BASEL II PILLAR 3 REPORT

BNP PARIBAS MALAYSIA BERHAD
(COMPANY NO. 918091-T)
(INCORPORATED IN MALAYSIA)

31 DECEMBER 2014

INTRODUCTION

The Pillar 3 Disclosure for financial year ending 31st December 2014 for BNP Paribas Malaysia Berhad complies with the Bank Negara Malaysia's (BNM) "Risk Weighted Capital Adequacy Framework (RWCAF) – Disclosure Requirements (Pillar 3)", which is the equivalent of that issued by the Basel Committee on Banking Supervision (BCBS) entitled "International Convergence of Capital Measurement and Capital Standards" (commonly referred to as Basel II).

BNP Paribas Malaysia Berhad is a subsidiary of BNP Paribas Group ("the Group"). Details about strategies, processes and organization of risk management within BNP Paribas group as well as its capital adequacy can be found in its Pillar III disclosure, as part of its Registration Document, at: https://invest.bnpparibas.com/en/registration-documents-annual-financial-reports".

1. SCOPE OF APPLICATION

The Pillar 3 Disclosures attached herewith relates only to BNP Paribas Malaysia Berhad ("the Bank"). BNP Paribas Malaysia Berhad is principally engaged in all aspect of banking and related financial services which includes Islamic Banking ("IBW") business.

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 has implemented 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 2014	Gross Exposures RM'000	Net Exposures RM'000	Risk Weighted Assets RM'000	Capital Requirement RM'000
(i) Credit Risk				
a) On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,408,521	1,408,521	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	141,903	141,903	28,381	2,270
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	566,432	566,432	566,432	45,315
Regulatory Retail	-	-	-	-
Residential Mortgages	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	181,887	181,887	81,887	6,551
Specialised Financing/Investment	-	-	-	-
Equity Exposure	-	-	-	-
Securitisation Exposures	-	-	-	-
Defaulted Exposures	-	-	-	-
	2,298,743	**2,298,743**	**676,700**	**54,136**
b) Off-Balance Sheet Exposures*				
OTC Derivatives	917,844	790,023	364,936	29,195
Credit Derivatives	145,954	145,954	30,283	2,423
Off balance sheet exposures other than OTC derivatives or credit derivatives	200,673	200,673	180,914	14,473
Defaulted Exposures	-	-	-	-
	1,264,471	1,136,650	576,133	46,091
	3,563,214	**3,435,393**	**1,252,833**	**100,227**
(ii) Large Exposures Risk Requirement	-	-	-	-
(iii) Market Risk		-	**1,020,669**	**81,654**
Interest Rate Risk	-	-	687,769	55,022
Foreign Currency Risk	-	-	79,662	6,373
Equity Risk	-	-	-	-
Commodity Risk	-	-	-	-
Inventory Risk	-	-	-	-
Option Risk	-	-	253,238	20,259
(iv) Operational Risk	-	-	**136,492**	**10,919**
(v) Total RWA and Capital Requirements	-	-	**2,409,994**	**192,800**

Note:

** Credit equivalent of off-balance sheet items*

Table 1: Risk-weighted Assets and Capital Requirements

31 December 2013	Gross Exposures RM'000	Net Exposures RM'000	Risk Weighted Assets RM'000	Capital Requirement RM'000
(i) Credit Risk				
a) On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,801,594	1,801,594	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	370,992	370,992	74,198	5,936
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	314,711	314,711	314,711	25,177
Regulatory Retail	-	-	-	-
Residential Mortgages	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	55,098	55,098	54,986	4,399
Specialised Financing/Investment	-	-	-	-
Equity Exposure	-	-	-	-
Securitisation Exposures	-	-	-	-
Defaulted Exposures	-	-	-	-
	2,542,395	**2,542,395**	**443,895**	**35,512**
b) Off-Balance Sheet Exposures*				
OTC Derivatives	611,118	496,755	209,219	16,738
Credit Derivatives	143,314	143,314	29,790	2,383
Off balance sheet exposures other than OTC derivatives or credit derivatives	134,785	134,785	91,382	7,311
Defaulted Exposures	-	-	-	-
	889,217	774,854	330,391	26,431
	3,431,612	**3,317,249**	**774,286**	**61,943**
(ii) Large Exposures Risk Requirement	-	-	-	-
(iii) Market Risk		**-**	**767,866**	**61,429**
Interest Rate Risk	-	-	587,289	46,983
Foreign Currency Risk	-	-	88,372	7,070
Equity Risk	-	-	-	-
Commodity Risk	-	-	-	-
Inventory Risk	-	-	-	-
Option Risk	-	-	92,205	7,376
(iv) Operational Risk	-	-	**89,876**	**7,190**
(v) Total RWA and Capital Requirements	-	-	**1,632,028**	**130,562**

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, statutory reserve and the deduction of certain regulatory adjustments.

Tier 2 Capital

Tier 2 capital comprises collective assessment allowances and regulatory reserves.

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

	As at 31 December 2014 RM'000
Tier I capital:	
Paid-up capital	601,920
Statutory reserve	24,366
Accumulated Lossed	(16,739)
	609,547
Less: Deferred tax assets	(384)
55% of cumulative gains of AFS financial instruments	(85)
Other disclosure reserve	155
Eligible Tier I capital	609,233
Tier II capital:	
Collective assessment allowance	299
Regulatory Reserve	6,597
Total capital base	616,129
Tier 1 capital ratio*	25.28%
Total capital ratio**	25.57%

** Minimum Tier 1 capital ratio is 5.5%.*
***Minimum total capital ratio is 8%.*

Table 2: Constituent of Eligible Capital and Capital Adequacy Ratios

	As at 31 December 2013 RM'000
Tier I capital:	
Paid-up capital	601,920
Statutory reserve	-
Accumulated Losses	(16,749)
	585,171
Less: Deferred tax assets	(6,464)
55% of cumulative gains of AFS financial instruments	(16)
Other disclosure reserve	29
Eligible Tier I capital	578,720
Tier II capital:	
Collective assessment allowance	5,970
Regulatory Reserve	-
Total capital base	584,690
Tier 1 capital ratio*	35.46%
Total capital ratio**	35.83%

** Minimum Tier 1 capital ratio is 4.5%.*
***Minimum total capital ratio is 8%.*

Table 2: Constituent of Eligible Capital and Capital Adequacy Ratios

4. RISK MANAGEMENT

Risk Management Framework

The Bank has formulated its Risk Profile, targets and orientation in accordance with orientation set up by the Group.

The Board of Directors has ultimate responsibility for the governance of risk at the Bank. In this regard, the Board of Directors of the Bank is empowered to define its risk profile and challenge Management to ensure that the Risk Profile of the bank is reflective and appropriate to the size, complexity, capital and capabilities that are present and available. This is to ensure that the bank is able to manage risks arising from all activities undertaken by the subsidiary and is compliant to applicable laws and regulations.

Risk Governance

Committees has been established by the CEO and Country Management to oversee and approve key decisions affecting the business and risk profile of BNPPMB amongst which are the Executive Risk Committee, Assets and Liabilities Committee (ALCO), Management Credit Committee and Transaction Approval Committee (TAC) and New Activity Validation Committee (NAC).

The Board of Directors are responsible to set the risk profile of BNPPMB. The risk profile also takes into consideration additional factors such as licensing and regulatory conditions, infrastructure and platform readiness, product complexities and the overall organization of internal controls.

The core mission of Credit Risk Control (CRC) is to guarantee the conformity of the authorizations put in place with the credit decisions made and the management of the risk data input into CRC risk systems used in the control and reporting of credit risk, that credit risks taken by the Bank are monitored correctly and to provide appropriate risk reporting as required by the Board Risk Management Committee and Management Committees.

These organisational and qualitative factors are complemented with other quantitative measures such as prudential limits, regulatory solvency ratios, stress test reviews and others as deemed appropriate by the Board.

Products approved by the Board of Directors are reviewed and assessed to ensure that they are within the core expertise and business strategy of BNPPMB, specifically in Corporate and Institutional Banking (CIB); as well as within the defined risk profile.

In addition to this, the Board of Directors approves limits and thresholds in the case of market risk limits and prudential limits thresholds to ensure that the risks are properly managed, monitored and reported.

The Board of Directors has the ultimate responsibility for the governance of risks at BNPPMB.

Outlined below are the roles and responsibilities of respective persons with regards to the risk management of the Bank:

a. Board of Directors

- Approve the Bank's overall risk strategy including risk profile and oversee its implementation.
- Approve all the risk policies related to the Bank.

b. Board Risk Management Committee (BRMC):

- Ensure capital management policies are effectively integrated into the overall risk management framework.
- Recommend the Bank's overall risk strategy including risk profile and oversee its implementation.
- Reviews and recommend the Bank's implementation of internal capital assessment and management which is aligned with the Bank's risk profile and business plan.

c. Audit Committee:

- Appoint the independent reviewer upon presentation by the Senior Management.
- Receive and assess the results of the independent review.

d. Executive Risk Committee (ERC)

- Review and recommend risk management strategies, risk frameworks, risk policies, risk tolerance and risk profile limits to the Board Risk Management Committee for endorsement,
- Ensure comprehensive risk identification and assessment is conducted at least annually or as and when it is required,
- Ensure that infrastructure, resources and systems are in place for effective risk management and monitoring,
- Review reports on the Bank's risk exposure, risk portfolio composition and risk management activities to ensure the consistency with the Bank's the risk profile and business plan,
- Receive reports on the Bank's capital adequacy level.

e. Asset & Liability Committee (ALCO):

- Ensure comprehensive assessment of capital adequacy is conducted at least annually or as and when it is required culminating in the internal capital level,
- Ensure effective monitoring of capital adequacy of the Bank to ensure compliance with both to regulatory and internal capital ratio,
- Review reports on the Bank's capital adequacy level,
- Receive reports on the Bank's risk exposure, risk portfolio composition and risk management activities to ensure the consistency with the Bank's the risk profile and business plan.

f. Chief Executive Officer (CEO):

- Review and proposes the Internal Capital Target Ratio to ERC for approval,
- Propose to Audit Committee the independent reviewer to be appointed,
- Validate the 3 years budget and forecast proposed by Business line heads.

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 Management is responsible for timely monitoring and reporting of risk exposures against the established risk limits. There is a formal process for risk reporting to management and the ERC to facilitate the making of informed decisions and strategies.

5. CREDIT RISK

Credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Evaluating accurately the probability of default and the expected recovery on the loan or receivable in the event of default are key components of credit quality assessment.

Credit risk should be seen as encompassing the following risks factors:

- Sovereign risk is the sum of all exposures to the central government and its various offshoots.
- Country risk is the sum of all exposures to obligors in a given country. Country risk reflects the Bank exposure to a given economic and political environment, which is taken into consideration when assessing counterparty quality. Country risk will not materialize as our bank strategy is for the Bank to be exposed mainly to domestic markets.
- Migration risk is the possible improvement or deterioration of borrower's credit standing, which migrates into another risk class or eventually default.

Risk Governance

On a regular basis Credit Risk Control produces a summary of all credit approved and exposures, together with any existing exceptions and report to the Executive Risk Committee and Board of Directors through the Board Risk Management Committee. In addition, there would be regular review of the local entity's credit or RWA concentration by ALCO, ERC and Board Risk Management Committee at the respective sittings.

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.

Credit Risk Mitigation

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

Credit reviews on the corporate borrowers is 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

The Bank is adopting the Standardised Approach in calculating Credit Risk RWA.

For Credit Concentration Risk, a proposed industry concentration is set at predetermined percentage over total client assets and will serve as a management action trigger. Credit facilities within the same sector (exceeding the predetermined percentage) will be presented to the Board Risk Management Committee and Board for right of veto.

Risk Reporting and Monitoring

Risk reports are produced and monitored on a regular basis. Management reports are produced and deliberated at the Executive Risk Committee as well as the Board Risk Management Committee for the appropriate level of information, escalation and evaluation as part of the overall risk governance and oversight of the Board.

5.1. Distribution of Credit Exposures

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

							31.12.2014
Exposure Class	Malaysia	United Kingdom	France	Hong Kong	Singapore	Others	Total On & Off Balance Sheet Exposures
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Sovereign/Central Banks	1,408,521	-					1,408,521
Banks	141,903	-	-	-	-	-	141,903
Corporates	566,432	-	-	-	-	-	566,432
Other Assets	181,887	-	-	-	-	-	181,887
	-	-	-	-	-	-	
Commitments and Contingencies	1,110,262	21,993	110,529	265	95	21,327	1,264,471
	3,409,005	21,993	110,529	265	95	21,327	3,563,214

Table 3: Credit Exposures by Geographic Distribution

31.12.2013

Exposure Class	Malaysia	United Kingdom	France	Hong Kong	Singapore	Others	Total On & Off Balance Sheet Exposures
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Sovereign/Central Banks	1,801,594	-					1,801,594
Banks	294,097	-	-	-	-	76,895	370,992
Corporates	314,711	-	-	-	-	-	314,711
Other Assets	55,098	-	-	-	-	-	55,098
	-	-	-	-	-	-	
Commitments and Contingencies	680,419	70,731	115,344	-	-	22,723	889,217
	3,145,919	70,731	115,344	-	-	99,618	3,431,612

Table 3: Credit Exposures by Geographic Distribution

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

	31.12.2014							
Exposure Class	Government and Central Banks RM'000	Finance Insurance & Business service RM'000	Manufacturing RM'000	Construction RM'000	Wholesale & Retail RM'000	Transport Storage & Communication RM'000	Mining & Quarrying RM'000	Total On & Off Balance Sheet Exposures RM'000
Sovereigns/Central Banks	1,408,521	-	-			-		1,408,521
Banks	-	141,903	-			-		141,903
Corporates	-	34,580	292,127	6,224	3,211	91,970	138,320	566,432
Other Assets	-	181,887	-					181,887
Commitments and Contingencies	-	1,005,540	90,706	128,679	8,303	30,367	876	1,264,471
	1,408,521	1,363,910	382,833	134,903	11,514	122,337	139,196	3,563,214

Table 4: Credit Exposures by Sectorial Analysis or Industrial Distribution

31.12.2013

Exposure Class	Government and Central Banks RM'000	Finance Insurance & Business service RM'000	Manufacturing RM'000	Construction RM'000	Wholesale & Retail RM'000	Transport Storage & Communication RM'000	Other Service Activities RM'000	Total On & Off Balance Sheet Exposures RM'000
Sovereigns/Central Banks	1,801,594	-	-			-		1,801,594
Banks		370,992	-			-		370,992
Corporates		-	65,278	31,223	3,132	93,726	121,352	314,711
Other Assets		55,098	-					55,098
Commitments and Contingencies		831,835	11,449	40,615	-	3,698	1,620	889,217
	1,801,594	1,257,925	76,727	71,838	3,132	97,424	122,972	3,431,612

Table 4: Credit Exposures by Sectorial Analysis or Industrial Distribution

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

31.12.2014

	Sovereigns/ Central Banks RM'000	Banks RM'000	Corporates RM'000	Other Assets RM'000	Commitments and Contingencies RM'000	Total On & Off Balance Sheet Exposures RM'000
< 1 year	1,377,842	141,903	529,044	-	576,734	2,625,523
> 1-5 years	30,679	-	22,569	-	644,640	697,888
Over 5 years	-	-	14,819	-	43,097	57,916
No Specific Maturity	-	-	-	181,887	-	181,887
	1,408,521	141,903	566,432	181,887	1,264,471	3,563,214

Table 5: Credit Exposures by Residual Contractual Maturity Analysis

31.12.2013

	Sovereigns/ Central Banks RM'000	Banks RM'000	Corporates RM'000	Other Assets RM'000	Commitments and Contingencies RM'000	Total On & Off Balance Sheet Exposures RM'000
< 1 year	1,720,174	370,992	193,672	-	220,821	2,505,659
> 1-5 years	81,420	-	29,253		633,226	743,899
Over 5 years	-	-	91,786	-	35,170	126,956
No Specific Maturity	-	-	-	55,098	-	55,098
	1,801,594	370,992	314,711	55,098	889,217	3,431,612

Table 5: 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 adopting the Collective Impairment Provision (CIP) Methodology in accordance with the Malaysian Financial Reporting Standards 139 "Financial Instruments: Recognition and Measurement (MFRS 139). The adopted methodology is subject to a minimum of 1.2% of outstanding loans/financing net of individual impairment provisions in accordance with BNM requirements.

There is no past-due and impaired loans, advances and financing recorded for the Bank.

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");
c) Fitch Ratings ("Fitch");
d) RAM Rating Services Berhad (RAM)

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.

(i) Credit Exposure by Risk Weights

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

31 December 2014	Exposures after Netting and Credit Risk Mitigation													
	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
Risk Weights														
0%	1,408,521	-	-	-	-	-	-	-	100,000	-	-	-	1,508,521	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	732,274	26,472	-	-	-	-	-	-	-	-	758,746	151,749
35%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50%	-	-	134,084	-	-	-	-	-	-	-	-	-	134,084	67,042
75%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	37,418	914,737	-	-	-	81,887	-	-	-	1,034,042	1,034,042
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**1,408,521**	**-**	**866,358**	**63,890**	**914,737**	**-**	**-**	**-**	**181,887**	**-**	**-**	**-**	**3,435,393**	**1,252,833**

Table 8: Credit Risk Exposure by Risk Weight

31 December 2013	Exposures after Netting and Credit Risk Mitigation													
	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
Risk Weights														
0%	1,801,594	-	-	-	-	-	-	-	112	-	-	-	1,801,706	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	771,584	37,675	-	-	-	-	-	-	-	-	809,259	161,852
35%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50%	-	-	187,699	-	-	-	-	-	-	-	-	-	187,699	93,850
75%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	31,550	432,049	-	-	-	54,986	-	-	-	518,585	518,585
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**1,801,594**	**-**	**959,283**	**69,225**	**432,049**	**-**	**-**	**-**	**55,098**	**-**	**-**	**-**	**3,317,249**	**774,286**

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: Long Term Credit Rating Category by External Credit Assessment Institution under Standardised Approach

5.4. Credit Risk Mitigation Techniques under Standardised Approach

Credit risk mitigation in the form of acceptable collateral which may be bespoke in nature according to transaction and/or counterparty but shall always observe the following principles:

- Collateral must be of a high quality
- Liquid and/or availability of market price
- Unencumbered and legally enforceable.

5.5. Off-Balance Sheet Exposure and Counterparty Credit Risk

Counterparty risk is the translation of the credit risk embedded in the market, investment and/or payment transactions. Those transactions include bilateral contracts (i.e. Over-The-Counter - OTC) which potentially expose the Bank to the risk of default of the counterparty faced. The amount of this risk (referred as "exposure" in the rest of the document) may vary over time in line with market parameters which impact the value of the relevant market transactions.

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 depicts disclosure of off-balance sheet and counterparty credit risk:

31 December 2014	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	163,612	-	163,613	143,853
Transaction related contingent Items	-	-	-	-
Short Term Self Liquidating trade related contingencies	47,805	-	9,561	9,561
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	8,658,297	279,295	414,500	151,586
Over one year to five years	2,127,490	93,452	261,665	175,760
Over five years	-	-	-	-
Interest/Profit rate related contracts				
One year or less	3,729,220	2,117	7,677	2,561
Over one year to five years	7,512,800	39,914	210,564	54,905
Over five years	390,000	1,578	23,438	5,688
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	840,370	3,646	43,646	8,729
Over one year to five years	1,623,121	35,937	102,308	21,554
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	55,000	-	27,500	27,500
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	-	-	-	-
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	-	-	-	-
	25,147,715	**455,939**	**1,264,471**	**601,697**

Table 11: Off-Balance Sheet and Counterparty Credit Risk

31 December 2013	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	133,080	-	133,080	89,676
Transaction related contingent Items	-	-	-	-
Short Term Self Liquidating trade related contingencies	429	-	86	86
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	7,885,343	89,502	187,218	66,772
Over one year to five years	1,305,588	34,072	173,862	104,470
Over five years	-	-	-	-
Interest/Profit rate related contracts				
One year or less	835,488	79	1,868	680
Over one year to five years	6,192,688	48,729	225,076	53,150
Over five years	317,000	3,254	23,094	7,019
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	2,334,208	41,099	143,314	29,790
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	8,098	-	1,620	1,620
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	-	-	-	-
	19,011,922	**216,735**	**889,217**	**353,263**

Table 11: Off-Balance Sheet and Counterparty Credit Risk

6. MARKET RISK

Market risk is the risk of incurring a loss of value due to adverse trends in market prices or parameters, whether directly observable or not.

Observable market parameters include, but are not limited to exchange rates, prices of securities and commodities (whether listed or obtained by reference to a similar asset), prices of derivatives, and other parameters that can be directly inferred from them, such as interest rates, credit spreads, volatilities and implied correlations or other similar parameters.

Non-observable factors are those based on working assumptions such as parameters contained in models or based on statistical or economic analyses, non-ascertainable in the market.

Market Liquidity is an important component of market risk. In times of limited or no liquidity, instruments or goods may not be tradable or may not be tradable at their estimated value. This may arise, for example, due to low transaction volumes, legal restrictions or a strong imbalance between demand and supply for certain assets.

Market risk should be seen as encompassing the following risks factors:

- Foreign exchange risk is the risk that the value of an instrument will fluctuate due to changes in foreign exchange rates,
- Interest rate risk in trading book is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates,
- Equity risk arises from changes in the market prices and volatilities of equity shares and/or equity indices,
- Commodity risk arises from changes in the market prices and volatilities of commodities and/or commodity indices,
- Credit spread risk arises from the change in the credit quality of an issuer and is reflected in changes in the cost of purchasing protection on that issuer,
- Option risk is the exposure to any and all of the various type of market risk which can be significantly magnified by the presence of explicit or embedded options in instruments and portfolios.

Risk Governance

The Executive Risk Committee ("ERC") and Asset & Liability Committee ("ALCO") supports the BRMC in the market and liquidity risk management oversight. These committees reviews the Bank's market and liquidity risk management framework and policies, aligns risk management with business strategies and planning and recommends actions to ensure that the 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

Overarching internal market risk profile will be governed by the entity level VaR limit which will be reviewed by the Board Risk Management Committee from time to time.

In addition, based on the approved interest rate and fx delta market risk limits, the maximum market risk capital charge based on the Standardised Approach is determined internally for Interest Rate Risk, Foreign Exchange and Option Risk.

For Credit Trading activities, reference entity credit rating below a certain rating will require specific approval from the relevant Transaction or Management Committee as well as Board Risk Management Committee, to be approved and endorsed by the Board.

Risk Reporting and Monitoring

With regard to Market Risk Monitoring, Risk-Investment and Markets monitors the risks from two business lines: Fixed Income ("FI") and Asset and Liability Management –Treasury ("ALMT").

Fixed Income
- Interest Rates and Foreign Exchange Local Markets Trading Portfolio
- Interest Rates Options Trading Portfolio
- Foreign Exchange Options Trading Portfolio
- Credit Business Trading Portfolio

Asset and Liability Management and Treasury
- Banking Book
- Trading Book

Local Risk-Investment and Markets will produce daily market risk limit monitoring reports. Each report will compare end of trading day risk utilizations with the limits defined for each of the trading activities.

Regulatory Capital Treatment

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

The following table depicts disclosure of market risk capital requirements:

	31 December 2014	31 December 2013
Capital charge requirement for :	Standardised Approach	Standardised Approach
Interest rate risk	55,022	46,983
Foreign Exchange risk	6,373	7,070
Options	20,259	7,376
Total capital requirement	81,654	61,429

Market risk related to banking activities

- Equity risk in the banking book

  There is no Equity Risk in the banking book recorded for the Bank.

- Interest rate risk in the banking book

  Interest Rate Risk in the Banking Book (IRRBB) is the risk of incurring a loss as a result of mismatches in interest rates, maturities or nature between assets and liabilities. For banking activities, IRRBB arises in non-trading portfolios and primarily relates to global interest rate risk.

  Interest rate risk in the Banking Book for the Bank is monitored and kept within defined bounds. It is managed at local level under the supervision of the Group. The Bank monitors and assesses the Interest Rate risk in the banking book exposures through the earnings and the economic value perspectives. The earnings perspective focuses on the impact of interest or benchmark rate changes on near-term earnings while the economic value perspective focuses on the impact of interest or benchmark rate changes on the present value of the bank's long-term net cash flow. The two approaches provide different but complementary perspectives on the possible impact of interest or benchmark rates movements on a banking institution's financial position.
  The Interest Rate risk in the banking book exposures will be presented to the Asset Liability Committee (ALCO) who will thereafter perform the monitoring and reporting on a monthly basis.

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

As at 31 December 2014	**Increase / (Decline)** **200 basis points (Parallel Shift)**
Impact on Earnings (RM '000)	
MYR	26,596
USD	(26,235)
Others	(283)
Total	**78**
Impact on Economic Value (RM '000)	
MYR	(10,537)
USD	(5,352)
Others	(479)
Total	**(16,368)**

7. OPERATIONAL RISK

Operational risk is defined as the risk due to inadequate or failed internal processes or due to external events, whether deliberate, accidental or natural occurrences.

Internal processes giving rise to operational risk may, for instance, involve employees and/or IT systems. External events include, but are not limited to floods, fire, earthquakes and terrorist attacks. Credit or market events such as default or fluctuations in value do not fall within the scope of operational risk.

Operational risk encompasses human resources risks, legal risks, tax risks, information system risks, non-compliance risks, risks linked to operations processing, risks related to published financial information. The scope of risks covered by operational risk being so large, its management relies on specialized teams who have the relevant skills for assessing and mitigating the risks. This is true, especially, for Legal, Tax, IT Security, Finance and also Compliance.

For instance, according to French regulation, non-compliance risk is the risk of legal, administrative or disciplinary sanctions, together with the financial losses, potentially significant, that a bank may suffer as a result of its failure to comply with all the laws, regulations, codes of conduct and standards of good practice applicable to banking and financial activities (including instructions given by an executive body, particularly in application of guidelines issued by a supervisory body). By definition, this risk is a sub-category of operational risk. However, as certain implications of compliance risk involve more than a purely financial loss and may actually damage the institution’s reputation, the Bank treats compliance risk separately.

Risk Governance

Operational Permanent Control (“OPC”) comprises one headcount reporting locally to the CRO and has oversight responsibility over all the operational risks management activities of the bank through the coordination with the Regional Operations Permanent Control which provide support to BNP Paribas Malaysia Berhad. OPC main tasks include:

- Managing the implementation of all aspects of the risk function, including implementation of processes, tools and systems to identify, assess, measure, manage, monitor and report risks;
- Assisting in the development of and manage processes to identify and evaluate operational areas' risks and risk and control self-assessments;
- Assisting in the process for developing risk policies and procedures;
- Monitoring and closing all operational risk issues.

Policies and Approaches

The following policies adopted in managing the Bank's operational risk:

Permanent Control Operational Risk Measurement and Management Applicable Organizational Framework for CIB;
CIB Instructions for Historical Operational Risk Incidents Management; and
CIB Instructions for the escalation of fraud to CIB Compliance & Control.

Risk Measurement

Controls

The Bank manages operational risk based on a Group-wide consistent framework that enables us to determine our operational risk profile in comparison to our local risk profile and to define local risk mitigating measures and priorities. The Bank applies the following techniques and tools to efficiently manage the operational risk:

- Perform Risk Assessment bottom-up ''self-assessments'' resulting in a specific operational risk profile for the back office operations, middle office operations and supporting departments highlighting the areas with potential risk.
- Capture operational controls and test steps in the bank's tool "ORUS" Operations Risk monitoring unified system for the monthly control of control checking.
- Operational incidents are captured in the bank's tool the bank's tool "Forecast" Incident Reporting System database.
- Operational incidents are updated at the monthly Executive Risk Committee and bi-monthly Board meeting.
- Audit recommendations action plan are tracked and closed.

Risk Reporting and Monitoring

Exception reports will be produced on a regular basis, highlighting material operational risk related issues to ERC and BRMC 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.