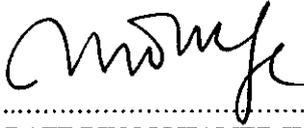


**HSBC AMANAH MALAYSIA BERHAD**  
**(Company No. 807705-X)**  
**(Incorporated in Malaysia)**  
**Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures**  
**at 31 December 2013**

**CHIEF EXECUTIVE OFFICER'S ATTESTATION**

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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 24 have been prepared according to the Risk Weighted Capital Adequacy Framework (Basel II), and are accurate and complete.



.....  
**MOHAMED RAFAE BIN MOHAMED HANEEF**

CHIEF EXECUTIVE OFFICER  
12 February 2014

**HSBC AMANAH MALAYSIA BERHAD**  
**(Company No.807705-X)**  
**(Incorporated in Malaysia)**  
**Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures**  
**at 31 December 2013**

---

**(a) Introduction**

HSBC Amanah Malaysia Berhad ('the Bank') is principally engaged in the provision of Islamic banking business and nominee services. At the reporting date, the Bank 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. The Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Bank adopts the Standardised approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

Basel II is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Pillar 3 aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specific information on the capital management processes, and risk assessment processes, and hence the capital adequacy of the Bank. Disclosures consist of both quantitative and qualitative information. Banks are required to disclose all their material risks as part of the Pillar 3 framework. All material and non-proprietary information required by Pillar 3 is included in the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures at 31 December 2013. BNM permits certain Pillar 3 requirements to be satisfied by inclusion within the financial statements. Where this is the case, references are provided to relevant sections in the Financial Statements at 31 December 2013.

**(c) Transferability of capital and funds**

HSBC Bank Malaysia 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**

Through the Internal Capital Adequacy Assessment Process ('ICAAP'), the Bank examines its risk profile from both regulatory and economic capital viewpoints, aiming to ensure that capital resources:

- Exceeds formal, minimum regulatory capital requirements as prescribed by the Bank Negara Malaysia (BNM);
- Remains sufficient to support business strategies, projected risk profile and assessment of capital required to support these risks; and
- Would remain sufficient in a projected economic downturn that is more severe than the current economic conditions.

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 34 of the financial statements at 31 December 2013 for the total capital ratio and Tier 1 capital ratio, and risk weighted assets and capital requirements for credit risk, market risk and operational risk. With effect from 1 January 2013, the total capital and capital adequacy ratios are computed in accordance with the revised Capital Adequacy Framework (Capital Components).

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

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### **(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 levels will change. The results of the analysis will facilitate informed financial and capital management whilst supporting business lines to manage their business through various measures such as establishing triggers and devising mitigation actions which can be readily implemented should the adverse scenarios materialise.

In line with BNM's Guideline on Stress Testing and the Bank's Policy Paper for Stress Testing, a Stress Test Steering Committee ('STSC') is established. STSC conducts stress testing on a half-yearly 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 the 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.

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 34 of the financial statements at 31 December 2013 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 34 of the financial statements at 31 December 2013 for the amount of Tier 2 capital and a breakdown of its components).

### **(f) Risk management policies**

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

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

Refer to Note 4 of the financial statements at 31 December 2013 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 4 b) of the financial statements at 31 December 2013 for definitions of past due and impaired financing. The approaches for the determination of individual and collective impairment provisions are detailed in Note 3 m) of the financial statements at 31 December 2013.

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

	31 December 2013				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line	11,369	21,806	49,871	7,230	90,276
Term financing					
House financing	484,692	477,765	1,522,717	174,821	2,659,995
Hire purchase receivables	51,243	42,089	108,328	50,900	252,560
Lease receivables	27	-	2,415	-	2,442
Other term financing	519,645	680,641	3,440,328	218,293	4,858,907
Trust receipts	17,001	961	37,077	-	55,039
Claims on customers under acceptance credits	163,744	111,319	343,941	41,679	660,683
Staff financing	5,135	3,155	34,843	3,382	46,515
Credit cards	97,584	69,517	277,927	25,806	470,834
Revolving credit	52,913	6,623	178,641	172	238,349
	<b>1,403,353</b>	<b>1,413,876</b>	<b>5,996,088</b>	<b>522,283</b>	<b>9,335,600</b>

	31 December 2012 (Restated)(See Note 3)				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line	12,188	16,481	33,688	380	62,737
Term financing					
House financing	428,423	348,646	1,162,432	155,396	2,094,897
Hire purchase receivables	58,659	51,216	97,190	62,452	269,517
Lease receivables	70	-	2,707	-	2,777
Other term financing	656,682	709,777	3,009,659	246,476	4,622,594
Trust receipts	11,707	-	37,510	-	49,217
Claims on customers under acceptance credits	319,814	119,644	304,820	117,629	861,907
Staff financing	5,324	2,795	29,153	3,801	41,073
Credit cards	97,749	66,202	253,119	25,701	442,771
Revolving credit	52,194	6,881	152,479	67	211,621
	<b>1,642,810</b>	<b>1,321,642</b>	<b>5,082,757</b>	<b>611,902</b>	<b>8,659,111</b>

**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 and advances broken down by type**

		<b>31 December 2013</b>				
RM'000		<b>Northern</b>	<b>Southern</b>	<b>Central</b>	<b>Eastern</b>	<b>Total</b>
Cash line		423	-	455	-	878
Term financing						
House financing		16,939	14,419	34,140	1,432	66,930
Hire purchase receivables		4,171	2,770	312	417	7,670
Other term financing		12,722	6,750	53,572	2,808	75,852
Claims on customers under acceptance credits		1,079	-	306	-	1,385
Credit cards		3,274	2,270	7,997	650	14,191
		<b>38,608</b>	<b>26,209</b>	<b>96,782</b>	<b>5,307</b>	<b>166,906</b>

		<b>31 December 2012</b>				
RM'000		<b>Northern</b>	<b>Southern</b>	<b>Central</b>	<b>Eastern</b>	<b>Total</b>
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 cards		3,676	2,433	8,641	896	15,646
		<b>36,631</b>	<b>30,106</b>	<b>57,037</b>	<b>5,644</b>	<b>129,418</b>

The Northern region consists of the states of Perlis, Kedah, Penang, Perak, Pahang, Kelantan and Terengganu.

The Southern region consists of the states of Johor, Malacca and Negeri Sembilan.

The Central region consists of the states of Selangor and the Federal Territory of Kuala Lumpur .

The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.

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

**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 December 2013**

RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line	90,276	-	-	-	90,276
Term financing					
House financing	20,669	1,413	8,689	2,629,224	2,659,995
Hire purchase receivables	17,808	103,233	131,082	437	252,560
Lease receivables	28	-	2,414	-	2,442
Other term financing	2,268,061	466,336	522,139	1,602,371	4,858,907
Trust receipts	55,039	-	-	-	55,039
Claims on customers under acceptance credits	660,683	-	-	-	660,683
Staff financing	47	366	1,821	44,281	46,515
Credit cards	470,834	-	-	-	470,834
Revolving credit	238,349	-	-	-	238,349
	<b>3,821,794</b>	<b>571,348</b>	<b>666,145</b>	<b>4,276,313</b>	<b>9,335,600</b>

31 December 2012 (Restated)(See Note 3)

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	30,124	3,670	4,518	2,056,585	2,094,897
Hire purchase receivables	15,797	99,019	125,020	29,681	269,517
Lease receivables	70	-	2,707	-	2,777
Other term financing	2,094,863	523,020	630,790	1,373,921	4,622,594
Trust receipts	49,217	-	-	-	49,217
Claims on customers under acceptance credits	861,907	-	-	-	861,907
Staff financing	45	345	2,069	38,614	41,073
Credit cards	442,771	-	-	-	442,771
Revolving credit	211,621	-	-	-	211,621
	<b>3,769,152</b>	<b>626,054</b>	<b>765,104</b>	<b>3,498,801</b>	<b>8,659,111</b>

**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 and advances by sector, broken down by type**

31 December 2013										
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 cards	Revolving credit	Total
Agricultural, hunting, forestry and fishing	9,887	-	5,887	-	347,865	-	3,720	-	-	367,359
Mining and quarrying	1,404	-	13,891	-	88,393	-	-	-	-	103,688
Manufacturing	17,051	-	114,830	-	572,243	8,204	353,546	-	52,640	1,118,514
Electricity, gas and water	970	-	-	-	70,614	-	16,984	-	2,000	90,568
Construction	10,765	-	20,843	-	549,012	3,201	31,913	-	49,250	664,984
Real estate	243	-	-	-	251,533	-	-	-	2,700	254,476
Wholesale & retail trade and restaurants & hotels	10,590	-	30,290	-	255,581	40,599	239,608	-	81,159	657,827
Transport, storage and communication	9,262	-	22,267	-	224,880	593	7,257	-	10,000	274,259
Finance, takaful and business services	19,520	-	19,532	2,442	525,822	2,359	6,388	-	-	576,063
Household-retail	6,461	2,659,995	575	-	1,815,291	-	-	46,515	470,834	4,999,671
Others	4,123	-	24,445	-	157,673	83	1,267	-	40,600	228,191
	<b>90,276</b>	<b>2,659,995</b>	<b>252,560</b>	<b>2,442</b>	<b>4,858,907</b>	<b>55,039</b>	<b>660,683</b>	<b>46,515</b>	<b>470,834</b>	<b>9,335,600</b>

31 December 2012 (Restated)(See Note 3)										
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 cards	Revolving credit	Total
Agricultural, hunting, forestry and fishing	1,930	-	4,134	-	551,951	-	4,430	-	-	562,445
Mining and quarrying	-	-	15,067	-	136,160	-	-	-	-	151,227
Manufacturing	17,275	-	122,879	43	571,016	2,272	385,921	-	63,440	1,162,846
Electricity, gas and water	558	-	-	-	79,329	3,732	15,226	-	2,000	100,845
Construction	6,717	-	17,231	-	185,499	-	20,384	-	36,599	266,430
Real estate	393	-	-	-	555,549	-	-	-	2,700	558,642
Wholesale & retail trade and restaurants & hotels	10,543	-	59,561	-	2,874	43,169	414,734	-	74,882	605,763
Transport, storage and communication	8,056	-	26,013	-	255,405	-	5,906	-	10,000	305,380
Finance, takaful and business services	10,271	-	19,697	2,734	197,476	44	4,167	-	-	234,389
Household-retail	2,136	2,094,897	873	-	1,773,188	-	-	41,073	442,771	4,356,938
Others	4,858	-	4,062	-	314,147	-	11,139	-	20,000	354,206
	<b>62,737</b>	<b>2,094,897</b>	<b>269,517</b>	<b>2,777</b>	<b>4,622,594</b>	<b>49,217</b>	<b>861,907</b>	<b>41,073</b>	<b>442,771</b>	<b>8,659,111</b>

**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 December 2013						
RM'000						
Cash line	House financing	Hire purchase receivables	Other term financing	Claims on customers under acceptances credits	Credit/ charge cards	Total
Manufacturing	5	77	6,108	-	245	6,435
Construction	182	-	-	2,273	-	2,455
Wholesale & retail trade and restaurants & hotels	-	809	354	598	1,140	2,901
Transport, storage and communication	691	-	-	269	-	960
Finance, takaful and business services	-	74	346	-	-	420
Household-retail	-	65,970	694	72,689	-	153,544
Others	-	-	168	23	-	191
	<b>878</b>	<b>66,930</b>	<b>7,670</b>	<b>75,852</b>	<b>1,385</b>	<b>166,906</b>

31 December 2012						
RM'000						
Cash line	House financing	Hire purchase receivables	Other term financing	Claims on customers under acceptances credits	Credit/ charge cards	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	-	113,578
	<b>499</b>	<b>45,971</b>	<b>9,251</b>	<b>52,627</b>	<b>5,424</b>	<b>129,418</b>

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

**(f) Risk management policies (Cont'd)**

**1) Credit Risk (Cont'd)**

	<b>31 December 2013</b>	31 December 2012
	<b>RM'000</b>	RM'000
Agricultural, hunting, forestry and fishing	-	429
Manufacturing	<b>28,788</b>	38,783
Construction	<b>10,983</b>	-
Wholesale & retail trade and restaurants & hotels	<b>12,978</b>	35,305
Transport, storage and communication	<b>4,295</b>	4,234
Finance, takaful and business services	<b>1,879</b>	2,145
Household-retail	<b>686,909</b>	580,054
Others	<b>854</b>	-
	<b>746,686</b>	660,950

	<b>31 December 2013</b>	31 December 2012
	<b>RM'000</b>	RM'000
Northern region	<b>172,720</b>	187,078
Southern region	<b>117,251</b>	153,754
Central region	<b>432,973</b>	291,294
Eastern region	<b>23,742</b>	28,824
	<b>746,686</b>	660,950

\* Of which the portion of impaired financing and advances broken down by sector and geographical location is disclosed in Note 11 (iv) and 11 (vi) of the financial statements at 31 December 2013 respectively.

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

	<b>31 December 2013</b>		31 December 2012	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
	<b>Individual impairment allowance</b>	<b>Collective impairment allowance</b>	Individual impairment allowance	Collective impairment allowance
Agricultural, hunting, forestry and fishing	<b>5</b>	<b>4,715</b>	84	9,108
Mining and quarrying	-	<b>1,331</b>	-	2,539
Manufacturing	<b>5,435</b>	<b>14,286</b>	6,740	20,928
Electricity, gas and water	-	<b>1,162</b>	-	1,693
Construction	<b>806</b>	<b>8,524</b>	-	4,285
Real estate	-	<b>3,266</b>	-	8,885
Wholesale & retail trade and restaurants & hotels	<b>1,192</b>	<b>8,428</b>	5,400	10,219
Transport, storage and communication	<b>523</b>	<b>3,513</b>	439	4,776
Finance, takaful and business services	<b>87</b>	<b>7,392</b>	-	3,848
Household-retail	<b>33,089</b>	<b>63,744</b>	17,716	72,844
Others	-	<b>2,929</b>	-	5,728
	<b>41,137</b>	<b>119,290</b>	30,379	144,853

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

	<b>31 December 2013</b>		31 December 2012	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
	<b>Individual impairment allowance</b>	<b>Collective impairment allowance</b>	Individual impairment allowance	Collective impairment allowance
Northern region	<b>6,043</b>	<b>17,934</b>	4,727	27,499
Southern region	<b>813</b>	<b>18,136</b>	3,748	22,124
Central region	<b>33,855</b>	<b>76,522</b>	20,924	84,974
Eastern region	<b>426</b>	<b>6,698</b>	980	10,256
	<b>41,137</b>	<b>119,290</b>	30,379	144,853

**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 December 2013		31 December 2012	
	Individual impairment charges	Write-off of individual impairment	Individual impairment charges	Write-off of individual impairment
Agricultural, hunting, forestry and fishing	346	-	1,023	-
Manufacturing	6,998	1,135	8,796	722
Construction	807	-	-	-
Wholesale & retail trade and restaurants & hotels	415	2,622	2,439	602
Transport, storage and communication	102	-	618	-
Finance, takaful and business services	87	-	-	-
Household-retail	33,669	948	19,212	46
	<b>42,424</b>	<b>4,705</b>	<b>32,088</b>	<b>1,370</b>

The reconciliation of changes in financing impairment provisions is disclosed in Note 11(ii) of the financial statements at 31 December 2013.

**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 ('ECAIs')**

The Standard 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:

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

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

**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**

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 C	C1 to D	C+ to D	150%	150%	20%
Unrated	-	-	-	-	-	-	50%	20%	20%

**Corporate and Banking Institutions (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) ECAIs (Cont'd)**

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

**31 December 2013**

**RM '000**

Exposure Class	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
	Moody's	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
<b>On and Off Balance-Sheet Exposures</b>							
Sovereigns & Central Banks		-	1,329,861	-	-	-	37,635
<b>Total</b>		-	1,329,861	-	-	-	37,635

31 December 2012

RM '000

Exposure Class	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
	Moody's	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
<b>On and Off Balance-Sheet Exposures</b>							
Sovereigns & Central Banks		-	3,092,431	-	-	-	971
<b>Total</b>		-	3,092,431	-	-	-	971

(f) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 December 2013

RM '000

Exposure Class	Ratings of Corporate by Approved ECAIs					
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
<b>On and Off Balance-Sheet Exposures</b>						
Corporates		59,138	89,060	68,301	-	4,660,372
<b>Total</b>		<b>59,138</b>	<b>89,060</b>	<b>68,301</b>	<b>-</b>	<b>4,660,372</b>

31 December 2012

RM '000

Exposure Class	Ratings of Corporate by Approved ECAIs					
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Moody's	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	A1 to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
<b>On and Off Balance-Sheet Exposures</b>						
Corporates		3,426	104,465	62,599	-	4,788,901
<b>Total</b>		<b>3,426</b>	<b>104,465</b>	<b>62,599</b>	<b>-</b>	<b>4,788,901</b>

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

**(f) Risk management policies (Cont'd)**

**1) Credit Risk (Cont'd)**

**i) ECAIs (Cont'd)**

**31 December 2013**

**RM '000**

Exposure Class	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
	Moody's	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	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
<b>On and Off Balance-Sheet Exposures</b>							
Banks, MDBs and DFIs		87,876	63,796	-	656	-	460,272
<b>Total</b>		<b>87,876</b>	<b>63,796</b>	<b>-</b>	<b>656</b>		<b>460,272</b>

31 December 2012

RM '000

Exposure Class	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
	Moody's	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	A1 to A3	BBB1 to BBB3	BB1 to B3	C1+ to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
<b>On and Off Balance-Sheet Exposures</b>							
Banks, MDBs and DFIs		147,604	84,500	89,745	-	-	257,743
<b>Total</b>		<b>147,604</b>	<b>84,500</b>	<b>89,745</b>	<b>-</b>	<b>-</b>	<b>257,743</b>

*Note:*

*MDBs - Multilateral Development Banks*

*DFIs - Development Financial Institutions*

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

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### **(f) Risk management policies (Cont'd)**

#### **1) Credit Risk (Cont'd)**

##### **ii) Credit risk mitigation ('CRM')**

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

The Bank's policy when granting credit facilities is on the basis of the customer's capacity to repay, rather than placing primary reliance on credit risk mitigants. Depending on the customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is nevertheless a key aspect of effective risk management and in the Bank, takes many forms.

The Bank's general policy is to promote the use of CRM, justified by commercial prudence and good practice as well as capital efficiency. Specific, detailed policies cover acceptability, structuring and terms of various types of business with regard to the availability of credit risk mitigants, for example in the form of collateral security, and these policies, together with the determination of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil 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 lending 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;
- under the institutional sector, certain trading facilities are supported by charges over financial instruments such as cash, debt securities and equities;
- financial collateral in the form of cash and marketable securities are used in many of the over-the-counter ('OTC') derivatives activities and in the Bank's securities financing business (securities lending and borrowing or repos and reverse repos); and
- netting is used where appropriate, and supported by market standard documentation.

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

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

The valuation of credit risk mitigants seeks to monitor and ensure that they will continue to provide the secured-repayment source anticipated at the time they were taken. The Bank's policy prescribes valuation at intervals of up to 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 credit exposures with credit risk rating (CRR) 6.1 or worse, a full valuation is to be obtained annually. 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 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)**

**(f) Risk management policies (Cont'd)**

**1) Credit Risk (Cont'd)**

**ii) CRM (Cont'd)**

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

**31 December 2013**

**RM'000**

<b>Exposure Class</b>	<b>Exposures before CRM</b>	<b>Exposures Covered by Guarantees / Credit Derivatives</b>	<b>Exposures Covered by Eligible Collateral</b>
<b><i>Credit Risk</i></b>			
<i>On-Balance Sheet Exposures</i>			
Sovereigns/Central Banks	4,712,537	-	-
Public Sector Entities	67,152	-	-
Banks, Development Financial Institutions & MDBs	419,002	-	-
Corporates	3,660,467	46,844	61,564
Regulatory Retail	2,100,151	15,856	21,671
House Financing	3,273,033	-	2,360
Other Assets	113,431	-	-
Defaulted Exposures	112,051	2,781	977
<b>Total for On-Balance Sheet Exposures</b>	<b>14,457,824</b>	<b>65,481</b>	<b>86,572</b>
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	337,971	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	1,890,414	3,059	62,002
Defaulted Exposures	34,685	-	2,710
<b>Total for Off-Balance Sheet Exposures</b>	<b>2,263,070</b>	<b>3,059</b>	<b>64,712</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>16,720,894</b>	<b>68,540</b>	<b>151,284</b>

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

**(f) Risk management policies (Cont'd)**

**1) Credit Risk (Cont'd)**

**ii) CRM (Cont'd)**

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

31 December 2012

RM'000

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

Refer to Note 35 of the financial statements at 31 December 2013 for disclosure of off-balance sheet and counterparty credit risk.

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

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**(f) Risk management policies (Cont'd)**

**1) Credit Risk (Cont'd)**

**iii) Counterparty Credit Risk**

In respect of counterparty credit risk exposures which arise from OTC derivative transactions, sell and buyback agreement transactions and credit derivative contracts, a credit limit for counterparty credit risk ('CCR') 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 and differences in credit quality are reflected in the size of the limits.

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

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

**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 ('RWA') and capital requirements for credit risk, market risk, large exposures risk and operational risk of the Bank at balance sheet date.

**31 December 2013**

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)
<b>Credit Risk</b>						
<i>On-Balance Sheet Exposures</i>						
Sovereigns/Central Banks	4,712,537	4,712,537	-	-	-	-
Public Sector Entities	67,152	67,152	13,430	-	13,430	1,074
Banks, Development Financial Institutions & MDBs	419,002	419,002	87,187	-	87,187	6,975
Corporates	3,660,467	3,598,905	3,554,376	-	3,554,376	284,350
Regulatory Retail	2,100,151	2,078,479	1,562,748	-	1,562,748	125,020
House Financing	3,273,033	3,270,673	1,378,769	-	1,378,769	110,302
Other Assets	113,431	113,431	30,652	-	30,652	2,452
Defaulted Exposures	112,051	111,073	118,338	-	118,338	9,467
<b>Total for On-Balance Sheet Exposures</b>	<b>14,457,824</b>	<b>14,371,252</b>	<b>6,745,500</b>	<b>-</b>	<b>6,745,500</b>	<b>539,640</b>
<i>Off-Balance Sheet Exposures</i>						
OTC Derivatives	337,971	337,971	184,656	-	184,656	14,772
Off balance sheet exposures other than OTC derivatives or credit derivatives	1,890,414	1,828,412	1,602,193	-	1,602,193	128,175
Defaulted Exposures	34,685	31,975	47,956	-	47,956	3,836
<b>Total for Off-Balance Sheet Exposures</b>	<b>2,263,070</b>	<b>2,198,358</b>	<b>1,834,805</b>	<b>-</b>	<b>1,834,805</b>	<b>146,783</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>16,720,894</b>	<b>16,569,610</b>	<b>8,580,305</b>	<b>-</b>	<b>8,580,305</b>	<b>686,423</b>
<b>Large Exposures Risk Requirement</b>						
	-	-	-	-	-	-
<b>Market Risk</b>						
	<u>Long position</u>	<u>Short position</u>				
Profit Rate Risk	3,135,244	3,575,223	(439,979)	70,292	-	70,292
Foreign Currency Risk	7,960	6,494	7,960	7,960	-	7,960
<b>Total market risk</b>	<b>3,143,204</b>	<b>3,581,717</b>	<b>(432,019)</b>	<b>78,252</b>	<b>-</b>	<b>78,252</b>
<b>Operational Risk *</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>856,104</b>	<b>-</b>	<b>856,104</b>
<b>Total RWA and Capital Requirement</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,514,661</b>	<b>-</b>	<b>9,514,661</b>
			<b>9,514,661</b>	<b>-</b>	<b>9,514,661</b>	<b>761,171</b>

**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)**

31 December 2012

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)
<b>Credit Risk</b>						
<i>On-Balance Sheet Exposures</i>						
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
<b>Total for On-Balance Sheet Exposures</b>	<b>12,377,363</b>	<b>12,290,374</b>	<b>6,878,102</b>	<b>-</b>	<b>6,878,102</b>	<b>550,249</b>
<i>Off-Balance Sheet Exposures</i>						
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
<b>Total for Off-Balance Sheet Exposures</b>	<b>1,808,790</b>	<b>1,767,760</b>	<b>1,519,754</b>	<b>-</b>	<b>1,519,754</b>	<b>121,581</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>14,186,153</b>	<b>14,058,134</b>	<b>8,397,856</b>	<b>-</b>	<b>8,397,856</b>	<b>671,830</b>
<b>Large Exposures Risk Requirement</b>						
	-	-	-	-	-	-
<b>Market Risk</b>						
	<b>Long position</b>	<b>Short position</b>				
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
<b>Total market risk</b>	<b>2,517,799</b>	<b>2,385,717</b>	<b>133,744</b>	<b>72,469</b>	<b>72,469</b>	<b>5,798</b>
<b>Operational Risk *</b>	-	-	-	746,473	746,473	59,718
<b>Total RWA and Capital Requirement</b>	-	-	9,216,798	-	9,216,798	737,346

*Note:*

*MDBs - Multilateral Development Banks*

*OTC - Over the counter*

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

Refer to Note 35 of the financial statements at 31 December 2013 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.

**31 December 2013**

Risk Weights	Exposures after Netting and Credit Risk Mitigation							Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks	PSEs	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		
0%	4,712,820	-	-	2,680	2,710	-	82,779	4,800,989	-
20%	-	71,778	491,958	68,874	17,380	-	-	649,990	129,998
35%	-	-	-	-	-	2,505,985	-	2,505,985	877,095
50%	-	-	355,810	86,380	539	341,058	-	783,787	391,893
75%	-	-	-	-	2,278,111	415,014	-	2,693,125	2,019,843
100%	-	-	6,689	4,603,921	87,396	355,594	30,652	5,084,252	5,084,252
150%	-	-	26,518	11,876	12,769	319	-	51,482	77,224
<b>Total Risk Weight</b>								<b>16,569,610</b>	<b>8,580,305</b>
<b>Average Risk Weight</b>	<b>0%</b>	<b>20%</b>	<b>37%</b>	<b>98%</b>	<b>76%</b>	<b>47%</b>	<b>27%</b>	<b>52%</b>	

**31 December 2012**

Risk Weights	Exposures after Netting and Credit Risk Mitigation							Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks	PSEs	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		
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%	-	-	-	4,758,320	152,059	47,686	129,265	5,087,330	5,087,331
150%	-	-	1,872	250	25,508	478	-	28,108	42,161
<b>Total Risk Weight</b>								<b>14,058,134</b>	<b>8,397,856</b>
<b>Average Risk Weight</b>	<b>0%</b>	<b>0%</b>	<b>31%</b>	<b>99%</b>	<b>77%</b>	<b>50%</b>	<b>62%</b>	<b>60%</b>	

*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 4 d) of the financial statements at 31 December 2013. The increase or decline in economic value for upward and downward rate shocks for measuring profit rate risk/rate of return risk in the banking book are as follows:

Change in projected economic value of equity arising from a shift in interest/profit rates of:	31-Dec-13	31-Dec-12
	RM'000	RM'000
+200 basis points parallel shift in yield curves	3,812	(63,793)
-200 basis points parallel shift in yield curves	8,684	80,873

**3) Restatement of comparative figures**

Comparative figures for Table 1, 3 and 4 were restated to remove the unearned income portion. The reasons of the restatement is to conform to current year's presentation due to convergence to Malaysian Financial Reporting Standards.

**4) 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.

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

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**(f) Risk management policies (Cont'd)**

**4) 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)**

**i) 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 business needs and Shariah requirements.

**ii) 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.

**iii) Shariah Research**

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

**iv) 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.

**v) 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 2013, the following events occurred:

(i) Income from inadvertent Shariah non-compliant activities identified by the Bank's management amounting to RM71,452.73 in 2013 has been reversed to Shariah Penalty & Impure Income Account.

(ii) An amount of RM12,000.00 from Pusat Pungutan Zakat, Majlis Agama Islam Kuala Lumpur (JAWI) has been credited to the account.

(iii) The total amount of RM101,000.00 has been channeled from the account to Charity Organisations.

(iv) The amount of RM14,563.75 in the account will be carried forward from 2013 pending distribution in 2014.

Other than the above, there were no other Shariah non-compliance incomes or other transactions which occurred during the year ended 31 December 2013.