

HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
(Incorporated in Malaysia)
Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures
at 30 June 2014

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

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MOHAMED RAFAE BIN MOHAMED HANEEF

CHIEF EXECUTIVE OFFICER
21 July 2014

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

The Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures at 30 June 2014 do not include all of the information required for full (Basel II) Pillar 3 Disclosures, and should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2013 and the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures at 31 December 2013.

The tables attached in the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures provide an understanding of the quantitative changes relating to Pillar 3 Disclosures of the Bank since the financial year ended 31 December 2013. There are no material changes relating to qualitative disclosures during the interim reporting period.

Stress Testing

Stress testing and scenario analysis form an integral part of Internal Capital Adequacy Assessment Process (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. It also incorporates the impact of management actions to determine whether or not the Bank is able to withstand such an event.

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 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 in the Bank and 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 machinery financing) where physical assets form the principal source of facility repayment, physical collateral is typically taken;
- in the commercial and industrial sectors, charges over business assets such as premises, stock and debtors;
- facilities provided to small and medium enterprises are commonly granted against guarantees by their owners/directors;
- guarantees from third parties can arise where facilities are extended without the benefit of any alternative form of security;
- 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.

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

Credit Risk Mitigation (Cont'd)

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.

Refer to Note 29 to the unaudited condensed interim financial statements at 30 June 2014 for the total risk weighted capital ratio, Common Equity Tier 1 (CET 1) and Tier 1 capital ratio, and risk weighted assets and capital requirements for credit risk, market risk and operational risk.

1) Credit Risk

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

	30 June 2014				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line	17,924	20,857	59,491	7,172	105,444
Term financing					
House financing	453,906	538,473	2,046,090	180,153	3,218,622
Hire purchase receivables	49,861	37,548	110,360	42,617	240,386
Lease receivables	-	-	2,948	-	2,948
Other term financing	502,642	732,247	3,230,058	207,538	4,672,485
Trust receipts	13,537	-	43,782	-	57,319
Claims on customers under acceptance credits	120,415	138,507	407,498	31,183	697,603
Staff financing	5,200	3,304	43,724	4,135	56,363
Credit cards	90,822	66,310	272,037	24,150	453,319
Revolving credit	38,304	3,591	416,249	50,864	509,008
	1,292,611	1,540,837	6,632,237	547,812	10,013,497

	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
	1,403,353	1,413,876	5,996,088	522,283	9,335,600

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

1) Credit Risk (Cont'd)

**Table 2: Geographical distribution of impaired financing and advances breakdown by type
30 June 2014**

RM'000	Northern	Southern	Central	Eastern	Total
Cash line	246	-	-	-	246
Term financing					
House financing	13,307	9,366	29,784	1,487	53,944
Hire purchase receivables	9,190	350	270	619	10,429
Other term financing	11,282	5,956	62,833	2,808	82,879
Claims on customers under acceptance credits	897	-	-	-	897
Credit cards	2,892	1,842	7,932	562	13,228
	37,814	17,514	100,819	5,476	161,623

31 December 2013

RM'000	Northern	Southern	Central	Eastern	Total
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
	38,608	26,209	96,782	5,307	166,906

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 Interim Disclosures (Cont'd)

1) Credit Risk (Cont'd)

Table 3: Residual contractual maturity of financing and advances breakdown by type
30 June 2014

RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line	105,444	-	-	-	105,444
Term financing					
House financing	21,723	2,109	9,399	3,185,391	3,218,622
Hire purchase receivables	17,009	99,081	124,296	-	240,386
Lease receivables	-	-	2,948	-	2,948
Other term financing	2,478,130	351,935	562,842	1,279,578	4,672,485
Trust receipts	57,319	-	-	-	57,319
Claims on customers under acceptance credits	697,603	-	-	-	697,603
Staff financing	27	563	1,998	53,775	56,363
Credit cards	453,319	-	-	-	453,319
Revolving credit	509,008	-	-	-	509,008
	4,339,582	453,688	701,483	4,518,744	10,013,497

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
	3,821,794	571,348	666,145	4,276,313	9,335,600

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

1) Credit risk (Cont'd)

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

30 June 2014 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	10,748	-	5,165	-	291,314	-	3,200	-	-	310,427
Mining and quarrying	1,671	-	11,469	-	25,894	-	-	-	160,550	199,584
Manufacturing	22,005	-	110,027	-	678,489	12,076	260,389	-	40,606	1,123,592
Electricity, gas and water	946	-	-	-	65,477	-	15,025	-	2,000	83,448
Construction	9,899	-	18,229	-	565,549	-	38,123	-	99,080	730,880
Real estate	445	-	-	-	277,694	-	-	-	5,000	283,139
Wholesale & retail trade and restaurants & hotels	17,273	-	26,106	-	137,691	41,571	364,602	-	86,953	674,196
Transport, storage and communication	7,398	-	18,785	-	205,537	464	3,992	-	9,999	246,175
Finance, takaful and business services	23,354	-	18,904	2,948	669,977	3,000	11,243	-	64,220	793,646
Household-retail	8,676	3,218,622	486	-	1,473,414	-	-	56,363	453,319	5,210,880
Others	3,029	-	31,215	-	281,449	208	1,029	-	40,600	357,530
	105,444	3,218,622	240,386	2,948	4,672,485	57,319	697,603	56,363	453,319	10,013,497

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
	90,276	2,659,995	252,560	2,442	4,858,907	55,039	660,683	46,515	470,834	9,335,600

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

1) Credit risk (Cont'd)

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

30 June 2014						
RM'000						
Cash line	House financing	Hire purchase receivables	Other term financing	Claims on customers under acceptances credits	Credit/ charge cards	Total
Manufacturing	6	-	7,574	3,238	-	10,818
Construction	170	-	-	1,469	-	1,639
Wholesale & retail trade and restaurants & hotels	-	-	1,356	749	897	3,002
Transport, storage and communication	70	-	-	127	-	197
Finance, takaful and business services	-	-	622	1	-	623
Household-retail	-	53,944	686	76,795	-	144,653
Others	-	-	191	500	-	691
	246	53,944	10,429	82,879	897	161,623

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	-	6,108	-	245	6,358
Construction	182	-	-	2,273	-	2,455
Wholesale & retail trade and restaurants & hotels	-	-	354	598	1,140	2,092
Transport, storage and communication	691	-	-	269	-	960
Finance, takaful and business services	-	-	346	-	-	346
Household-retail	-	66,930	694	72,689	-	154,504
Others	-	-	168	23	-	191
	878	66,930	7,670	75,852	1,385	166,906

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

1) Credit Risk (Cont'd)

Table 6: All past due financing and advances breakdown by sector *

	30 June 2014	31 December 2013
	RM'000	RM'000
Manufacturing	61,429	28,444
Construction	9,307	10,983
Wholesale & retail trade and restaurants & hotels	17,047	9,359
Transport, storage and communication	1,119	4,295
Finance, takaful and business services	3,538	1,548
Household-retail	821,402	691,203
Others	3,924	854
	917,766	746,686

Table 7: All past due financing and advances breakdown by geographical location*

	30 June 2014	31 December 2013
	RM'000	RM'000
Northern region	214,724	172,720
Southern region	99,452	117,251
Central region	572,495	432,973
Eastern region	31,095	23,742
	917,766	746,686

* of which the portion of impaired financing and advances breakdown by sector and geographical location is disclosed in Note 15 (iv) and 15 (vi) of the unaudited condensed interim financial statements at 30 June 2014.

Table 8: Individual and collective impairment allowance breakdown by sector

	30 June 2014		31 December 2013	
	RM'000		RM'000	
	Individual impairment allowance	Collective impairment allowance	Individual impairment allowance	Collective impairment allowance
Agricultural, hunting, forestry and fishing	-	3,494	5	4,715
Mining and quarrying	-	2,246	-	1,331
Manufacturing	10,818	12,525	5,435	14,286
Electricity, gas and water	-	939	-	1,162
Construction	1,030	8,215	806	8,524
Real estate	-	3,187	-	3,266
Wholesale & retail trade and restaurants & hotels	1,161	7,575	1,192	8,428
Transport, storage and communication	106	2,770	523	3,513
Finance, takaful and business services	76	8,932	87	7,392
Household-retail	36,342	58,244	33,089	63,744
Others	-	4,024	-	2,929
	49,533	112,151	41,137	119,290

Table 9: Individual and collective impairment allowance breakdown by geographical location

	30 June 2014		31 December 2013	
	RM'000		RM'000	
	Individual impairment allowance	Collective impairment allowance	Individual impairment allowance	Collective impairment allowance
Northern region	7,614	14,463	6,043	17,934
Southern region	483	17,338	813	18,136
Central region	40,821	74,191	33,855	76,522
Eastern region	615	6,159	426	6,698
	49,533	112,151	41,137	119,290

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

1) Credit Risk (Cont'd)

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

	30 June 2014		31 December 2013	
	RM'000	RM'000	RM'000	RM'000
	Individual impairment charges	Write-off of individual impairment	Individual impairment charges	Write-off of individual impairment
Agricultural, hunting, forestry and fishing	-	-	346	-
Manufacturing	13,330	2,627	6,998	1,135
Construction	485	-	807	-
Wholesale & retail trade and restaurants & hotels	21	-	415	2,622
Transport, storage and communication	17	-	102	-
Finance, takaful and business services	-	9	87	-
Household-retail	16,434	1,807	33,669	948
	30,287	4,443	42,424	4,705

The reconciliation of changes in financing impairment provisions is disclosed in Note 15(ii) of the unaudited condensed interim financial statements at 30 June 2014.

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')

Risk weights under the standardised approach at the reporting date are reflected in page 17. Rated and unrated exposures according to ratings by ECAIs at reporting date are as follows:-

30 June 2014

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
On and Off Balance-Sheet Exposures							
Sovereigns & Central Banks		-	1,728,833	-	-	-	-
Total		-	1,728,833	-	-	-	-

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
On and Off Balance-Sheet Exposures							
Sovereigns & Central Banks		-	1,329,861	-	-	-	37,635
Total		-	1,329,861	-	-	-	37,635

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)

30 June 2014

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
On and Off Balance-Sheet Exposures						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	8,429	65,710	-	469,819
Corporates		90,369	97,940	1,200	-	4,763,182
Total		90,369	106,369	66,910	-	5,233,001

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
On and Off Balance-Sheet Exposures						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		-	-	-	-	-
Corporates		59,138	89,060	68,301	-	4,660,372
Total		59,138	89,060	68,301	-	4,660,372

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)

30 June 2014

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
On and Off Balance-Sheet Exposures							
Banks, MDBs and DFIs		439,876	77,799	-	-	-	453,701
Total		439,876	77,799	-	-	-	453,701

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
On and Off Balance-Sheet Exposures							
Banks, MDBs and DFIs		87,876	63,796	-	656	-	460,272
Total		87,876	63,796	-	656	-	460,272

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

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

1) Credit Risk (Cont'd)

ii) Credit risk mitigation

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

30 June 2014

RM'000

Exposure Class	Exposures Before Credit Risk Mitigation	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Collateral
<u>Credit Risk</u>			
<i>On-Balance Sheet Exposures</i>			
Sovereigns/Central Banks	4,732,294	-	-
Public Sector Entities	467,819	-	-
Banks, Development Financial Institutions & MDBs	858,167	-	-
Corporates	3,758,430	86,766	54,812
Regulatory Retail	1,998,218	2,979	24,411
House Financing	3,565,405	-	2,503
Other Assets	100,902	-	-
Defaulted Exposures	102,020	1,057	573
Total for On-Balance Sheet Exposures	15,583,255	90,802	82,299
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	479,192	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	2,066,463	10,625	52,059
Defaulted Exposures	28,406	25	513
Total for Off-Balance Sheet Exposures	2,574,061	10,650	52,572
Total On and Off-Balance Sheet Exposures	18,157,316	101,452	134,871

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (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 mitigation.

31 December 2013

RM'000

Exposure Class	Exposures Before Credit Risk Mitigation	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Collateral
<i>Credit Risk</i>			
<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
Total for On-Balance Sheet Exposures	14,457,824	65,481	86,572
<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
Total for Off-Balance Sheet Exposures	2,263,070	3,059	64,712
Total On and Off-Balance Sheet Exposures	16,720,894	68,540	151,284

Refer to Note 30 of the unaudited condensed interim financial statements at 30 June 2014 for disclosure of off-balance sheet and Note 28 for disclosure of counterparty credit risk.

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

1) Credit Risk (Cont'd)

iii) Counterparty Credit Risk

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

30 June 2014

Exposure Class	Gross	Net	Risk	RWA	Total	Capital
	Exposures	Exposures	Weighted	Absorbed	RWA	Requirement
	(RM'000)	(RM'000)	Assets	by PSIA	after	(RM'000)
	(RM'000)	(RM'000)	(RWA)	(RM'000)	PSIA	(RM'000)
	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
Credit Risk						
<i>On-Balance Sheet Exposures</i>						
Sovereigns/Central Banks	4,732,294	4,732,294	-	-	-	-
Public Sector Entities	467,819	467,819	467,819	-	467,819	37,426
Banks, Development Financial Institutions & MDBs	858,167	858,167	175,074	-	175,074	14,006
Corporates	3,758,430	3,703,619	3,638,589	-	3,638,589	291,087
Regulatory Retail	1,998,218	1,973,807	1,484,244	-	1,484,244	118,739
House Financing	3,565,405	3,562,902	1,479,151	-	1,479,151	118,332
Other Assets	100,902	100,902	35,188	-	35,188	2,815
Defaulted Exposures	102,020	101,447	112,608	-	112,608	9,009
Total for On-Balance Sheet Exposures	15,583,255	15,500,957	7,392,673	-	7,392,673	591,414
<i>Off-Balance Sheet Exposures</i>						
OTC Derivatives	479,192	479,192	161,025	-	161,025	12,882
Off balance sheet exposures other than OTC derivatives or credit derivatives	2,066,463	2,014,405	1,696,682	-	1,696,682	135,734
Defaulted Exposures	28,406	27,893	41,821	-	41,821	3,346
Total for Off-Balance Sheet Exposures	2,574,061	2,521,490	1,899,528	-	1,899,528	151,962
Total On and Off-Balance Sheet Exposures	18,157,316	18,022,447	9,292,201	-	9,292,201	743,376
Market Risk						
		<u>Long position</u>	<u>Short position</u>			
Profit Rate Risk		4,361,842	4,972,657	(610,815)	97,442	7,795
Foreign Currency Risk		14,322	2,665	14,322	14,322	1,146
Total market risk		4,376,164	4,975,322	(596,493)	111,764	8,941
Operational Risk *	-	-	-	899,632	-	71,971
Total RWA and Capital Requirement	-	-	-	10,303,597	-	824,288

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

1) Credit Risk (Cont'd)

iii) Counterparty Credit Risk (Cont'd)

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)
Credit Risk						
<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
Total for On-Balance Sheet Exposures	14,457,824	14,371,252	6,745,500	-	6,745,500	539,640
<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
Total for Off-Balance Sheet Exposures	2,263,070	2,198,358	1,834,805	-	1,834,805	146,783
Total On and Off-Balance Sheet Exposures	16,720,894	16,569,610	8,580,305	-	8,580,305	686,423
Market Risk						
		Long position	Short position			
Profit Rate Risk		3,135,244	3,575,223	(439,979)	70,292	5,623
Foreign Currency Risk		7,960	6,494	7,960	7,960	637
Total market risk		3,143,204	3,581,717	(432,019)	78,252	6,260
Operational Risk *		-	-	856,104	856,104	68,488
Total RWA and Capital Requirement		-	-	9,514,661	9,514,661	761,171

Note:

MDBs - Multilateral Development Banks

OTC - Over the counter

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

Refer to Note 30 of the unaudited condensed interim financial statements at 30 June 2014 for disclosure of off-balance sheet and Note 28 for disclosure of counterparty credit risk.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (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.

30 June 2014

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%	4,732,294	-	-	4,193	3,133	-	65,714	4,805,334	-
20%	-	78,429	1,278,259	131,513	1,165	-	-	1,489,366	297,873
35%	-	-	-	-	-	2,792,773	-	2,792,773	977,471
50%	-	-	114,127	93,752	823	364,965	-	573,667	286,834
75%	-	-	-	25	2,242,806	387,720	-	2,630,551	1,972,912
100%	-	535,529	6,801	4,662,152	54,217	384,160	35,188	5,678,047	5,678,047
150%	-	-	26,014	6,684	19,500	511	-	52,709	79,064
Total Risk Weight								18,022,447	9,292,201
Average Risk Weight	0%	90%	25%	97%	76%	47%	35%	52%	

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
Total Risk Weight								16,569,610	8,580,305
Average Risk Weight	0%	20%	37%	98%	76%	47%	27%	52%	

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

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

2) Profit Rate Risk

A summary of the Value at Risk (VAR) position of the Bank's trading portfolios at the reporting date is as follows:-

HBMS Amanah Malaysia Berhad (RM'000)	At 30 June 2014	Average	Maximum	Minimum
Foreign currency risk	80	52	157	6
Profit rate risk	29	46	100	27
Credit spread risk	0	2	134	0
Overall	73	71	186	30

HBMS Amanah Malaysia Berhad (RM'000)	At 31 December 2013	Average	Maximum	Minimum
Foreign currency risk	130	65	279	7
Profit rate risk	84	141	336	84
Overall	176	147	328	89

The profit rate sensitivities set out in the table below are illustrative only and are based on simplified scenarios.

Change in projected net finance income in next 12 months arising from a shift in profit rates of:	HBMS	
	30 June 14	31 December 13
	RM'000	RM'000
+100 basis points parallel increase	36,558	38,461
-100 basis points parallel increase	(33,822)	(35,768)
+25 basis points at the beginning of each quarter	24,904	27,253
-25 basis points at the beginning of each quarter	(24,064)	(26,199)

Sensitivity of reported reserves in "other comprehensive income" to profit rate movements are monitored on a monthly basis by assessing the expected reduction in valuation of available-for-sale portfolios to parallel movements of plus or minus 100 basis points in all yield curves.

Sensitivity of reported reserves in "other comprehensive income" to profit rate movements

	HBMS	
	30 June 14	31 December 13
	RM'000	RM'000
+100 basis points parallel increase	(29,641)	(26,753)
-100 basis points parallel increase	29,641	26,753

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 profit rates of:	HBMS	
	30 June 14	31 December 13
	RM'000	RM'000
+200 basis points parallel shift in yield curves	(18,340)	3,812
-200 basis points parallel shift in yield curves	38,683	8,684

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 Bank Negara Malaysia ('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

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

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.

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)

iv) Shariah Secretariat

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

v) Knowledge and Skills Management

To monitor the level of Shariah related knowledge and skills by the staff involved in the cycle of the Bank's products.

Quantitative Disclosure

During the half financial year ended 30 June 2014, the following transactions are recorded in the Shariah Penalty & Impure Income Account (the Account):

- (i) The amount of MYR14,564 in the Account was carried forward from 2013 pending distribution in 2014.
- (ii) Income from inadvertent Shariah non-compliant activities identified by the Bank's management amounting to MYR48,702 in 2014 (as at 30 June 2014) has been reversed to the Account.

Other than the above, there were no other Shariah non-compliance income or other transactions recorded during the half year ended 30 June 2014.