HSBC BANK MALAYSIA BERHAD
(Company No.127776-V)
(Incorporated in Malaysia)
Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures
at 31 December 2013

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 2-26 have been prepared according to the Risk Weighted Capital Adequacy Framework (Basel II), and are accurate and complete.

....
MUKHTAR MALIK HUSSAIN
CHIEF EXECUTIVE OFFICER
14 February 2014

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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. 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. Its fully owned subsidiary, HSBC Amanah Malaysia Berhad, adopts the Standardised approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

Basel II is structured around three ‘pillars’: minimum capital requirements, supervisory review process and market discipline. Pillar 3 aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specific information on the capital management processes, and risk assessment processes, and hence the capital adequacy of the 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 2013. BNM permits certain Pillar 3 requirements to be satisfied by inclusion within the financial statements. Where this is the case, references are provided to relevant sections in the Financial Statements at 31 December 2013.

(c) Consolidation basis

The basis of consolidation for financial accounting purposes is described in Note 3(a) of the financial statements at 31 December 2013 and it is the same basis of consolidation that is used for regulatory purposes. The Bank's subsidiary companies are listed in Note 15 of 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 2013, 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

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

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

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

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

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

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 2013 for the amount of Tier 1 capital and a breakdown of its components).

* *Refer to Note 24 of the financial statements at 31 December 2013 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 which is disclosed as the regulatory adjustment. (Refer to Note 37 of the financial statements at 31 December 2013 for the amount of Tier 2 capital and a breakdown of its components).

** *Refer to Note 23 of the financial statement at 31 December 2013 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 and interest/profit rate risk)
- operational risk

Refer to Note 4 of the financial statements at 31 December 2013 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 2013 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 2013.

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

	31 December 2013				
Group (RM'000)	**Northern**	**Southern**	**Central**	**Eastern**	**Total**
Overdrafts	**192,236**	**320,851**	**546,603**	**309,770**	**1,369,460**
Term loans/financing					
Housing loans/financing	**3,324,901**	**2,612,973**	**9,061,045**	**1,043,791**	**16,042,710**
Syndicated term loan/financing	**-**	**-**	**45,077**	**-**	**45,077**
Factoring receivables	**20,392**	**14,830**	**101,474**	**23,510**	**160,206**
Hire purchase receivables	**51,243**	**42,272**	**108,328**	**50,900**	**252,743**
Lease receivables	**27**	**-**	**2,415**	**-**	**2,442**
Other term loans/financing	**1,872,690**	**1,645,038**	**7,386,362**	**2,110,816**	**13,014,906**
Bills receivable	**105,505**	**100,793**	**3,168,450**	**124,810**	**3,499,558**
Trust receipts	**175,463**	**486,829**	**883,138**	**159,111**	**1,704,541**
Claims on customers under acceptance credits	**710,766**	**446,494**	**1,043,532**	**439,779**	**2,640,571**
Staff loans/financing	**39,638**	**23,596**	**223,981**	**24,003**	**311,218**
Credit/charge cards	**569,580**	**395,419**	**1,583,938**	**300,101**	**2,849,038**
Revolving credit	**226,775**	**285,147**	**2,871,567**	**75,580**	**3,459,069**
Other loans/financing	**2,531**	**1,961**	**4,053**	**248**	**8,793**
	7,291,747	**6,376,203**	**27,029,963**	**4,662,419**	**45,360,332**

	31 December 2012 (Restated)(See Note 5)				
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	3,147,287	2,354,054	8,103,730	994,573	14,599,644
Syndicated term loan/financing	-	-	67,372	-	67,372
Factoring receivables	29,329	14,346	104,515	8,944	157,134
Hire purchase receivables	58,659	51,400	97,190	62,452	269,701
Lease receivables	70	-	2,707	-	2,777
Other term loans/financing	1,903,098	1,651,751	6,334,934	2,474,493	12,364,276
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	848,589	476,440	1,045,490	617,444	2,987,963
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
	7,254,377	5,727,967	24,484,496	5,505,477	42,972,317

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 2013				
Group (RM'000)	**Northern**	**Southern**	**Central**	**Eastern**	**Total**
Overdrafts	**7,861**	**7,002**	**10,195**	**1,786**	**26,844**
Term loans/financing					
Housing loans/financing	**74,104**	**73,781**	**164,790**	**11,327**	**324,002**
Factoring receivables	**-**	**27**	**10,356**	**-**	**10,383**
Hire purchase receivables	**4,171**	**2,953**	**312**	**417**	**7,853**
Other term loans/financing	**54,447**	**37,067**	**146,666**	**32,860**	**271,040**
Bills receivable	**490**	**8,028**	**14,144**	**-**	**22,662**
Trust receipts	**157**	**4,040**	**4,979**	**2,548**	**11,724**
Claims on customers under acceptance credits	**10,785**	**22,131**	**4,360**	**6,443**	**43,719**
Staff loans/financing	**181**	**-**	**3,324**	**211**	**3,716**
Credit/charge cards	**13,440**	**9,038**	**31,225**	**3,890**	**57,593**
Revolving credit	**-**	**-**	**4,101**	**-**	**4,101**
Other loans/financing	**2,528**	**1,959**	**4,033**	**208**	**8,728**
	168,164	**166,026**	**398,485**	**59,690**	**792,365**

	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
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

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 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.

(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 2013				
Group (RM'000)	**Maturing within one year**	**One year to three years**	**Three years to five years**	**Over five years**	**Total**
Overdrafts	**1,369,460**	**-**	**-**	**-**	**1,369,460**
Term loans/financing					
Housing loans/financing	**73,184**	**83,854**	**185,648**	**15,700,024**	**16,042,710**
Syndicated term loan/financing	**-**	**45,077**	**-**	**-**	**45,077**
Factoring receivables	**160,206**	**-**	**-**	**-**	**160,206**
Hire purchase receivables	**17,991**	**103,233**	**131,082**	**437**	**252,743**
Lease receivables	**28**	**-**	**2,414**	**-**	**2,442**
Other term loans/financing	**3,705,531**	**2,095,019**	**1,963,262**	**5,251,094**	**13,014,906**
Bills receivable	**3,499,558**	**-**	**-**	**-**	**3,499,558**
Trust receipts	**1,704,541**	**-**	**-**	**-**	**1,704,541**
Claims on customers under acceptance credits	**2,640,571**	**-**	**-**	**-**	**2,640,571**
Staff loans/financing	**3,589**	**14,932**	**34,097**	**258,600**	**311,218**
Credit/charge cards	**2,849,038**	**-**	**-**	**-**	**2,849,038**
Revolving credit	**3,459,069**	**-**	**-**	**-**	**3,459,069**
Other loans/financing	**8,793**	**-**	**-**	**-**	**8,793**
	19,491,559	**2,342,115**	**2,316,503**	**21,210,155**	**45,360,332**

	31 December 2012 (Restated)(See Note 5)				
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	103,391	70,646	186,007	14,239,600	14,599,644
Syndicated term loan/financing	671	66,701	-	-	67,372
Factoring receivables	157,134	-	-	-	157,134
Hire purchase receivables	15,981	99,019	125,020	29,681	269,701
Lease receivables	70	-	2,707	-	2,777
Other term loans/financing	3,380,394	1,613,360	2,173,683	5,196,839	12,364,276
Bills receivable	3,294,693	-	-	-	3,294,693
Trust receipts	1,229,690	-	-	-	1,229,690
Claims on customers under acceptance credits	2,987,963	-	-	-	2,987,963
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
	18,771,716	1,865,327	2,522,173	19,813,101	42,972,317

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

(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 2013
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 cards	Revolving credit	Other loans/ financing	Total
Agricultural, hunting, forestry and fishing	69,741	-	-	-	5,887	-	1,033,522	176,014	14,105	129,748	-	-	204,283	95	1,633,395
Mining and quarrying	5,395	-	-	559	13,891	-	210,068	2,844	93,549	777	-	-	125,220	-	452,303
Manufacturing	336,901	-	-	88,520	115,013	-	1,813,513	613,777	1,007,064	1,514,223	-	-	874,347	2,065	6,365,423
Electricity, gas and water	8,093	-	-	-	-	-	90,963	1,038	2,030	20,003	-	-	2,000	-	124,127
Construction	70,944	-	-	502	20,843	-	1,974,303	43,444	12,520	74,912	-	-	311,673	75	2,509,216
Real estate	17,563	-	-	-	-	-	1,162,408	-	-	281	-	-	596,058	-	1,776,310
Wholesale & retail trade and restaurants & hotels	223,410	-	-	41,900	30,290	-	807,208	285,221	415,724	770,893	-	-	198,108	323	2,773,077
Transport, storage and communication	29,958	-	-	12,808	22,267	-	251,506	6,796	1,578	11,400	-	-	52,556	4	388,873
Finance, insurance/takaful and business services	171,171	-	45,077	14,094	19,532	2,442	1,338,728	6,875	157,070	72,712	-	-	954,588	33	2,782,322
Household-retail	413,356	16,042,710	-	-	575	-	3,913,217	-	-	-	311,218	2,849,038	-	-	23,530,114
Others	22,928	-	-	1,823	24,445	-	419,470	2,363,549	901	45,622	-	-	140,236	6,198	3,025,172
	1,369,460	16,042,710	45,077	160,206	252,743	2,442	13,014,906	3,499,558	1,704,541	2,640,571	311,218	2,849,038	3,459,069	8,793	45,360,332

31 December 2012 (Restated)(See Note 5)
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 cards	Revolving credit	Other loans/ financing	Total
Agricultural, hunting, forestry and fishing	82,026	-	-	-	4,134	-	1,416,342	395,845	5,717	159,448	-	-	158,139	18	2,221,670
Mining and quarrying	2,986	-	-	510	15,067	-	205,190	72,472	40,907	22,051	-	-	115,171	1	474,355
Manufacturing	306,088	-	-	74,124	123,063	43	1,829,738	753,613	723,137	1,659,998	-	-	820,262	1,825	6,291,892
Electricity, gas and water	5,468	-	-	214	-	-	98,641	1,309	5,812	16,596	-	-	2,000	-	130,039
Construction	67,721	-	-	1,939	17,231	-	1,232,208	40,018	7,237	77,783	-	-	190,627	25	1,634,788
Real estate	23,394	-	-	-	-	-	1,268,362	-	-	215	-	-	635,228	-	1,927,200
Wholesale & retail trade and restaurants & hotels	275,835	-	-	47,591	59,561	-	539,745	404,125	405,672	892,615	-	-	387,947	823	3,013,913
Transport, storage and communication	27,272	-	671	15,529	26,013	-	287,246	5,755	2,462	9,691	-	-	161,466	18	536,123
Finance, insurance/takaful and business services	181,558	-	66,701	16,809	19,697	2,734	819,892	20,325	38,627	86,433	-	-	875,744	33	2,128,551
Household-retail	275,123	14,596,756	-	-	873	-	3,886,883	-	-	-	401,676	2,884,343	2,000	-	22,047,654
Others	35,290	2,888	-	419	4,062	-	780,029	1,601,232	118	63,133	-	-	71,823	7,138	2,566,132
	1,282,760	14,599,644	67,372	157,134	269,701	2,777	12,364,276	3,294,693	1,229,690	2,987,963	401,676	2,884,343	3,420,408	9,880	42,972,317

(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 2013
Group (RM'000)

	Overdraft	**Housing loans/ financing**	**Factoring receivables**	**Hire purchase receivables**	**Other term loans/financing**	**Bills receivable**	**Trust receipts**	**Claims on customers under acceptances credits**	**Staff loans/ financing**	**Credit/ charge cards**	**Revolving credit**	**Other loans/ financing**	**Total**
Agricultural, hunting, forestry and fishing	**-**	**-**	**-**	**-**	**366**	**10**	**-**	**-**	**-**	**-**	**-**	**95**	**471**
Mining and quarrying	**163**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**163**
Manufacturing	**5,221**	**77**	**8,230**	**6,291**	**41,578**	**999**	**5,661**	**32,268**	**-**	**-**	**-**	**6,812**	**107,137**
Construction	**4,969**	**-**	**-**	**-**	**47,659**	**-**	**2,548**	**-**	**-**	**-**	**67**	**75**	**55,318**
Wholesale & retail trade and restaurants & hotels	**9,187**	**809**	**2,153**	**354**	**8,567**	**21,653**	**3,515**	**11,451**	**-**	**-**	**4,034**	**324**	**62,047**
Transport, storage and communication	**741**	**-**	**-**	**-**	**1,023**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**1,767**
Finance, insurance/takaful and business services	**425**	**74**	**-**	**346**	**1,068**	**-**	**-**	**-**	**-**	**-**	**-**	**32**	**1,945**
Household-retail	**6,138**	**322,864**	**-**	**694**	**170,746**	**-**	**-**	**-**	**3,716**	**57,593**	**-**	**-**	**561,751**
Others	**-**	**178**	**-**	**168**	**33**	**-**	**-**	**-**	**-**	**-**	**-**	**1,387**	**1,766**
	26,844	**324,002**	**10,383**	**7,853**	**271,040**	**22,662**	**11,724**	**43,719**	**3,716**	**57,593**	**4,101**	**8,728**	**792,365**

31 December 2012
Group (RM'000)

	Overdraft	Housing loans/ financing	Factoring receivables	Hire purchase receivables	Other term loans/financing	Bills receivable	Trust receipts	Claims on customers under acceptances credits	Staff loans/ financing	Credit/ charge cards	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

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

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

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

	31 December 2013	31 December 2012
	Group (RM'000)	Group (RM'000)
Agricultural, hunting, forestry and fishing	**2,127**	6,631
Mining and quarrying	**736**	4
Manufacturing	**483,501**	492,064
Electricity, gas and water	**1**	-
Construction	**249,682**	14,820
Real estate	**-**	70,899
Wholesale & retail trade and restaurants & hotels	**280,048**	251,546
Transport, storage and communication	**7,939**	29,063
Finance, insurance/takaful and business services	**8,765**	3,500
Household-retail	**2,530,140**	2,624,126
Others	**7,966**	6,644
	3,570,905	3,499,297

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

	31 December 2013	31 December 2012
	Group (RM'000)	Group (RM'000)
Northern region	**757,722**	790,295
Southern region	**748,585**	963,334
Central region	**1,795,293**	1,378,154
Eastern region	**269,305**	367,514
	3,570,905	3,499,297

* 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 Dec 2013 respectively.

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

	31 December 2013		31 December 2012	
	Group (RM'000)		Group (RM'000)	
	Individual impairment allowance	**Collective impairment allowance**	Individual impairment allowance	Collective impairment allowance
Agricultural, hunting, forestry and fishing	**121**	**4,715**	1,503	9,108
Mining and quarrying	**-**	**1,331**	-	2,539
Manufacturing	**67,959**	**54,209**	72,343	59,317
Electricity, gas and water	**-**	**7,821**	-	5,006
Construction	**40,194**	**12,172**	65	8,138
Real estate	**773**	**35,400**	15,556	30,266
Wholesale & retail trade and restaurants & hotels	**39,012**	**10,273**	46,841	13,160
Transport, storage and communication	**526**	**4,221**	439	5,316
Finance, insurance/takaful and business services	**171**	**7,392**	30	3,848
Household-retail	**168,769**	**221,468**	168,181	239,330
Others	**587**	**23,314**	23	25,413
	318,112	**382,316**	304,981	401,441

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

	31 December 2013		31 December 2012	
	Group (RM'000)		Group (RM'000)	
	Individual impairment allowance	**Collective impairment allowance**	Individual impairment allowance	Collective impairment allowance
Northern region	**25,101**	**64,352**	28,085	74,099
Southern region	**42,187**	**54,988**	50,136	57,063
Central region	**229,761**	**228,873**	191,591	229,453
Eastern region	**21,063**	**34,103**	35,169	40,826
	318,112	**382,316**	304,981	401,441

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 2013		31 December 2012	
	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	**358**	**1,059**	1,525	-
Manufacturing	**24,995**	**11,221**	35,986	4,992
Construction	**39,764**	**-**	66	7
Real estate	**817**	**13,449**	1,410	-
Wholesale & retail trade and restaurants & hotels	**30,454**	**17,818**	8,351	4,549
Transport, storage and communication	**105**	**-**	618	4,120
Finance, insurance/takaful and business services	**217**	**26**	33	34
Household-retail	**43,711**	**13,205**	39,619	14,301
Others	**377**	**-**	-	238
	140,798	**56,778**	87,608	28,241

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

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

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions ('ECAIs')

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

ECAIs are used by the 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 Group 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) ECAIs (Cont'd)

Corporate

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

Banking Institutions

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

Corporate and Banking Institutions (Short term ratings)

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

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

Risk weights under the standardised approach at the reporting date are reflected in page 23. Rated and unrated exposures according to ratings by ECAIs at reporting date are as follows:-

31 December 2013
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		-	7,778,218	-	-	-	37,635
Total		-	7,778,218	-	-	-	37,635

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

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 December 2013
Group (RM '000)

	Ratings of Corporate by Approved ECAIs					
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B+ to C**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RAM	**AAA to AA3**	**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		**1,138,927**	**726,132**	**252,782**	**-**	**23,488,470**
Total		**1,138,927**	**726,132**	**252,782**	**-**	**23,488,470**

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

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

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 December 2013
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		**1,362,040**	**1,763,331**	**175,856**	**80,794**	**-**	**2,435,684**
Total		**1,362,040**	**1,763,331**	**175,856**	**80,794**	**-**	**2,435,684**

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

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

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

ii) Credit risk mitigation ('CRM')

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

The 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.

The Group'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 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;
- 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 Group's securities financing business (securities lending and borrowing or repos and reverse repos); and
- netting is used where appropriate, and supported by market standard documentation.

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

Policies and procedures govern the protection of the 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) CRM (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 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 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 2013
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	**25,541,207**	**-**	**-**
Public Sector Entities	**88,283**	**-**	**-**
Banks, Development Financial Institutions & MDBs	**7,461,858**	**-**	**-**
Corporates	**17,243,190**	**173,231**	**705,312**
Regulatory Retail	**6,763,053**	**43,085**	**170,105**
Residential Mortgages	**17,492,155**	**-**	**24,875**
Higher Risk Assets	**48**	**-**	**-**
Other Assets	**1,141,014**	**-**	**-**
Equity Exposure	**16,908**	**-**	**-**
Defaulted Exposures	**565,927**	**4,004**	**11,851**
Total for On-Balance Sheet Exposures	**76,313,643**	**220,320**	**912,143**
Off-Balance Sheet Exposures			
OTC Derivatives	**4,157,766**	**-**	**-**
Off balance sheet exposures other than OTC derivatives or credit derivatives	**12,917,612**	**180,639**	**293,044**
Defaulted Exposures	**192,713**	**1,495**	**18,323**
Total for Off-Balance Sheet Exposures	**17,268,091**	**182,134**	**311,367**
Total On and Off-Balance Sheet Exposures	**93,581,734**	**402,454**	**1,223,510**

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

ii) CRM (Cont'd)

The table below shows 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

Refer to Note 38 of the financial statements at 31 December 2013 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.

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

iii) Counterparty Credit Risk (Cont'd)

The tables below disclose 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 at the balance sheet date.

At 31 December 2013, the RWA risk absorbent profit sharing investment account in the Bank amounted to RM629,760,000. 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 2013
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							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		**25,541,207**	**25,541,207**	**-**	**-**	**-**	**-**
Public Sector Entities		**88,283**	**88,283**	**19,216**	**-**	**19,216**	**1,537**
Banks, Development Financial Institutions & MDBs		**7,461,858**	**7,461,858**	**1,763,883**	**-**	**1,763,883**	**141,111**
Corporates		**17,243,190**	**16,537,877**	**15,661,549**	**-**	**15,661,549**	**1,252,924**
Regulatory Retail		**6,763,053**	**6,592,947**	**4,976,168**	**-**	**4,976,168**	**398,093**
Residential Mortgages		**17,492,155**	**17,467,280**	**6,965,913**	**-**	**6,965,913**	**557,273**
Higher Risk Assets		**48**	**48**	**72**	**-**	**72**	**6**
Other Assets		**1,141,014**	**1,141,014**	**823,278**	**-**	**823,278**	**65,862**
Equity Exposure		**16,908**	**16,908**	**16,908**	**-**	**16,908**	**1,353**
Defaulted Exposures		**565,927**	**554,076**	**577,322**	**-**	**577,322**	**46,186**
Total for On-Balance Sheet Exposures		**76,313,643**	**75,401,498**	**30,804,309**	**-**	**30,804,309**	**2,464,345**
Off-Balance Sheet Exposures							
OTC Derivatives		**4,157,766**	**4,157,766**	**1,862,980**	**-**	**1,862,980**	**149,038**
Off balance sheet exposures other than OTC derivatives or credit derivatives		**12,917,612**	**12,624,568**	**10,694,514**	**-**	**10,694,514**	**855,561**
Defaulted Exposures		**192,713**	**174,391**	**259,702**	**-**	**259,702**	**20,776**
Total for Off-Balance Sheet Exposures		**17,268,091**	**16,956,725**	**12,817,196**	**-**	**12,817,196**	**1,025,375**
Total On and Off-Balance Sheet Exposures		**93,581,734**	**92,358,223**	**43,621,505**	**-**	**43,621,505**	**3,489,720**
Large Exposures Risk Requirement		**-**	**-**	**-**	**-**	**-**	**-**
Market Risk	**Long Position**	**Short Position**					
Interest/Profit Rate Risk	**74,737,558**	**74,066,002**	**671,556**	**1,666,143**	**-**	**1,666,143**	**133,291**
Foreign Currency Risk	**68,331**	**61,926**	**68,331**	**68,331**	**-**	**68,331**	**5,467**
Option Risk	**-**	**-**	**-**	**335,417**	**-**	**335,417**	**26,833**
	74,805,889	**74,127,928**	**739,887**	**2,069,891**	**-**	**2,069,891**	**165,591**
Operational Risk	**-**	**-**	**-**	**5,632,809**	**-**	**5,632,809**	**450,625**
Total RWA and Capital Requirement	**-**	**-**	**-**	**51,324,205**		**51,324,205**	**4,105,936**

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

iii) Counterparty Credit Risk (Cont'd)

At 31 December 2012, 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)

		Group					
Exposure Class		Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	RWA Absorbed by PSIA	Total RWA after PSIA	Capital Requirement
<u>Credit Risk</u>							
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
<u>Large Exposures Risk Requirement</u>		-	-	-	-	-	-
<u>Market Risk</u>							
	<u>Long Position</u>	<u>Short Position</u>					
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

<u>*Note:*</u>
MDBs - Multilateral Development Banks
OTC - Over the counter

Refer to Note 38 of the financial statements at 31 December 2013 for disclosure of off-balance sheet and counterparty credit risk.

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

(g) Risk management policies (Cont'd)

1) Credit Risk (Cont'd)

iii) Counterparty Credit Risk (Cont'd)

The tables below are disclosures on credit risk by risk weights of the Group at balance sheet date.

31 December 2013 — ***Group***

Group (RM'000)

Risk Weights	Exposures after Netting and Credit Risk Mitigation									Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	**PSEs**	**Banks, MDBs and DFIs**	**Corporates**	**Regulatory Retail**	**Residental Mortgages**	**Higher Risk Assets**	**Other Assets**	**Equity**		
0%	**25,551,118**	**-**	**-**	**8,299**	**17,747**	**-**	**-**	**317,735**	**-**	**25,894,899**	**-**
20%	**-**	**92,104**	**9,281,178**	**1,302,431**	**49,600**	**-**	**-**	**-**	**-**	**10,725,313**	**2,145,063**
35%	**-**	**-**	**-**	**-**	**-**	**14,881,558**	**-**	**-**	**-**	**14,881,558**	**5,208,545**
50%	**-**	**-**	**2,015,630**	**585,844**	**11,938**	**1,133,367**	**-**	**-**	**-**	**3,746,779**	**1,873,390**
75%	**-**	**-**	**-**	**1,528**	**8,287,389**	**3,072,845**	**-**	**-**	**-**	**11,361,762**	**8,521,321**
100%	**-**	**3,034**	**197,515**	**22,896,138**	**419,666**	**1,140,824**	**-**	**823,278**	**16,908**	**25,497,363**	**25,497,363**
150%	**-**	**-**	**34,041**	**194,745**	**12,769**	**8,855**	**140**	**-**	**-**	**250,550**	**375,823**
Total Risk Weight										**92,358,224**	**43,621,505**
Average Risk Weight	**0%**	**23%**	**27%**	**95%**	**76%**	**46%**	**150%**	**72%**	**100%**	**47%**	

31 December 2012 — ***Group***

Group (RM'000)

Risk Weights	Exposures after Netting and Credit Risk Mitigation									Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	PSEs	Banks, MDBs and DFIs	Corporates	Regulatory Retail	Residental Mortgages	Higher Risk Assets	Other Assets	Equity		
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%	-	-	-	-	8,089,539	2,703,837	-	-	-	10,793,376	8,095,032
100%	-	-	8,307	21,392,378	437,159	216,400	-	847,805	16,908	22,918,957	22,918,958
150%	-	-	21,153	120,144	168,328	1,811	1,463	-	-	312,899	469,348
Total Risk Weight										88,356,581	41,396,781
Average Risk Weight	0%		25%	96%	77%	42%	150%	72%	100%	47%	

<u>Note:</u>

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, 100 percent of collateral held as credit risk mitigants under CSAs is cash.

3) Equities

At 31 December 2013, the Group does not hold any quoted shares. The Group's holding of unquoted shares at 31 December 2013 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 2013.

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 2013 for further information on the Group's holdings of equity investments.

4) 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 2013. The increase or decline in economic value for upward and downward rate shocks for measuring interest rate risk/rate of return risk in the banking book are as follows:

Change in projected economic value of equity arising from a shift in interest/profit rates of:	**31-Dec-13**	**31-Dec-12**
	RM'000	RM'000
+200 basis points parallel shift in yield curves	**676,245**	449,880
-200 basis points parallel shift in yield curves	**(641,197)**	(367,878)

5) Restatement of comparative figures

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

(g) Risk management policies (Cont'd)

6) Shariah Governance

Overview

Shariah compliance is a cornerstone of the 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 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 the 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 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 for 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 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.

(g) Risk management policies (Cont'd)

6) 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)

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

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

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

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

Quantitative Disclosure
During the financial year ended 31 December 2013, the following events occurred:

(i) Income from inadvertent Shariah non-compliant activities identified by the Bank's management amounting to RM 71,452.73 in 2013 has been reversed to Shariah Penalty & Impure Income Account.

(ii) An amount of RM 12,000.00 from Pusat Pungutan Zakat, Majlis Agama Islam Kuala Lumpur (JAWI) has been credited to the account.

(iii) The total amount of RM 101,000.00 has been channeled from the account to Charity Organisations.

(iv) The amount of RM 14,563.75 in the account will be carried forward from 2013 pending distribution in 2014.

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