Bank of China (Malaysia) Berhad

Risk Weighted Capital Adequacy Framework
(Basel II) – Disclosure Requirements (Pillar 3)
31 December 2011

中国银行
BANK OF CHINA

7th May 2012

Attestation by CEO

This is to certify that Bank of China (Malaysia) Berhad's Basel II Pillar 3 Disclosure as at 31st December 2011 has been prepared in accordance with the requirements of Bank Negara Malaysia's Guideline on Risk Weighted Capital Adequacy Framework (Basel II) – Disclosure Requirements (Pillar 3) are accurate, complete and not misleading.

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CONTENTS

1. Introduction

Pursuant to Bank Negara Malaysia's ("BNM") Risk-Weighted Capital Adequacy Framework ("RWCAF"), banking institutions are to make available Pillar 3 disclosure for financial reporting beginning 1 January 2010.

RWCAF is based around three Pillars:

- Pillar 1 requires banking institutions to define rules for the computation of minimum capital requirement for credit risk, market risk and operational risk.
- Pillar 2 requires banking institutions to implement an Internal Capital Adequacy Assessment Process ("ICAAP") for other risks not covered by Pillar 1.
- Pillar 3 requires expanded disclosures to allow market participants to understand the risk profiles of the bank.

The Bank adopts the Standardised Approach ("SA") in computing the capital requirements for credit risk and market risk and adopts the Basic Indicator Approach ("BIA") for operational risk of the Pillar 1 under BNM's RWCAF.

Under SA, standard risk weights are used to assess the capital requirements for exposures in credit risk and market risk. The capital requirement for operational risk under BIA is computed based on a fixed percentage over the Bank's average gross income for a fixed number of quarterly periods.

The Pillar 3 disclosure will be published in the Bank's website, www.boc.cn/malaysia.

2. Scope of Application

Bank of China (Malaysia) Berhad ("Bank") is a limited liability company, incorporated and domiciled in Malaysia. The holding company of the Bank is Bank of China Limited, whereas the ultimate holding company is Central Huijin Investment Ltd., both incorporated in China. The principal activities of the Bank are commercial banking and related financial services. The Bank does not offer Islamic financial services nor is involved in Islamic banking operations.

The Bank has a wholly owned subsidiary company which engaged in non-financial activities and the investment in subsidiary has been deducted from regulatory capital. As the subsidiary company's assets size is not significant in relation to the Bank's assets, there is no separate group consolidation for capital adequacy for regulatory capital reporting. For the purposes of this report, the disclosures presented within will be representative of the Bank entity disclosures only.

The disclosures have been reviewed and verified by internal auditors and certified by Bank of China (Malaysia) Berhad's Chief Executive Officer.

3 Capital

3.1 Capital Management

The Bank's capital management is guided by the Bank's Capital Management Policy which sets out the minimum policies and procedures that the Bank needs to put in place and apply within its capital management programme, and the minimum criteria it should use to ensure that the Bank has adequate capital and effective plans to prudently manage the Bank's capital requirement to support the development of business, to meet regulatory capital requirements at all times and to maintain good risk rating.

The objective of the Bank's capital management is to ensure that the Bank maintains sufficient capital at an appropriate level, meeting the requirement of all applicable regulatory standards and guidelines, risk compensation, business development and return on capital is sufficient to satisfy the expectations of shareholders. In addition, through effective allocation of capital, and capital investment instruments, the Bank strives to continuously enhance its financial effectives, improve capital value, and ultimately maximize shareholders' value while controlling risk.

The BOD shall assume the primary responsibility in ensuring capital is adequate to cover material risks inherent in the Bank by meeting all relevant regulatory standards and guidelines. Internal capital trigger point is set for risk- weighted capital ratio.

The Bank's capital management framework mainly focuses on capital planning and capital funding management. Annual business targets and three-year projected business plans with financial projections and capital requirements is approved by the BOD yearly.

Capital adequacy and regulatory capital are monitored by Management, employing techniques based on the guidelines of Basel II for supervisory purposes. The information is reported to Management on a monthly basis and to the Board via the interim financial statement on a quarterly basis

3.2 Capital Adequacy Ratio

The Bank is to maintain a ratio of total regulatory capital to risk-weighted assets of above the regulatory minimum of 8% and a core capital ratio of above 4%。

Total Risk-weighted Capital Ratio and Tier 1 capital ratio are as follows:

	2011 RM'000	2010 RM'000
Before/After deducting proposed dividends		
Core capital ratio	23%	25%
Risk-weighted capital ratio	24%	26%

The capital adequacy ratios of the Bank and the Group are set out in Note 30 to the financial statements.

The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category for the current financial year are as follows:

2011	Gross exposure RM'000	Net exposure RM'000	Risk-weighted assets RM'000	Capital requirements RM'000
Exposure class				
(i) Credit Risk				
On-balance sheet exposure:				
Sovereigns & central banks	1,006,024	1,006,024	-	-
Banks, development financial institutions & MDBs*	472,716	472,716	237,970	19,038
Corporates	1,453,336	1,453,336	1,140,380	91,230
Residential mortgages	9,836	9,836	3,688	295
Other assets	27,880	27,880	8,970	718
Total on-balance sheet exposure	2,969,792	2,969,792	1,391,008	111,281
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	428,668	428,668	278,130	22,250
Total credit risk	3,398,460	3,398,460	1,669,138	133,531
Net long position				
(ii) Market Risk				
Foreign currency risk	4,591		4,591	367
(iii) Operational Risk			91,096	7,288
Total risk weighted assets and capital requirement			1,764,825	141,186

* Multilateral Development Banks ("MDBs")

The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category for the current financial year are as follow: (continued)

2010	Gross exposure RM'000	Net exposure RM'000	weighted assets RM'000	Capital requirements RM'000
Exposure class				
(i) Credit Risk				
On-balance sheet exposure:				
Sovereigns & central banks	670,408	670,408	-	-
Banks, development financial institutions & MDBs*	581,575	581,575	130,203	10,416
Corporates	905,941	905,941	877,355	70,188
Residential mortgages	11,968	11,968	4,644	372
Other assets	41,194	41,194	9,034	723
Total on-balance sheet exposure	2,211,086	2,211,086	1,021,236	81,699
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	569,212	569,212	356,319	28,506
Total credit risk	2,780,298	2,780,298	1,377,555	110,205
Net long position				
(ii) Market Risk				
Foreign currency risk	4,300		4,300	344
(iii) Operational Risk			81,759	6,541
Total risk weighted assets and capital requirement			1,463,614	117,090

3.3 Capital Structure

The Bank's regulatory capital is divided into Tier 1 and Tier 2 capital.

Tier 1 capital consist of share capital, capital reserves, reserves created by appropriations of retained earnings and retained earnings.

Tier 2 capital consist of general allowances, revaluation reserves and others.

Goodwill, investment in subsidiaries, investments in entities engaged in banking and financial services which are not consolidated in the financial statement, investment properties and investments in commercial corporations are deducted from core and Tier 2 capital to arrive at the regulatory capital.

Components of Tier 1 and Tier 2 capital:

	2011 RM'000	2010 RM'000
Tier-1 capital		
Paid-up ordinary share capital	304,000	304,000
Retained profits	30,749	16,909
Other reserves	72,218	58,378
	406,967	379,287
Less: Deferred tax assets	(6,939)	(5,557)
Total tier-1 capital	400,028	373,730
Tier-2 capital		
Collective impairment allowance	22,337	17,466
Total tier-2 capital	22,337	17,466
Less:		
Investment in subsidiary company	(1,000)	(1,000)
Total capital base	421,365	390,196
Capital ratios		
Core capital ratio	23%	25%
Risk-weighted capital ratio	24%	26%

4. Risk Management

4.1 Risk Management Framework

Risk Governance

The risk governance of the Group and the Bank are as follows:

Establish Risk Appetite, risk Tolerance and Policy & Framework	Board of Directors ("BOD")
	Board Risk Committee ("BRC")
Ensure Implementation of Risk Policy and Compliance with The Risk Tolerance and Others	Risk Management and Internal Control Committee ("RMICC")
	Senior Management
	Risk Management Department ("RMD")
	Internal Audit Department
Implement and Comply with Risk Policy and Monitoring of Risk Tolerance	All the Departments and Branches

The BOD is ultimately responsible for the oversight and management of risks of the Group and the Bank.

RMICC assists the BOD and BRC in risk management oversight, responsible for assessing the development of risk policies, reviewing risk policies and exposure, aligning risk management with business strategies and planning, ensuring that infrastructure, resources and systems are put in place for effective risk management activities.

The Internal Audit Department is responsible in providing an independent review on Risk Management Framework and to assess the soundness and adequacy of internal controls of the Bank.

The independent Risk Management Department provides crucial support to the BRC and RMICC for implementing the risk policies and overseeing the compliance. They are also responsible for the identification, measurement, monitoring and reporting of risk.

The Business Units are the first line of defense against risk that responsible for identifying, mitigating and managing risk within their line of business to ensure the day-to-day business activities are carried out within the established risk policies, tolerance and procedures.

Risk Management Approach

Pillar 2 requires the banking institutions to assess their internal capital requirements in relation to their risk profile of their business through the Internal Capital Adequacy Assessment Process ("ICAAP") beyond the capital requirements for credit, operational and market risks under Pillar 1 in a more forward-looking approach.

The Bank's ICAAP is guided by the ICAAP Policy detailing the responsibilities, approaches, methodologies for identifying and measuring risks, stress testing, reporting and review process, capital planning including a 3 year-plans, independent review, and etc. The Bank has undertaken a self-assessment to evaluate the existing capital and risk management practices against the expectations set forth by BNM, as well as actions to close the gaps.

The internal adequacy assessment is stressed-tested based on specific stress scenarios, mainly using quantitative analysis, covering main risks across the business lines and taking full consideration to the impact of macroeconomics changes to assess the impact on Bank's capital adequacy. The stress test results will be submitted semi-annually to BNM.

Experienced and competent key personnel are appointed to the Credit and Loan Committee ("CLC") to assist the Chief Executive Officer ("CEO") in assessing the credit application and major credit decisions, to provide recommendation to the CEO for final decision. The CEO has the discretion to reject or modify terms and conditions of the loans passed by CLC. The BRC or the BOD has the veto power to reject credit or modify the terms and conditions which have been approved by the delegated approving authorities.

The risk reports covering the Group and the Bank's credit risks, market risks, operational risks and other significant risks if any, quality of credit portfolios, significant credit exposures, information on economic trends and etc., are submitted to the RMICC on monthly basis and submitted to the BRC on quarterly basis for deliberation. Such information allows senior management to identify adverse trend, take preventive and corrective measures and formulate business strategies.

5 Credit Risk

Credit risk is the risk of financial loss that results from borrowers or counterparty failing to meet their obligations. Credit risk arises primarily from lending activities and represents the major risk of the Bank.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk acceptable in relation to one borrower, or group of borrowers and industry segments. Such risks are monitored on a regular basis and are subject to annual or more frequent review. Limits on the single customer, by group of customers, by industry sectors and other procedures set by the relevant authorities and holding company were adopted by the Bank for monitoring of the credit risks.

5.1 Past Due and Impaired Loan

The loans/financing of the Bank is considered past due when the repayment amount due and unsettled on the due date. A loan is considered to be past due when the counterparty has failed to make a principal or interest payment when contractually due. Past due does not necessarily mean that a loan is impaired. Individual loan of more than 90 days past due is classified as impaired and any other events occurred as per the policies.

The classification of impaired loans/financing and provision of the Bank for loans/financing impairment is consistent with the standard under FRS 139 –Financial Instruments Recognition and Measurement issued by MASB and guidelines by BNM on "Classification and Impairment Provisions for Loans/Financing".

The loans/financing ("loan(s)") of the Bank are classified as impaired when they meet the following criteria:

- Principal or interest or both are past-due for more than 90 days or three (3) months or more;
- In the case of revolving facility, the outstanding amount has been in excess of the approved limit for more than 90 days;
- The customer is made a bankrupt / wound-up;
- The credit grading of the customer is downgraded to "D";
- Subject to the approval by the management of the Bank, the loan is classified as impaired if it exhibits weaknesses or triggers a combination of events that render the loan as impaired, for example cross defaults, default with other bank or significant deterioration of financial performance, and etc.

The Bank shall set aside the impairment provisions if the estimated recoverable amount (present value of estimated future cash flows discounted at original effective interest rate) is lower than the net book value of the loan.

If there is no impairment provision exists for an individually assessed loan, the loan is included in a group of loans with similar credit risk characteristics for collective impairment assessment. The Bank have applied the transitional provision outlined in BNM's guidelines on "Classification and Impairment Provisions for Loans /Financing", whereby the collective impairment provision is maintained at 1.5% of total outstanding loan, net of individual impairment provisions These transitional provisions are effective until 31 December 2011.

5.2 Geographical Analysis

Geographic distribution of credit exposures, broken down in geographical location where the credit risk resides by major types of gross credit exposures

2011

Credit exposure	Geography			
Category	Malaysia	China	Other	Total
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	1,006,024	-	-	1,006,024
Banks, development financial institutions & MDBs	14,011	726,056	19,503	759,570
Corporates	1,081,832	294,338	217,285	1,593,455
Residential mortgages	11,531	-	-	11,531
Other assets	27,880	-	-	27,880
Total	2,141,278	1,020,394	236,788	3,398,460

2010

Credit exposure	Geography			
Category	Malaysia	China	Other	Total
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	670,408	-	-	670,408
Banks, development financial institutions & MDBs	46,300	930,020	22,965	999,285
Corporates	656,239	168,827	231,165	1,056,231
Residential mortgages	13,180	-	-	13,180
Other assets	41,194	-	-	41,194
Total	1,427,321	1,098,847	254,130	2,780,298

5.3 Industry Analysis

Distribution of exposures by sector, broken down by major types of gross credit exposures

2011

Credit exposure	Category					
Sector	Sovereigns & central banks	Banks, development financial institutions & MDBs	Corporates	Residential mortgages	Other assets	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	94,910	-	-	94,910
Mining & Quarrying	-	-	140,114	-	-	140,114
Manufacturing	-	10,835	554,763	-	-	565,598
Electricity, gas & water supply	-	-	20,372	-	-	20,372
Construction	-	118,204	72,360	-	-	190,564
Real Estate	-	-	208,002	-	-	208,002
Wholesale & retail trade & restaurants & hotels	-	-	106,942	-	-	106,942
Transport, storage & communication	-	153,254	122,606	-	-	275,860
Finance, insurance & business services	-	477,277	145,724	-	27,880	650,881
Household	-	-	126,256	11,531	-	137,787
Government & government agencies	1,006,024	-	-	-	-	1,006,024
Education, health & others	-	-	1,393	-	-	1,393
Others	-	-	13	-	-	13
Total	1,006,024	759,570	1,593,455	11,531	27,880	3,398,460

Distribution of exposures by sector, broken down by major types of gross credit exposures (continued)

2010

Credit exposure	Category					
Sector	Soverigns & central banks	Banks, development financial institutions & MDBs	Corporates	Residential mortgages	Other assets	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	77,988	-	-	77,988
Mining & Quarrying	-	186	47,467	-	-	47,653
Manufacturing	-	15,221	263,757	-	-	278,978
Electricity, gas & water supply	-	-	2,373	-	-	2,373
Construction	-	105,998	50,558	-	-	156,556
Real Estate	-	-	177,564	-	-	177,564
Wholesale & retail trade & restaurants & hotels	-	-	110,377	-	-	110,377
Transport, storage & communication	-	122,689	118,451	-	-	241,140
Finance, insurance & business services	-	755,191	130,442	-	41,194	926,827
Household	-	-	45,798	13,180	-	58,978
Government & government agencies	670,408	-	-	-	-	670,408
Education, health & others	-	-	1,514	-	-	1,514
Others	-	-	29,942	-	-	29,942
Total	670,408	999,285	1,056,231	13,180	41,194	2,780,298

5.4 Maturity Analysis

Residual contractual maturity breakdown by major types of gross credit exposures

2011

Credit exposure	**Maturity**			
Category	Up to one year	1-5 year	>5years	**Total**
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	1,006,024	-	-	1,006,024
Banks, development financial institutions & MDBs	472,716	286,854	-	759,570
Corporates	587,428	501,511	504,516	1,593,455
Residential mortgages	1,480	762	9,289	11,531
Other assets	21,564	6,316	-	27,880
Total	2,089,212	795,443	513,805	3,398,460

2010

Credit exposure	**Maturity**			
Category	Up to one year	1-5 year	>5years	**Total**
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	670,408	-	-	670,408
Banks, development financial institutions & MDBs	735,825	263,460	-	999,285
Corporates	156,707	502,397	397,127	1,056,231
Residential mortgages	3,643	198	9,339	13,180
Other assets	34,435	6,759	-	41,194
Total	1,601,018	772,814	406,466	2,780,298

5.5 Impaired loans and impairment provision by economic sector

(a) Impaired loans by economic sector:

	2011 RM'000	2010 RM'000
Household	93	58
Finance, insurance and business services	-	2,863
	93	2,921

(b) Past due loans by economic sector:

	Bank	
	2011	2010
	RM'000	RM'000
Primary agriculture	27,955	-
Manufacturing	10,020	-
Real estate	4,435	-
Wholesale and retail trade and restaurants and hotels	2,509	-
Transport, storage and communication	3,021	-
Finance, insurance and business services	2,790	-
Household	2,214	2,110
	52,944	2,110

(c) Individual impairment provisions by economic purpose:

	2011 RM'000	2010 RM'000
Household	11	11
Finance, insurance and business services	-	2,863
	11	2,874

(d) **Movements in allowance for impaired for loans and advances**

	2011 RM'000	2010 RM'000
Individual impairment allowance		
At the beginning of the financial year	2,874	2,887
Allowance made during the financial year	-	32
Amount recovered	(989)	(37)
Amount write off	(1,874)	(8)
At end of the financial year	11	2,874

5.6 Impaired loans and impairment provision by geographical area

All impaired loans, past due loans and impairment provision were from customers residing in Malaysia.

5.7 Reconciliation of changes to loan impairment provisions

	2011 RM'000	2010 RM'000
At beginning of the financial year	2,921	2,934
Classified as impaired during the year	37	66
Amount recovered	(991)	(36)
Amount written-off	(1,874)	(43)
At end of the financial year	93	2,921
Individual impairment allowance	(11)	(2,874)
Net impaired loans and advances	82	47

6 Credit Rating

The Bank credit rating on gross loans and advances are identified based on the following internal credit grading system.

- "AAA –A" refers to customers have a good credit status, low probability of default within the next year, strong repayment capability and limited credit risks.
- "BBB – B" refers to customers have a good credit status, relatively low probability of default within the next year, guaranteed repayment capability and uncertainties in their risk.
- "CCC – C" refers to customers have a poor credit status, high probability of defaults within the next year, poor operating condition and financial status and significant credit risks.
- "D" – refers to customers have defaulted by the time of rating. Customers that have defaulted are directly rated D.

Under the standardised approach, the Bank make use of credit rating assigned by External Credit Assessment Institutions ("ECAIs') that are recognized by BNM in its calculation of credit risk weighted assets for capital adequacy purposes.

Disclosures on Rated Exposures according to Ratings by ECAIs.

6.1 Disclosure on Credit Risk: Disclosure on Risk Weights under Standardised Approach

2011

	Exposures after Netting and Credit Risk Mitigation						
Risk Weights	Sovereigns & Central Banks	Banks, MDBs and FDIs	Corporate	Residential Mortgages	Other Assets	Total exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	1,006,024	-	30,339	137	14,234	1,050,734	-
20%	-	472,716	-	-	5,845	478,561	95,712
35%	-	-	-	8,079	-	8,079	2,828
50%	-	286,854	294,338	3,315	-	584,507	292,253
100%	-	-	1,265,247	-	7,801	1,273,048	1,273,048
150%	-	-	3,531	-	-	3,531	5,297
Average Risk Weights						3,398,460	1,669,138
Deduction from Capital Base	-	-	-	-	-	-	

6.1 Disclosure on Credit Risk: Disclosure on Risk Weights under Standardised Approach (continued)

2010

	Exposures after Netting and Credit Risk Mitigation						
Risk Weights	Sovereigns & Central Banks	Banks, MDBs and FDIs	Corporate	Residential Mortgages	Other Assets	Total exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	670,408	-	23,331	39	27,825	721,603	-
20%	-	535,281	15,463	-	5,419	556,163	111,233
35%	-	-	-	9,033	-	9,033	3,161
50%	-	464,004	-	4,108	-	468,112	234,056
100%	-	-	1,010,002	-	7,950	1,017,952	1,017,952
150%	-	-	7,435	-	-	7,435	11,153
Average Risk Weights						2,780,298	1,377,555
Deduction from Capital Base	-	-	-	-	-	-	

6.2 Rated Exposures according to Ratings by ECAIs

2011

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures						
Credit Exposure (using Corporate Risk Weights)						
Corporate	-	-	-	115,005	-	1,478,450
Total	-	-	-	115,005	-	1,478,450

Exposure Class	Ratings of Soverigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures							
Soverigns/Central Banks	-	-	1,006,024	-	-	-	-
Total	-	-	1,006,024	-	-	-	-

6.2 Rated Exposures according to Ratings by ECAIs (continued)

Exposure Class	Ratings of Soverigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB+ to BBB-	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs	-	55,981	471,789	-	-	-	231,800
Total	-	55,981	471,789	-	-	-	231,800

2010

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures						
Credit Exposure (using Corporate Risk Weights)						
Corporate	-	-	-	115,087	-	941,144
Total	-	-	-	115,087	-	941,144

6.2 Rated Exposures according to Ratings by ECAIs (continued)

Exposure Class	Ratings of Soverigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures							
Soverigns/Central Banks	-	-	670,408	-	-	-	-
Total	-	-	670,408	-	-	-	-

Exposure Class	Ratings of Soverigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB+ to BBB-	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs	-	55,729	580,846	332	-	-	362,378
Total	-	55,729	580,846	332	-	-	362,378

7. Credit Risk Mitigation

The Bank is granting the credit facilities based on the credit standing of the customer, source of repayment, debt servicing ability and collateral(s) as the credit risk mitigant(s) (CRM). The credit facilities may be granted unsecured premised on the merit of the customer's standing.

The main types of collateral obtained by the Bank to mitigate credit risk are as follows:

No	Types of Collaterals
1	Residential Property
2	Non-Residential Property (e.g. shop, factory, warehouse, land, complex, etc.)
3	Quoted Shares
4	Fixed Deposits, Cash Margin
5	Assignment of proceeds

The Bank also accepts guarantees from individuals, corporate and institutional customers to mitigate credit risk subject to internal guidelines on eligibility.

Valuation report of the property by the panel valuer is required by the Bank to ensure the value is fair unless is exempted by the Bank. Generally, the value of the property charged is updated during the periodic credit review to reflect the current market value.

For the computation of capital adequacy requirements for collateralized transactions, the Bank is guided by the minimum conditions for the eligible collaterals set out in the "Risk-Weighted Capital Adequacy Framework (Basel II – Risk-Weighted Assets Computation) issued by BNM.

7.1 Disclosure on Credit Risk Mitigation

2011

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
	RM'000	RM'000	RM'000	RM'000
Credit Risk				
On-Balance Sheet Exposure				
Sovereigns/Central Bank	1,006,024	-	-	-
Banks, Development Financial Institutions & MDBs	472,716	-	-	-
Corporates	1,449,805	294,338	30,339	-
Residential Mortgages	9,836	-	137	-
Other Assets	27,880	-	-	-
Defaulted Exposures	3,531	-	-	-
Total for On-Balance Sheet exposures	2,969,792	294,338	30,476	-
Off-Balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	428,668	-	-	-
Total for Off-Balance sheet exposures	428,668	-	-	-
Total On and Off Balance sheet exposure	3,398,460	294,338	30,476	-

7.1 Disclosure on Credit Risk Mitigation (continued)

2010

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
	RM'000	RM'000	RM'000	RM'000
Credit Risk				
On-Balance Sheet Exposure				
Sovereigns/Central Bank	670,408	-	-	-
Banks, Development Financial Institutions & MDBs	581,575	-	-	-
Corporates	898,506	15,463	23,331	-
Residential Mortgages	11,968	-	39	-
Other Assets	41,194	-	-	-
Defaulted Exposures	7,435	-	-	-
Total for On-Balance Sheet exposures	2,211,086	15,463	23,370	-
Off-Balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	569,212	-	-	-
Total for Off-Balance sheet exposures	569,212	-	-	-
Total On and Off Balance sheet exposure	2,780,298	15,463	23,370	-

8. Off-Balance Sheet Exposure and Counterparty Credit Risk (CCR)

Off-Balance Sheet Exposure

Off-Balance Sheet exposures of the Bank are mainly composed of the following:

- Bank Guarantee and Standby Letter of Credit, which represent undertakings that the Bank will make payment in the event that a customer cannot meet its obligations to third parties.
- Documentary Letter of Credit, which are undertaking that the Bank on behalf of the customer for payment of goods purchased.
- Commitments to extend credit including the unutilized or undrawn portion of credit facilities.

Off-Balance Sheet and Counterparty Credit Risk –2011

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	-	-	-
Transaction related contingent items	593,217	296,608	147,257
Short Term Self Liquidating trade related contingencies	2,676	535	524
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over to one year	135,816	67,908	67,138
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	318,085	63,617	63,211
Total	1,049,794	428,668	278,130

Off-Balance Sheet and Counterparty Credit Risk – 31 December 2010

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	540	540	540
Transaction related contingent items	534,458	267,229	132,439
Short Term Self Liquidating trade related contingencies	1,126	225	203
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over to one year	428,576	214,288	136,676
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	434,649	86,930	86,461
Total	1,399,349	569,212	356,319

Counterparty Credit Risk (CRR)

The CRR arising from the inter-bank transactions, is managed via the establishment of the counterparty limits for each counterparty and is monitored on a daily basis.

9. Market Risk

Market risk arises from adverse movements in the level and volatility of market factors such as interest rates, foreign exchange rates which will have an effect on the balance sheet structure in terms of liquidity and funding.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates and foreign exchange rates on its financial position and cash flow. Interest margins may increase as a results of such changes but may reduce or create losses in the event that unexpected movements arise. RMICC of the Bank monitor the interest rate risk and currency risk on a regular basis.

Risk weighted assets and capital requirement for market risk

Capital Charge Requirement for :	2011 Standardised Approach	2010 Standardised Approach
	RM'000	RM'000
Interest Rate risk	-	-
Equity Position Risk	-	-
Foreign Exchange Risk	367	344
Commodity Risk	-	-
Others	-	-
Total Risk Weighted Assets Equivalent for Market Risk	4,591	4,300

The Bank's interest rate risk is monitored on a daily basis and behavioural assumptions for indeterminate deposits as well as prepayment assumptions for significant loan portfolios have been implemented. The impact on net interest income of the banking book is simulated under various interest rate assumptions.

By using the repricing gap method, an increase or decrease by 100 basis point, the impact in earnings and economic value as stated below:

Impact	2011 RM'000	2010 RM'000
Earnings	+/- 9,294	+/- 6,012
Economic Value	+/- 3,192	+/- 417

The Bank's foreign exchange risk is managed by matching the quantum and timing of cash flow of the foreign exchange lending with foreign exchange borrowing. The financial impact of increase/decrease by 100 basis points for each foreign currency exposure would result profit/loss of RM22,000 (2010 : RM313,000) to the Bank.

10 Operational Risk

Operational risk can be defined as the risk of monetary loss resulting from inadequate or failed internal processes, people, and system or from external events. RMICC of the Bank is responsible for the development of a control framework, the promotion of a strong risk management culture in the Bank, and the monitoring and administration of operational risk.

Some of the key management and control techniques include segregation of duties, clear delegation of authority, sound project management and disaster recovery plan. Our internal audit function independently appraises the adequacy and effectiveness of the internal control environment and reports results independently to the Audit Committee of the Bank.