HSBC AMANAH MALAYSIA BERHAD
(Company No. 807705-X)
(Incorporated in Malaysia)
Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures
at 31 December 2014

CHIEF EXECUTIVE OFFICER'S ATTESTATION

I, Mohamed Rafe bin Mohamed Haneef, being the Chief Executive Officer of HSBC Amanah Malaysia Berhad, do hereby state that, in my opinion, the Pillar 3 Disclosures set out on pages 2 to 26 have been prepared according to the Risk Weighted Capital Adequacy Framework (Basel II), and are accurate and complete.

....

MOHAMED RAFE BIN MOHAMED HANEEF

CHIEF EXECUTIVE OFFICER
09 February 2015

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(a) Introduction

HSBC Amanah Malaysia Berhad ('the Bank') is principally engaged in the provision of Islamic banking business and nominee services. At the reporting date, the Bank does not have any subsidiaries.

(b) Basel II

The Bank's lead regulator, Bank Negara Malaysia ('BNM') sets and monitors capital requirements for the Bank. The Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Bank adopts the Standardised approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

Basel II is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Pillar 3 aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specific information on the capital management processes, and risk assessment processes, and hence the capital adequacy of the Bank. Disclosures consist of both quantitative and qualitative information. Banks are required to disclose all their material risks as part of the Pillar 3 framework. All material and non-proprietary information required by Pillar 3 is included in the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures at 31 December 2014. 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 2014.

(c) Transferability of capital and funds

HSBC Bank Malaysia Berhad, the holding company, is the primary provider of equity capital to the Bank. The Bank manages its own capital to support its planned business growth.

(d) Internal assessment of capital adequacy

The Bank assesses the adequacy of its capital by considering the resources necessary to cover unexpected losses arising from discretionary risks, such as credit risk and market risk, or non-discretionary risks, such as operational and reputational risk.

The key objective of Internal Capital Adequacy Assessment Process ('ICAAP') is to ensure that sufficient capital is maintained, given the risk profile of the bank on an ongoing and forward looking basis. ICAAP permits the setting of target amounts for internal capital consistent to the bank's risk profile and the environment in which it pursues business.

The ICAAP is an internal assessment of the Bank's capital adequacy given its Risk Appetite, risk profile and regulatory minimum requirements. The Bank assesses the adequacy of its capital by considering the resources necessary to cover unexpected losses arising from discretionary risks, such as credit risk and market risk, or non-discretionary risks, such as operational and reputational risk. On a forward looking basis, the ICAAP ensures that the Bank's capital position:

- exceeds the minimum regulatory capital requirements as prescribed by the Bank Negara Malaysia (BNM);
- remains sufficient to support the Bank's Risk Appetite and business strategies;
- remains sufficient to support the underlying and projected risk profile; and
- remains sufficient to sustain business growth and in adverse business or economic conditions.

In order to achieve this, the Bank has a robust ICAAP framework in place which underlines the foundation of its risk and capital management process. It has the following key features:

- a strong and encompassing governance framework;
- a forward-looking risk appetite framework to ensure our business and risk profiles are in line with the Board of Directors' (BOD) expectations;
- a robust capital management, planning and forecasting framework;
- an internal risk assessment process based on the economic capital and stress testing frameworks to support the Bank's capital adequacy positions.

Refer to Note 36 of the financial statements at 31 December 2014 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.

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

Stress Testing

Stress testing is a key risk management tool used to assess a variety of risks to which the bank is exposed, including credit risk, market risk, operational risk, etc. Stress testing should be conducted on entity level and a bank-wide basis.

Stress testing and scenario analysis form an integral part of ICAAP to demonstrate that the Bank can maintain risk capital sufficient enough to sustain operations during an economic downturn. Essentially, stress testing is to make risks more transparent by estimating the potential losses on the exposures under the abnormal market or economic conditions. It will also assess specifically the extent by which risk-weighted assets and capital requirements will increase, and how profit and loss as well as liquidity levels will change. The results of the analysis will facilitate informed financial and capital management whilst supporting business lines to manage their business through various measures such as establishing triggers and devising mitigation actions which can be readily implemented should the adverse scenarios materialise.

In line with BNM’s Guideline on Stress Testing and the Bank's Policy Paper for Stress Testing, a Stress Test Steering Committee ('STSC') has been established.

A key objective of stress testing is to make risk more transparent by estimating the potential losses on the Bank’s exposure and impacts on its capital adequacy ratio, capital requirements and profit and loss under abnormal conditions. It plays a particularly important role in:

- Providing forward-looking assessments of risk.
- Overcoming limitations of models and historical data.
- Supporting internal and external communication.
- Feeding into capital and liquidity planning process.
- Informing the setting of a banks’ risk tolerance.
- Facilitating the development of risk mitigation or contingency plans across a range of stressed conditions.
- Building upon business and strategic planning to the Risk Appetite of the institution.
- Strengthening the Bank’s corporate governance and the resilience of the financial system.
- Using the experiences of the past held in local operations in addition to the wider experiences that can be obtained from the diversified operation and management.

Stress testing is considered as the collective quantitative and qualitative techniques used to assess all facets to the risks faced by the bank. Stress testing is done in collaboration across all customer groups and functions such as Risks and Finance.

Stress testing will be carried out subject to regulatory and internal management demands as and when needed. At a minimum, a complete stress testing for the entire Bank should be completed on a semi-annual basis. Stress testing results are reviewed by STSC, Risk Management Committee ('RMC') and BOD prior to submission to BNM.

Governance

The STSC is delegated the power to design the stress testing, including the determination of stress events, risk factors and assumptions applied, deliberation on the results of stress testing and proposed actions to be taken. Based on the STSC recommendations, RMC and BOD can then endorse the stress testing results and propose mitigating actions.

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

Risk Appetite

Risk Appetite is a central component of an integrated approach to risk, capital and value management and an important mechanism to realise the Bank’s strategic vision and corporate strategy. Risk Appetite forms an integral part of the Bank’s ICAAP to ensure sufficient capital resources for the risk profile across customer groups.

The Risk Appetite Framework describes the quantum and types of risk that the Bank is prepared to take in executing its strategy. It aims to introduce a more explicit and consistent consideration of risk and capital into the Bank’s strategy formulation, business planning, target setting, execution and measurement/ reporting processes throughout the Bank. It applies to our planning activities, strategic investments and running of our operations across all regions and group businesses.

The Risk Appetite Framework as well as the Risk Appetite Statement (RAS) will be reviewed by all relevant stakeholders namely Risks, Finance and customer groups. It will be tabled to the RMC for endorsement, and subsequently tabled to the the Board Risk Committee ('BRC') for recommendation to the BOD for approval.

(e) Capital structure

For regulatory purposes, the Bank’s regulatory capital is divided into two categories, or tiers. These are Tier 1 and Tier 2. The main features of capital securities issued by the Bank are disclosed below:

- Tier 1 capital is divided into Common Equity Tier 1 (CET1) Capital and Additional Tier 1 Capital. CET1 Capital includes ordinary share capital*, share premium, retained earnings, reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. The Bank does not have any Additional Tier 1 Capital as at 31 December 2014. (Refer to Note 36 of the financial statements at 31 December 2014 for the amount of Tier 1 capital and a breakdown of its components).

* *Refer to Note 23 of the financial statements at 31 December 2014 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 liabilities**, collective impairment allowances (excluding collective impairment allowances attributable to loans classified as impaired) and regulatory reserve, which are disclosed as the regulatory adjustments. (Refer to Note 36 of the financial statements at 31 December 2014 for the amount of Tier 2 capital and a breakdown of its components).

** *Refer to Note 22 of the financial statement at 31 December 2014 for terms and conditions of the subordinated liabilities.*

(f) Risk management policies

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

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

Refer to Note 4 of the financial statements at 31 December 2014 for the Bank's risk managements policies on the above mentioned risks.

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

(f) Risk management policies (Cont'd)

1) RWA and Capital Requirement

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

31 Dec 2014
(RM'000)

Exposure Class		Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Capital Requirement
Credit Risk					
On-Balance Sheet Exposures					
Sovereigns/Central Banks		4,907,238	4,907,238	-	-
Public Sector Entities		376,507	376,507	376,507	30,120
Banks, Development Financial Institutions & MDBs		648,413	648,413	134,948	10,796
Corporates		4,159,640	4,096,997	3,914,353	313,148
Regulatory Retail		2,067,856	2,038,201	1,534,085	122,727
House Financing		3,841,506	3,838,737	1,570,106	125,609
Other Assets		207,668	207,668	108,198	8,655
Defaulted Exposures		105,079	104,121	112,033	8,963
Total for On-Balance Sheet Exposures		**16,313,907**	**16,217,882**	**7,750,230**	**620,018**
Off-Balance Sheet Exposures					
OTC Derivatives		452,768	452,768	188,391	15,072
Off balance sheet exposures other than OTC derivatives or credit derivatives		2,749,459	2,691,603	2,053,687	164,295
Defaulted Exposures		6,272	6,177	9,266	741
Total for Off-Balance Sheet Exposures		**3,208,499**	**3,150,548**	**2,251,344**	**180,108**
Total On and Off-Balance Sheet Exposures **		**19,522,406**	**19,368,430**	**10,001,574**	**800,126**
Market Risk	**Long position**	**Short position**			
Profit Rate Risk	4,267,016	4,855,382	(588,366)	100,444	8,035
Foreign Currency Risk	9,909	2,635	9,909	9,909	793
Total market risk	**4,276,925**	**4,858,017**	**(578,457)**	**110,353**	**8,828**
Operational Risk *	-	-	-	919,539	73,563
Total RWA and Capital Requirement	-	-	-	**11,031,466**	**882,517**

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

(f) Risk management policies (Cont'd)

1) RWA and Capital Requirement (Cont'd)

31 Dec 2013
(RM'000)

Exposure Class		Gross Exposures	Net Exposures	Risk Weighted Assets (RWA)	Capital Requirement
Credit Risk					
On-Balance Sheet Exposures					
Sovereigns/Central Banks		4,712,537	4,712,537	-	-
Public Sector Entities		67,152	67,152	13,430	1,074
Banks, Development Financial Institutions & MDBs		419,002	419,002	87,187	6,975
Corporates		3,660,467	3,598,905	3,554,376	284,350
Regulatory Retail		2,100,151	2,078,479	1,562,748	125,020
House Financing		3,273,033	3,270,673	1,378,769	110,302
Other Assets		113,431	113,431	30,652	2,452
Defaulted Exposures		112,051	111,073	118,338	9,467
Total for On-Balance Sheet Exposures		14,457,824	14,371,252	6,745,500	539,640
Off-Balance Sheet Exposures					
OTC Derivatives		337,971	337,971	184,656	14,772
Off balance sheet exposures other than OTC derivatives or credit derivatives		1,890,414	1,828,412	1,602,193	128,175
Defaulted Exposures		34,685	31,975	47,956	3,836
Total for Off-Balance Sheet Exposures		2,263,070	2,198,358	1,834,805	146,783
Total On and Off-Balance Sheet Exposures **		16,720,894	16,569,610	8,580,305	686,423
Market Risk	**Long position**	**Short position**			
Profit Rate Risk	3,135,244	3,575,223	(439,979)	70,292	5,623
Foreign Currency Risk	7,960	6,494	7,960	7,960	637
Total market risk	3,143,204	3,581,717	(432,019)	78,252	6,260
Operational Risk *	-	-	-	856,104	68,488
Total RWA and Capital Requirement	-	-	-	9,514,661	761,171

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

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

** *The variance between Gross Exposures and Net Exposures represents the 'Total On and Off-Balance Sheet Exposures covered by Eligible Collateral'. Refer to Note (f)(3)(ii) within this disclosure document.*

Refer to Note 37 of the financial statements at 31 December 2014 for disclosure of off-balance sheet and Note 36 for disclosure of counterparty credit risk.

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

(f) Risk management policies (Cont'd)

2) Risk Weight Profile and RWA

The tables below are disclosures on risk weight profile and RWA of the Bank as at balance sheet date.

31 Dec 2014
(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	House Financing	Other Assets		
0%	4,907,238	-	-	3,785	2,647	-	99,470	5,013,140	-
20%	-	69,832	956,274	645,993	5,073	-	-	1,677,172	335,434
35%	-	-	-	-	-	3,146,726	-	3,146,726	1,101,354
50%	-	-	227,101	84,429	506	302,515	-	614,551	307,275
75%	-	-	-	4,334	2,353,307	330,779	-	2,688,420	2,016,315
100%	-	408,954	53,467	5,109,553	67,870	454,830	108,198	6,202,872	6,202,872
150%	-	-	3,336	2,719	18,039	1,455	-	25,549	38,324
Total								19,368,430	10,001,574
Average Risk Weight	0%	88%	29%	90%	76%	46%	52%	52%	

31 Dec 2013
('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	House Financing	Other Assets		
0%	4,712,820	-	-	2,680	2,710	-	82,779	4,800,989	-
20%	-	71,778	491,958	68,874	17,380	-	-	649,990	129,998
35%	-	-	-	-	-	2,505,985	-	2,505,985	877,095
50%	-	-	355,810	86,380	539	341,058	-	783,787	391,893
75%	-	-	-	-	2,278,111	415,014	-	2,693,125	2,019,843
100%	-	-	6,689	4,603,921	87,396	355,594	30,652	5,084,252	5,084,252
150%	-	-	26,518	11,876	12,769	319	-	51,482	77,224
Total								16,569,610	8,580,305
Average Risk Weight	0%	20%	37%	98%	76%	47%	27%	52%	

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

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

(f) Risk management policies (Cont'd)

3) Credit Risk

Refer to Note 5 of the financial statements at 31 December 2014 for definitions of past due and impaired financing. The approaches for the determination of individual and collective impairment provisions are detailed in Note 11 of the financial statements at 31 December 2014.

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

	31 Dec 2014				
RM'000	**Northern**	**Southern**	**Central**	**Eastern**	**Total**
Cash line	**14,459**	**21,804**	**55,006**	**1,939**	**93,208**
Term financing					
House financing	**457,216**	**484,644**	**2,198,950**	**168,249**	**3,309,059**
Hire purchase receivables	**55,179**	**45,175**	**99,297**	**34,879**	**234,530**
Lease receivables	**-**	**-**	**5,373**	**-**	**5,373**
Other term financing	**503,037**	**764,198**	**3,389,008**	**233,971**	**4,890,214**
Trust receipts	**122,529**	**18,396**	**214,705**	**2,961**	**358,591**
Claims on customers under acceptance credits	**87,274**	**114,970**	**408,959**	**8,055**	**619,258**
Staff financing	**4,271**	**3,174**	**36,604**	**3,840**	**47,889**
Credit cards	**99,778**	**74,156**	**297,987**	**27,899**	**499,820**
Revolving credit	**25,094**	**3,020**	**589,962**	**163**	**618,239**
	1,368,837	**1,529,537**	**7,295,851**	**481,956**	**10,676,181**

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

The Northern region consists of the states of Perlis, Kedah, Penang, Perak, Pahang, Kelantan and Terengganu.
The Southern region consists of the states of Johor, Malacca and Negeri Sembilan.
The Central region consists of the states of Selangor and the Federal Territory of Kuala Lumpur .
The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.

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

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

Table 2: Geographical distribution of impaired financing and advances breakdown by type

	31 Dec 2014				
RM'000	**Northern**	**Southern**	**Central**	**Eastern**	**Total**
Cash line	**238**	**-**	**614**	**-**	**852**
Term financing					
House financing	**13,624**	**7,595**	**33,651**	**1,037**	**55,907**
Hire purchase receivables	**6,006**	**281**	**737**	**4,735**	**11,759**
Other term financing	**10,356**	**10,845**	**54,150**	**2,788**	**78,139**
Claims on customers under acceptance credits	**102**	**603**	**715**	**-**	**1,420**
Credit cards	**3,538**	**1,921**	**8,113**	**578**	**14,150**
	33,864	**21,245**	**97,980**	**9,138**	**162,227**

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

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

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

RM'000	31 Dec 2014 Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line	**93,208**	**-**	**-**	**-**	**93,208**
Term financing					
House financing	**16,960**	**1,294**	**13,469**	**3,277,336**	**3,309,059**
Hire purchase receivables	**12,108**	**89,426**	**132,214**	**782**	**234,530**
Lease receivables	**-**	**1,696**	**3,677**	**-**	**5,373**
Other term financing	**2,319,934**	**309,016**	**721,940**	**1,539,324**	**4,890,214**
Trust receipts	**358,591**	**-**	**-**	**-**	**358,591**
Claims on customers under acceptance credits	**619,258**	**-**	**-**	**-**	**619,258**
Staff financing	**129**	**667**	**2,055**	**45,038**	**47,889**
Credit cards	**499,820**	**-**	**-**	**-**	**499,820**
Revolving credit	**618,239**	**-**	**-**	**-**	**618,239**
	4,538,247	**402,099**	**873,355**	**4,862,480**	**10,676,181**

RM'000	31 Dec 2013 Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line	90,276	-	-	-	90,276
Term financing					
House financing	20,669	1,413	8,689	2,629,224	2,659,995
Hire purchase receivables	17,808	103,233	131,082	437	252,560
Lease receivables	28	-	2,414	-	2,442
Other term financing	2,268,061	466,336	522,139	1,602,371	4,858,907
Trust receipts	55,039	-	-	-	55,039
Claims on customers under acceptance credits	660,683	-	-	-	660,683
Staff financing	47	366	1,821	44,281	46,515
Credit cards	470,834	-	-	-	470,834
Revolving credit	238,349	-	-	-	238,349
	3,821,794	571,348	666,145	4,276,313	9,335,600

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

(f) Risk management policies (Cont'd)

3) Credit risk (Cont'd)

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

31 Dec 2014
RM'000

	Cash line	House financing	Hire purchase receivables	Lease receivables	Other term financing	Trust receipts	Claims on customers under acceptances credits	Staff financing	Credit/ charge cards	Revolving credit	Total
Agricultural, hunting, forestry and fishing	**2,723**	**-**	**6,246**	**-**	**255,443**	**-**	**1,927**	**-**	**-**	**-**	**266,339**
Mining and quarrying	**1,273**	**-**	**8,940**	**-**	**1,638**	**-**	**-**	**-**	**-**	**155,944**	**167,795**
Manufacturing	**24,854**	**-**	**109,054**	**-**	**572,984**	**192,674**	**297,090**	**-**	**-**	**36,456**	**1,233,112**
Electricity, gas and water	**978**	**-**	**-**	**-**	**60,250**	**-**	**12,962**	**-**	**-**	**2,000**	**76,190**
Construction	**9,887**	**-**	**14,931**	**-**	**559,548**	**2,990**	**32,981**	**-**	**-**	**82,260**	**702,597**
Real estate	**439**	**-**	**-**	**-**	**190,587**	**-**	**-**	**-**	**-**	**47,000**	**238,026**
Wholesale & retail trade and restaurants & hotels	**13,104**	**-**	**30,968**	**-**	**202,890**	**159,241**	**246,113**	**-**	**-**	**141,049**	**793,365**
Transport, storage and communication	**5,694**	**-**	**20,760**	**-**	**170,224**	**599**	**3,165**	**-**	**-**	**13,000**	**213,442**
Finance, takaful and business services	**27,683**	**-**	**16,059**	**5,373**	**543,162**	**2,994**	**23,920**	**-**	**-**	**69,930**	**689,121**
Household-retail	**5,657**	**3,309,059**	**-**	**-**	**1,665,018**	**-**	**-**	**47,889**	**499,820**	**-**	**5,527,443**
Others	**916**	**-**	**27,572**	**-**	**668,470**	**93**	**1,100**	**-**	**-**	**70,600**	**768,751**
	93,208	**3,309,059**	**234,530**	**5,373**	**4,890,214**	**358,591**	**619,258**	**47,889**	**499,820**	**618,239**	**10,676,181**

31 Dec 2013
RM'000

	Cash line	House financing	Hire purchase receivables	Lease receivables	Other term financing	Trust receipts	Claims on customers under acceptances credits	Staff financing	Credit/ charge cards	Revolving credit	Total
Agricultural, hunting, forestry and fishing	9,887	-	5,887	-	347,865	-	3,720	-	-	-	367,359
Mining and quarrying	1,404	-	13,891	-	88,393	-	-	-	-	-	103,688
Manufacturing	17,051	-	114,830	-	572,243	8,204	353,546	-	-	52,640	1,118,514
Electricity, gas and water	970	-	-	-	70,614	-	16,984	-	-	2,000	90,568
Construction	10,765	-	20,843	-	549,012	3,201	31,913	-	-	49,250	664,984
Real estate	243	-	-	-	251,533	-	-	-	-	2,700	254,476
Wholesale & retail trade and restaurants & hotels	10,590	-	30,290	-	255,581	40,599	239,608	-	-	81,159	657,827
Transport, storage and communication	9,262	-	22,267	-	224,880	593	7,257	-	-	10,000	274,259
Finance, takaful and business services	19,520	-	19,532	2,442	525,822	2,359	6,388	-	-	-	576,063
Household-retail	6,461	2,659,995	575	-	1,815,291	-	-	46,515	470,834	-	4,999,671
Others	4,123	-	24,445	-	157,673	83	1,267	-	-	40,600	228,191
	90,276	2,659,995	252,560	2,442	4,858,907	55,039	660,683	46,515	470,834	238,349	9,335,600

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

(f) Risk management policies (Cont'd)

3) Credit risk (Cont'd)

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

31 Dec 2014
RM'000

	Cash line	**House financing**	**Hire purchase receivables**	**Other term financing**	**Claims on customers under acceptances credits**	**Credit/ charge cards**	**Total**
Manufacturing	**6**	**-**	**5,465**	**7,518**	**603**	**-**	**13,592**
Electricity, gas and water	**-**	**-**	**-**	**3**	**-**	**-**	**3**
Construction	**171**	**-**	**-**	**611**	**-**	**-**	**782**
Wholesale & retail trade and restaurants & hotels	**-**	**-**	**1,356**	**768**	**817**	**-**	**2,941**
Transport, storage and communication	**675**	**-**	**4,124**	**871**	**-**	**-**	**5,670**
Finance, takaful and business services	**-**	**-**	**623**	**2**	**-**	**-**	**625**
Household-retail	**-**	**55,907**	**-**	**67,960**	**-**	**14,150**	**138,017**
Others	**-**	**-**	**191**	**406**	**-**	**-**	**597**
	852	**55,907**	**11,759**	**78,139**	**1,420**	**14,150**	**162,227**

31 Dec 2013
RM'000

	Cash line	House financing	Hire purchase receivables	Other term financing	Claims on customers under acceptances credits	Credit/ charge cards	Total
Manufacturing	5	-	6,108	-	245	-	6,358
Construction	182	-	-	2,273	-	-	2,455
Wholesale & retail trade and restaurants & hotels	-	-	354	598	1,140	-	2,092
Transport, storage and communication	691	-	-	269	-	-	960
Finance, takaful and business services	-	-	346	-	-	-	346
Household-retail	-	66,930	694	72,689	-	14,191	154,504
Others	-	-	168	23	-	-	191
	878	66,930	7,670	75,852	1,385	14,191	166,906

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

(f) Risk management policies (Cont'd)
3) Credit Risk (Cont'd)

Table 6: All past due financing and advances breakdown by sector *	**31 Dec 2014**	31 Dec 2013
	RM'000	RM'000
Manufacturing	**72,022**	28,444
Electricity, gas and water	**16**	-
Construction	**4,144**	10,983
Wholesale & retail trade and restaurants & hotels	**15,584**	9,359
Transport, storage and communication	**30,044**	4,295
Finance, takaful and business services	**3,312**	1,548
Household-retail	**731,327**	691,203
Others	**3,163**	854
	859,612	746,686

Table 7: All past due financing and advances breakdown by geographical location*	**31 Dec 2014**	31 Dec 2013
	RM'000	RM'000
Northern region	**179,439**	172,720
Southern region	**112,573**	117,251
Central region	**519,179**	432,973
Eastern region	**48,421**	23,742
	859,612	746,686

* of which the portion of impaired financing and advances breakdown by sector and geographical location is disclosed in Note 11 (iv) and 11 (vi) of the financial statements at 31 December 2014.

Table 8: Individual impairment allowance breakdown by sector

	31 Dec 2014	31 Dec 2013
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	**-**	5
Manufacturing	**5,360**	5,435
Construction	**342**	806
Wholesale & retail trade and restaurants & hotels	**1,122**	1,192
Transport, storage and communication	**4,486**	523
Finance, takaful and business services	**69**	87
Household-retail	**32,442**	33,089
	43,821	41,137

Table 8a: Collective impairment allowance breakdown by sector

	31 Dec 2014	31 Dec 2013
	RM'000	RM'000
Agricultural, hunting, forestry and fishing	**3,127**	4,715
Mining and quarrying	**1,970**	1,331
Manufacturing	**14,413**	14,286
Electricity, gas and water	**894**	1,162
Construction	**8,244**	8,524
Real estate	**2,794**	3,266
Wholesale & retail trade and restaurants & hotels	**9,300**	8,428
Transport, storage and communication	**2,453**	3,513
Finance, takaful and business services	**8,089**	7,392
Household-retail	**64,508**	63,744
Others	**9,025**	2,929
	124,817	119,290

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

Table 9: Individual impairment allowance breakdown by geographical location

	31 Dec 2014	31 Dec 2013
	RM'000	RM'000
Northern region	**4,037**	6,043
Southern region	**737**	813
Central region	**34,205**	33,855
Eastern region	**4,842**	426
	43,821	41,137

Table 9a: Collective impairment allowance breakdown by geographical location

	31 Dec 2014	31 Dec 2013
	RM'000	RM'000
Northern region	**16,022**	17,934
Southern region	**17,947**	18,136
Central region	**85,247**	76,522
Eastern region	**5,601**	6,698
	124,817	119,290

Table 10: Charges for individual impairment allowance during the year breakdown by sector

	31 Dec 2014	31 Dec 2013
	RM'000	RM'000 (Restated)
Agricultural, hunting, forestry and fishing	**-**	346
Manufacturing	**19,930**	6,998
Construction	**1,270**	807
Wholesale & retail trade and restaurants & hotels	**735**	415
Transport, storage and communication	**4,442**	102
Finance, takaful and business services	**-**	87
Household-retail	**7,266**	18,830
	33,643	27,585

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

	31 Dec 2014	31 Dec 2013
	RM'000	RM'000
Manufacturing	**3,448**	1,135
Wholesale & retail trade and restaurants & hotels	**631**	2,622
Transport, storage and communication	**30**	-
Finance, takaful and business services	**13**	-
Household-retail	**4,026**	948
	8,148	4,705

The reconciliation of changes in financing impairment provisions is disclosed in Note 11(ii) of the financial statements at 31 December 2014.

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) External Credit Assessment Institutions ('ECAIs')

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

ECAIs are used by the Bank as part of the determination of risk weightings for the following classess of exposure:

- Sovereigns and Central Banks
- Multilateral development banks ('MDBs')
- Public sector entities ('PSEs')
- Corporates
- Banks
- Securities firms

For the purpose of Pillar 1 reporting to the regulator, the Bank uses the external credit ratings from the following ECAIs:

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

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

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

Below are the summary tables of long and short term ratings governing the high level assignment of risk weights under the standardised approach:

S		1	2	3	4	5	6	7
Rating Agency	S & P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	B1 to B3	Caa1 and below	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	R & I*	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to BB3	B1 to B3	C1 and below	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	C+ and below	Unrated

Short Term Rating Category		1	2	3	4	5
Rating Agency	S & P	A-1	A-2	A-3	Others	Unrated
	Moody's	P-1	P-2	P-3	Others	Unrated
	Fitch	F1+,F1	F2	F3	B to D	Unrated
	R & I*	a-1+, a-1	a-2	a-3	b, c	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated

Risk Weights Based on Credit Rating of the Counterparty Exposure Class						
	Long Term Rating					Short Term Rating
			Banking Institutions			
Rating Category	Sovereigns and Central Banks	Corporates	Risk weight (original maturity greater than 6 months)	Risk weight (original maturity of 6 months or less)	Risk weight (original maturity of 3 months or less)	
1	0%	20%	20%	20%	20%	20%
2	20%	50%	50%	20%	20%	50%
3	50%	100%	50%	20%	20%	100%
4	100%	100%	100%	50%	20%	150%
5	100%	150%	100%	50%	20%	N/A
6	150%	150%	150%	150%	20%	N/A
7	100%	100%	50%	20%	20%	N/A

* External credit assessments produced by R&I on Islamic debt securities are not recognised by the Bank in determining the risk weights for exposures to some asset classes.

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

Risk weights under the standardised approach at the reporting date are reflected in page 5. Rated and unrated exposures according to ratings by ECAIs at reporting date are as follows:-

31 Dec 2014
RM '000

	Long Term Rating Category							
Exposure Class	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**Total**
On and Off Balance Sheet Exposures								
(i) Total rated exposures								
Sovereigns & Central Banks								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	3,918,936	-	-	-	-		3,918,936
Public Sector Entities								
- Exposures risk-weighted using ratings of Corporates	-	39,832	28,671	-	-	-		68,503
								-
Banks, MDBs and FDIs								-
- Exposures risk-weighted using ratings of Banking Instituition	419,062	101,235	233	-	-	-		520,530
								-
Insurance Cos, Securities Firms & Fund Managers								-
- Exposures risk-weighted using ratings of Corporates								-
								-
Corporates								-
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	3,786	-	-	-	-		3,786
- Exposures risk-weighted using ratings of Corporates	461,588	84,425	107,328	-	-	-		653,341
	880,650	4,148,214	136,232	-	-	-		5,165,096
(ii) Total unrated exposures							12,749,066	12,749,066
Total Long Term Exposure	880,650	4,148,214	136,232	-	-	-	12,749,066	17,914,162

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2014
RM '000

	Short Term Rating Category					
Exposure Class	**1**	**2**	**3**	**4**	**5**	**Total**
On and Off Balance Sheet Exposures						
(i) Total rated exposures						
Sovereigns & Central Banks						
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	983,748	-	-		983,748
Public Sector Entities						
- Exposures risk-weighted using ratings of Corporates	-	30,000	-	-		30,000
Banks, MDBs and FDIs						
- Exposures risk-weighted using ratings of Banking Instituition	75,013	149,061	184,678	153		408,905
Corporates						
- Exposures risk-weighted using ratings of Corporates	185,591	-	-	-		185,591
	260,604	1,162,809	184,678	153	-	1,608,244
(ii) Total unrated exposures					-	-
Total Short Term Exposures	260,604	1,162,809	184,678	153	-	1,608,244

Total Long Term and Short Term Exposures:	19,522,406

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2013
RM '000

Exposure Class	Long Term Rating Category 1	2	3	4	5	6	7	Total
On and Off Balance Sheet Exposures								
(i) Total rated exposures								
Sovereigns & Central Banks								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	1,329,861	-	-	-	-		1,329,861
Public Sector Entities								
- Exposures risk-weighted using ratings of Corporates	2,031	-	-	-	-	-		2,031
Banks, MDBs and FDIs								
- Exposures risk-weighted using ratings of Banking Instituition	87,876	63,796	-	-	656	-		152,328
Corporates								
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	2,680	-	-	-	-		2,680
- Exposures risk-weighted using ratings of Corporates	59,138	86,380	68,301	-	-	-		213,819
	149,045	1,482,717	68,301	-	656			1,700,719
(ii) Total unrated exposures							11,392,689	11,392,689
Total Long Term Exposures	149,045	1,482,717	68,301	-	656			13,093,408

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

i) ECAIs (Cont'd)

31 Dec 2013
RM '000

	Short Term Rating Category					
Exposure Class	**1**	**2**	**3**	**4**	**5**	**Total**
On and Off Balance Sheet Exposures						
(i) Total rated exposures						
Sovereigns & Central Banks						
- Exposures risk-weighted using ratings of Sovereigns and Central Banks	-	3,345,324	-	-		3,345,324
Public Sector Entities						
- Exposures risk-weighted using ratings of Corporates	595	-	-	-		595
Banks, MDBs and FDIs						
- Exposures risk-weighted using ratings of Banking Instituition	63,274	39,049	166,053	-		268,376
Corporates						
- Exposures risk-weighted using ratings of Corporates	13,191	-	-	-		13,191
	77,060	3,384,373	166,053	-		3,627,486
(ii) Total unrated exposures					-	-
Total Short Term Exposures	77,060	3,384,373	166,053	-	-	3,627,486

Total Long Term and Short Term Exposures	**16,720,894**

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

ii) Credit risk mitigation ('CRM')

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

The Bank's policy when granting credit facilities is on the basis of the customer's capacity to pay, 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 mitigation ('CRM') held.

The Bank's general policy is to promote the use of CRM, justified by commercial prudence and good practice as well as capital efficiency. Specific, detailed policies cover acceptability, structuring and terms of various types of business with regard to the availability of credit risk mitigants, for example in the form of collateral security, and these policies, together with the determination of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfill 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 vehicle financing) where physical assets form the principal source of facility repayment, physical collateral is typically taken;
- in the commercial and industrial sectors, charges over business assets such as premises, stock and debtors;
- facilities provided to small and medium enterprises are commonly granted against guarantees by their owners/directors;
- guarantees from third parties can arise where facilities are extended without the benefit of any alternative form of security, e.g. where the Bank issues a bid or performance sukuk in favour of a non-customer at the request of another bank;
- under the institutional sector, certain trading facilities are supported by charges over financial instruments such as cash, debt securities and equities; and
- financial collateral in the form of marketable securities is used in much of the over-the-counter ('OTC') derivatives activities and in the Bank's securities financing business. Netting is used, where appropriate, and supported by market standard documentation.

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

Policies and procedures govern the protection of the 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 financial 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 auction purposes, full valuations are compulsory. This is to avoid the risk of the settlement sum being challenged by the customer / charger on the grounds that the correct valuation was not applied.

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

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

ii) CRM (Cont'd)

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

31 Dec 2014
RM'000

Exposure Class	Exposures Before Credit Risk Mitigation	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Collateral
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	**4,907,238**	**-**	**-**
Public Sector Entities	**376,507**	**-**	**-**
Banks, Development Financial Institutions & MDBs	**648,413**	**-**	**-**
Corporates	**4,159,640**	**87,220**	**62,643**
Regulatory Retail	**2,067,856**	**5,442**	**29,655**
House Financing	**3,841,506**	**-**	**2,769**
Other Assets	**207,668**	**-**	**-**
Defaulted Exposures	**105,079**	**1,899**	**958**
Total for On-Balance Sheet Exposures	**16,313,907**	**94,561**	**96,025**
Off-Balance Sheet Exposures			
OTC Derivatives	**452,768**	**-**	**-**
Off balance sheet exposures other than OTC derivatives or credit derivatives	**2,749,459**	**26,713**	**57,856**
Defaulted Exposures	**6,272**	**-**	**95**
Total for Off-Balance Sheet Exposures	**3,208,499**	**26,713**	**57,951**
Total On and Off-Balance Sheet Exposures	**19,522,406**	**121,274**	**153,976**

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

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

ii) CRM (Cont'd)

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

31 Dec 2013
RM'000

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

Refer to Note 37 of the financial statements at 31 December 2014 for disclosure of off-balance sheet and Note 36 for disclosure of counterparty credit risk.

(f) Risk management policies (Cont'd)

3) Credit Risk (Cont'd)

iii) Counterparty Credit Risk

In respect of counterparty credit risk exposures which arise from OTC derivative transactions, a credit limit for counterparty credit risk ('CCR') is assigned, monitored and reported in accordance with the Bank's risk methodology. The credit limit established takes into account the gross contract amount and the future potential exposure measured on the basis of 95 percentile potential worst case loss estimates for the product involved. These methods of calculating credit exposures apply to all counterparties and differences in credit quality are reflected in the size of the limits.

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

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

4) Profit Rate Risk

Qualitative and quantitative information on profit rate risk/rate of return risk in the banking book is presented in Note 4 d) of the financial statements at 31 December 2014. The increase or decline in economic value for upward and downward rate shocks for measuring profit rate risk/rate of return risk in the banking book are as follows:

Change in projected economic value of equity arising from a shift in profit rates of:	**HBMS (RM'000)**	
	31 Dec 14	31 Dec 13
+200 basis points parallel shift in yield curves	**(55,607)**	3,812
-200 basis points parallel shift in yield curves	**74,858**	8,684

5) Restatement of comparative figures

Comparative figures for Table 10 were restated due to reclassification of new provision made and provision release for individual impairment provision on mortgages.

6) 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 remains consistent with Shariah principles and its requirements.

To ensure Shariah compliance in all aspects of day-to-day Islamic finance activities, the Malaysian regulatory bodies such as Bank Negara Malaysia ('BNM') and Securities Commission have spelled out several provisions in relation to the establishment of a Shariah Committee and an internal Shariah Department in an Islamic Financial Institution ('IFI'). The Shariah Committee is an independent Shariah advisory body which plays a vital role in providing Shariah views and rulings pertaining to Islamic finance. The Shariah Committee also performs an oversight role on Shariah matters related to the Bank's business operations and activities. 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.

(f) 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 the Shariah Governance Framework

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 framework and Shariah compliance of 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 Risk Management
To assist in developing and implementing a risk identification process, measurement of the potential impact and monitoring of Shariah non-compliance risks and operational/reputation within the Bank.

To formulate and recommend appropriate Shariah non-compliance risk management policies and procedures and risk awareness programmes.

f. Shariah Department

i) Shariah Review
To examine and evaluate the Bank's level of compliance with the applicable Shariah rulings and regulations,and consequently to provide remedial rectification measures to resolve non-compliance and to ensure that proper control mechanism is in place to avoid recurrences.

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

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

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

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

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

Risk management policies (Cont'd)

6) Shariah Governance (Cont'd)

Quantitative Disclosure

a. Shariah Non-Compliance Events:

During the financial year ended 31 December 2014, five (5) actual Shariah non-compliance events have been identified. All five (5) events have been rectified in accordance with the Shariah governance framework.

b. Shariah Non-Compliance Income:

During the financial year ended 31 December 2014, the following amounts are recorded in the Shariah Penalty & Impure Income Account (the Account):

(i) The amount of MYR14,564 in the Account was carried forward from 2013 to 2014.

(ii) Income from inadvertent Shariah non-compliant activities identified by the Bank's management amounting to MYR162, 824 in 2014 has been reversed to the Account.

(iii) The amount of MYR177, 388 in the Account was carried forward from 2014 pending distribution in 2015.

Other than the above, there were no other Shariah non-compliance income or other amounts recorded during the financial year ended 31 December 2014.