning the risk appetite can be monitored and, as necessary, adjusted through subsequent business plan iterations; and
- Anticipated mitigating business decisions are flagged and acted upon promptly.

(e) Capital structure

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

- Tier 1 capital includes ordinary share capital, share premium, retained earnings, statutory reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. (Refer to Note 33 of the financial statements at 31 December 2012 for the amount of Tier 1 capital and a breakdown of its components).
- Tier 2 capital includes collective impairment allowances (excluding collective impairment allowances attributable to financing classified as impaired). (Refer to Note 33 of the financial statements at 31 December 2012 for the amount of Tier 2 capital and a breakdown of its components).

(f) Risk management policies

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

- credit risk
- liquidity risk
- market risk (includes foreign exchange, profit rate and equity/commodity price risk)
- operational risk

Refer to Note 4 of the financial statements at 31 December 2012 for the Bank's risk managements policies on the above mentioned risks.

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

(f) Risk management policies (Cont'd)

1) Credit Risk

Refer to Note 4b of the financial statements at 31 December 2012 for definitions of past due and impaired financing. The approaches for the determination of individual and collective impairment provisions are detailed in Note 3l of the financial statements as at 31 December 2012.

Table 1: Geographical distribution of financing and advances broken down by type

	31 Dec 2012				
RM'000	**Northern**	**Southern**	**Central**	**Eastern**	**Total**
Cash line	**12,188**	**16,481**	**33,688**	**380**	**62,737**
Term financing					
House financing	**428,714**	**348,883**	**1,163,220**	**155,501**	**2,096,318**
Hire purchase receivables	**64,562**	**56,371**	**106,971**	**68,737**	**296,641**
Lease receivables	**81**	**-**	**3,138**	**-**	**3,219**
Other term financing	**669,420**	**723,545**	**3,068,041**	**251,257**	**4,712,263**
Trust receipts	**11,707**	**-**	**37,510**	**-**	**49,217**
Claims on customers under acceptance credits	**320,794**	**120,011**	**305,754**	**117,989**	**864,548**
Staff financing	**5,324**	**2,795**	**29,153**	**3,801**	**41,073**
Credit/charge cards	**97,749**	**66,202**	**253,119**	**25,701**	**442,771**
Revolving credit	**52,194**	**6,881**	**152,479**	**67**	**211,621**
Unearned income	**(19,923)**	**(19,527)**	**(70,316)**	**(11,531)**	**(121,297)**
	1,642,810	**1,321,642**	**5,082,757**	**611,902**	**8,659,111**

	31 Dec 2011 (Restated) (See Note 4)				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line	10,191	11,553	27,853	156	49,753
Term financing					
House financing	210,611	183,730	804,051	73,959	1,272,351
Hire purchase receivables	46,380	62,638	85,164	64,452	258,634
Lease receivables	129	-	-	-	129
Other term financing	747,780	738,065	2,896,451	246,884	4,629,180
Trust receipts	11,275	-	12,916	946	25,137
Claims on customers under acceptance credits	352,339	101,992	346,911	446,037	1,247,279
Staff financing	1,457	1,316	16,655	950	20,378
Credit/charge cards	88,626	58,574	196,752	21,995	365,947
Revolving credit	48,976	1,100	118,615	35	168,726
Unearned income	(18,892)	(20,174)	(64,288)	(10,844)	(114,198)
	1,498,872	1,138,794	4,441,080	844,570	7,923,316

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

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

Table 2: Geographical distribution of impaired financing broken down by type

	31 Dec 2012				
RM'000	**Northern**	**Southern**	**Central**	**Eastern**	**Total**
Cash line	**5**	**-**	**494**	**-**	**499**
Term financing					
House financing	**13,174**	**16,799**	**15,984**	**14**	**45,971**
Hire purchase receivables	**4,339**	**3,664**	**423**	**825**	**9,251**
Other term financing	**12,496**	**7,097**	**29,125**	**3,909**	**52,627**
Claims on customers under acceptance credits	**2,941**	**113**	**2,370**	**-**	**5,424**
Credit/charge cards	**3,676**	**2,433**	**8,641**	**896**	**15,646**
	36,631	**30,106**	**57,037**	**5,644**	**129,418**

	31 Dec 2011				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line	-	-	877	-	877
Term financing					
House financing	2,992	6,734	8,255	75	18,056
Hire purchase receivables	2,525	1,047	656	324	4,552
Other term financing	19,095	13,463	46,421	5,541	84,520
Claims on customers under acceptance credits	4,409	113	2,924	-	7,446
Credit/charge cards	3,001	1,700	5,002	534	10,237
	32,022	23,057	64,135	6,474	125,688

The Northern region consists of the states of Perlis, Kedah, Penang, Perak, Kelantan, Terengganu and Pahang.
The Southern region consists of the states of Johor, Malacca and Negeri Sembilan.
The Central region consists of the states of Selangor and the Federal Territory of Kuala Lumpur .
The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.

Concentration by location for financing and advances is based on the location of the customer.

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

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

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

31 Dec 2012

RM'000	**Maturing within one year**	**One year to three years**	**Three years to five years**	**Over five years**	**Total**
Cash line	**62,737**	**-**	**-**	**-**	**62,737**
Term financing					
House financing	**30,144**	**3,672**	**4,521**	**2,057,981**	**2,096,318**
Hire purchase receivables	**17,387**	**108,984**	**137,602**	**32,668**	**296,641**
Lease receivables	**81**	**-**	**3,138**	**-**	**3,219**
Other term financing	**2,135,499**	**533,166**	**643,026**	**1,400,572**	**4,712,263**
Trust receipts	**49,217**	**-**	**-**	**-**	**49,217**
Claims on customers under acceptance credits	**864,548**	**-**	**-**	**-**	**864,548**
Staff financing	**45**	**345**	**2,069**	**38,614**	**41,073**
Credit/charge cards	**442,771**	**-**	**-**	**-**	**442,771**
Revolving credit	**211,621**	**-**	**-**	**-**	**211,621**
Unearned income	**(44,898)**	**(20,113)**	**(25,252)**	**(31,034)**	**(121,297)**
	3,769,152	**626,054**	**765,104**	**3,498,801**	**8,659,111**

31 Dec 2011 (Restated) (See Note 4)

RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line	49,753	-	-	-	49,753
Term financing					
House financing	46,013	6,592	4,093	1,215,653	1,272,351
Hire purchase receivables	15,837	113,218	121,324	8,255	258,634
Lease receivables	28	101	-	-	129
Other term financing	2,192,797	575,463	1,079,104	781,816	4,629,180
Trust receipts	25,137	-	-	-	25,137
Claims on customers under acceptance credits	1,247,279	-	-	-	1,247,279
Staff financing	941	312	1,041	18,084	20,378
Credit/charge cards	365,947	-	-	-	365,947
Revolving credit	168,726	-	-	-	168,726
Unearned income	(43,048)	(21,501)	(31,777)	(17,872)	(114,198)
	4,069,410	674,185	1,173,785	2,005,936	7,923,316

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

(f) Risk management policies (Cont'd)

1) Credit risk (Cont'd)

Table 4: Distribution of financing by sector, broken down by type

31 Dec 2012
RM'000

	Cash line	House financing	Hire purchase receivables	Lease receivables	Other term financing	Trust receipts	Claims on customers under acceptances credits	Staff financing	Credit/ charge card	Revolving credit	Unearned income	Total
Agricultural, hunting, forestry and fishing	1,930	-	4,115	-	542,868	-	4,450	-	-	-	(10,726)	542,637
Mining and quarrying	-	-	17,031	-	138,386	-	-	-	-	-	(4,190)	151,227
Manufacturing	17,275	-	134,016	50	675,568	2,272	387,622	-	-	63,440	(26,817)	1,253,426
Electricity, gas and water	558	-	-	-	80,868	3,732	15,296	-	-	2,000	(1,609)	100,845
Construction	6,717	-	19,478	-	177,216	-	20,478	-	-	36,599	(5,247)	255,241
Real estate	393	-	-	-	536,409	-	-	-	-	2,700	(10,207)	529,295
Wholesale & retail trade and restaurants & hotels	10,543	-	64,751	-	12,221	43,169	415,435	-	-	74,882	(6,855)	614,146
Transport, storage and communication	8,056	-	29,405	-	238,825	-	5,933	-	-	10,000	(7,261)	284,958
Finance, takaful and business services	10,271	-	22,266	3,169	195,518	44	4,186	-	-	-	(6,210)	229,244
Household-retail	2,136	2,096,318	987	-	1,807,560	-	-	41,073	442,771	2,000	(35,907)	4,356,938
Others	4,858	-	4,592	-	306,824	-	11,148	-	-	20,000	(6,268)	341,154
	62,737	2,096,318	296,641	3,219	4,712,263	49,217	864,548	41,073	442,771	211,621	(121,297)	8,659,111

31 Dec 2011 (Restated) (See Note 4)
RM'000

	Cash line	House financing	Hire purchase receivables	Lease receivables	Other term financing	Trust receipts	Claims on customers under acceptances credits	Staff financing	Credit/ charge card	Revolving credit	Unearned income	Total
Agricultural, hunting, forestry and fishing	1,475	-	3,470	-	352,547	-	144,848	-	-	-	(6,994)	495,346
Mining and quarrying	-	-	15,279	-	146,632	-	349	-	-	-	(4,204)	158,056
Manufacturing	11,123	-	116,660	129	828,344	7,243	649,227	-	-	50,455	(26,594)	1,636,587
Electricity, gas and water	-	-	731	-	60,504	3,980	18,350	-	-	-	(1,212)	82,353
Construction	4,907	-	17,690	-	124,692	-	52,052	-	-	74,819	(4,015)	270,145
Real estate	104	-	-	-	401,545	-	-	-	-	-	(7,595)	394,054
Wholesale & retail trade and restaurants & hotels	2,558	-	38,307	-	84,840	11,669	264,141	-	-	35,452	(5,191)	431,776
Transport, storage and communication	5,411	-	20,779	-	375,486	-	8,927	-	-	8,000	(9,047)	409,556
Finance, takaful and business services	11,421	-	26,016	-	132,851	2,245	15,531	-	-	-	(4,948)	183,116
Household-retail	11,269	1,272,351	17,585	-	1,709,422	-	-	20,370	365,947	-	(36,401)	3,360,543
Others	1,485	-	2,117	-	412,317	-	93,854	8	-	-	(7,997)	501,784
	49,753	1,272,351	258,634	129	4,629,180	25,137	1,247,279	20,378	365,947	168,726	(114,198)	7,923,316

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

(f) Risk management policies (Cont'd)

1) Credit risk (Cont'd)

Table 5: Distribution of impaired financing by sector, broken down by type

31 Dec 2012
RM'000

	Cash line	House financing	Hire purchase receivables	Lease receivables	Other term financing	Trust receipts	Claims on customers under acceptances credits	Staff financing	Credit/ charge card	Revolving credit	Total
Agricultural, hunting, forestry and fishing	-	-	84	-	-	-	-	-	-	-	84
Manufacturing	5	-	6,702	-	-	-	887	-	-	-	7,594
Wholesale & retail trade and restaurants & hotels	-	864	1,360	-	152	-	4,537	-	-	-	6,913
Transport, storage and communication	494	-	-	-	335	-	-	-	-	-	829
Finance, takaful and business services	-	-	420	-	-	-	-	-	-	-	420
Household-retail	-	45,107	685	-	52,140	-	-	-	15,646	-	113,578
	499	45,971	9,251	-	52,627	-	5,424	-	15,646	-	129,418

31 Dec 2011
RM'000

	Cash line	House financing	Hire purchase receivables	Lease receivables	Other term financing	Trust receipts	Claims on customers under acceptances credits	Staff financing	Credit/ charge card	Revolving credit	Total
Manufacturing	274	-	3,900	-	1,065	-	3,829	-	-	-	9,068
Wholesale & retail trade and restaurants & hotels	-	-	324	-	340	-	3,617	-	-	-	4,281
Transport, storage and communication	-	-	-	-	-	-	-	-	-	-	-
Finance, takaful and business services	-	-	-	-	-	-	-	-	-	-	-
Household-retail	603	18,056	328	-	83,115	-	-	-	10,237	-	112,339
	877	18,056	4,552	-	84,520	-	7,446	-	10,237	-	125,688

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

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

Table 6: All past due financing broken down by sector *

	31 Dec 2012	31 Dec 2011
	RM'000	RM'000 (Restated)
Agricultural, hunting, forestry and fishing	**429**	-
Manufacturing	**38,783**	33,702
Wholesale & retail trade and restaurants & hotels	**35,305**	11,630
Transport, storage and communication	**4,234**	4,281
Finance, takaful and business services	**2,145**	-
Household-retail	**580,054**	417,521
	660,950	467,134

Table 7: All past due financing broken down by geographical location*

	31 Dec 2012	31 Dec 2011
	RM'000	RM'000 (Restated)
Northern region	**187,078**	119,013
Southern region	**153,754**	85,694
Central region	**291,294**	238,366
Eastern region	**28,824**	24,061
	660,950	467,134

* of which the portion of impaired financing broken down by sector and geographical location is disclosed in Note 10 (iv) and 10 (vi) of the financial statements at 31 December 2012.

Table 8: Individual and collective impairment allowance broken down by sector

	31 Dec 2012		31 Dec 2011	
	RM'000		RM'000	
	Individual impairment allowance	**Collective impairment allowance**	Individual impairment allowance	Collective impairment allowance
			(Restated) (See Note 4)	
Agricultural, hunting, forestry and fishing	**84**	**9,108**	-	6,603
Mining and quarrying	**-**	**2,539**	-	2,107
Manufacturing	**6,740**	**20,928**	7,742	21,714
Electricity, gas and water	**-**	**1,693**	-	1,098
Construction	**-**	**4,285**	-	3,601
Real estate	**-**	**8,885**	9	5,253
Wholesale & retail trade and restaurants & hotels	**5,400**	**10,219**	3,800	5,705
Transport, storage and communication	**439**	**4,776**	15	5,460
Finance, takaful and business services	**-**	**3,848**	-	2,441
Household-retail	**17,716**	**72,844**	20,930	44,520
Others	**-**	**5,728**	485	6,683
	30,379	**144,853**	32,981	105,185

Table 9: Individual and collective impairment allowance broken down by geographical location

	31 Dec 2012		31 Dec 2011	
	RM'000		RM'000	
	Individual impairment allowance	**Collective impairment allowance**	Individual impairment allowance	Collective impairment allowance
			(Restated) (See Note 4)	
Northern region	**4,727**	**27,499**	6,050	19,901
Southern region	**3,748**	**22,124**	1,066	15,167
Central region	**20,924**	**84,974**	25,539	58,862
Eastern region	**980**	**10,256**	326	11,255
	30,379	**144,853**	32,981	105,185

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

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

Table 10: Charges and write-offs for individual impairment allowance during the year broken down by sector

	31 Dec 2012		31 Dec 2011	
	RM'000		RM'000	
	Individual impairment charges	**Write-off of individual impairment**	Individual impairment charges	Write-off of individual impairment
			(Restated) (See Note 4)	
Agricultural, hunting, forestry and fishing	**1,023**	**-**	5,521	-
Mining and quarrying	**-**	**-**	-	-
Manufacturing	**8,796**	**722**	-	-
Electricity, gas and water	**-**	**-**	-	-
Construction	**-**	**-**	-	-
Real estate	**-**	**-**	-	-
Wholesale & retail trade and restaurants & hotels	**2,439**	**602**	781	85
Transport, storage and communication	**618**	**-**	-	-
Finance, takaful and business services	**-**	**-**	-	-
Household-retail	**19,212**	**46**	6,874	3,012
Others	**-**	**-**	221	-
	32,088	**1,370**	13,397	3,097

The reconciliation of changes in financing impairment provisions is disclosed in Note 10(ii) of the financial statements at 31 December 2012.

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

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions

The standardised Basel II approach requires banks to use risk assessments prepared by External Credit Assessment Institutions ('ECAIs') to determine the risk weightings applied to rated counterparties.

ECAIs are used by the Bank as part of the determination of risk weightings for the following classes of exposure:
• Sovereigns and Central Banks
• Multilateral development banks ('MDBs')
• Public sector entities ('PSEs')
• Corporates
• Banks
• Securities firms

For the purpose of Pillar 1 reporting to the regulator, the Bank uses the external credit ratings from the following ECAIs:
• Fitch Ratings (Fitch)
• Moody's Investors Services (Moody's)
• Standard & Poor's Rating Services (S&P)
• RAM Rating Services Berhad (RAM)
• Malaysian Rating Corporation Berhad (MARC)
• Rating and Investment Information, Inc (R&I)

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

Sovereigns and Central Banks

Rating Category	S&P	Moody's	Fitch	R&I*	Risk weight
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA-	0%
2	A+ to A-	A1 to A3	A+ to A-	A+ to A-	20%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-	50%
4	BB+ to B-	Ba1 to B3	BB+ to B-	BB+ to B-	100%
5	CCC+ to D	Caa1 to C	CCC+ to D	CCC+ to C	150%
Unrated	-	-	-	-	100%

* External credit assessments produced by R&I on Islamic debt securities are not recognised by the Bank in determining the risk weights for exposures to some asset classes.

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

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions (Cont'd)

Banking Institutions

Rating Category	S&P	Moody's	Fitch	R&I	RAM	MARC	Risk weight	Risk weight (original maturity of 6 months or less)	Risk weight (original maturity of 3 months or less)
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA-	AAA to AA3	AAA to AA-	20%	20%	20%
2	A+ to A-	A1 to A3	A+ to A-	A+ to A-	A1 to A3	A+ to A-	50%	20%	20%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-	BBB1+ to BBB3	BBB+ to BBB-	50%	20%	20%
4	BB+ to B-	Ba1 to B3	BB+ to B-	BB+ to B-	BB1 to B3	BB+ to B-	100%	50%	20%
5	CCC+ to D	Caa1 to C	CCC+ to D	CCC+ to D	C1 to D	C+ to D	150%	150%	20%
Unrated	-	-	-	-	-	-	50%	20%	20%

Corporate

Rating Category	S&P	Moody's	Fitch	R&I	RAM	MARC	Risk weight
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA-	AAA to AA3	AAA to AA-	20%
2	A+ to A-	A1 to A3	A+ to A-	A+ to A-	A1 to A3	A+ to A-	50%
3	BBB+ to BB-	Baa1 to Ba3	BBB+ to BB-	BBB+ to BB-	BBB1 to BB3	BBB+ to BB-	100%
4	B+ to D	B1 to C	B+ to D	B+ to D	B1 to D	B+ to D	150%
Unrated	-	-	-	-	-	-	100%

Banking Institutions and Corporate (Short term ratings)

Rating Category	S&P	Moody's	Fitch	R&I	RAM	MARC	Risk weight
1	A-1	P-1	F1+, F1	a-1+, a-1	P-1	MARC-1	20%
2	A-2	P-2	F2	a-2	P-2	MARC-2	50%
3	A-3	P-3	F3	a-3	P-3	MARC-3	100%
4	Others	Others	B to D	b, c	NP	MARC-4	150%

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

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions (Cont'd)

Risk weights under the standardised approach as at the reporting date are reflected in page 22. Rated and unrated exposures according to ratings by ECAIs as at reporting date are as follows:-

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	Ratings of Corporate by Approved ECAIs					
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB3	B to D	Unrated
Exposure Class	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Exposures						
Corporates		**3,426**	**104,465**	**62,599**	**-**	**4,788,901**
Total		**3,426**	**104,465**	**62,599**	**-**	**4,788,901**

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	Ratings of Corporate by Approved ECAIs					
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
Exposure Class	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Exposures						
Corporates		45,692	110,740	64,830	-	4,441,114
Total		45,692	110,740	64,830	-	4,441,114

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

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions (Cont'd)

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	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
Exposure Class	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
On and Off Balance-Sheet Exposures							
Sovereigns & Central Banks		**-**	**3,092,431**	**-**	**-**	**-**	**971**
Total		**-**	**3,092,431**	**-**	**-**	**-**	**971**

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	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
Exposure Class	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
On and Off Balance-Sheet Exposures							
Sovereigns & Central Banks		-	2,056,773	-	-	-	-
Total		-	2,056,773	-	-	-	-

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

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions (Cont'd)

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	Ratings of Banking Institutions by Approved ECAIs						
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1+ to D	Unrated
Exposure Class	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
On and Off Balance-Sheet Exposures							
Banks, MDBs and FDIs		**147,604**	**84,500**	**89,745**	**-**	**-**	**257,743**
Total		**147,604**	**84,500**	**89,745**	**-**	**-**	**257,743**

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	Ratings of Banking Institutions by Approved ECAIs						
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1+ to D	Unrated
Exposure Class	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
On and Off Balance-Sheet Exposures							
Banks, MDBs and FDIs		142,877	44,784	89,451	6,480	-	489,273
Total		142,877	44,784	89,451	6,480	-	489,273

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

ii) Credit risk mitigation

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

The Bank's policy when granting credit facilities is on the basis of the customer's capacity to pay, rather than placing primary reliance on credit risk mitigants. Depending on the customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is nevertheless a key aspect of effective risk management and in the Bank, takes many forms. There is no material concentration of credit risk mitigation ('CRM') held.

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

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

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

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

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

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

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

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

(g) Risk management policies (Cont'd)

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

ii) Credit risk mitigation (Cont'd)

The valuation of credit risk mitigants seeks to monitor and ensure that they will continue to provide the secured repayment source anticipated at the time they were taken. Where collateral is subject to high volatility, valuation is frequent; where stable, less so. The Group's policy prescribes valuation at intervals of up to two years, or more frequently as the need may arise. For property taken as collateral for new or additional facilities, a valuation report must be obtained from a panel valuer. If the property value declined by a material extent, i.e. a drop in the value of the property by more than 20%, a formal written valuation should be obtained. For auction purposes, full valuations are compulsory. This is to avoid the risk of the settlement sum being challenged by the borrower / charger on the grounds that the correct valuation was not applied.

The Group's panel of approved valuation companies is subject to an annual review. This should take into consideration the company's financial standing, accreditations, experience, professional liability insurance, major clients and size of its branch network.

The table below shows the on and off balance sheet exposures before and after credit risk management.

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RM'000

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Collateral
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	**3,092,431**	**-**	**-**
Public Sector Entities	**-**	**-**	**-**
Banks, Development Financial Institutions & MDBs	**333,207**	**-**	**-**
Insurance Cos, Securities Firms & Fund Managers	**-**	**-**	**-**
Corporates	**3,677,394**	**18,717**	**57,918**
Regulatory Retail	**2,008,153**	**3,241**	**25,923**
House Financing	**2,968,648**	**-**	**1,779**
Higher Risk Assets	**-**	**-**	**-**
Other Assets	**207,701**	**-**	**-**
Specialised Financing/Investment	**-**	**-**	**-**
Equity Exposure	**-**	**-**	**-**
Securitisation Exposures	**-**	**-**	**-**
Defaulted Exposures	**89,830**	**-**	**1,367**
Total for On-Balance Sheet Exposures	**12,377,364**	**21,958**	**86,987**
Off-Balance Sheet Exposures			
OTC Derivatives	**187,231**	**-**	**-**
Credit Derivatives	**-**	**-**	**-**
Off balance sheet exposures other than OTC derivatives or credit derivatives	**1,614,247**	**1,781**	**36,432**
Defaulted Exposures	**7,312**	**-**	**4,597**
Total for Off-Balance Sheet Exposures	**1,808,790**	**1,781**	**41,029**
Total On and Off-Balance Sheet Exposures	**14,186,154**	**23,739**	**128,016**

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

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

ii) Credit risk mitigation (Cont'd)

The table below shows the on and off balance sheet exposures before and after credit risk management (Cont'd).

31 Dec 2011 (Restated) (See Note 4)
RM'000

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Collateral
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	2,056,773	-	-
Banks, Development Financial Institutions & MDBs	676,593	-	-
Corporates	3,678,692	47,976	50,962
Regulatory Retail	2,392,019	955	23,355
House Financing	1,368,576	-	982
Other Assets	183,074	-	-
Defaulted Exposures	62,405	-	1,350
Total for On-Balance Sheet Exposures	10,418,132	48,931	76,649
Off-Balance Sheet Exposures			
OTC Derivatives	100,545	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	1,200,037	1,060	13,379
Defaulted Exposures	445	-	-
Total for Off-Balance Sheet Exposures	1,301,027	1,060	13,379
Total On and Off-Balance Sheet Exposures	11,719,159	49,991	90,028

Refer to Note 34 of the financial statements at 31 December 2012 for disclosure of off-balance sheet and counterparty credit risk.

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

iii) Counterparty Credit Risk

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

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

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

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

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

iii) Counterparty Credit Risk (Cont'd)

The table below discloses the gross and net exposures, risk weighted assets and capital requirements for credit risk, market risk, large exposure risk and operational risk of the Bank as at balance sheet date. This requirement came into effect since 2008 with the adoption of the Basel II Standardised Approach under the Capital Adequacy Framework for Islamic Banks 'CAFIB'.

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Exposure Class		Gross Exposures (RM'000)	Net Exposures (RM'000)	Risk Weighted Assets (RWA) (RM'000)	RWA Absorbed by PSIA (RM'000)	Total RWA after PSIA (RM'000)	Capital Requirement (RM'000)
Credit Risk							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		**3,092,431**	**3,092,431**	-	-	-	-
Banks, Development Financial Institutions & MDBs		**333,207**	**333,207**	**67,712**	-	**67,712**	**5,417**
Corporates		**3,677,394**	**3,619,475**	**3,599,034**	-	**3,599,034**	**287,923**
Regulatory Retail		**2,008,152**	**1,982,229**	**1,518,525**	-	**1,518,525**	**121,482**
House Financing		**2,968,648**	**2,966,869**	**1,462,570**	-	**1,462,570**	**117,006**
Other Assets		**207,701**	**207,701**	**129,266**	-	**129,266**	**10,341**
Defaulted Exposures		**89,830**	**88,462**	**100,995**	-	**100,995**	**8,080**
Total for On-Balance Sheet Exposures		**12,377,363**	**12,290,374**	**6,878,102**	-	**6,878,102**	**550,249**
Off-Balance Sheet Exposures							
OTC Derivatives		**187,231**	**187,231**	**102,914**	-	**102,914**	**8,233**
Off balance sheet exposures other than OTC derivatives or credit derivatives		**1,614,247**	**1,577,815**	**1,412,769**	-	**1,412,769**	**113,022**
Defaulted Exposures		**7,312**	**2,714**	**4,071**	-	**4,071**	**326**
Total for Off-Balance Sheet Exposures		**1,808,790**	**1,767,760**	**1,519,754**	-	**1,519,754**	**121,581**
Total On and Off-Balance Sheet Exposures		**14,186,153**	**14,058,134**	**8,397,856**	-	**8,397,856**	**671,830**
Large Exposures Risk Requirement		-	-	-	-	-	-
Market Risk	**<u>Long position</u>**	**<u>Short position</u>**					
Profit Rate Risk	**2,506,590**	**2,384,055**	**122,535**	**61,260**	-	**61,260**	**4,901**
Foreign Currency Risk	**11,209**	**1,662**	**11,209**	**11,209**	-	**11,209**	**897**
Total market risk	**2,517,799**	**2,385,717**	**133,744**	**72,469**	-	**72,469**	**5,798**
Operational Risk *	-	-	-	**746,473**	-	**746,473**	**59,718**
Total RWA and Capital Requirement	-	-	-	**9,216,798**	-	**9,216,798**	**737,346**

* *Operational Risk is derived using the Basic Indicator Approach.*

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

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

iii) Counterparty Credit Risk (Cont'd)

31Dec2011 (Restated) (See Note 4)

Exposure Class		Gross Exposures (RM'000)	Net Exposures (RM'000)	Risk Weighted Assets (RWA) (RM'000)	RWA Absorbed by PSIA (RM'000)	Total RWA after PSIA (RM'000)	Capital Requirement (RM'000)
Credit Risk							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		2,056,773	2,056,773	-	-	-	-
Banks, Development Financial Institutions & MDBs		676,593	676,593	137,297	-	137,296	10,984
Corporates		3,678,692	3,627,729	3,590,443	-	3,590,443	287,235
Regulatory Retail		2,392,019	2,368,664	1,786,161	-	1,786,161	142,893
House Financing		1,368,576	1,367,594	723,970	-	723,970	57,918
Other Assets		183,074	183,074	109,967	-	109,967	8,797
Defaulted Exposures		62,405	61,055	76,543	-	76,543	6,123
Total for On-Balance Sheet Exposures		10,418,132	10,341,482	6,424,381	-	6,424,380	513,950
Off-Balance Sheet Exposures							
OTC Derivatives		100,545	100,545	50,550	-	50,550	4,044
Off balance sheet exposures other than OTC derivatives or credit derivatives		1,200,037	1,186,657	1,071,357	-	1,071,357	85,709
Defaulted Exposures		445	445	668	-	668	53
Total for Off-Balance Sheet Exposures		1,301,027	1,287,647	1,122,575	-	1,122,575	89,806
Total On and Off-Balance Sheet Exposures		11,719,159	11,629,129	7,546,956	-	7,546,956	603,756
Large Exposures Risk Requirement		-	-	-	-	-	-
Market Risk	**Long position**	**Short position**					
Profit Rate Risk	1,664,488	1,429,512	234,976	93,387	-	93,387	7,471
Foreign Currency Risk	2,381	7,536	2,381	7,555	-	7,555	604
Total market risk	1,666,869	1,437,048	237,357	100,942	-	100,942	8,075
Operational Risk *	-	-	-	580,027	-	580,027	46,402
Total RWA and Capital Requirement	-	-	-	8,227,925	-	8,227,925	658,233

* *Operational Risk is derived using the Basic Indicator Approach.*

Refer to Note 34 of the financial statements for disclosure of off-balance sheet and counterparty credit risk.

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

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

iii) Counterparty Credit Risk (Cont'd)

The tables below are disclosures on credit risk by risk weights of the Bank as at balance sheet date. The following disclosure requirement came into effect since 2008 with the adoption of Basel II Standardised Approach under the Capital Adequacy Framework for Islamic Banks, 'CAFIB'.

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Risk Weights	Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporates	Regulatory Retail	House Financing	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	**3,093,403**	**-**	**19,268**	**3,842**	**-**	**78,435**	**3,194,948**	**-**
20%	**-**	**373,131**	**3,426**	**168**	**-**	**-**	**376,725**	**75,345**
35%	**-**	**-**	**-**	**-**	**1,459,135**	**-**	**1,459,135**	**510,697**
50%	**-**	**204,590**	**85,748**	**329**	**715,709**	**-**	**1,006,376**	**503,188**
75%	**-**	**-**	**-**	**2,112,873**	**792,639**	**-**	**2,905,512**	**2,179,134**
100%	**-**	**-**	**4,758,321**	**152,059**	**47,686**	**129,265**	**5,087,331**	**5,087,331**
150%	**-**	**1,872**	**250**	**25,508**	**478**	**-**	**28,108**	**42,161**
Total Risk Weight	**-**	**-**	**-**	**-**	**-**	**-**	**14,058,135**	**8,397,856**
Average Risk Weight	**-**	**-**	**-**	**-**	**-**	**-**	**781,007**	**466,548**
Deduction from Capital Base	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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Risk Weights	Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporates	Regulatory Retail	House Financing	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	2,056,773	-	1,501	780	-	73,107	2,132,161	-
20%	-	693,839	45,692	694	-	-	740,225	148,045
35%	-	-	-	-	552,615	-	552,615	193,415
50%	-	79,026	107,466	2,075	322,716	-	511,283	255,642
75%	-	-	1,785	2,541,505	492,500	-	3,035,790	2,276,843
100%	-	-	4,444,910	50,908	19,357	109,967	4,625,142	4,625,142
150%	-	-	166	31,747	-	-	31,913	47,869
Total Risk Weight	-	-	-	-	-	-	11,629,129	7,546,956
Average Risk Weight	-	-	-	-	-	-	646,063	419,275
Deduction from Capital Base	-	-	-	-	-	-	-	-

Note:
MDBs - Multilateral Development Banks
DFIs - Development Financial Institutions

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

(f) Risk management policies (Cont'd)

2) Profit rate risk / rate of return risk

Qualitative and quantitative information on profit rate risk/rate of return risk in the banking book is presented in Note 4d to the financial statements.

3) Collateral Arrangements

To calculate counterparty's net risk position for counterparty credit risk, the Bank revalue all financial instruments and associated collateral positions on a daily basis. A dedicated Collateral Management function independently monitors counterparties' associated collateral positions and manages a process which ensures that calls for collateral top-ups or exposure reductions are made promptly. Processes exist for the resolution of situations where the level of collateral is disputed or the collateral sought is not received.

Eligible collateral types are documented by Credit Support Annexes ('CSA') of the International Swaps and Derivatives Association ('ISDA') Master Agreement and are controlled under a policy which ensures the collateral agreed to be taken exhibits characteristics such as price transparency, price stability, liquidity, enforceability, independence, reusability and eligibility for regulatory purposes. A valuation 'haircut' policy reflects the fact that collateral may fall in value between the date the collateral was called and the date of liquidation or enforcement. In practice, at least 95 percent of collateral held as credit risk mitigants under CSAs is either cash or government securities.

4) Credit Ratings Downgrade

It has increasingly become the practice for market participants to employ external credit ratings-based within counterparty documentation as a form of risk control. Industry standard market agreements such as the ISDA Master Agreement allow for the inclusion of such clauses within the definition of "materially weaker" in the Credit Event Upon Merger and Additional Termination Event clauses. These clauses are designed to trigger a series of events which may include the termination of transactions by the non-affected party, or assignment by the affected party, or the requirement to post collateral by the affected party if the credit rating of the affected party falls below a specified level.

Ratings-based clauses against the Bank are resisted wherever possible due to the liquidity, replacement cost and a market visibility risk that may arise if such a clause is triggered. The prior approval of Regional GM - Wholesale Credit Risk ('WCR') and Group Risk - Wholesale Credit & Market Risk ('WMR') are obtained if such ratings-based clauses are included in an agreement.

(f) Risk management policies (Cont'd)

5) Shariah Governance

Overview

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

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

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

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

a. Board of Directors
To be ultimately accountable for the overall Shariah governance and compliance in the Bank.

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

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

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

e. Shariah Department

1. Shariah Review
To regularly review the operations and business activities of the Bank in compliance with the Shariah requirements.

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

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

(f) Risk management policies (Cont'd)

5) Shariah Governance (Cont'd)

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

e. Shariah Department (Cont'd)

3. Shariah Research

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

4. Shariah Training

To cooperate with the relevant parties in educating the staff of HSBC Amanah and HSBC Bank on the Shariah principles relating to Islamic banking and finance.

5. Shariah Secretariat

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

Quantitative Disclosure

During the financial year ended 31 December 2012, the following events occurred:
(i) Interest income have been inadvertently booked in the Bank's book. This has been rectified by reversing the entire interest income (approximately RM6 million) as well as the relevant impairment charges from the Bank's book and transferring them into HSBC Bank Malaysia Berhad's book.
(ii) Excess compensation received amounting to RM70,000 has been reversed to a Charity Funds account and has been donated to charity.
(iii) Income from inadvertent Shariah non-compliant activities identified by the Bank's management amounting to RM32,000 has been reversed to a Charity Funds account pending distribution in 2013.
Other than the above, there were no other Shariah non-compliant income or event which occurred during the financial year ended 31 December 2012.

6) Restatement of comparative figures

Comparative figures for Table 1, 3, 4, 8, 9, 10 and on and off balance sheet exposures before and after credit risk management have been restated to conform to current year's presentation due to convergence to Malaysian Financial Reporting Standards.

Tables 6 and 7 were restated to include impaired financing under past due financing.