Company No.
127776-V

HSBC BANK MALAYSIA BERHAD
(Company No.127776-V)
(Incorporated in Malaysia)
Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures
at 31 December 2012

CHIEF EXECUTIVE OFFICER'S ATTESTATION

I, Mukhtar Malik Hussain, being the Chief Executive Officer of HSBC Bank Malaysia Berhad, do hereby state that, in my opinion, the Pillar 3 Disclosures set out on pages 2-27 have been prepared according to the Risk Weighted Capital Adequacy Framework (Basel II), and are accurate and complete.

....
MUKHTAR MALIK HUSSAIN
CHIEF EXECUTIVE OFFICER
Date: 22 February 2013

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(a) Introduction

HSBC Bank Malaysia Berhad ("the Bank") is principally engaged in the provision of banking and other related financial services. The subsidiaries of the Bank are principally engaged in the businesses of Islamic Banking and nominee services. Islamic Banking operations refer generally to the acceptance of deposits and granting of financing under the principles of Shariah. The Bank and its subsidiaries are herein referred to as "the Group" in this document.

(b) Basel II

The Group's lead regulator, Bank Negara Malaysia ('BNM') sets and monitors capital requirements for the Group as a whole. With effect from 2008, the Group 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, Operational and Market Risk in its trading portfolios. Its fully owned subsidiary, HSBC Amanah Malaysia Berhad, adopts the Standardised approach for Credit and Market Risk in its trading portfolios, 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 Group. 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 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 at 31 December 2012.

(c) Consolidation basis

The basis of consolidation for financial accounting purposes is described in Note 3(a) of the financial statements at 31 December 2012 and is similar to that used for regulatory purposes. The Bank's subsidiary companies are listed in Note 14 to the financial statements, and are fully consolidated for both financial accounting and regulatory purposes.

(d) Transferability of capital and funds within the Group

The Bank is the primary provider of equity capital to its subsidiaries. Each subsidiary manages its own capital to support its planned business growth. During 2012, none of the Group's subsidiaries were subject to any significant restriction on paying dividends or repaying inter-company loans and advances.

(e) Internal assessment of capital adequacy

The Group 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 Group's Internal Capital Adequacy Assessment Process ('ICAAP'). This process ensures that the Group's level of capital:
• Remains sufficient to support the Group's risk profile and outstanding commitments;
• Exceeds the Group's formal minimum regulatory requirements;
• Is capable of withstanding a severe economic downturn stress scenario; and
• Remains consistent with the Group'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.

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

The ICAAP demonstrates the extent to which capital management is embedded in the Group. 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 Group remains above the minimum Regulatory Capital requirement on a consolidated basis and established monitoring triggers against the Capital Adequacy Ratio.

Refer to Note 37 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.

Stress Testing
Stress testing and scenario analysis form an integral part of ICAAP to demonstrate that the Group 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 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 the 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 Group'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 Group 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 Group's strategy formulation, business planning, execution and measurement/reporting processes so as to achieve the Group'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 Group'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 Group'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 Group 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.

(f) Capital structure

For regulatory purposes, the Group'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 Group are disclosed below:

• Tier 1 capital includes ordinary share capital*, share premium, capital redemption reserves, 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 37 of the financial statements at 31 December 2012 for the amount of Tier 1 capital and a breakdown of its components).
**Refer to Note 24 of the financial statements at 31 December 2012 for further details on ordinary share capital. All ordinary shares in issue confer identical rights in respect of capital, dividends and voting.*

• Tier 2 capital includes qualifying subordinated bonds**, collective impairment allowances (excluding collective impairment allowances attributable to loans classified as impaired) and the element of the fair value reserve relating to revaluation of property. (Refer to Note 37 of the financial statements at 31 December 2012 for the amount of Tier 2 capital and a breakdown of its components).
*** Refer to Note 23 of the financial statement at 31 December 2012 for terms and conditions of the subordinated bonds.*

(g) Risk management policies

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

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

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

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

(g) Risk management policies (Cont'd)

1) Credit Risk

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

Table 1: Geographical distribution of loans/financing broken down by type

	31 December 2012				
Group (RM'000)	**Northern**	**Southern**	**Central**	**Eastern**	**Total**
Overdrafts	**216,202**	**153,823**	**570,180**	**342,555**	**1,282,760**
Term loans/financing					
Housing loans/financing	**3,147,578**	**2,354,291**	**8,104,518**	**994,678**	**14,601,065**
Syndicated term loan/financing	**-**	**-**	**67,372**	**-**	**67,372**
Factoring receivables	**29,329**	**14,346**	**104,515**	**8,944**	**157,134**
Hire purchase receivables	**64,562**	**56,555**	**106,971**	**68,737**	**296,825**
Lease receivables	**81**	**-**	**3,138**	**-**	**3,219**
Other term loans/financing	**1,915,836**	**1,665,519**	**6,393,316**	**2,479,274**	**12,453,945**
Bills receivable	**84,874**	**193,815**	**2,577,702**	**438,302**	**3,294,693**
Trust receipts	**168,398**	**259,792**	**621,857**	**179,643**	**1,229,690**
Claims on customers under acceptance credits	**849,569**	**476,807**	**1,046,424**	**617,804**	**2,990,604**
Staff loans/financing	**45,403**	**29,192**	**299,117**	**27,964**	**401,676**
Credit/charge cards	**585,770**	**402,309**	**1,594,086**	**302,178**	**2,884,343**
Revolving credit	**164,138**	**137,922**	**3,062,094**	**56,254**	**3,420,408**
Other loans/financing	**2,560**	**3,123**	**3,522**	**675**	**9,880**
Less : Unearned income	**(19,923)**	**(19,527)**	**(70,316)**	**(11,531)**	**(121,297)**
	7,254,377	**5,727,967**	**24,484,496**	**5,505,477**	**42,972,317**

	31 December 2011 (Restated) [See Note 6]				
Group (RM'000)	Northern	Southern	Central	Eastern	Total
Overdrafts	220,139	162,826	533,373	341,940	1,258,278
Term loans/financing					
Housing loans/financing	2,877,364	2,009,988	7,450,885	988,041	13,326,278
Syndicated term loan/financing	-	-	77,188	-	77,188
Factoring receivables	33,959	6,816	62,911	3,346	107,032
Hire purchase receivables	46,380	62,821	85,164	64,452	258,817
Lease receivables	166	-	776	-	942
Other term loans/financing	1,909,433	1,764,931	5,543,100	2,124,430	11,341,894
Bills receivable	95,903	210,970	2,344,759	254,705	2,906,337
Trust receipts	319,871	370,650	819,371	120,579	1,630,471
Claims on customers under acceptance credits	962,213	448,592	971,561	898,545	3,280,911
Staff loans/financing	45,104	27,459	304,346	28,364	405,273
Credit/charge cards	615,837	419,787	1,588,247	313,490	2,937,361
Revolving credit	167,670	141,303	2,512,946	52,987	2,874,906
Other loans/financing	2,512	3,220	2,612	813	9,157
Less : Unearned income	(18,892)	(20,174)	(64,288)	(10,844)	(114,198)
	7,277,659	5,609,189	22,232,951	5,180,848	40,300,647

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

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

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

	31 December 2012				
Group (RM'000)	**Northern**	**Southern**	**Central**	**Eastern**	**Total**
Overdrafts	**8,315**	**8,868**	**7,345**	**2,571**	**27,099**
Term loans/financing					
Housing loans/financing	**67,926**	**90,660**	**126,243**	**10,396**	**295,225**
Factoring receivables	**-**	**86**	**663**	**-**	**749**
Hire purchase receivables	**4,339**	**3,847**	**423**	**825**	**9,434**
Lease receivables	**-**	**-**	**-**	**-**	**-**
Other term loans/financing	**67,256**	**53,422**	**115,160**	**53,133**	**288,971**
Bills receivable	**281**	**8,168**	**90**	**2,407**	**10,946**
Trust receipts	**603**	**3,613**	**-**	**57**	**4,273**
Claims on customers under acceptance credits	**7,151**	**32,214**	**11,707**	**7,971**	**59,043**
Staff loans/financing	**571**	**461**	**4,703**	**149**	**5,884**
Credit/charge cards	**15,657**	**10,903**	**36,078**	**4,954**	**67,592**
Revolving credit	**-**	**-**	**1,303**	**-**	**1,303**
Other loans/financing	**2,551**	**3,100**	**2,001**	**675**	**8,327**
	174,650	**215,342**	**305,716**	**83,138**	**778,846**

	31 December 2011				
Group (RM'000)	Northern	Southern	Central	Eastern	Total
Overdrafts	6,837	6,321	4,990	6,551	24,699
Term loans/financing					
Housing loans/financing	56,317	82,458	95,162	10,132	244,069
Factoring receivables	-	-	-	-	-
Hire purchase receivables	2,525	1,230	656	324	4,735
Lease receivables	-	-	3	-	3
Other term loans/financing	77,473	45,357	139,078	59,831	321,739
Bills receivable	267	8,112	78	2,246	10,703
Trust receipts	448	3,580	1,089	5	5,122
Claims on customers under acceptance credits	16,620	21,387	11,432	5,073	54,512
Staff loans/financing	800	118	5,610	62	6,590
Credit/charge cards	15,831	9,694	27,675	5,576	58,776
Revolving credit	571	-	1,208	-	1,779
Other loans/financing	2,510	3,207	2,150	812	8,679
	180,199	181,464	289,131	90,612	741,406

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 state 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 loans, advances and financing is based on the location of the borrower.

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

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

Table 3: Residual contractual maturity of loans/financing broken down by type

	31 December 2012				
Group (RM'000)	**Maturing within one year**	**One year to three years**	**Three years to five years**	**Over five years**	**Total**
Overdrafts	**1,282,760**	**-**	**-**	**-**	**1,282,760**
Term loans/financing					
Housing loans/financing	**103,411**	**70,648**	**186,010**	**14,240,996**	**14,601,065**
Syndicated term loan/financing	**671**	**66,701**	**-**	**-**	**67,372**
Factoring receivables	**157,134**	**-**	**-**	**-**	**157,134**
Hire purchase receivables	**17,571**	**108,984**	**137,602**	**32,668**	**296,825**
Lease receivables	**81**	**-**	**3,138**	**-**	**3,219**
Other term loans/financing	**3,421,030**	**1,623,506**	**2,185,919**	**5,223,490**	**12,453,945**
Bills receivable	**3,294,693**	**-**	**-**	**-**	**3,294,693**
Trust receipts	**1,229,690**	**-**	**-**	**-**	**1,229,690**
Claims on customers under acceptance credits	**2,990,604**	**-**	**-**	**-**	**2,990,604**
Staff loans/financing	**4,338**	**15,601**	**34,756**	**346,981**	**401,676**
Credit/charge cards	**2,884,343**	**-**	**-**	**-**	**2,884,343**
Revolving credit	**3,420,408**	**-**	**-**	**-**	**3,420,408**
Other loans/financing	**9,880**	**-**	**-**	**-**	**9,880**
Less: Unearned income	**(44,898)**	**(20,113)**	**(25,252)**	**(31,034)**	**(121,297)**
	18,771,716	**1,865,327**	**2,522,173**	**19,813,101**	**42,972,317**

	31 December 2011 (Restated) [See Note 6]				
Group (RM'000)	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Overdrafts	1,258,278	-	-	-	1,258,278
Term loans/financing					
Housing loans/financing	98,846	74,255	192,144	12,961,033	13,326,278
Syndicated term loan/financing	-	2,962	74,226	-	77,188
Factoring receivables	107,032	-	-	-	107,032
Hire purchase receivables	16,020	113,218	121,324	8,255	258,817
Lease receivables	841	101	-	-	942
Other term loans/financing	2,790,673	1,479,183	2,711,852	4,360,186	11,341,894
Bills receivable	2,906,337	-	-	-	2,906,337
Trust receipts	1,630,471	-	-	-	1,630,471
Claims on customers under acceptance credits	3,280,911	-	-	-	3,280,911
Staff loans/financing	4,941	18,183	34,880	347,269	405,273
Credit/charge cards	2,937,361	-	-	-	2,937,361
Revolving credit	2,874,906	-	-	-	2,874,906
Other loans/financing	9,157	-	-	-	9,157
Less: Unearned income	(43,048)	(21,501)	(31,777)	(17,872)	(114,198)
	17,872,726	1,666,401	3,102,649	17,658,871	40,300,647

(g) Risk management policies (Cont'd)

1) Credit risk (Cont'd)

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

31 December 2012
Group (RM'000)

	Overdraft	**Housing loans/ financing**	**Syndicated term loans/financing**	**Factoring receivables**	**Hire purchase receivables**	**Lease receivables**	**Other term loans/financing**	**Bills receivable**	**Trust receipts**	**Claims on customers under acceptances credits**	**Staff loans/ financing**	**Credit/ charge card**	**Revolving credit**	**Other loans/ financing**	**Unearned income**	**Total**
Agricultural, hunting, forestry and fishing	**80,820**	**-**	**-**	**-**	**4,115**	**-**	**1,394,243**	**389,884**	**5,631**	**157,134**	**-**	**-**	**155,758**	**18**	**(10,726)**	**2,176,877**
Mining and quarrying	**2,986**	**-**	**-**	**510**	**17,031**	**-**	**207,416**	**72,472**	**40,907**	**22,051**	**-**	**-**	**115,171**	**1**	**(4,190)**	**474,355**
Manufacturing	**345,327**	**-**	**-**	**79,163**	**134,200**	**50**	**2,255,179**	**821,058**	**750,172**	**1,709,765**	**-**	**-**	**966,836**	**2,005**	**(26,817)**	**7,036,938**
Electricity, gas and water	**5,467**	**-**	**-**	**214**	**-**	**-**	**100,180**	**1,309**	**5,812**	**16,666**	**-**	**-**	**2,000**	**-**	**(1,609)**	**130,039**
Construction	**57,376**	**-**	**-**	**1,609**	**19,478**	**-**	**1,046,429**	**33,232**	**6,010**	**68,144**	**-**	**-**	**164,508**	**20**	**(5,247)**	**1,391,559**
Real estate	**21,402**	**-**	**-**	**-**	**-**	**-**	**1,187,492**	**-**	**-**	**196**	**-**	**-**	**580,451**	**-**	**(10,207)**	**1,779,334**
Wholesale & retail trade and restaurants & hotels	**258,173**	**-**	**-**	**44,423**	**64,751**	**-**	**513,350**	**377,221**	**381,539**	**861,501**	**-**	**-**	**367,105**	**768**	**(6,855)**	**2,861,976**
Transport, storage and communication	**26,151**	**-**	**671**	**14,623**	**29,405**	**-**	**268,809**	**5,419**	**2,318**	**9,497**	**-**	**-**	**152,630**	**17**	**(7,261)**	**502,279**
Finance, insurance/takaful and business services	**175,152**	**-**	**66,701**	**16,180**	**22,266**	**3,169**	**794,656**	**19,564**	**37,184**	**83,375**	**-**	**-**	**842,990**	**31**	**(6,210)**	**2,055,058**
Household-retail	**275,123**	**14,598,177**	**-**	**-**	**987**	**-**	**3,921,255**	**-**	**-**	**-**	**401,676**	**2,884,343**	**2,000**	**-**	**(35,907)**	**22,047,654**
Others	**34,783**	**2,888**	**-**	**412**	**4,592**	**-**	**764,936**	**1,574,534**	**117**	**62,275**	**-**	**-**	**70,959**	**7,020**	**(6,268)**	**2,516,248**
	1,282,760	**14,601,065**	**67,372**	**157,134**	**296,825**	**3,219**	**12,453,945**	**3,294,693**	**1,229,690**	**2,990,604**	**401,676**	**2,884,343**	**3,420,408**	**9,880**	**(121,297)**	**42,972,317**

31 December 2011 (Restated) [See Note 6]
Group (RM'000)

	Overdraft	Housing loans/ financing	Syndicated term loans/financing	Factoring receivables	Hire purchase receivables	Lease receivables	Other term loans/financing	Bills receivable	Trust receipts	Claims on customers under acceptances credits	Staff loans/ financing	Credit/ charge card	Revolving credit	Other loans/ financing	Unearned income	Total
Agricultural, hunting, forestry and fishing	76,151	-	-	-	3,470	-	1,021,799	206,077	7,041	184,660	-	-	180,124	-	(6,994)	1,672,328
Mining and quarrying	3,862	-	-	472	15,279	-	285,015	-	43,345	4,435	-	-	115,067	1	(4,204)	463,272
Manufacturing	352,120	-	-	46,305	116,843	670	2,415,439	746,827	987,654	2,007,420	-	-	640,707	8,339	(26,594)	7,295,730
Electricity, gas and water	2,188	-	-	-	731	-	86,550	-	5,621	20,430	-	-	300,718	1	(1,212)	415,027
Construction	74,238	-	-	-	17,690	-	701,376	32,156	4,867	77,860	-	-	195,424	27	(4,015)	1,099,623
Real estate	12,237	-	-	-	-	-	1,150,271	-	2,926	457	-	-	459,592	-	(7,595)	1,617,888
Wholesale & retail trade and restaurants & hotels	217,247	-	-	28,463	38,307	-	429,584	356,957	508,006	789,300	-	-	190,739	742	(5,191)	2,554,154
Transport, storage and communication	37,945	-	2,962	344	20,779	-	436,822	5,929	22,259	12,319	-	-	45,809	1	(9,047)	576,122
Finance, insurance/takaful and business services	124,475	-	74,226	8,681	26,016	272	256,203	401,519	48,537	41,769	-	-	450,975	19	(4,948)	1,427,744
Household-retail	304,644	13,324,730	-	-	17,585	-	3,748,084	-	-	-	405,265	2,937,361	-	-	(36,401)	20,701,268
Others	53,171	1,548	-	22,767	2,117	-	810,751	1,156,872	215	142,261	8	-	295,751	27	(7,997)	2,477,491
	1,258,278	13,326,278	77,188	107,032	258,817	942	11,341,894	2,906,337	1,630,471	3,280,911	405,273	2,937,361	2,874,906	9,157	(114,198)	40,300,647

(g) Risk management policies (Cont'd)

1) Credit risk (Cont'd)

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

31 December 2012
Group (RM'000)

	Overdraft	Housing loans/ financing	Factoring receivables	Hire purchase receivables	Lease receivables	Other term loans/financing	Bills receivable	Trust receipts	Claims on customers under acceptances credits	Staff loans/ financing	Credit/ charge card	Revolving credit	Other loans/ financing	Total
Agricultural, hunting, forestry and fishing	**334**	**-**	**-**	**84**	**-**	**1,049**	**18**	**-**	**-**	**-**	**-**	**-**	**18**	**1,503**
Mining and quarrying	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Manufacturing	**7,850**	**-**	**86**	**6,885**	**-**	**58,337**	**1,510**	**3,634**	**32,512**	**-**	**-**	**-**	**493**	**111,307**
Construction	**2,518**	**-**	**-**	**-**	**-**	**653**	**-**	**52**	**148**	**-**	**-**	**-**	**20**	**3,391**
Real estate	**-**	**-**	**-**	**-**	**-**	**16,222**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,222**
Wholesale & retail trade and restaurants & hotels	**8,880**	**864**	**663**	**1,360**	**-**	**569**	**9,418**	**587**	**26,383**	**-**	**-**	**1,303**	**6,363**	**56,390**
Transport, storage and communication	**657**	**-**	**-**	**-**	**-**	**5,836**	**-**	**-**	**-**	**-**	**-**	**-**	**17**	**6,510**
Finance, insurance/takaful and business services	**220**	**-**	**-**	**420**	**-**	**59**	**-**	**-**	**-**	**-**	**-**	**-**	**31**	**730**
Household-retail	**6,639**	**294,257**	**-**	**685**	**-**	**206,215**	**-**	**-**	**-**	**5,884**	**67,592**	**-**	**-**	**581,272**
Others	**1**	**104**	**-**	**-**	**-**	**31**	**-**	**-**	**-**	**-**	**-**	**-**	**1,384**	**1,520**
	27,099	**295,225**	**749**	**9,434**	**-**	**288,971**	**10,946**	**4,273**	**59,043**	**5,884**	**67,592**	**1,303**	**8,327**	**778,846**

31 December 2011
Group (RM'000)

	Overdraft	Housing loans/ financing	Factoring receivables	Hire purchase receivables	Lease receivables	Other term loans/financing	Bills receivable	Trust receipts	Claims on customers under acceptances credits	Staff loans/ financing	Credit/ charge card	Revolving credit	Other loans/ financing	Total
Agricultural, hunting, forestry and fishing	-	-	-	-	-	863	-	-	-	-	-	-	1	864
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	5,955	-	-	4,083	3	66,054	1,430	4,669	27,413	-	-	-	388	109,995
Construction	112	-	-	-	-	670	-	-	319	-	-	-	27	1,128
Real estate	-	-	-	-	-	87	-	-	-	-	-	-	-	87
Wholesale & retail trade and restaurants & hotels	5,692	-	-	324	-	1,654	9,273	453	26,780	-	-	1,208	8,215	53,599
Transport, storage and communication	4,346	-	-	-	-	4,599	-	-	-	-	-	-	1	8,946
Finance, insurance/takaful and business services	1,442	-	-	-	-	546	-	-	-	-	-	571	19	2,578
Household-retail	7,152	243,951	-	328	-	247,167	-	-	-	6,590	58,776	-	-	563,964
Others	-	118	-	-	-	99	-	-	-	-	-	-	28	245
	24,699	244,069	-	4,735	3	321,739	10,703	5,122	54,512	6,590	58,776	1,779	8,679	741,406

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

Table 6: All past due loans/financing broken down by sector *	**31 December 2012 Group (RM'000)**	31 December 2011 Group (RM'000)
Agricultural, hunting, forestry and fishing	**6,631**	3,352
Mining and quarrying	**4**	-
Manufacturing	**492,064**	425,299
Construction	**14,820**	4,377
Real estate	**70,899**	338
Wholesale & retail trade and restaurants & hotels	**251,546**	207,265
Transport, storage and communication	**29,063**	34,711
Finance, insurance/takaful and business services	**3,500**	10,003
Household-retail	**2,624,126**	2,169,828
Others	**6,644**	949
	3,499,297	2,856,122

Table 7: All past due loans/financing broken down by geographical location*	**31 December 2012 Group (RM'000)**	31 December 2011 Group (RM'000)
Northern region	**790,295**	693,940
Southern region	**963,334**	700,314
Central region	**1,378,154**	1,111,351
Eastern region	**367,514**	350,517
	3,499,297	2,856,122

* of which the portion of impaired loans broken down by sector and geographical location is disclosed in Note 11 (iii) and 11 (v) of the financial statements at 31 December 2012 respectively.

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

	31 December 2012		31 December 2011 (Restated) [See Note 6]	
	Group (RM'000)		Group (RM'000)	
	Individual impairment allowance	**Collective impairment allowance**	Individual impairment allowance	Collective impairment allowance
Agricultural, hunting, forestry and fishing	**1,503**	**9,108**	727	6,603
Mining and quarrying	**-**	**2,539**	-	2,107
Manufacturing	**72,343**	**59,317**	48,715	77,929
Electricity, gas and water	**-**	**5,006**	-	5,504
Construction	**65**	**8,138**	8	5,386
Real estate	**15,556**	**30,266**	1,130	21,628
Wholesale & retail trade and restaurants & hotels	**46,841**	**13,160**	39,829	6,254
Transport, storage and communication	**439**	**5,316**	8,601	5,919
Finance, insurance/takaful and business services	**30**	**3,848**	592	2,441
Household-retail	**168,181**	**239,330**	185,919	220,887
Others	**23**	**25,413**	487	21,624
	304,981	**401,441**	286,008	376,282

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

	31 December 2012		31 December 2011 (Restated) [See Note 6]	
	Group (RM'000)		Group (RM'000)	
	Individual impairment allowance	**Collective impairment allowance**	Individual impairment allowance *Restated*	Collective impairment allowance *Restated*
Northern region	**28,085**	**74,099**	38,299	72,966
Southern region	**50,136**	**57,063**	34,424	53,539
Central region	**191,591**	**229,453**	192,743	206,496
Eastern region	**35,169**	**40,826**	20,542	43,281
	304,981	**401,441**	286,008	376,282

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

(g) 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 2012		31 December 2011 (Restated) [See Note 6]	
	Group (RM'000)		Group (RM'000)	
	Individual impairment charges	**Write-off of individual impairment**	Individual impairment charges	Write-off of individual impairment
Agricultural, hunting, forestry and fishing	**1,525**	**-**	5,521	111
Mining and quarrying	**-**	**-**	562	-
Manufacturing	**35,968**	**4,992**	4,518	15,290
Construction	**66**	**7**	13	1,549
Real estate	**1,410**	**-**	8,568	10
Wholesale & retail trade and restaurants & hotels	**8,351**	**4,549**	6,381	10,902
Transport, storage and communication	**618**	**4,120**	74	4,800
Finance, insurance/takaful and business services	**33**	**34**	474	388
Household-retail	**39,619**	**14,301**	25,205	13,833
Others	**18**	**238**	522	-
	87,608	**28,241**	51,838	46,883

The reconciliation of changes in loan impairment provisions is disclosed in Note 11(ii) of the financial statements at 31 December 2012.

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions

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 Group 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
• Corporates
• Banks
• Securities firms

For the purpose of Pillar 1 reporting to the regulator, the Group 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 Group'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.

Sovereign 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)

(g) Risk management policies (Con'td)

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 C	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%

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions (Cont'd)

Risk weights under the standardised approach at the reporting date are reflected under Note 37 of financial statements at 31 December 2012. Rated and unrated exposures according to ratings by ECAIs as at reporting date are as follows:-

31 December 2012
Group (RM '000)

		Ratings of Corporate by Approved ECAIs				
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	Moodys	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
Exposure Class	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Exposures						
Corporates		955,583	821,973	417,730	-	21,876,655
Total		955,583	821,973	417,730	-	21,876,655

31 December 2011
Group (RM '000)

		Ratings of Corporate by Approved ECAIs				
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	Moodys	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
Exposure Class	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Exposures						
Corporates		1,301,833	871,641	322,446	-	18,768,357
Total		1,301,833	871,641	322,446	-	18,768,357

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

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions (Cont'd)

31 December 2012
Group (RM '000)

		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		-	22,779,570	-	-	-	972
Total		-	22,779,570	-	-	-	972

31 December 2011
Group (RM '000)

		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		-	23,173,992	-	-	-	-
Total		-	23,173,992	-	-	-	-

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions (Cont'd)

31 December 2012
Group (RM '000)

		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**	**A1 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 DFIs		**5,100,181**	**3,870,531**	**1,055,176**	**114,539**	**-**	**1,538,961**
Total		**5,100,181**	**3,870,531**	**1,055,176**	**114,539**	**-**	**1,538,961**

31 December 2011
Group (RM '000)

		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	A1 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 DFIs		7,140,833	3,234,237	1,399,995	131,201	-	3,106,810
Total		7,140,833	3,234,237	1,399,995	131,201	-	3,106,810

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

(g) 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 Group'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 Group, takes many forms. There is no material concentration of credit risk mitigation held.

The Group's general policy is to promote the use of credit risk mitigation, 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 Group 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, e.g. where the Group issues a bid or performance bond 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 Group's securities financing business (securities lending and borrowing or repos and reverse repos). 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 Group'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 Group'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.

(g) 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. 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 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 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 takes 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.

31 December 2012
Group (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	**22,720,409**	**-**	**-**
Banks, Development Financial Institutions & MDBs	**8,166,015**	**-**	**-**
Corporates	**15,885,078**	**98,049**	**901,451**
Regulatory Retail	**6,546,863**	**33,821**	**168,973**
Residential Mortgages	**20,642,248**	**-**	**24,753**
Higher Risk Assets	**1,355**	**-**	**-**
Other Assets	**1,173,241**	**-**	**-**
Equity Exposure	**16,908**	**-**	**-**
Defaulted Exposures	**553,338**	**955**	**8,761**
Total for On-Balance Sheet Exposures	**75,705,455**	**132,825**	**1,103,938**
Off-Balance Sheet Exposures			
OTC Derivatives	**3,732,755**	**-**	**-**
Off balance sheet exposures other than OTC derivatives or credit derivatives	**10,129,262**	**198,780**	**221,676**
Defaulted Exposures	**126,723**	**4,817**	**12,000**
Total for Off-Balance Sheet Exposures	**13,988,740**	**203,597**	**233,676**
Total On and Off-Balance Sheet Exposures	**89,694,195**	**336,422**	**1,337,614**

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

ii) Credit risk mitigation (Cont'd)

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

31 December 2011
Group (RM'000)

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Collateral
Credit Risk	Restated		Restated
On-Balance Sheet Exposures			
Sovereigns/Central Banks	23,166,889	-	-
Banks, Development Financial Institutions & MDBs	11,223,050	-	-
Corporates	15,066,894	278,157	537,331
Regulatory Retail	7,586,318	57,907	166,014
Residential Mortgages	18,127,381	-	25,357
Higher Risk Assets	1,508	-	-
Other Assets	1,070,708	-	-
Equity Exposure	16,908	-	-
Defaulted Exposures	532,513	611	6,081
Total for On-Balance Sheet Exposures	76,792,169	336,675	734,783
Off-Balance Sheet Exposures			
OTC Derivatives	3,676,729	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	8,324,274	201,921	187,770
Defaulted Exposures	58,409	1,502	1,609
Total for Off-Balance Sheet Exposures	12,059,412	203,423	189,379
Total On and Off-Balance Sheet Exposures	88,851,581	540,098	924,162

Refer to Note 38 of the financial statements at 31 December 2012 for disclosure of off-balance sheet and counterparty credit risk.

(g) 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, repo-style 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 Group 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 Group'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)

(g) 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 ('RWAs') and capital requirements for credit risk, market risk, large exposures risk and operational risk of the Group as at balance sheet date. The following disclosure requirement came into effect in 2008 with the adoption of the Basel II Standardised Approach under the Risk Weighted Capital Adequacy Framework ('RWCAF').

At the reporting date, the RWA risk absorbent profit sharing investment account in the Bank amounted to RM632,121,000. Both the principal amount and risk weighted asset are the same. This amount is reported as asset under management in the books of the Bank's Islamic Subsidiary. At the group level, the effect of the RWA risk absorbent profit sharing investment is eliminated.

31 December 2012
Group (RM'000)

Exposure Class		Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	RWA Absorbed by PSIA	Total RWA after PSIA	Capital Requirement
				Group			
Credit Risk							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		**22,720,409**	**22,720,409**	**-**	**-**	**-**	**-**
Banks, Development Financial Institutions & MDBs		**8,166,015**	**8,166,015**	**1,703,967**	**-**	**1,703,967**	**136,317**
Corporates		**15,885,078**	**14,983,627**	**14,336,035**	**-**	**14,336,035**	**1,146,883**
Regulatory Retail		**6,546,863**	**6,377,890**	**4,843,700**	**-**	**4,843,700**	**387,496**
Residential Mortgages		**20,642,248**	**20,617,495**	**8,522,558**	**-**	**8,522,558**	**681,805**
Higher Risk Assets		**1,355**	**1,355**	**2,032**	**-**	**2,032**	**163**
Other Assets		**1,173,241**	**1,173,241**	**847,805**	**-**	**847,805**	**67,824**
Equity Exposure		**16,908**	**16,908**	**16,908**	**-**	**16,908**	**1,353**
Defaulted Exposures		**553,338**	**544,577**	**637,646**	**-**	**637,646**	**51,012**
Total for On-Balance Sheet Exposures		**75,705,455**	**74,601,517**	**30,910,651**	**-**	**30,910,651**	**2,472,853**
Off-Balance Sheet Exposures							
OTC Derivatives		**3,732,755**	**3,732,755**	**1,856,647**	**-**	**1,856,647**	**148,532**
Off balance sheet exposures other than OTC derivatives or credit derivatives		**10,129,262**	**9,907,586**	**8,462,623**	**-**	**8,462,623**	**677,010**
Defaulted Exposures		**126,723**	**114,723**	**166,860**	**-**	**166,860**	**13,349**
Total for Off-Balance Sheet Exposures		**13,988,740**	**13,755,064**	**10,486,130**	**-**	**10,486,130**	**838,891**
Total On and Off-Balance Sheet Exposures		**89,694,195**	**88,356,581**	**41,396,781**	**-**	**41,396,781**	**3,311,744**
Large Exposures Risk Requirement		**-**	**-**	**-**	**-**	**-**	**-**
Market Risk	**Long Position**	**Short Position**					
Interest/Profit Rate Risk	**72,969,146**	**69,431,362**	**3,537,784**	**1,553,969**	**-**	**1,553,969**	**124,318**
Foreign Currency Risk	**48,218**	**45,089**	**54,636**	**54,636**	**-**	**54,636**	**4,371**
Option Risk	**-**	**-**	**-**	**19,550**	**-**	**19,550**	**1,564**
	73,017,364	**69,476,451**	**3,592,420**	**1,628,155**	**-**	**1,628,155**	**130,253**
Operational Risk	**-**	**-**	**-**	**5,211,149**	**-**	**5,211,149**	**416,892**
Total RWA and Capital Requirement	**-**	**-**	**-**	**48,236,085**		**48,236,085**	**3,858,889**

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

(g) 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 exposures risk and operational risk of the Group as at balance sheet date. The following disclosure requirement came into effect in 2008 with the adoption of the Basel II Standardised Approach under the RWCAF.

31 December 2011
Group (RM'000)

		Group					
Exposure Class		Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	RWA Absorbed by PSIA	Total RWA after PSIA	Capital Requirement
Credit Risk		Restated	Restated	Restated			Restated
On-Balance Sheet Exposures							
Sovereigns/Central Banks		23,166,889	23,166,889	-	-	-	-
Banks, Development Financial Institutions & MDBs		11,223,050	11,223,050	2,258,367	-	2,258,367	180,669
Corporates		15,066,894	14,529,563	13,591,682	-	13,591,682	1,087,335
Regulatory Retail		7,586,318	7,420,304	5,567,574	-	5,567,574	445,406
Residential Mortgages		18,127,381	18,102,024	7,534,401	-	7,534,401	602,752
Higher Risk Assets		1,508	1,508	2,261	-	2,261	181
Other Assets		1,070,708	1,070,708	772,032	-	772,032	61,763
Equity Exposure		16,908	16,908	16,908	-	16,908	1,353
Defaulted Exposures		532,513	526,432	626,104	-	626,104	50,088
Total for On-Balance Sheet Exposures		76,792,169	76,057,386	30,369,329	-	30,369,329	2,429,547
Off-Balance Sheet Exposures							
OTC Derivatives		3,676,729	3,676,729	1,910,874	-	1,910,874	152,870
Off balance sheet exposures other than OTC derivatives or credit derivatives		8,324,274	8,136,504	6,364,521	-	6,364,521	509,162
Defaulted Exposures		58,409	56,800	83,539	-	83,539	6,683
Total for Off-Balance Sheet Exposures		12,059,412	11,870,033	8,358,934	-	8,358,934	668,715
Total On and Off-Balance Sheet Exposures		88,851,581	87,927,419	38,728,263	-	38,728,263	3,098,262
Large Exposures Risk Requirement		-	-	-	-	-	-
Market Risk	Long Position	Short Position					
Interest/Profit Rate Risk	75,526,424	68,838,723	6,687,700	2,315,183	-	2,315,183	185,215
Foreign Currency Risk	39,016	47,305	42,150	47,324	-	47,324	3,786
Option Risk	-	-	-	259,650	-	259,650	20,772
	75,565,440	68,886,028	6,729,850	2,622,157	-	2,622,157	209,773
Operational Risk	-	-	-	4,680,548	-	4,680,548	374,444
Total RWA and Capital Requirement	-	-	-	46,030,968		46,030,968	3,682,479

Note:
MDBs - Multilateral Development Banks
OTC - Over the counter

Rer to Note 38 of the financial statements at 31 December 2012 for disclosure of off-balance sheet and counterparty credit risk.

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127776-V

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

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

iii) Counterparty Credit Risk (Cont'd)

The below are disclosures on credit risk by risk weights of the Group as at balance sheet date. The following disclosure requirement came into effect in 2008 with the adoption of the Basel II Standardised Approach under the RWCAF.

31 December 2012
Group (RM'000)

	Group									
	Exposures after Netting and Credit Risk Mitigation									
Risk Weights	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporates	Regulatory Retail	Residental Mortgages	Higher Risk Assets	Other Assets	Equity	Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
0%	22,780,542	-	23,775	21,116	-	-	325,436	-	23,150,869	-
20%	-	9,861,486	914,520	20,626	-	-	-	-	10,796,632	2,159,326
35%	-	-	-	-	16,252,048	-	-	-	16,252,048	5,688,217
50%	-	1,788,442	561,439	22,362	1,759,557	-	-	-	4,131,800	2,065,900
75%	-	-	-	8,089,538	2,703,836	-	-	-	10,793,374	8,095,032
100%	-	8,307	21,392,378	437,160	216,401	-	847,805	16,908	22,918,959	22,918,959
150%	-	21,153	120,144	168,328	1,811	1,463	-	-	312,899	469,347
Total Risk Weight	-	-	-	-	-	-	-	-	88,356,581	41,396,781
Average Risk Weight	-	-	-	-	-	-	-	-	4,908,699	2,299,821
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-

31 December 2011
Group (RM'000)

	Group									
	Exposures after Netting and Credit Risk Mitigation									
Risk Weights	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporates	Regulatory Retail	Residental Mortgages	Higher Risk Assets	Other Assets	Equity	Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
0%	23,173,992	-	3,062	17,101	-	-	298,676	-	23,492,831	-
20%	-	13,554,193	1,351,050	49,353	-	-	-	-	14,954,596	2,990,919
35%	-	-	-	-	13,922,407	-	-	-	13,922,407	4,872,843
50%	-	1,395,364	553,009	8,018	1,892,926	-	-	-	3,849,317	1,924,658
75%	-	-	1,785	9,259,224	2,337,030	-	-	-	11,598,039	8,698,530
100%	-	318	18,610,915	239,923	207,966	-	772,032	16,908	19,848,062	19,848,062
150%	-	3,201	86,053	171,060	301	1,552	-	-	262,167	393,251
Total Risk Weight	-	-	-	-	-	-	-	-	87,927,419	38,728,263
Average Risk Weight	-	-	-	-	-	-	-	-	4,884,857	2,151,570
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-

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

(g) Risk management policies (Cont'd)

2) Collateral Arrangements

To calculate counterparty's net risk position for counterparty credit risk, the Group 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.

3) 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 Group 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 - Global Market, Wholesale Credit Risk and Group Risk - Wholesale Credit and Market Risk are obtained if such ratings-based clauses are included in an agreement.

4) Equities

At 31 December 2012, the Group does not hold any quoted shares. The Group's holding of unquoted shares at 31 December 2012 was mainly of shares held for socio-economic reasons. The unquoted shares portfolio consisted primarily of Credit Guarantee Corporation, Cagamas Holdings and Global Maritime Ventures shares. The Group's policy on valuation and accounting of equity holdings is disclosed in Note 3 k(ii) of the financial statements at 31 December 2012.

Quoted equities
Quoted shares are not held for capital gains.

Unquoted equities
These shares are not held for capital gains and are recorded at cost due to the lack of quoted prices in an active market or /and the fair values of the equities cannot be reliably measured. The unquoted equities were classified under the non-institutional segment and risk weighted at 100%.

Refer to Note 9 of the financial statements at 31 December 2012 for further information on the Group's holdings of equity investments.

(g) Risk management policies (Cont'd)

5) Interest rate risk / rate of return risk

Qualitative and quantitative information on interest rate risk / rate of return risk in the banking book is presented in Note 4 d) of the financial statements at 31 December 2012.

6) Restatement of comparative figures

Comparative figures for Table 1, 3, 4, 8, 9 and 10 have been restated/reclassified to conform to current year's presentation upon the adoption of the Malaysian Financial Reporting Standards ('MFRS') framework issued by the Malaysian Accounting Standards Board ('MASB') with effect from 1 January 2012 . Refer to the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures at 31 December 2011 for the comparative figures prior to restatement. Details of the current year restatements made can be found in Note 45 of the financial statements at 31 December 2012.

(g) Risk management policies (Cont'd)

7) 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 HSBC Amanah Malaysia Berhad ('HBMS'), a fully owned Islamic subsidiary 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 HBMS 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 HBMS.

b. Shariah Committee
To maintain an oversight on the operations and business activities of HBMS 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 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 HBMS 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.

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.

(g) Risk management policies (Cont'd)

7) 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 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.

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 amounting to RM3.0 million have been inadvertently booked in HBMS's book. This has been rectified by reversing the entire interest income (approximately RM3 million) as well as the relevant impairment charges from HBMS's book and rebooking 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 HBMS'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.