BNP PARIBAS

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

(Incorporated in Malaysia)

BASEL II PILLAR 3 REPORT
31 DECEMBER 2013

OVERVIEW

The Pillar 3 Disclosure for financial year ending 31st December 2013 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).

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 2013	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	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	-	-	-	-
Total On-Balance Sheet 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	-	-	-	-
Total Off-Balance Sheet Exposures	**889,217**	**774,854**	**330,391**	**26,431**
Total Credit Risk	**3,431,612**	**3,317,249**	**774,286**	**61,943**
	-	-	-	-
(ii) Market Risk				
Interest Rate Risk	-	-	587,289	46,983
Foreign Currency Risk	-	-	88,372	7,070
Option Risk	-	-	92,205	7,376
Total Market Risk	**-**	**-**	**767,866**	**61,429**
(iii) Operational Risk	-	-	**89,876**	**7,190**
(iv) 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

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	-	-	-	-
Total On-Balance Sheet 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	-	-	-	-
Total Off-Balance Sheet Exposures	**416,348**	**416,348**	**247,929**	**19,834**
Total Credit Risk	**1,948,152**	**1,948,152**	**439,740**	**35,179**
	-	-	-	-
(ii) Market Risk				
Interest Rate Risk	-	-	266,374	21,310
Foreign Currency Risk	-	-	270,228	21,618
Option Risk	-	-	8,875	710
Total Market Risk			**545,477**	**43,638**
(iii) Operational Risk	-	-	**66,563**	**5,325**
(iv) 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

3. CAPITAL STRUCTURE

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

Tier 1 Capital

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

Tier 2 Capital

Tier 2 capital comprises of collective assessment.

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

	As at 31 December 2013 RM'000
Tier I capital:	
Paid-up capital	601,920
Retained earnings	(34,507)
Current year profit	17,758
Statutory reserve	-
	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
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

	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%
Total 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

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 the local risk profile and challenge Management to ensure that the Risk Profile of the subsidiary 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 and is compliant to applicable laws and regulations.

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 Board of Directors is responsible to set the risk profile of the Bank. 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.

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 the Bank, specifically in Corporate and Investment 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.

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:

- 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.

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 approval,
- 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 Ratio to ALCO for approval,
- 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 only to local exposures.
- 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 CRC produces a summary of all credit decisions 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.

Corporate business

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

Credit Concentration Risk

A proposed industry concentration will be 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:

31.12.2013

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

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

(ii) The following table depicts the Bank's credit exposures by sector 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 Sectoral 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

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

31.12.2013

	Sovereigns/ Central Banks	Banks	Corporates	Other Assets	Commitments and Contingencies	Total On & Off Balance Sheet Exposures
	RM'000	RM'000	RM'000	RM'000	RM'000	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

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

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.

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 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

	Exposures after Netting and Credit Risk Mitigation													
31 December 2012	**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%	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

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

31 December 2013	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000	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

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

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, 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.
- Systemic risk is the risk of collapse of an entire financial system or entire market, as opposed to risk associated with any one individual entity, group or component of a system.

Risk
Governance

The Asset & Liability Committee ("ALCO") supports the BRMC 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

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 utilisations 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 2013	31 December 2012
Capital charge requirement for :	Standardised Approach	Standardised Approach
Interest rate risk	46,983	21,310
Foreign Exchange risk	7,070	21,618
Options	7,376	710
Total capital requirement	61,429	43,638

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 for the Bank is monitored and kept within defined bounds. It is managed at local level.

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 2013	**Increase / (Decline) 200 basis points (Parallel Shift)**
Impact on Earnings (RM '000)	
MYR	33,171
USD	(17,594)
Others	(101)
Total	**15,476**
Impact on Economic Value (RM '000)	
MYR	1,209
USD	(864)
Others	(317)
Total	**28**

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

Organisation & Control ("O&C") is responsible to carry out risk management programs designed by the Group Risk Management for the purpose of implementing an effective risk based system. O&C has oversight 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. O&C main task involved in:

- 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; and
- Manage the process for escalation of operational risks to senior management / committee where appropriate.

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.