

**HSBC AMANAH MALAYSIA BERHAD**  
**(Company No. 807705-X)**  
**(Incorporated in Malaysia)**  
**Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures**  
**at 30 June 2013**

**CHIEF EXECUTIVE OFFICER'S ATTESTATION**

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I, Mohamed Rafe bin Mohamed Haneef, being the Chief Executive Officer of HSBC Amanah Malaysia Berhad, do hereby state that, in my opinion, the Pillar 3 Disclosures set out on pages 2 to 20 have been prepared according to the Risk Weighted Capital Adequacy Framework (Basel II), and are accurate and complete.

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**MOHAMED RAFAE BIN MOHAMED HANEEF**

CHIEF EXECUTIVE OFFICER  
24 July 2013

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

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The Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures at 30 June 2013 do not include all of the information required for full (Basel II) Pillar 3 Disclosures, and should be read in conjunction with the audited financial statements of the Bank for the financial year ended 31 December 2012 and the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures at 31 December 2012.

The tables attached in the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures provide an understanding of the quantitative changes relating to Pillar 3 Disclosures of the Bank since the financial year ended 31 December 2012. There are no material changes relating to qualitative disclosures during the interim reporting period, except for certain updates related to the note on Stress Testing and Credit Risk Mitigation and the removal of the disclosure on Credit Ratings Downgrade.

### **Stress Testing**

Stress testing and scenario analysis form an integral part of Internal Capital Adequacy Assessment Process (ICAAP) to demonstrate that the Bank can maintain risk capital sufficient enough to sustain operations during an economic downturn. Essentially, stress testing is to make risks more transparent by estimating the potential losses on the exposures under the abnormal market or economic conditions. It will also assess specifically the extent by which risk-weighted assets and capital requirements will increase, and how profit and loss as well as liquidity levels will change. The results of the 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.

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

### **Credit Risk Mitigation**

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

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

The Bank'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 Bank are as follows:

- under the residential and real estate business; mortgages over residential and financed properties;
- under certain Islamic specialised financing and leasing transactions (such as machinery financing) where physical assets form the principal source of facility repayment, physical collateral is typically taken;
- in the commercial and industrial sectors, charges over business assets such as premises, stock and debtors;
- facilities provided to small and medium enterprises are commonly granted against guarantees by their owners/directors;
- guarantees from third parties can arise where facilities are extended without the benefit of any alternative form of security,
- under the institutional sector, certain trading facilities are supported by charges over financial instruments such as cash, debt securities and equities; and
- financial collateral in the form cash and of marketable securities are used in much of the over-the-counter ('OTC') derivatives activities and in the Bank's securities financing business (securities term financing and borrowing or repos and reverse repo).

Netting is used where appropriate, and supported by market standard documentation.

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

Credit Risk Mitigation (Cont'd)

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 all settlement risk arising from Treasury transactions on a single day. Settlement risk on many transactions, particularly those involving securities and equities, is substantially mitigated by settling through assured payment systems or on a delivery-versus-payment basis.

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

The valuation of credit risk mitigants seeks to monitor and ensure that they will continue to provide the secured-repayment source anticipated at the time they were taken. The Bank's policy prescribes valuation at intervals of up to two years, or more frequently as the need may arise. For property taken as collateral for new or additional facilities, a valuation report is required from a panel valuer. For credit exposures with credit risk rating (CRR) 6.1 or worse, a full valuation is to be obtained annually. For auction purposes, full valuations are compulsory. This is to avoid the risk of the settlement sum being challenged by the borrower / charger on the grounds that the correct valuation was not applied.

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

Refer to Note 28 to the unaudited condensed interim financial statements at 30 June 2013 for the total risk weighted capital ratio, Common Equity Tier 1 (CET 1) and Tier 1 capital ratio, and risk weighted assets and capital requirements for credit risk, market risk and operational risk.

**1) Credit Risk**

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

	<b>30 Jun 2013</b>				
RM'000	<b>Northern</b>	<b>Southern</b>	<b>Central</b>	<b>Eastern</b>	<b>Total</b>
Cash line	14,857	16,613	38,698	6,137	76,305
Term financing					
House financing	463,431	410,837	1,348,356	168,574	2,391,198
Hire purchase receivables	55,228	55,232	109,498	59,382	279,340
Lease receivables	48	-	3,065	-	3,113
Other term financing	596,697	739,953	3,059,906	235,859	4,632,415
Trust receipts	14,516	88	30,595	-	45,199
Claims on customers under acceptance credits	187,632	104,940	389,437	75,099	757,108
Staff financing	5,335	2,822	33,286	4,255	45,698
Credit cards	95,026	66,761	256,831	24,629	443,247
Revolving credit	52,421	9,215	134,156	76	195,868
Unearned income	(16,322)	(18,521)	(66,308)	(9,709)	(110,860)
	<b>1,468,869</b>	<b>1,387,940</b>	<b>5,337,520</b>	<b>564,302</b>	<b>8,758,631</b>

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

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

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

**Table 2: Geographical distribution of impaired financing and advances broken down by type**  
**30 Jun 2013**

RM'000	Northern	Southern	Central	Eastern	Total
Cash line	503	-	462	-	965
Term financing					
House financing	14,995	14,741	24,023	1,168	54,927
Hire purchase receivables	4,543	4,199	413	455	9,610
Other term financing	14,112	7,461	38,182	4,039	63,794
Claims on customers under acceptance credits	5,753	-	2,396	-	8,149
Credit cards	3,893	2,355	8,856	779	15,883
	<b>43,799</b>	<b>28,756</b>	<b>74,332</b>	<b>6,441</b>	<b>153,328</b>

31 Dec 2012

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

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

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

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

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

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

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

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

**Table 3: Residual contractual maturity of financing and advances broken down by type**  
**30 Jun 2013**

RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line	76,305	-	-	-	76,305
Term financing					
House financing	23,609	2,337	5,972	2,359,280	2,391,198
Hire purchase receivables	17,261	115,948	116,743	29,388	279,340
Lease receivables	48	-	3,065	-	3,113
Other term financing	2,008,528	488,832	625,369	1,509,686	4,632,415
Trust receipts	45,199	-	-	-	45,199
Claims on customers under acceptance credits	757,108	-	-	-	757,108
Staff financing	52	327	1,958	43,361	45,698
Credit cards	443,247	-	-	-	443,247
Revolving credit	195,868	-	-	-	195,868
Unearned income	(40,012)	(18,753)	(21,630)	(30,465)	(110,860)
	<b>3,527,213</b>	<b>588,691</b>	<b>731,477</b>	<b>3,911,250</b>	<b>8,758,631</b>

31 Dec 2012

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

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

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

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

30 Jun 2013 RM'000												
Cash line	House financing	Hire purchase receivables	Lease receivables	Other term financing	Trust receipts	Claims on customers under acceptances credits	Staff financing	Credit/charge cards	Revolving credit	Unearned income	Total	
Agricultural, hunting, forestry and fishing	9,319	-	4,007	-	384,117	-	4,209	-	-	(7,183)	394,469	
Mining and quarrying	1,081	-	15,623	-	118,903	-	-	-	-	(3,468)	132,139	
Manufacturing	14,943	-	132,945	48	568,073	7,327	450,870	-	57,868	(23,176)	1,208,898	
Electricity, gas and water	855	-	-	-	77,120	-	18,548	-	2,000	(1,452)	97,071	
Construction	7,411	-	15,595	-	178,958	152	29,534	-	36,140	(4,646)	263,144	
Real estate	-	-	-	-	647,966	-	235	-	2,700	(11,499)	639,402	
Wholesale & retail trade and restaurants & hotels	11,025	-	61,238	-	232,697	37,438	235,670	-	57,160	(10,478)	624,750	
Transport, storage and communication	7,215	-	25,971	-	240,613	-	7,457	-	-	(6,560)	274,696	
Finance, takaful and business services	16,007	-	19,176	3,065	219,281	282	6,304	-	-	(5,966)	258,149	
Household-retail	3,433	2,391,198	725	-	1,766,540	-	45,698	443,247	-	(32,548)	4,618,293	
Others	5,016	-	4,060	-	198,147	-	4,281	-	40,000	(3,884)	247,620	
	<b>76,305</b>	<b>2,391,198</b>	<b>279,340</b>	<b>3,113</b>	<b>4,632,415</b>	<b>45,199</b>	<b>757,108</b>	<b>45,698</b>	<b>443,247</b>	<b>195,868</b>	<b>(110,860)</b>	<b>8,758,631</b>

31 Dec 2012 RM'000												
Cash line	House financing	Hire purchase receivables	Lease receivables	Other term financing	Trust receipts	Claims on customers under acceptances credits	Staff financing	Credit/charge cards	Revolving credit	Unearned income	Total	
Agricultural, hunting, forestry and fishing	1,930	-	4,550	-	562,658	-	4,450	-	-	(11,143)	562,445	
Mining and quarrying	-	-	16,583	-	138,801	-	-	-	-	(4,157)	151,227	
Manufacturing	17,275	-	135,245	50	582,093	2,272	387,622	-	63,440	(25,151)	1,162,846	
Electricity, gas and water	558	-	-	-	80,868	3,732	15,296	-	2,000	(1,609)	100,845	
Construction	6,717	-	18,965	-	189,097	-	20,478	-	36,599	(5,426)	266,430	
Real estate	393	-	-	-	566,326	-	-	-	2,700	(10,777)	558,642	
Wholesale & retail trade and restaurants & hotels	10,543	-	65,555	-	2,930	43,169	415,435	-	74,882	(6,751)	605,763	
Transport, storage and communication	8,056	-	28,631	-	260,359	-	5,933	-	10,000	(7,599)	305,380	
Finance, takaful and business services	10,271	-	21,679	3,169	201,307	44	4,186	-	-	(6,267)	234,389	
Household-retail	2,136	2,096,318	961	-	1,807,584	-	41,073	442,771	2,000	(35,905)	4,356,938	
Others	4,858	-	4,472	-	320,240	-	11,148	-	20,000	(6,512)	354,206	
	<b>62,737</b>	<b>2,096,318</b>	<b>296,641</b>	<b>3,219</b>	<b>4,712,263</b>	<b>49,217</b>	<b>864,548</b>	<b>41,073</b>	<b>442,771</b>	<b>211,621</b>	<b>(121,297)</b>	<b>8,659,111</b>

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

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

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

30 Jun 2013						
RM'000						
Cash line	House financing	Hire purchase receivables	Other term financing	Claims on customers under acceptances credits	Credit/ charge cards	Total
Agricultural, hunting, forestry and fishing	-	34	2	-	-	36
Manufacturing	6	7,472	54	701	-	8,311
Construction	237	-	-	3,030	-	3,267
Wholesale & retail trade and restaurants & hotels	-	1,041	569	4,418	-	6,832
Transport, storage and communication	722	-	271	-	-	993
Finance, takaful and business services	-	202	-	-	-	422
Household-retail	-	53,843	62,862	-	15,883	133,275
Others	-	156	36	-	-	192
	<b>965</b>	<b>54,927</b>	<b>63,794</b>	<b>8,149</b>	<b>15,883</b>	<b>153,328</b>

31 Dec 2012						
RM'000						
Cash line	House financing	Hire purchase receivables	Other term financing	Claims on customers under acceptances credits	Credit/ charge cards	Total
Agricultural, hunting, forestry and fishing	-	84	-	-	-	84
Manufacturing	5	6,702	-	887	-	7,594
Wholesale & retail trade and restaurants & hotels	-	1,360	152	4,537	-	6,913
Transport, storage and communication	494	-	335	-	-	829
Finance, takaful and business services	-	420	-	-	-	420
Household-retail	-	45,107	52,140	-	15,646	113,578
	<b>499</b>	<b>45,971</b>	<b>52,627</b>	<b>5,424</b>	<b>15,646</b>	<b>129,418</b>

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

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

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

	<b>30 Jun 2013</b>	31 Dec 2012
	<b>RM'000</b>	RM'000
Agricultural, hunting, forestry and fishing	237	429
Manufacturing	54,673	38,783
Construction	21,491	-
Wholesale & retail trade and restaurants & hotels	44,943	35,305
Transport, storage and communication	6,532	4,234
Finance, takaful and business services	2,776	2,145
Household-retail	876,729	580,054
Others	1,263	-
	<b>1,008,644</b>	<b>660,950</b>

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

	<b>30 Jun 2013</b>	31 Dec 2012
	<b>RM'000</b>	RM'000
Northern region	288,125	187,078
Southern region	189,167	153,754
Central region	488,981	291,294
Eastern region	42,371	28,824
	<b>1,008,644</b>	<b>660,950</b>

\* of which the portion of impaired financing and advances broken down by sector and geographical location is disclosed in Note 14 (iv) and 14 (vi) of the unaudited condensed interim financial statements at 30 June 2013.

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

	<b>30 Jun 2013</b>		31 Dec 2012	
	<b>RM'000</b>		RM'000	
	<b>Individual impairment allowance</b>	<b>Collective impairment allowance</b>	Individual impairment allowance	Collective impairment allowance
Agricultural, hunting, forestry and fishing	36	6,370	84	9,108
Mining and quarrying	-	2,134	-	2,539
Manufacturing	7,279	19,404	6,740	20,928
Electricity, gas and water	-	1,568	-	1,693
Construction	807	4,236	-	4,285
Real estate	-	10,325	-	8,885
Wholesale & retail trade and restaurants & hotels	4,719	10,013	5,400	10,219
Transport, storage and communication	523	4,427	439	4,776
Finance, takaful and business services	-	4,169	-	3,848
Household-retail	23,674	74,196	17,716	72,844
Others	-	3,999	-	5,728
	<b>37,038</b>	<b>140,841</b>	<b>30,379</b>	<b>144,853</b>

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

	<b>30 Jun 2013</b>		31 Dec 2012	
	<b>RM'000</b>		RM'000	
	<b>Individual impairment allowance</b>	<b>Collective impairment allowance</b>	Individual impairment allowance	Collective impairment allowance
Northern region	5,625	23,629	4,727	27,499
Southern region	3,764	22,352	3,748	22,124
Central region	27,073	85,757	20,924	84,974
Eastern region	576	9,103	980	10,256
	<b>37,038</b>	<b>140,841</b>	<b>30,379</b>	<b>144,853</b>



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

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

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

	30 Jun 2013		31 Dec 2012	
	RM'000	RM'000	RM'000	RM'000
	Individual impairment charges	Write-off of individual impairment	Individual impairment charges	Write-off of individual impairment
Agricultural, hunting, forestry and fishing	284	-	1,023	-
Manufacturing	4,563	53	8,796	722
Construction	807	-	-	-
Wholesale & retail trade and restaurants & hotels	-	59	2,439	602
Transport, storage and communication	102	-	618	-
Household-retail	14,004	123	19,212	46
	<b>19,760</b>	<b>235</b>	<b>32,088</b>	<b>1,370</b>

The reconciliation of changes in financing impairment provisions is disclosed in Note 14(ii) of the unaudited condensed interim financial statements at 30 June 2013.

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

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

**i) External Credit Assessment Institutions (ECAIs)**

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

**30 Jun 2013**

**RM '000**

Exposure Class	Ratings of Corporate by Approved ECAIs					
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
<b>On and Off Balance-Sheet Exposures</b>						
Corporates		2,776	99,755	64,676	-	4,448,854
<b>Total</b>		<b>2,776</b>	<b>99,755</b>	<b>64,676</b>	<b>-</b>	<b>4,448,854</b>

**31 Dec 2012**

**RM '000**

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

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

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

**i) External Credit Assessment Institutions (ECAIs) (Cont'd)**

**30 Jun 2013**

**RM '000**

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
<b>On and Off Balance-Sheet Exposures</b>							
Sovereigns & Central Banks		-	1,174,366	-	-	-	16,758
<b>Total</b>		-	1,174,366	-	-		16,758

**31 Dec 2012**

**RM '000**

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

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

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

**i) External Credit Assessment Institutions (ECAIs) (Cont'd)**

30 Jun 2013

RM '000

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
<b>On and Off Balance-Sheet Exposures</b>							
Banks, MDBs and FDI's		71,631	59,853	-	775	-	543,480
<b>Total</b>		<b>71,631</b>	<b>59,853</b>	<b>-</b>	<b>775</b>		<b>543,480</b>

31 Dec 2012

RM '000

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

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

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

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

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

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

**30 Jun 2013**

**RM'000**

<b>Exposure Class</b>	<b>Exposures before CRM</b>	<b>Exposures Covered by Guarantees / Credit Derivatives</b>	<b>Exposures Covered by Eligible Collateral</b>
<b><u>Credit Risk</u></b>			
<i>On-Balance Sheet Exposures</i>			
Sovereigns/Central Banks	4,382,329	-	-
Banks, Development Financial Institutions & MDBs	534,029	-	-
Corporates	3,479,593	22,180	63,494
Regulatory Retail	2,113,569	3,778	23,813
House Financing	2,953,299	-	1,895
Other Assets	111,238	-	-
Defaulted Exposures	82,780	57	1,778
<b>Total for On-Balance Sheet Exposures</b>	<b>13,656,837</b>	<b>26,015</b>	<b>90,981</b>
<i>Off-Balance Sheet Exposures</i>			
OTC Derivatives	237,852	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	1,717,988	713	32,658
Defaulted Exposures	7,346	-	2,191
<b>Total for Off-Balance Sheet Exposures</b>	<b>1,963,186</b>	<b>713</b>	<b>34,849</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>15,620,023</b>	<b>26,728</b>	<b>125,830</b>

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

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

**ii) Credit risk mitigation ('CRM') (Cont'd)**

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

31 Dec 2012  
RM'000

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

Refer to Note 29 of the unaudited condensed interim financial statements at 30 June 2013 for disclosure of off-balance sheet and counterparty credit risk.

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

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

**iii) Counterparty Credit Risk (Cont'd)**

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

**30 Jun 2013**

Exposure Class	Gross Exposures (RM'000)	Net Exposures (RM'000)	Risk Weighted Assets (RWA) (RM'000)	RWA Absorbed by PSIA (RM'000)	Total RWA after PSIA (RM'000)	Capital Requirement (RM'000)
<b>Credit Risk</b>						
<i>On-Balance Sheet Exposures</i>						
Sovereigns/Central Banks	4,382,329	4,382,329	-	-	-	-
Banks, Development Financial Institutions & MDBs	534,029	534,029	133,896	-	133,896	10,712
Corporates	3,479,593	3,416,100	3,394,211	-	3,394,211	271,537
Regulatory Retail	2,113,569	2,089,755	1,579,321	-	1,579,321	126,346
House Financing	2,953,299	2,951,404	1,397,838	-	1,397,838	111,827
Other Assets	111,238	111,238	42,428	-	42,428	3,394
Defaulted Exposures	82,780	81,002	85,367	-	85,367	6,829
<b>Total for On-Balance Sheet Exposures</b>	<b>13,656,837</b>	<b>13,565,857</b>	<b>6,633,061</b>	<b>-</b>	<b>6,633,061</b>	<b>530,645</b>
<i>Off-Balance Sheet Exposures</i>						
OTC Derivatives	237,852	237,852	129,530	-	129,530	10,362
Off balance sheet exposures other than OTC derivatives or credit derivatives	1,717,988	1,685,330	1,459,040	-	1,459,040	116,723
Defaulted Exposures	7,346	5,154	7,720	-	7,720	618
<b>Total for Off-Balance Sheet Exposures</b>	<b>1,963,186</b>	<b>1,928,337</b>	<b>1,596,290</b>	<b>-</b>	<b>1,596,290</b>	<b>127,703</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>15,620,023</b>	<b>15,494,194</b>	<b>8,229,351</b>	<b>-</b>	<b>8,229,351</b>	<b>658,348</b>
<b>Large Exposures Risk Requirement</b>						
	-	-	-	-	-	-
<b>Market Risk</b>						
	<u>Long position</u>	<u>Short position</u>				
Profit Rate Risk	2,816,975	2,995,255	(178,363)	102,883	-	102,883
Foreign Currency Risk	2,430	936	2,430	2,430	-	2,430
<b>Total market risk</b>	<b>2,819,405</b>	<b>2,996,191</b>	<b>(175,933)</b>	<b>105,313</b>	<b>-</b>	<b>105,313</b>
<b>Operational Risk *</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>808,005</b>	<b>-</b>	<b>808,005</b>
<b>Total RWA and Capital Requirement</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,142,670</b>	<b>-</b>	<b>9,142,669</b>
						<b>731,414</b>

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

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

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

**iii) Counterparty Credit Risk (Cont'd)**

31 Dec 2012

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

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

Refer to Note 29 of the financial statements for disclosure of off-balance sheet and counterparty credit risk.



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

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

**iii) Counterparty Credit Risk (Cont'd)**

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

**30 Jun 2013**

Risk Weights	Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporates	Regulatory Retail	House Financing	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
0%	4,383,393	-	20,869	3,426	-	68,810	4,476,497	-
20%	-	489,994	2,779	959	-	-	493,732	98,746
35%	-	-	-	-	1,726,858	-	1,726,858	604,400
50%	-	346,941	79,544	240	668,728	-	1,095,454	547,727
75%	-	-	-	2,291,045	631,403	-	2,922,447	2,191,835
100%	-	632	4,423,350	85,658	212,263	42,428	4,764,332	4,764,332
150%	-	3,562	2,970	4,881	3,461	-	14,874	22,311
Total Risk Weight							15,494,194	8,229,351
Average Risk Weight	0%	33%	99%	76%	50%	38%	53%	

**31 Dec 2012**

Risk Weights	Exposures after Netting and Credit Risk Mitigation						Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks	Banks, MDBs and DFIs	Corporates	Regulatory Retail	House Financing	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
0%	3,093,403	-	19,268	3,842	-	78,435	3,194,948	-
20%	-	373,131	3,426	168	-	-	376,725	75,345
35%	-	-	-	-	1,459,135	-	1,459,135	510,697
50%	-	204,590	85,748	329	715,709	-	1,006,376	503,188
75%	-	-	-	2,112,873	792,639	-	2,905,512	2,179,134
100%	-	-	4,758,321	152,059	47,686	129,265	5,087,331	5,087,331
150%	-	1,872	250	25,508	478	-	28,108	42,161
Total Risk Weight							14,058,135	8,397,856
Average Risk Weight	0%	31%	99%	77%	50%	62%	60%	

Note:

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

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

**2) Profit Rate Risk**

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

<b>HBMS Amanah Malaysia Berhad (RM'000)</b>	<b>At 30 Jun 2013</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>
Foreign currency risk	19	86	269	6
Profit rate risk	130	162	324	85
Overall	127	247	644	86

<b>HBMS Amanah Malaysia Berhad (RM'000)</b>	<b>At 31 Dec 2012</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>
Foreign currency risk	22	59	414	5
Profit rate risk	96	138	251	90
Overall	87	352	999	87

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

<b>Change in projected net finance income in next 12 months arising from a shift in profit rates of:</b>	<b>HBMS</b>	
	<b>30 Jun 13</b>	<b>31 Dec 12</b>
	<b>RM'000</b>	<b>RM'000</b>
+100 basis points parallel increase	25,320	16,102
-100 basis points parallel increase	(25,285)	(15,440)
+25 basis points at the beginning of each quarter	17,373	7,737
-25 basis points at the beginning of each quarter	(17,912)	(7,721)

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

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

	<b>HBMS</b>	
	<b>30 Jun 13</b>	<b>31 Dec 12</b>
	<b>RM'000</b>	<b>RM'000</b>
+100 basis points parallel increase	(31,635)	(37,191)
-100 basis points parallel increase	31,635	37,191

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

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### **3) Shariah Governance**

#### **Overview**

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

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

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

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

##### **a. Board of Directors**

To be ultimately accountable for the overall Shariah governance and compliance in the Bank.

##### **b. Shariah Committee**

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

##### **c. CEO and Management**

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

##### **d. Shariah Audit**

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

##### **e. Shariah Department**

###### **1. Shariah Review**

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

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

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

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**3) Shariah Governance (Cont'd)**

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

**e. Shariah Department (Cont'd)**

**3. Shariah Research**

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

**4. Shariah Training**

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

**5. Shariah Secretariat**

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

**Quantitative Disclosure**

During the interim financial period ended 30 June 2013, the following events occurred:

(i) Income from inadvertent Shariah non-compliant activities identified by the Bank's management amounting to RM58,000 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 half year ended 30 June 2013.