BNP PARIBAS MALAYSIA BERHAD

(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURE

OVERVIEW

The Pillar 3 Disclosure for financial reporting is required under the Bank Negara Malaysia ("BNM")'s Risk-Weighted Capital Adequacy Framework ("RWCAF"), which is equivalent to BASEL II issued by the Basel Committee on Banking Supervision aims to improve the transparency of financial institution activities and risks, which is a key element of an effectively supervised financial system.

The following disclosure information is based on 31 December 2011 year end data. However, where data is equivalent to that included in the Bank's financial report and statements, such data have been subject to external auditor's formal review and verification process.

Comparative information is not available as this is the first time adoption by BNP Paribas Malaysia Berhad ("Bank") on Pillar 3 Disclosures.

1. SCOPE OF APPLICATION

The Pillar 3 Disclosures attached herewith relates to BNP Paribas Malaysia Berhad only.

During the financial year, the Bank did not experience any restrictions or impediments in the transfer of funds or regulatory capital and did not report any capital deficiencies.

2. CAPITAL ADEQUACY

The Bank is adopting the following approaches to assess its regulatory capital requirements under BNM's RWCAF Pillar 1:

a) Credit risk (Standardised Approach);

b) Market risk (Standardised Approach); and

c) Operational risk (Basic Indicator Approach).

The Bank is presently in the process of implementing the Internal Capital Adequacy Assessment Process ("ICAAP") under BNM RWCAF Pillar 2, which is an internal assessment of the Bank's risk profile and the adequacy of its capital supply in supporting current and future business activities. The aim of ICAAP is to ensure sufficient capital is available to absorb both regulatory capital requirements (i.e. Pillar 1 capital requirement) and any additional material risks inherent in the Bank's business activities.

The following table presents the minimum regulatory capital requirements to support the Bank's risk weighted assets.

31 December 2011		Gross Exposures	Net Exposures	Risk Weighted Assets	Capital Requirement
		RM'000	RM'000	RM'000	RM'000
(i) Credit Risk					
a) On-Balance Sheet Exposures					
Sovereigns/Central Banks		290,773	290,773	-	-
Public Sector Entities		-	-	-	-
Banks, Development Financial Institutions & MDBs		155,329	155,329	31,066	2,485
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-
Corporates		24,647	24,647	24,647	1,972
Regulatory Retail		-	-	-	-
Residential Mortgages		-	-	-	-
Higher Risk Assets		-	-	-	-
Other Assets		14,384	14,384	14,384	1,151
Specialised Financing/Investment		-	-	-	-
Equity Exposure		-	-	-	-
Securitisation Exposures		-	-	-	-
Defaulted Exposures		-	-	-	-
		485,133	**485,133**	**70,097**	**5,608**
b) Off-Balance Sheet Exposures*					
OTC Derivatives		3,776	3,776	789	63
Credit Derivatives		-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives		38,195	38,195	38,195	3,056
Defaulted Exposures		-	-	-	-
		41,971	41,971	38,984	3,119
		527,104	**527,104**	**109,081**	**8,726**
(ii) Large Exposures Risk Requirement		-	-	-	-
	Long Position	**Short Position**			
(iii) Market Risk			**21,605**	**26,324**	**2,106**
Interest Rate Risk	-	-	-	-	-
Foreign Currency Risk	26,324	(4,719)	21,605	26,324	2,106
Equity Risk	-	-	-	-	-
Commodity Risk	-	-	-	-	-
Inventory Risk	-	-	-	-	-
Option Risk	-	-	-	-	-
(iv) Operational Risk	-	-	-	**13,899**	**1,112**
(v) Total RWA and Capital Requirements	-	-	-	**149,304**	**11,944**

Note:
** Credit equivalent of off-balance sheet items*

Table 1: Risk-weighted Assets and Capital Requirements

3. CAPITAL STRUCTURE

For regulatory purposes, capital is categorised into Tier 1 and Tier 2 capitals which are described below:

Tier 1 Capital

Tier 1 capital comprises issued and fully paid-up capital, retained earnings and the deduction of certain regulatory adjustments.

Tier 2 Capital

Tier 2 capital comprises of collective assessment.

The following table depicts the regulatory capital structure and capital adequacy ratios of the Bank:

	As at 31 December 2011 RM'000
Tier I capital:	
Paid-up capital	350,000
Retained earnings	(20,729)
Statutory reserve	-
Total Tier I capital	329,271
Less: Deferred tax assets	(4,304)
Eligible Tier I capital	324,967
Tier II capital:	
Collective assessment allowance	375
Total capital base	325,342
Core capital ratio	217.66%
Risk-weighted capital ratio	217.66%

Table 2: Constituent of Eligible Capital and Capital Adequacy Ratios

4. RISK MANAGEMENT

Risk Management Framework

Risk management is an integral part of the Bank's business and the main risks faced are credit risk, market risk and operational risk. The Bank has put in place multiple key risk management governance frameworks which articulate the objectives, guiding principles, governance structure and processes inherent in the way risk management will be carried out.

The business units have the initial responsibility in identifying and managing the risks inherent in their respective business activities.

Risk Governance

The risk governance structure is cascaded throughout all levels of the Bank which comprises the Board of Directors ("BOD"), senior management, business units and support units.

The BOD is ultimately responsible for assuming the risks inherent in the Bank's business activities and defining the policies for governing those activities. The Risk Management Committee ("RMC") is responsible to support the BOD in the oversight of the Bank's risk management.

RMC is authorised by the BOD in overseeing all risk-taking activities in the Bank. Its key responsibilities involve reviewing and recommending risk management strategies, new products and services, capital allocation process; and assessing the adequacy of risk management policies, framework, infrastructure and resources for implementation of risk strategies. For monitoring purpose, RMC reviews management's periodic reports on risk exposures, risk portfolio composition and risk management activities.

At management level, the Executive Risk Committee ("ERC") is to assist the RMC and BOD in their supervisory roles in the management of market, credit and operational risks including asset and liability management of the Bank. The key responsibilities of ERC are to maintain oversight on the effectiveness of the Bank's risk management infrastructure, through formulation of risk management framework, policies, processes and methodologies; capital management and review of new products and services. It also provides an executive forum for discussion and decision on all aspects of credit, market and operational risks matters.

Internal audit is responsible to provide reasonable assurance of effective and efficient operations of the business and support units, and compliance with law and regulations, as well as with internal procedures and guidelines.

Risk Measurement

The risk measurement tools employed by the Bank are commonly used in market practices and commensurate with the size and complexity of the Bank's business operations.

Risk Reporting and Monitoring

The business and support units are responsible for timely monitoring and reporting of risk exposures against the established risk limits. There is a formal process for risk reporting to the management and the ERC shall facilitate the making of informed decisions and strategies. RMC reviews and monitors any significant risk issues and reports to the BOD.

5. CREDIT RISK

Credit risk is the potential loss of revenue as a result of failure by the customers or counterparties to meet their contractual financial obligations. Credit exposures can arise from corporate / inter-bank lending activities, bond investment and foreign exchange trades, stock broking activities as well as debt and equities underwriting.

Risk Governance

Management Credit Committee ("MCC") and RMC is responsible for managing and monitoring credit risk within the Bank. As part of the responsibility, it also reviews and approves the credit risk policies within the Bank and provides continuous oversight through frequent committee meetings on the current credit risk profile of the Bank.

Senior management by way of ERC is responsible for the overall implementation of credit risk management within the Bank.

Policies and Approaches

Credit risk is managed through a framework which covers the measurement, monitoring and management of credit risk. The objective of credit risk management is to ensure that the Bank's credit exposures are managed within the Bank's capacity to withstand potential financial losses.

There is a clear segregation of duties between originating business units and Credit Risk Control. MCC is authorised by the Board to approve, reject or modify any credit application for corporate borrowers, financing and underwriting.

(i) Corporate business

Credit risk exposure is mitigated via preventive risk management measures in limiting the activities in accordance with the Bank's risk appetite and periodic monitoring of credit exposures. Credit applications are evaluated by the originating business units before independently evaluated by the Credit Risk Control.

Credit reviews on the corporate borrowers will be performed on regular basis to complement the risk identification, early warnings detection as well as in ensuring creditability and financial performance of the corporate where applicable to protect the Bank's position in debt recovery.

Risk Measurement

(i) Credit Risk Concentration

Concentration risks will be effectively tracked and managed to ensure sufficient diversification of credit exposures. Common approaches to assessing concentrations involve a review of the Bank's credit portfolios by borrower risk rating, industry concentration and business group/geographic market.

Risk Reporting and Monitoring

Management reports will be produced on a regular basis, providing information on credit related issues to ERC and RMC for risk monitoring and appropriate level of management decision making.

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5.1. Distribution of Credit Exposures

(i) The following table depicts the geographical distribution of the Bank's gross credit exposures, based on the country of incorporation or residence:

								31.12.2011
	Cash and short term funds	Deposits and placements with financial institutions	Derivative financial instruments	Financial assets available-for-sale	Loans and advances *	Other assets**	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	2,598	329,517	576	90,192	25,022	3,595	451,500	41,971
United Kingdom	343	-	-	-	-	-	343	-
France	1,174	-	-	-	-	-	1,174	-
Hong Kong	1	-	-	-	-	-	1	-
Singapore	52	21,286	-	-	-	-	21,338	-
Others	363	-	-	-	-	-	363	-
	4,531	350,803	576	90,192	25,022	3,595	474,719	41,971

* Excludes collective assessment allowance amounting to RM 375,000.
** Other assets include tax recoverable, deferred tax assets, fixed assets and statutory deposits with Bank Negara Malaysia.
Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 26.

Table 3: Gross Credit Exposures by Geographic Distribution

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(ii) The following table depicts the Bank’s gross credit exposures by sector analysis or industrial distribution:

31.12.2011

	Cash and short term funds	Deposits and placements with financial institutions	Derivative financial instruments	Financial assets available-for-sale	Loans and advances*	Other assets**	On balance sheet total	Commitments and contingencies
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
Government and Central Banks	773	290,000	-	-	-	-	290,773	-
Electricity, Gas and Water	-	-	-	-	25,022	-	25,022	-
Finance, insurance and business services	3,758	60,803	557	90,192	-	3,595	158,905	41,971
Manufacturing	-	-	19	-	-	-	19	
	4,531	350,803	576	90,192	25,022	3,595	474,719	41,971
Assets not subject to credit risk	-	-	-	-	-	-	-	-
	4,531	350,803	576	90,192	25,022	3,595	474,719	41,971

* Excludes collective assessment allowance amounting to RM 375,000.
** Other assets exclude tax recoverable, deferred tax assets, fixed assets and statutory deposits with Bank Negara Malaysia.
Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 26.

Table 4: Gross Credit Exposures by Sectoral Analysis or Industrial Distribution

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(iii) The following table depicts the Bank's gross credit exposures analysed by residual contractual maturity analysis:

	31.12.2011							
	Cash and short term funds	Deposits and placements with financial institutions	Derivative financial instruments	Financial assets available-for-sale	Loans and advances	Other assets*	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
< 1 year	4,531	350,803	576	90,192	25,022	-	471,124	11,521
> 1-5 years	-	-	-	-	-	-	-	30,450
Over 5 years	-	-	-	-	-	-	-	-
No Specific Maturity	-	-	-	-	-	3,595	3,595	-
	4,531	350,803	576	90,192	25,022	3,595	474,719	41,971

* Excludes collective assessment allowance amounting to RM 375,000.
** Other assets exclude tax recoverable, deferred tax assets, fixed assets and statutory deposits with Bank Negara Malaysia.
Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 26.

Table 5: Gross Credit Exposures by Residual Contractual Maturity Analysis

5.2. Past Due and Impaired Loans, Advances and Financing

Loans are considered as past due once contractually agreed payments are due from the customers.

Impaired exposures comprise loans, advances and financing where individual identified impairment allowance has been raised. Impairment allowances are provisions in the Statement of Financial Position as a result of the charge against income statement for the incurred loss in the loans, advances and financing. An impairment allowance can be individually or collectively assessed.

The Bank assesses at each balance sheet date whether there is objective evidence that loans, advances and financing are impaired. Regular reviews are conducted to determine whether there is objective evidence of impairment on individual assessment.

For the collective impairment provisions on loans, the Bank is currently maintaining at least 1.5% of the net outstanding loans/financing after individual impairment provisions. This transitional collective impairment provision is stipulated under Classification and Impairment Provisions for Loans/Financing issued by BNM.

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(i) The sectoral analysis of past due and impaired loans, advances and financing and the individual and collective impairment loan provisions by sectors are depicted below:

As at 31 December 2011	**Past due loans, advances and financing***	**Impaired loans, advances and financing***	**Individual assessment allowance**	**Collective assessment allowance**	**Total Impairment Allowance for Loans, Advances and Financing**
By Sector	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Primary Agriculture	-	-	-	-	-
Mining and Quarrying	-	-	-	-	-
Manufacturing (including Agro-based)	-	-	-	-	-
Electricity, Gas and Water Supply	-	-	-	-	-
Construction	-	-	-	-	-
Wholesale and Retail Trade	-	-	-	-	-
Restaurants and Hotels	-	-	-	-	-
Transport, Storage and Communication	-	-	-	-	-
Finance, Insurance, Real Estate and Business Activities	-	-	-	-	-
Education, Health and Others	-	-	-	-	-
Household	-	-	-	-	-
Others	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

* Impaired and past due loans, advances and financing form a subset of gross credit exposures.

Table 6: Past Due and Impaired Loans, Advances and Financing By Sectoral Analysis

(ii) The geographic analysis of past due and impaired loans, advances and financing and the individual and collective impairment loan provisions can be depicted as follows:

As at 31 December 2011

By Geographic Distribution	Past due loans, advances and financing *	Impaired loans, advances and financing *	Individual Impairment allowance	Collective assessment allowance	Total Impairment Allowance for Loans, Advances and Financing
	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	-	-	-	-	-
Singapore	-	-	-	-	-
Hong Kong	-	-	-	-	-
United Kingdom	-	-	-	-	-
France	-	-	-	-	-
Other Countries	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

* Impaired and past due loans, advances and financing form a subset of gross credit exposures.

Table 7: Past Due and Impaired Loans, Advances and Financing By Geographic Distribution

5.3. Credit Risk Assessment under Standardised Approach

In the assessment of credit risk under the Standardised Approach, the Bank uses ratings assigned by recognised External Credit Assessment Institutions ("ECAIs") in determining risk weight for certain exposure classes and are recognised by BNM in RWCAF.

The Bank uses ratings assigned by the following ECAIs:

a) Standard & Poor's Rating Services ("S&P");
b) Moody's Investors Service ("Moody's"); and
c) Fitch Ratings ("Fitch").

In general, the rating specific to the credit exposure is used i.e. the issuer rating. Each exposure class above must be assigned with rating in order to determine the risk weight percentage. If more than one rating is available for a specific counterparty, the selection criteria as set out under the Single and Multiple Assessment in BNM RWCAF are applied in determining relevant risk weight for the capital calculation. Where a rating is not available, the Bank follows the provisions stipulated under BNM RWCAF and deems the exposures as unrated.

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(i) Credit Exposure by Risk Weight

The following table depicts the credit risk exposure of the Bank by risk weight:

31 December 2011	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIs	Insurance Cos, Securities & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing/ Investment	Securitisation	Equity	Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Exposures after Netting and Credit Risk Mitigation													
														RM '000
Risk Weights														
0%	290,773	-	-	-	-	-	-	-	-	-	-	-	290,773	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	159,063	-	-	-	-	-	-	-	-	-	159,063	31,813
35%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	62,884	-	-	-	14,384	-	-	-	77,268	77,268
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	290,773	-	159,063	-	62,884	-	-	-	14,384	-	-	-	527,104	109,081

Table 8: Credit Risk Exposure by Risk Weight

(ii) Credit Exposure by Risk Weight

The following is summary of rules governing the assignment of risk weights under the Standardised Approach.

Rating Category	External Credit Assessment Institution (ECAI)				
	S & P	**Moody's**	**Fitch**	**RAM**	**MARC**
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB1 to BBB3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	BB1 to BB3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-	B1 to B3	B+ to B-
6	CCC+ & below	Caa1 & below	CCC+ & below	C1 & below	C+ & below

Table 9: Rating Category by External Credit Assessment Institution under Standardised Approach

5.4. Credit Risk Mitigation Techniques under Standardised Approach

The Bank uses a variety of techniques to reduce credit risk. The most basic of these is to evaluate and assess the creditworthiness and ability of a customer to service the debt facility without distress.

The Bank actively manages its credit exposures and when weaknesses in exposures are detected either in individual exposures or in groups of exposures, and action is taken to mitigate the risks.

The Bank also uses legal agreements to reduce credit risk, including netting agreements which permit it to offset positive and negative balances with counterparties in the circumstances to minimise the exposure at default, financial guarantees, and use of covenants in loan agreements.

The following table (next page) depicts the exposures covered by guarantees and collaterals of the Bank:

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31 December 2011 Exposure Class	Total Exposures before Credit Risk Mitigation RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000	Total Exposures Covered by Other Eligible Collateral RM'000
On-Balance Sheet Exposures				
Sovereigns/Central Banks	290,773	-	-	-
Public Sector Entities	-	-	-	-
Banks, DFIs and MDBs	155,329	-	-	-
Insurance Companies, Securities Firms and Fund Managers	-	-	-	-
Corporates	24,647	-	-	-
Regulatory Retail	-	-	-	-
Residential Mortgages	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	14,384	-	-	-
Equity Exposures	-	-	-	-
Defaulted Exposures	-	-	-	-
	485,133	-	-	-
Off-Balance Sheet Exposures				
OTC Derivatives	3,776	-	-	-
Credit Derivatives	-	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	38,195	-	-	-
Defaulted Exposures	-	-	-	-
	41,971	-	-	-
Total Credit Exposures	527,104	-	-	-

Table 10: Exposures Covered by Credit Risk Mitigation

5.5. Off-Balance Sheet Exposure and Counterparty Credit Risk

Counterparty Credit Risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial instruments and include derivative contracts and unsettled securities.

Credit risk arising from derivative transaction can be mitigated in several ways, including the use of:

a) Collateral, which may be liquidated immediately and used to satisfy the counterparty’s obligations to the Bank upon closeout; and
b) Netting, which gives the Bank the right to close out and net all transactions under market standard master netting agreements.

The following table (next page) depicts disclosure of off-balance sheet and counterparty credit risk.

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31 December 2011	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct Credit Substitutes	35,075	-	35,075	35,075
Transaction related contingent Items	-	-	-	-
Short Term Self Liquidating trade related contingencies	5,668	-	1,134	1,134
Assets Sold with Recourse	-	-	-	-
Forward Asset Purchases	-	-	-	-
Obligations under an on-going underwriting agreement	-	-	-	-
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions. (i.e. repurchase / reverse repurchase and securities lending / borrowing transaction	-	-	-	-
Foreign exchange related contracts				
One year or less	242,292	439	1,776	389
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
Interest/Profit rate related contracts				
One year or less	-	-	-	-
Over one year to five years	100,000	91	2,000	400
Over five years	-	-	-	-
Equity related contracts				
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
Gold and Other Precious Metal Contracts				
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
Other Commodity Contracts				
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
Credit Derivative Contracts				
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
OTC Derivative transactions and credit derivative contracts subject to valid bilateral netting agreements	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	9,931	-	1,986	1,986
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	-	-	-	-
Unutilised credit card lines	-	-	-	-
Off-balance sheet items for securitisation exposures	-	-	-	-
Off-balance sheet exposures due to early amortisation provisions	-	-	-	-
	392,966	**530**	**41,971**	**38,984**

Table 11: Off-Balance Sheet and Counterparty Credit Risk

6. MARKET RISK

Market risk is the risk of losses arising from changes in market prices or rates, such as interest rates, foreign exchange rates and equity prices.

Risk Governance

The Asset & Liability Committee ("ALCO") supports the RMC in the market risk management oversight. The ALCO reviews the Bank's market risk framework and policies, aligns market risk management with business strategies and planning and recommends actions to ensure that the market risk remains within established risk tolerance level.

Policies and Approaches

The market risk framework of the Bank establishes the base standards on management of market and liquidity risks that sets out policies at a more detailed level.

Risk Measurement

The Bank practices the market risk controls fundamentals, such as stop loss, which sets a threshold on the net cumulative loss of the trading book over a defined period of time and present value basis point through an interest sensitivity tool.

Risk Reporting and Monitoring

The ALM Treasury is responsible in the monitoring and tracking of market risk limits based on the frequencies as set out in the Bank's Policy. Any limit excesses will be reported in accordance with the exception escalation procedures, which may be followed by remedial processes of liquidating, hedging and cutting losses, if necessary.

Market risk reports are submitted on periodical basis to ERC and RMC in order to facilitate their effective oversight of market risk management activities through evaluation of the nature, level and trend of market risk undertaken by the Bank.

Regulatory Capital Treatment

The Bank is adopting the Standardised Approach in calculating market risk RWA.

(i) The following table depicts the fair value and risk weighted assets of and gains and losses on equity exposures under banking book:

As at 31 December 2011	**Fair Value**	**Risk Weighted Assets**
Type of Equity Investments	**RM'000**	**RM'000**
Publicly traded	-	-
Privately held	-	-
Total	-	-
Cumulative realised gains/losses from sales and liquidations of equity investments	-	
Total unrealised gains/losses in other comprehensive income	-	

Table 12: Equities under Banking Book

The Bank is also exposed to interest rate risk in banking book ("IRRBB") when there are re-pricing mismatches due to differing tenors and pricing of the interest-sensitive assets, liabilities and derivative financial instruments in the banking book.

(ii) The following table depicts the sensitivity of the Bank's positions in banking book to interest rate changes:

	Increase / (Decrease)	
As at 31 December 2011	**+200 bps**	**-200 bps**
Impact on Earnings		
GBP	132	(132)
MYR	322,932	(322,932)
SGD	34	(34)
USD	(73,289)	73,289
Others	-	-
Total	**249,810**	**(249,810)**
Impact on Economic Value		
GBP	132	(132)
MYR	426,494	(426,494)
SGD	27	(27)
USD	(74,440)	74,440
Others	-	-
Total	**352,214**	**(352,214)**

Table 13: Sensitivity of the banking book to interest rate changes

7. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk is unavoidable for the Bank as it is inherent in its business operations. The objective of the operational risk management of the Bank is to manage its operational within an acceptable level.

Risk Governance

The BOD is actively involved in the oversight of the operational risk management of the Bank through RMC.

ERC assists the BOD and the RMC in managing operational risk within the Bank. The various business and support units are responsible for identifying, managing and mitigating operational risks within their lines of business and ensure that their business activities are carried out within the established operational risk policies, guidelines, procedures and limits.

Policies and Approaches

An Operational Risk Management Framework, approved by the BOD, has been developed to ensure that operational risks within the Bank are identified, monitored and managed in a systematic and consistent manner.

The Bank's operational risk management is guided by the said framework designed to provide a sound and well-controlled operational environment within the Bank. The framework sets out the Bank approach to identifying, assessing, monitoring and mitigating operational risk.

Risk Measurement

(i) Controls

The day-to-day management of operational risk exposures is through a comprehensive system of internal controls to ensure that the operational policies, guidelines and procedures are being adhered to at all levels throughout the Bank. As events and business conditions evolve, the Bank continues to strengthen and refine its operational risk management processes to ensure that the current and potential operational risk exposures are properly understood and managed.

There are other major operational risk mitigation programmes, including Anti-Money Laundering Programme, Business Continuity Management that applies to all units which is to mitigate the impact arising from major operational risk events.

Risk Reporting and Monitoring

Exception reports will be produced on a regular basis, highlighting material operational risk related issues to ERC and RMC for risk monitoring and appropriate level of management decision making.

Regulatory Capital Treatment

The Bank is adopting the Basic Indicator Approach in calculating the operational risk RWA.