BNP PARIBAS MALAYSIA BERHAD
(Company No. 918091-T)

(Incorporated in Malaysia)

BASEL II PILLAR 3 REPORT
31 DECEMBER 2012

OVERVIEW

The Pillar 3 Disclosure for financial year ending 31st December 2012 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 fully owned by BNP Paribas Group.

Pillar 3 disclosure of BNP Paribas group is available on http://invest.bnpparibas.com/fr/pid5857/documents-de-reference.html.

1. SCOPE OF APPLICATION

The Pillar 3 Disclosures attached herewith relates only to BNP Paribas Malaysia Berhad. 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 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 2012	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	733,695	733,695	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	757,872	757,872	151,574	12,126
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	17,827	17,827	17,827	1,426
Regulatory Retail	-	-	-	-
Residential Mortgages	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	22,410	22,410	22,410	1,793
Specialised Financing/Investment	-	-	-	-
Equity Exposure	-	-	-	-
Securitisation Exposures	-	-	-	-
Defaulted Exposures	-	-	-	-
	1,531,804	**1,531,804**	**191,811**	**15,345**
b) Off-Balance Sheet Exposures*				
OTC Derivatives	149,573	149,573	72,449	5,796
Credit Derivatives	135,271	135,271	45,166	3,613
Off balance sheet exposures other than OTC derivatives or credit derivatives	131,504	131,504	130,314	10,425
Defaulted Exposures	-	-	-	-
	416,348	416,348	247,929	19,834
	1,948,152	**1,948,152**	**439,740**	**35,179**
(ii) Large Exposures Risk Requirement	-	-	-	-
(iii) Market Risk		**-**	**545,477**	**43,638**
Interest Rate Risk	-	-	266,374	21,310
Foreign Currency Risk	-	-	270,228	21,618
Equity Risk	-	-	-	-
Commodity Risk	-	-	-	-
Inventory Risk	-	-	-	-
Option Risk	-	-	8,875	710
(iv) Operational Risk	-	-	**66,563**	**5,325**
(v) Total RWA and Capital Requirements	-	-	**1,051,780**	**84,142**

Note:

** Credit equivalent of off-balance sheet items*

Table 1: Risk-weighted Assets and Capital Requirements

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		155,310	155,310	31,062	2,485
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-
Corporates		24,666	24,666	24,666	1,973
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**	**70,112**	**5,609**
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		38,198	38,198	38,198	3,056
Defaulted Exposures		-	-	-	-
		41,974	41,974	38,987	3,119
		527,107	**527,107**	**109,099**	**8,728**
(ii) Large Exposures Risk Requirement		-	-	-	-
	Long Position	**Short Position**			
(iii) Market Risk			**21,605**	**97,182**	**7,775**
Interest Rate Risk	-	-	-		-
Foreign Currency Risk	26,324	(4,719)	21,605	97,182	7,775
Equity Risk	-	-	-	-	-
Commodity Risk	-	-	-	-	-
Inventory Risk	-	-	-	-	-
Option Risk	-	-	-	-	-
(iv) Operational Risk	-	-	-	**13,459**	**1,077**
(v) Total RWA and Capital Requirements	-	-	-	**219,740**	**17,579**

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:

<u>Tier 1 Capital</u>

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

<u>Tier 2 Capital</u>

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 2012 RM'000
Tier I capital:	
Paid-up capital	441,920
Retained earnings	(20,729)
Current year losses	(13,778)
Statutory reserve	-
Total Tier I capital	407,413
Less: Deferred tax assets	(7,816)
Eligible Tier I capital	399,597
Tier II capital:	
Collective assessment allowance	273
Maximum allowable subordinated debt capital	159,094
Total capital base	558,964
Tier 1 capital ratio*	37.99%
Risk-weighted capital ratio**	53.14%

** Minimum Tier 1 capital ratio is 4%.*
***Minimum total capital ratio is 8%.*

Table 2: Constituent of Eligible Capital and Capital Adequacy Ratios

	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

Tier 1 capital ratio*	147.89%
Risk-weighted capital ratio**	148.06%

** Minimum Tier 1 capital ratio is 4%.*
***Minimum total capital ratio is 8%.*

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, 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 as well as 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; resources management; capital management and review of new products and services process. It also provides an executive forum for discussion and decision on all aspects of credit, market, operational risks and asset & liability management matters.

Internal audit is responsible to provide reasonable assurance of effective and efficient operations of the business or 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 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. RMC reviews and monitors any significant risk issues and reports to the BOD.

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.

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.

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 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

Credit Risk Concentration

Concentration risks are 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, group relationship, industry concentration, business group/geographic market.

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:

31.12.2012

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	733,695						733,695
Banks	234,697	-	-	79,547	443,628	-	757,872
Corporates	17,827	-	-	-	-	-	17,827
Other Assets	22,410	-	-	-	-	-	22,410
	-	-	-	-	-	-	
Commitments and Contingencies	254,971	40,072	59,982		2,250	59,073	416,348
	1,263,600	40,072	59,982	79,547	445,878	59,073	1,948,152

Table 3: Credit Exposures by Geographic Distribution

31.12.2011

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	290,773	-	-	-	-	-	290,773
Banks	134,024	-	-	-	21,286	-	155,310
Corporates	24,666	-	-	-	-	-	24,666
Other Assets	14,384	-	-	-	-	-	14,384
	-	-	-	-	-	-	
Commitments and Contingencies	41,974						41,974
	505,821	-	-	-	21,286	-	527,107

Table 3: Credit Exposures by Geographic Distribution

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

31.12.2012

Exposure Class	Government and Central Banks RM'000	Finance Insurance & Business service RM'000	Manufacturing RM'000	Mining & Quarrying RM'000	Total On & Off Balance Sheet Exposures RM'000
Sovereigns/Central Banks	733,695	-	-	-	733,695
Banks		757,872	-	-	757,872
Corporates	-	3,165	14,662	-	17,827
Other Assets	-	22,410	-	-	22,410
	-	-	-	-	-
Commitments and Contingencies	-	375,194	7,382	33,772	416,348
	733,695	1,158,641	22,044	33,772	1,948,152

Table 4: Credit Exposures by Sectoral Analysis or Industrial Distribution

Exposure Class	Government and Central Banks RM'000	Finance Insurance & Business Service RM'000	Manufacturing RM'000	Mining & Quarrying RM'000	Total On & Off Balance Sheet Exposures RM'000
					31.12.2011
Sovereigns/Central Banks	290,773	-	-	-	290,773
Banks	-	155,310	-	-	155,310
Corporates	-	-	24,666	-	24,666
Other Assets	-	14,384	-	-	14,384
Commitments and Contingencies	-	41,932	42	-	41,974
	290,773	211,626	24,708	-	527,107

Table 4: Credit Exposures by Sectoral Analysis or Industrial Distribution

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

31.12.2012

	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	702,464	757,872	17,827	-	84,906	1,563,069
> 1-5 years	31,231	-	-		314,866	346,097
Over 5 years	-	-		-	16,576	16,576
No Specific Maturity	-	-	-	22,410	-	22,410
	733,695	757,872	17,827	22,410	416,348	1,948,152

Table 5: Credit Exposures by Residual Contractual Maturity Analysis

31.12.2011

	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	290,773	155,310	24,666	-	39,974	510,723
> 1-5 years	-	-	-	-	2,000	2,000
Over 5 years	-	-	-	-	-	-
No Specific Maturity	-	-	-	14,384	-	14,384
	290,773	155,310	24,666	14,384	41,974	527,107

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 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.

(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 2012	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

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 2012	Past due loans, advances and financing *	Impaired loans, advances and financing *	Individual Impairment Provision on impaired loans, advances and financing	Collective assessment allowance	Total Impairment Allowance for Loans, Advances and Financing
By Geographic Distribution	**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

	Past due loans, advances and financing *	Impaired loans, advances and financing *	Individual Impairment Provision on impaired loans, advances and financing	Collective assessment allowance	Total Impairment Allowance for Loans, Advances and Financing
As at 31 December 2011					
By Geographic Distribution	**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.

(i) Credit Exposure by Risk Weights

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

31 December 2012	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 FDIs	Insurance Cos, Securities & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing/ Investment	Securitisation	Equity		
Risk Weights														
0%	733,695	-	-	-	-	-	-	-	-	-	-	-	733,695	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	864,583	-	81	-	-	-	-	-	-	-	864,664	172,933
35%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50%	-	-	134,881	31,089	-	-	-	-	-	-	-	-	165,970	82,985
75%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	98,052	-	63,361	-	-	-	22,410	-	-	-	183,823	183,823
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**733,695**	**-**	**1,097,516**	**31,089**	**63,442**	**-**	**-**	**-**	**22,410**	**-**	**-**	**-**	**1,948,152**	**439,741**

Table 8: Credit Risk Exposure 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													
Risk Weights														
0%	290,773	-	-	-	-	-	-	-	-	-	-	-	290,773	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	159,044	-	-	-	-	-	-	-	-	-	159,044	31,809
35%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
75%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	62,906	-	-	-	14,384	-	-	-	77,290	77,290
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**290,773**	**-**	**159,044**	**-**	**62,906**	**-**	**-**	**-**	**14,384**	**-**	**-**	**-**	**527,107**	**109,099**

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

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

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.

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 (next page) depicts disclosure of off-balance sheet and counterparty credit risk:

31 December 2012	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	129,173	-	129,173	129,173
Transaction related contingent Items	4,500	-	2,250	1,125
Short Term Self Liquidating trade related contingencies	404	-	81	16
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	2,044,660	2,967	36,568	15,223
Over one year to five years	275,907	879	20,556	13,322
Over five years	-	-	-	-
Interest/Profit rate related contracts				
One year or less	-	-	-	-
Over one year to five years	2,628,491	12,385	87,949	41,654
Over five years	50,000	-	4,500	2,250
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	27,115	147	897	823
Over one year to five years	2,132,098	56,405	134,374	44,343
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	-	-	-	-
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	-	-	-	-
	7,292,348	**72,783**	**416,348**	**247,929**

Table 11: Off-Balance Sheet and Counterparty Credit Risk

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	209,653	485	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	9,947	-	1,989	1,989
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	-	-	-	-
	360,343	**576**	**41,974**	**38,987**

Table 11: Off-Balance Sheet and Counterparty Credit Risk

7. 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, interest rates, prices of securities and commodities (whether listed or obtained by reference to a similar asset), prices of derivatives, prices of other goods, and other parameters that can be directly inferred from them, such as 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 analysis, non-confirmed by market information.

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 encompasses different risk factors defined as follows:

- Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates,
- Foreign exchange risk is the risk that the value of an instrument will fluctuate due to changes in foreign exchange rates,
- Equity risk arises from changes in the market prices and volatilities of equity shares and/or equity indices,
- Commodities 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,
- Optional products carry by nature volatility and correlation risks, for which risk parameters can be derived from option market prices observed in an active market.

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 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.

The following table depicts disclosure of market risk capital requirements:

	31 December 2012	31 December 2011
Capital charge requirement for :	Standardised Approach	Standardised Approach
Interest rate risk	21,310	-
Foreign Exchange risk	21,618	7,775
Options	710	-
Total capital requirement	43,638	7,775

Equity risk in the banking book

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 2012	Fair Value	Risk Weighted Assets
Type of Equity Investments	**RM'000**	**RM'000**
Publicly traded	-	-
Privately held	-	-
Total	**-**	**-**

	RM'000
Cumulative realised gains/losses from sales and liquidations of equity investments	-
Total unrealised gains/losses in other comprehensive income	-

As at 31 December 2011	Fair Value	Risk Weighted Assets
Type of Equity Investments	**RM'000**	**RM'000**
Publicly traded	-	-
Privately held	-	-
Total	**-**	**-**

	RM'000
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

Interest rate risk in the 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.

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

	Increase / (Decrease)	
As at 31 December 2012	**+200 bps**	**-200 bps**
Impact on Earnings (RM '000)		
MYR	(1,518)	1,518
USD	54	(54)
SGD	1	(1)
Others	7	(7)
Total	**(1,456)**	**1,456**
Impact on Economic Value (RM '000)		
MYR	(856)	856
USD	(14)	14
SGD	-	-
Others	7	(7)
Total	**(863)**	**863**

Impact on economic value is approximately 0.15% of capital against the Basel standard of 20%.

As at 31 December 2011	Increase / (Decrease) +200 bps	-200 bps
Impact on Earnings (RM '000)		
GBP	-	-
MYR	323	(323)
SGD	-	-
USD	(73)	73
Others	-	-
Total	**250**	**(250)**
Impact on Economic Value (RM '000)		
GBP	-	-
MYR	426	(426)
SGD	-	-
USD	(74)	74
Others	-	-
Total	**352**	**(352)**

Impact on economic value is approximately 0.11% of capital against the Basel standard of 20%.

7. OPERATIONAL RISK

Operational risk defines 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

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 units are responsible for identifying, managing an 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

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 are 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.