# Industrial and Commercial Bank of China (Malaysia) Berhad

(Company No. 839839 M)
(Incorporated in Malaysia)

**Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures as at 31 December 2011**

## CHIEF EXECUTIVE OFFICER'S ATTESTATION

I, Tian Fenglin, being the Chief Executive Officer of Industrial and Commercial Bank of China (Malaysia) Berhad, do hereby state that, in my opinion, the Pillar 3 Disclosures set out on pages 1-14 have been prepared in accordance with the Risk Weighted Capital Adequacy Framework (Basel II), and are accurate and complete.

TIAN FENGLIN

TIAN FENGLIN
Chief Executive Officer

Date: 26 March 2012

**Industrial and Commercial Bank of China (Malaysia) Berhad**
(Company No. 839839 M)
(Incorporated in Malaysia)

**Risk-Weighted Capital Adequacy Framework (Basel II)**
**Pillar 3 Disclosure**

## 1.0 Overview

The Pillar 3 Disclosure for financial reporting beginning 1 January 2011 is required under the Bank Negara Malaysia ("BNM")'s Risk-Weighted Capital Adequacy Framework ("RWCAF"). This is equivalent to Basel II issued by the Basel Committee on Banking Supervision. Basel II consists of the following Pillars:

(i) Pillar 1
Outlines the minimum regulatory capital that banking institutions must hold against the credit, market and operational risks assumed.

(ii) Pillar 2
Focuses on strengthening the supervisory review process in developing more rigorous risk management framework and techniques. The purpose is for banking institutions to implement an effective and rigorous internal capital adequacy assessment process that commensurates with the scale, nature and complexity of its operations. It sets out the requirements to assess risks in a holistic manner and beyond the capital requirements for Pillar 1 risks.

(iii) Pillar 3
Outlines the minimum disclosure requirements of information on the risk management practices and capital adequacy of banking institutions. The aim is to enhance transparency and market discipline in regulating the risk-taking behaviours of banking institutions. In turn, this will contribute to BNM's supervisory monitoring efforts and strengthen incentives for the banking institutions to implement robust risk management systems.

The approaches adopted by Industrial and Commercial Bank of China (Malaysia) Berhad ("the Bank"), are shown in table below:

| | **Risk Type** | **Approach adopted** | **Capital requirement assessment** |
|---|---|---|---|
| 1 | Credit | Standardised Approach | Standard risk weights |
| 2 | Market | Standardised Approach | Standard risk weights |
| 3 | Operational | Basic Indicator Approach (BIA) | Fixed percentage over average gross income for a fixed number of years |

The Bank is principally engaged in the provision of conventional banking and other related financial services. The Bank's Pillar 3 Disclosure is in compliance with the Basel II, RWCAF requirement. The information provided herein has been reviewed and certified by the Bank's Chief Executive Officer.

## 2.0 Capital Management and Capital Adequacy

The Bank's lead regulator, BNM sets and monitors capital requirement for the Bank. The Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital adequacy. The Bank has put in place a policy on the Internal Capital Adequacy Assessment Process ("ICAAP") to identify all material risks and to quantify how such risks would impact the Bank’s capital adequacy. Stress testing will be conducted on half yearly basis based on different scenarios to assess the capacity of the Bank’s capital and earnings to absorb the potential significant losses arising from such unfavourable events.

The Bank seeks to diversify its capital base in a range of different forms from various sources. On top of the minimum regulatory capital requirements, the Bank ensures adequacy of capital to support the current and anticipated business growth. Hence, the Bank’s performance against the internal capital levels is reviewed on a regular basis by the senior management. Should there be a need for capital raising exercise, it will be presented to the Board for approval.

In the event of extreme market conditions, the Bank will undertake stress test exercise to assess the Bank’s capability to withstand the adverse environment. The results of the stress test together with the proposed mitigating actions shall be tabled to the senior management and the Board for deliberations.

## 2.0 Capital Management and Capital Adequacy *(continued)*

The Bank's regulatory capital is analysed in two tiers:

• Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, statutory reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purpose.

• Tier 2 capital, which includes collective impairment allowances (excluding collective impairment allowances attributable to financing classified as impaired).

Capital adequacy ratios of the Bank are computed in accordance with BNM's RWCAF. The minimum regulatory capital adequacy requirement is 8% on the risk-weighted assets ("RWA"). The following information presents the capital adequacy ratios of the Bank and the breakdown of RWA:

| | | **2011** | 2010 |
|---|---|---|---|
| (a) | **Capital Adequacy Ratio** | | |
| | Core Capital Ratio | **53.57%** | 71.40% |
| | Risk-Weighted Capital Ratio | **54.42%** | 71.79% |

(b) The breakdown of RWA by exposures in each major risk category under standardised approach are as follow:

| | | **2011** | | | |
|---|---|---|---|---|---|
| **Risk type** | | **Gross Exposures RM'000** | **Net Exposures RM'000** | **Risk Weighted Assets RM'000** | **Capital Requirement RM'000** |
| *Credit Risk* | | | | | |
| On-Balance Sheet Exposures | | | | | |
| Sovereigns/Central Bank | | **359,066** | **359,066** | **-** | **-** |
| Banks, Development Financial Institutions and MDBs | | **984,786** | **984,786** | **253,221** | **20,257** |
| Corporates | | **361,353** | **361,353** | **231,409** | **18,513** |
| Other assets | | **9,969** | **9,969** | **7,902** | **632** |
| **Total On-Balance Sheet Exposures** | | **1,715,174** | **1,715,174** | **492,532** | **39,402** |
| Off-Balance Sheet Exposures | | | | | |
| Credit-related off-balance sheet exposures | | **146,163** | **146,163** | **92,869** | **7,430** |
| OTC derivatives | | **2,429** | **2,429** | **962** | **77** |
| **Total Off-Balance Sheet Exposures** | | **148,592** | **148,592** | **93,831** | **7,507** |
| **Total On and Off-Balance Sheet Exposures** | | **1,863,766** | **1,863,766** | **586,363** | **46,909** |
| Large exposure risk requirement* | | - | - | - | - |
| *Market Risk* | **Long Position** | **Short Position** | | | |
| Foreign currency risk | **1,939** | **2,733** | **2,733** | **2,733** | **219** |
| *Operational Risk* | **-** | **-** | **-** | **50,245** | **4,020** |
| **Total RWA and Capital Requirements** | | | | **639,341** | **51,148** |

*Note:*
*MDBs - Multilateral Development Banks*
*OTC - Over the counter*

**The Bank does not need to fulfill the capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM's RWCAF.*

**2.0 Capital Management and Capital Adequacy *(continued)***



| Risk type | Long Position | Short Position | Gross Exposures RM'000 (2010) | Net Exposures RM'000 (2010) | Risk Weighted Assets RM'000 (2010) | Capital Requirement RM'000 (2010) |
|---|---|---|---|---|---|---|
| *Credit Risk* | | | | | | |
| On-Balance Sheet Exposures | | | | | | |
| Sovereigns/Central Bank | | | 173,896 | 173,896 | - | - |
| Banks, Development Financial Institutions and MDBs | | | 714,325 | 714,325 | 260,405 | 20,832 |
| Corporates | | | 120,626 | 120,626 | 60,138 | 4,811 |
| Other assets | | | 8,871 | 8,871 | 7,548 | 604 |
| **Total On-Balance Sheet Exposures** | | | 1,017,718 | 1,017,718 | 328,091 | 26,247 |
| Off-Balance Sheet Exposures | | | | | | |
| Credit-related off-balance sheet exposures | | | 215,460 | 215,460 | 107,730 | 8,618 |
| OTC derivatives | | | 427 | 427 | 384 | 31 |
| **Total Off-Balance Sheet Exposures** | | | 215,887 | 215,887 | 108,114 | 8,649 |
| **Total On and Off-Balance Sheet Exposures** | | | 1,233,605 | 1,233,605 | 436,205 | 34,896 |
| Large exposure risk requirement* | | | - | - | - | - |
| *Market Risk* | Long Position | Short Position | | | | |
| Foreign currency risk | 4,498 | - | | 4,498 | 4,498 | 360 |
| *Operational Risk* | - | - | | - | 24,781 | 1,982 |
| **Total RWA and Capital Requirements** | | | | | 465,484 | 37,238 |

*Note:*
*MDBs - Multilateral Development Banks*
*OTC - Over the counter*

**The Bank does not need to fulfill the capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM's RWCAF.*

**3.0 Capital Structure**

The Tier 1 and Tier 2 Capital and capital base of the Bank are as follows:

| | **2011 RM'000** | 2010 RM'000 |
|---|---|---|
| **Tier 1 Capital** | | |
| Paid-up share capital | **331,000** | 331,000 |
| Retained earnings | **6,867** | 1,059 |
| Statutory reserves | **6,869** | 1,060 |
| | **344,736** | 333,119 |
| Less: Deferred tax assets | **(2,235)** | (766) |
| Total Tier 1 Capital (a) | **342,501** | 332,353 |
| **Tier 2 Capital** | | |
| Collective impairment allowance | **5,420** | 1,809 |
| Total Tier 2 Capital (b) | **5,420** | 1,809 |
| Total Capital Base (a) + (b) | **347,921** | 334,162 |

## 4.0 Risk Management Framework

The Board of Directors establishes the Bank's risk appetite and risk principles. The Board Risk Management Committee ("BRMC") is the principal board committee that oversees the Bank's risk management. It reviews and approves the Bank's overall risk management frameworks and major risk policies. The BRMC is supported by both Risk Management Committee ("RMC") at management level and Risk Management Department.

RMC has been established for active senior management oversight, understanding, and dialogue on policies, profiles, and activities pertaining to the relevant risk types. All major risk policies have to be deliberated at RMC level prior to escalation to BRMC and Board of Directors for approval.

The Bank's risk management policies are established to identify the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in the market condition, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Audit Committee, supported by Internal Audit Department, provides an independent assessment of the adequacy and reliability of the risk management processes and system of internal controls, and compliance with risk policies and regulatory requirements.

The Bank has exposure to the following risks from financial instruments:

- Credit risk
- Market risk
- Operational risk
- Liquidity risk.

## 5.0 Credit Risk

Credit risk is the risk of financial loss to the Bank due to failure of the Bank's customers or counterparties in meeting their contractual financial obligation. The credit risk is primarily from the Bank's cash and deposits/placements, direct lending, trade finance and funding activities.

The Board of Directors has delegated responsibility for the oversight of credit risk to the Credit Committee. The Credit Committee is supervised by the Senior Management. The functions of the Credit Committee include:

- Formulating and reviewing credit policies
- Setting underwriting standards
- Recommending approval on credit requests
- Monitoring and controlling exposures.

The Bank employs a 14-grade credit risk grading system as a tool for determining the credit risk profile of borrowers using appropriate form of scorecards. The credit grades are used as a basis to support the underwriting of credit and are mapped accordingly to the credit rating scales of major international credit rating agencies. In addition, the Bank also adopts loan classification in accordance with BNM's "Classification and Impairment Provisions for Loans/Financing" requirement.

| *Loan Class* | *Grade* |
|---|---|
| Pass | AAA to BB |
| Impaired | Default Grade |

A collective impairment assessment of 1.5% will be applied to all loans. In the case of individual assessment, a loan is deemed as impaired if there is objective evidence of impairment which is triggered by certain events. As per BNM's guideline, one of the determinants for classification of impaired loan is the repayment conduct, whereby loan in arrears for 3 months is to be classified as impaired. The methodology adopted for collective impairment assessment and the list of trigger events for individual impairment assessment will be reviewed on a regular basis to suit with the Bank's policy and the traits of its loan portfolio.

**5.1 Distribution of Credit Exposures**

The following tables present the credit exposures of financial assets broken down by relevant category and class against the relevant industry, geography and maturity. For on-balance sheet exposure, the maximum exposure to credit risk equals to their carrying amounts.

**(i) Industry Analysis**

The following tables present the credit exposures of financial assets of the Bank analysed by industrial distribution.

| | **As at 31 December 2011** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Central Bank** | **Financial Services** | **Agriculture** | **Manufacturing** | **Construction** | **Real Estate** | **Wholesale & Retail Trade and Restaurants & Hotels** | **Finance, Insurance and Business Services** | **Total** |
| **On-Balance Sheet exposures** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Cash and short-term funds | **359,066** | **487,125** | **-** | **-** | **-** | **-** | **-** | **-** | **846,191** |
| Deposits and placements with banks and other financial institutions | **-** | **499,729** | **-** | **-** | **-** | **-** | **-** | **-** | **499,729** |
| Loans, advances and financing | **-** | **-** | **-** | **39,592** | **59,354** | **556** | **175,584** | **86,267** | **361,353** |
| Term loans | **-** | **-** | **-** | **8,612** | **59,354** | **475** | **165,593** | **51,194** | **285,228** |
| Bankers' acceptances | **-** | **-** | **-** | **26,602** | **-** | **-** | **9,491** | **-** | **36,093** |
| Bills receivable | **-** | **-** | **-** | **1,037** | **-** | **-** | **-** | **12,839** | **13,876** |
| Overdrafts | **-** | **-** | **-** | **3,341** | **-** | **81** | **500** | **2,227** | **6,149** |
| Revolving credit | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **20,007** | **20,007** |
| | **359,066** | **986,854** | **-** | **39,592** | **59,354** | **556** | **175,584** | **86,267** | **1,707,273** |
| **Commitments and Contingencies** | | | | | | | | | |
| Contingent liabilities | **-** | **-** | **-** | **48,403** | **-** | **-** | **811** | **68,793** | **118,007** |
| Commitments | **-** | **1,851** | **-** | **7,266** | **-** | **991** | **13,063** | **7,414** | **30,585** |
| | **-** | **1,851** | **-** | **55,669** | **-** | **991** | **13,874** | **76,207** | **148,592** |
| Total Credit Exposures | **359,066** | **988,705** | **-** | **95,261** | **59,354** | **1,547** | **189,458** | **162,474** | **1,855,865** |

| | As at 31 December 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Central Bank | Financial Services | Agriculture | Manufacturing | Construction | Real Estate | Wholesale & Retail Trade and Restaurants & Hotels | Finance, Insurance and Business Services | Total |
| **On-Balance Sheet exposures** | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Cash and short-term funds | 3,896 | 317,411 | - | - | - | - | - | - | 321,307 |
| Deposits and placements with banks and other financial institutions | 170,000 | 398,236 | - | - | - | - | - | - | 568,236 |
| Loans, advances and financing | - | - | 56,970 | 47 | - | - | 63,609 | - | 120,626 |
| Term loans | - | - | - | - | - | - | 63,212 | - | 63,212 |
| Bankers' acceptances | - | - | - | - | - | - | 397 | - | 397 |
| Bills receivable | - | - | 56,970 | 47 | - | - | - | - | 57,017 |
| | 173,896 | 715,647 | 56,970 | 47 | - | - | 63,609 | - | 1,010,169 |
| **Commitments and Contingencies** | | | | | | | | | |
| Contingent liabilities | - | - | - | - | - | - | 215,460 | - | 215,460 |
| Commitments | - | 53 | - | 374 | - | - | - | - | 427 |
| | - | 53 | - | 374 | - | - | 215,460 | - | 215,887 |
| Total Credit Exposures | 173,896 | 715,700 | 56,970 | 421 | - | - | 279,069 | - | 1,226,056 |

**5.1 Distribution of Credit Exposures *(continued)***

**(ii) Geographical Analysis**

The following tables present the credit exposures of financial assets analysed by geographical distribution based on the geographical location where the credit risk resides.

| | **As at 31 December 2011** | | |
|---|---|---|---|
| **On-Balance Sheet exposures** | **Within Malaysia RM'000** | **Outside Malaysia RM'000** | **Total RM'000** |
| Cash and short-term funds | **364,786** | **481,405** | **846,191** |
| Deposits and placements with banks and other financial institutions | **29,402** | **470,327** | **499,729** |
| Loans, advances and financing | **109,103** | **252,250** | **361,353** |
| Term loans | **45,817** | **239,411** | **285,228** |
| Bankers' acceptances | **36,093** | **-** | **36,093** |
| Bills receivable | **1,037** | **12,839** | **13,876** |
| Overdrafts | **6,149** | **-** | **6,149** |
| Revolving credit | **20,007** | **-** | **20,007** |
| | **503,291** | **1,203,982** | **1,707,273** |
| **Commitments and Contingencies** | | | |
| Contingent liabilities | **31,439** | **86,568** | **118,007** |
| Commitments | **29,761** | **824** | **30,585** |
| | **61,200** | **87,392** | **148,592** |
| Total Credit Exposures | **564,491** | **1,291,374** | **1,855,865** |

| | As at 31 December 2010 | | |
|---|---|---|---|
| **On-Balance Sheet exposures** | Within Malaysia RM'000 | Outside Malaysia RM'000 | Total RM'000 |
| Cash and short-term funds | 297,627 | 23,680 | 321,307 |
| Deposits and placements with banks and other financial institutions | 65,200 | 503,036 | 568,236 |
| Loans, advances and financing | 57,414 | 63,212 | 120,626 |
| Term loans | - | 63,212 | 63,212 |
| Bankers' acceptances | 397 | - | 397 |
| Bills receivable | 57,017 | - | 57,017 |
| | 420,241 | 589,928 | 1,010,169 |
| **Commitments and Contingencies** | | | |
| Contingent liabilities | 139 | 215,321 | 215,460 |
| Commitments | 427 | - | 427 |
| | 566 | 215,321 | 215,887 |
| Total Credit Exposures | 420,807 | 805,249 | 1,226,056 |

**5.1 Distribution of Credit Exposures *(continued)***

**(iii) Maturity Analysis**

The following tables present the residual contractual maturity for major types of gross credit exposures for on-balance sheet exposures of financial assets.

| | As at 31 December 2011 | | | | | |
|---|---|---|---|---|---|---|
| **On-Balance Sheet exposures** | **Up to 1 month RM'000** | **>1 - 3 months RM'000** | **>3 - 12 months RM'000** | **1 - 5 years RM'000** | **Over 5 years RM'000** | **Total RM'000** |
| Cash and short-term funds | **846,191** | **-** | **-** | **-** | **-** | **846,191** |
| Deposits and placements with banks and other financial institutions | **-** | **328,791** | **170,938** | **-** | **-** | **499,729** |
| Loans, advances and financing | **39,693** | **15,903** | **183,603** | **118,281** | **3,873** | **361,353** |
| Term loans | **794** | **1,730** | **160,550** | **118,281** | **3,873** | **285,228** |
| Bankers' acceptances | **12,743** | **14,173** | **9,177** | **-** | **-** | **36,093** |
| Bills receivable | **-** | **-** | **13,876** | **-** | **-** | **13,876** |
| Overdrafts | **6,149** | **-** | **-** | **-** | **-** | **6,149** |
| Revolving credit | **20,007** | **-** | **-** | **-** | **-** | **20,007** |
| | **885,884** | **344,694** | **354,541** | **118,281** | **3,873** | **1,707,273** |
| **Commitments and Contingencies** | | | | | | |
| Contingent liabilities | **2,591** | **10,290** | **1,652** | **26,531** | **76,943** | **118,007** |
| Commitments | **1,009** | **946** | **23,960** | **4,670** | **-** | **30,585** |
| | **3,600** | **11,236** | **25,612** | **31,201** | **76,943** | **148,592** |
| Total Credit Exposures | **889,484** | **355,930** | **380,153** | **149,482** | **80,816** | **1,855,865** |

| | As at 31 December 2010 | | | | | |
|---|---|---|---|---|---|---|
| **On-Balance Sheet exposures** | Up to 1 month RM'000 | >1 - 3 months RM'000 | >3 - 12 months RM'000 | 1 - 5 years RM'000 | Over 5 years RM'000 | Total RM'000 |
| Cash and short-term funds | 321,307 | - | - | - | - | 321,307 |
| Deposits and placements with banks and other financial institutions | - | 135,180 | 433,056 | - | - | 568,236 |
| Loans, advances and financing | 38,591 | 57,367 | - | 24,668 | - | 120,626 |
| Term loans | 38,544 | - | - | 24,668 | - | 63,212 |
| Bankers' acceptances | - | 397 | - | - | - | 397 |
| Bills receivable | 47 | 56,970 | - | - | - | 57,017 |
| | 359,898 | 192,547 | 433,056 | 24,668 | - | 1,010,169 |
| **Commitments and Contingencies** | | | | | | |
| Contingent liabilities | 197 | - | 142,110 | 25,792 | 47,361 | 215,460 |
| Commitments | 113 | 231 | 83 | - | - | 427 |
| | 310 | 231 | 142,193 | 25,792 | 47,361 | 215,887 |
| Total Credit Exposures | 360,208 | 192,778 | 575,249 | 50,460 | 47,361 | 1,226,056 |

**5.1 Distribution of Credit Exposures *(continued)***

**(iv) Collective impairment provision broken down by sector**

The following tables present the collective impairment provision of loans, advances and financing of the Bank analysed by industrial distribution.

| | As at 31 December 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Central Bank | Financial Services | Agriculture | Manufacturing | Construction | Real Estate | Wholesale & Retail Trade and Restaurants & Hotels | Finance, Insurance and Business Services | Total |
| **On-Balance Sheet exposures** | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Loans, advances and financing | - | - | - | 594 | 890 | 8 | 2,634 | 1,294 | 5,420 |
| Term loans | - | - | - | 129 | 890 | 7 | 2,484 | 768 | 4,278 |
| Bankers' acceptances | - | - | - | 399 | - | - | 142 | - | 541 |
| Bills receivable | - | - | - | 16 | - | - | - | 193 | 209 |
| Overdrafts | - | - | - | 50 | - | 1 | 8 | 33 | 92 |
| Revolving credit | - | - | - | - | - | - | - | 300 | 300 |
| | - | - | - | 594 | 890 | 8 | 2,634 | 1,294 | 5,420 |

| | As at 31 December 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Central Bank | Financial Services | Agriculture | Manufacturing | Construction | Real Estate | Wholesale & Retail Trade and Restaurants & Hotels | Finance, Insurance and Business Services | Total |
| **On-Balance Sheet exposures** | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Loans, advances and financing | - | - | 855 | - | - | - | 954 | - | 1,809 |
| Term loans | - | - | - | - | - | - | 948 | - | 948 |
| Bankers' acceptances | - | - | - | - | - | - | 6 | - | 6 |
| Bills receivable | - | - | 855 | - | - | - | - | - | 855 |
| | - | - | 855 | - | - | - | 954 | - | 1,809 |

**(v) Collective impairment provision broken down by geographical location**

The following tables present the collective impairment provision of loans, advances and financing analysed by geographical distribution based on the geographical location where the credit risk resides.

| | As at 31 December 2011 | | | As at 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | Within Malaysia | Outside Malaysia | Total | Within Malaysia | Outside Malaysia | Total |
| **On-Balance Sheet exposures** | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Loans, advances and financing | 1,636 | 3,784 | 5,420 | 861 | 948 | 1,809 |
| Term loans | 687 | 3,591 | 4,278 | - | 948 | 948 |
| Bankers' acceptances | 541 | - | 541 | 6 | - | 6 |
| Bills receivable | 16 | 193 | 209 | 855 | - | 855 |
| Overdrafts | 92 | - | 92 | - | - | - |
| Revolving credit | 300 | - | 300 | - | - | - |
| | 1,636 | 3,784 | 5,420 | 861 | 948 | 1,809 |

### 5.1 Distribution of Credit Exposures *(continued)*

**(vi) Movements in collective allowance for impairment on loans, advances and financing**

| | **2011 RM'000** | 2010 RM'000 |
|---|---|---|
| At beginning of the financial year/period | 1,809 | - |
| Allowance made during the financial year/period | 5,047 | 1,809 |
| Allowance written back | (1,436) | - |
| At end of the financial year/period | 5,420 | 1,809 |
| As % of gross loans, advances and financing (net of individual allowance) | 1.5% | 1.5% |

### 5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk

Off-balance sheet exposures of the Bank are mainly from bank guarantees, undrawn credit commitments and derivative financial instruments.

Counterparty credit risk on derivative financial instruments is the risk that the Bank's counterparty in a derivative contract is unable to meet the terms of the contract upon maturity. To mitigate the risk, the creditworthiness of the counterparty is thoroughly assessed and depending on a case to case basis, collateral will be required.

### 5.2.1 Composition of Off-Balance Sheet Exposures

The off-balance sheet exposures and their related counterparty credit risk of the Bank as at the respective reporting dates are as follows:

| **2011** | **Principal Amount RM'000** | **Positive Value of Derivative Contracts RM'000** | **Credit Equivalent Amount RM'000** | **Risk Weighted Assets RM'000** |
|---|---|---|---|---|
| Credit-related exposures | | | | |
| Transaction-related contingent items | **235,255** | **-** | **117,628** | **68,851** |
| Short term self-liquidating trade-related contingencies | **1,894** | **-** | **379** | **379** |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of: | | | | |
| - exceeding one year | **9,341** | **-** | **4,670** | **4,670** |
| - not exceeding one year | **117,430** | **-** | **23,486** | **18,969** |
| Derivative financial contracts | | | | |
| Foreign exchange related contracts: | | | | |
| - less than one year | **222,573** | **824** | **2,429** | **962** |
| Total | **586,493** | **824** | **148,592** | **93,831** |

| 2010 | Principal Amount RM'000 | Positive Value of Derivative Contracts RM'000 | Credit Equivalent Amount RM'000 | Risk Weighted Assets RM'000 |
|---|---|---|---|---|
| Credit-related exposures | | | | |
| Transaction-related contingent items | 430,919 | - | 215,460 | 107,730 |
| Derivative financial contracts | | | | |
| Foreign exchange related contracts: | | | | |
| - less than one year | 11,400 | 228 | 427 | 384 |
| Total | 442,319 | 228 | 215,887 | 108,114 |

### 5.3 Credit Risk Mitigation

The Bank takes prudent approach in granting credit facilities to customers. The main considerations in the credit assessment process are assessing customer's credit-worthiness, reliability of source of repayment and debt servicing ability. Credit Risk Mitigants ("CRM") such as collateral and guarantee provide further comfort to the Bank's exposures but these are deemed as the secondary safeguard measure. Depending on the credit standing of the customer, the Bank may provide facilities to customer on a clean basis.

As at the respective reporting dates, the types of collateral obtained to mitigate credit risks are in the form of cash deposits, bank guarantees, standby letter of credit and property. Corporate guarantee and personal guarantee are often taken to enhance the risk profile of the customer.

Prior to accepting the CRM, proper assessment on the aspect of legal enforceability and guarantor's credibility will be undertaken to arrive at reasonable security coverage. Formal valuation conducted by the Bank's panel valuer on the property taken as CRM is required.

Proper legal documentations are in place to ensure that the Bank's interests are protected and CRM are enforceable in the event of default by the customer. The value and status of CRM will be reviewed periodically (at least once a year), to ensure the Bank's exposures remain to be adequately covered.

The following tables present the credit exposures covered by guarantee (bank guarantees) and eligible financial collateral (fixed deposits) as at the respective reporting dates:

| | | **2011** | |
|---|---|---|---|
| *Credit Risk* | **Total Exposures before CRM RM'000** | **Total Exposures Covered by Guarantees RM'000** | **Total Exposures Covered by Eligible Financial Collateral RM'000** |
| On-Balance Sheet Exposures | | | |
| Sovereigns/Central Bank | **359,066** | **-** | **-** |
| Banks, Development Financial Institutions and MDBs | **984,786** | **-** | **-** |
| Corporates | **361,353** | **289,642** | **6,650** |
| Other assets | **9,969** | **-** | **-** |
| **Total On-Balance Sheet Exposures** | **1,715,174** | **289,642** | **6,650** |
| Off-Balance Sheet Exposures | | | |
| Credit-related off-balance sheet exposures | **146,163** | **112,140** | **6,001** |
| OTC derivatives | **2,429** | **-** | **-** |
| **Total Off-Balance Sheet Exposures** | **148,592** | **112,140** | **6,001** |
| **Total On and Off-Balance Sheet Exposures** | **1,863,766** | **401,782** | **12,651** |

| | | 2010 | |
|---|---|---|---|
| *Credit Risk* | Total Exposures before CRM RM'000 | Total Exposures Covered by Guarantees RM'000 | Total Exposures Covered by Eligible Financial Collateral RM'000 |
| On-Balance Sheet Exposures | | | |
| Sovereigns/Central Bank | 173,896 | - | - |
| Banks, Development Financial Institutions and MDBs | 714,325 | - | - |
| Corporates | 120,626 | 120,229 | 397 |
| Other assets | 8,871 | - | - |
| **Total On-Balance Sheet Exposures** | 1,017,718 | 120,229 | 397 |
| Off-Balance Sheet Exposures | | | |
| Credit-related off-balance sheet exposures | 215,460 | 215,460 | - |
| OTC derivatives | 427 | - | - |
| **Total Off-Balance Sheet Exposures** | 215,887 | 215,460 | - |
| **Total On and Off-Balance Sheet Exposures** | 1,233,605 | 335,689 | 397 |

*Note:*
*MDBs - Multilateral Development Banks*
*OTC - Over the counter*

### 5.4 Assignment of Risk Weights for Portfolios under the Standardised Approach

The Bank refers to the credit ratings assigned by credit rating agencies in its calculation of credit-risk weighted assets. The following are the External Credit Assessment Institutions ("ECAI") ratings used by the Bank and are recognised by BNM in the RWCAF:

(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")
(e) Malaysian Rating Corporation Berhad ("MARC")
(f) Rating and Investment Information, Inc. ("R&I")

The ECAI ratings accorded to the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

(a) Sovereigns and Central Bank
(b) Banking institutions
(c) Corporate.

**Rated and Unrated Counterparties**

The issue rating i.e. the rating specific to the credit exposure is used. If there is no specific rating available, the credit rating assigned to the issuer or counterparty of the particular credit exposure is used. In cases where an exposure has neither an issue nor issuer rating, it is deemed as unrated.

Where a counterparty or an exposure is rated by more than one ECAI, all available external ratings of the counterparty will be captured and the following rules will be observed:

• Where 2 recognised external ratings are available, the lower rating is to be applied; or
• Where 3 or more recognised external ratings are available, the lower of the highest 2 ratings will be used for capital adequacy calculation purposes.

In cases where the credit exposures are secured by guarantees issued by eligible or rated guarantors, the risk weights similar to that of the guarantor are assigned.

The following is a summary of the risk weights and rating categories used in assigning credit quality to each exposure under the Standardised Approach.

**Sovereigns and Central Banks**

| Rating Category | S&P | Moody's | Fitch | R&I | Risk Weight |
|---|---|---|---|---|---|
| 1 | AAA to AA- | Aaa to Aa3 | AAA to AA- | AAA to AA- | 0% |
| 2 | A+ to A- | A1 to A3 | A+ to A- | A+ to A- | 20% |
| 3 | BBB+ to BBB- | Baa1 to Baa3 | BBB+ to BBB- | BBB+ to BBB- | 50% |
| 4 | BB+ to B- | Ba1 to B3 | BB+ to B- | BB+ to B- | 100% |
| 5 | CCC+ to D | Caa1 to C | CCC+ to D | CCC+ to C | 150% |
| Unrated | | | | | 100% |

**Banking Institutions**

| Rating Category | S&P | Moody's | Fitch | R&I | RAM | MARC | Risk weight |
|---|---|---|---|---|---|---|---|
| 1 | AAA to AA- | Aaa to Aa3 | AAA to AA- | AAA to AA- | AAA to AA3 | AAA to AA- | 20% |
| 2 | A+ to A- | A1 to A3 | A+ to A- | A+ to A- | A1 to A3 | A+ to A- | 50% |
| 3 | BBB+ to BBB- | Baa1 to Baa3 | BBB+ to BBB- | BBB+ to BBB- | BBB1 to BBB3 | BBB+ to BBB- | 50% |
| 4 | BB+ to B- | Ba1 to B3 | BB+ to B- | BB+ to B- | BB1 to B3 | BB+ to B- | 100% |
| 5 | CCC+ to D | Caa1 to C | CCC+ to D | CCC+ to C | C1 to D | C+ to D | 150% |
| Unrated | | | | | | | 50% |

**Banking Institutions**

| Rating Category | Risk weight (original maturity of ≤6 months) | Risk weight (original maturity of ≤3 months) |
|---|---|---|
| 1 | 20% | 20% |
| 2 | 20% | |
| 3 | 20% | |
| 4 | 50% | |
| 5 | 150% | |
| Unrated | 20% | |

**5.4 Assignment of Risk Weights for Portfolios under the Standardised Approach *(continued)***

**Corporate**

| Rating Category | S&P | Moody's | Fitch | R&I | RAM | MARC | Risk weight |
|---|---|---|---|---|---|---|---|
| 1 | AAA to AA- | Aaa to Aa3 | AAA to AA- | AAA to AA- | AAA to AA3 | AAA to AA- | 20% |
| 2 | A+ to A- | A1 to A3 | A+ to A- | A+ to A- | A1 to A3 | A+ to A- | 50% |
| 3 | BBB+ to BB- | Baa1 to Ba3 | BBB+ to BB- | BBB+ to BB- | BBB1 to BB3 | BBB+ to BB- | 100% |
| 4 | B+ to D | B1 to C | B+ to D | B+ to D | B1 to D | B+ to D | 150% |
| Unrated | | | | | | | 100% |

**5.4.1 Rated Exposures As Per ECAIs**

The following tables present the credit exposures, categorised according to the credit quality rating as at 31 December 2011:

| | **Ratings of Sovereigns and Central Bank** | | | | | |
|---|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** | **Unrated** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| On and Off-Balance Sheet Exposures | | | | | | |
| Sovereigns and Central Bank | **-** | **-** | **-** | **-** | **-** | **359,066** |

| | **Ratings of Banking Institutions** | | | | | |
|---|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** | **Unrated** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| On and Off-Balance Sheet Exposures | | | | | | |
| Banks, MDBs and DFIs | **-** | **986,637** | **-** | **-** | **-** | **-** |

| | **Ratings of Corporate** | | | | |
|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **Unrated** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| On and Off-Balance Sheet Exposures | | | | | |
| Corporates | **-** | **334,141** | **-** | **67,635** | **106,318** |

The following tables present the credit exposures, categorised according to the credit quality rating as at 31 December 2010:

| | Ratings of Sovereigns and Central Bank | | | | | |
|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | Unrated |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| On and Off-Balance Sheet Exposures | | | | | | |
| Sovereigns and Central Bank | - | - | - | - | - | 173,896 |

| | Ratings of Banking Institutions | | | | | |
|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | Unrated |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| On and Off-Balance Sheet Exposures | | | | | | |
| Banks, MDBs and DFIs | - | 667,025 | 47,290 | - | - | 10 |

| | Ratings of Corporate | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | Unrated |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| On and Off-Balance Sheet Exposures | | | | | |
| Corporates | - | 306,630 | 47 | - | 29,409 |

*Note:*
*MDBs - Multilateral Development Banks*
*DFIs - Development Financial Institutions*

**5.4.2 Assignment of Risk Weights for Portfolios under the Standardised Approach**

The following tables present the breakdown of credit exposures by risk weights as at the respective reporting dates:

| | Exposures after Netting and Credit Risk Mitigation | | | | | |
|---|---|---|---|---|---|---|
| **2011** | **Sovereigns & Central Bank** | **Banks, MDBs and DFIs** | **Corporates** | **Other assets** | **Total Exposures after Netting & Credit Risk Mitigation** | **Total Risk Weighted Assets** |
| Risk Weights | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| 0% | **359,066** | **-** | **16,164** | **2,068** | **377,298** | **-** |
| 20% | **-** | **797,238** | **-** | **1,803** | **799,041** | **159,808** |
| 50% | **-** | **187,548** | **334,148** | **48** | **521,744** | **260,872** |
| 100% | **-** | **-** | **157,204** | **8,479** | **165,683** | **165,683** |
| Total Exposures | **359,066** | **984,786** | **507,516** | **12,398** | **1,863,766** | **586,363** |
| Risk-Weighted Assets by Exposures | **-** | **253,221** | **324,278** | **8,864** | **586,363** | |
| Average Risk Weight | **0.0%** | **25.7%** | **63.9%** | **71.5%** | **31.5%** | |
| Deduction from Capital Base | **-** | **-** | **-** | **-** | **-** | |

| | Exposures after Netting and Credit Risk Mitigation | | | | | |
|---|---|---|---|---|---|---|
| 2010 | Sovereigns & Central Bank | Banks, MDBs and DFIs | Corporates | Other assets | Total Exposures after Netting & Credit Risk Mitigation | Total Risk Weighted Assets |
| Risk Weights | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 0% | 173,896 | - | 397 | 1,324 | 175,617 | - |
| 20% | - | 322,524 | - | 53 | 322,577 | 64,515 |
| 50% | - | 391,801 | 335,642 | - | 727,443 | 363,722 |
| 100% | - | - | 47 | 7,921 | 7,968 | 7,968 |
| Total Exposures | 173,896 | 714,325 | 336,086 | 9,298 | 1,233,605 | 436,205 |
| Risk-Weighted Assets by Exposures | - | 260,405 | 167,868 | 7,932 | 436,205 | |
| Average Risk Weight | 0.0% | 36.5% | 49.9% | 85.3% | 35.4% | |
| Deduction from Capital Base | - | - | - | - | - | |

*<u>Note:</u>*
*MDBs - Multilateral Development Banks*
*DFIs - Development Financial Institutions*

## 6.0 Market Risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads and exchange rates. The Bank’s market risk management is the process of identifying, measuring, monitoring, controlling and reporting market risk for the purposes of setting up and enhancing the market risk management system, specifying responsibilities and process, determining and standardising the measurement approaches, limit management indicators and market risk reports, controlling and mitigating market risk and improving the level of market risk management. The objective of market risk management is to manage and control market risk exposures within a tolerable level and maximise risk-adjusted return according to the Bank’s risk preference.

The types of market risk faced by the Bank mainly include interest rate risk and exchange rate risk. For derivative contracts that the Bank enters into with its counterparty, the Bank will square its positions by entering into offsetting trades with other financial institutions. The netting arrangements will be in place to minimise the credit risk of its derivatives counterparties as the cash flows are netted on the settlement date. For interest rate risk, the Bank conducts gap analysis through sensitivity testing and seeks to minimise the interest rate sensitivity gap. Refer to note 29 (d) of the financial statements as at 31 December 2011 for further information on the Bank's interest rate risk.

As an establishing financial institution in the local banking industry, the Bank tries to minimise and preferably eliminate exposure to market risk. The Bank does not engage in any proprietary trading activities. Exposures arising from normal banking activities (deposits, loans, foreign exchange, etcetera) are hedged accordingly. All risks related to treasury money market activities will be managed according to, and within the authorised risk limits.

The minimum regulatory capital requirement on market risk exposures for the financial year is disclosed in note 2.0 (b).

## 7.0 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each department. The responsibility is supported by the development of an overall Bank standard for the management of operational risk in the following areas:

- requirement for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

The minimum regulatory capital requirement on operational risk exposures for the financial year is disclosed in note 2.0 (b).

## 8.0 Liquidity Risk

Liquidity risks are the risks when the Bank fails to raise funds to meet the present or future demand of customers or counterparties at a reasonable cost. The potential liquidity risks of the Bank include mainly customers’ premature and collective withdrawal, overdue payment of the debtors, mismatched asset-liability maturity structure and difficulties in realisation of assets, and daily management of its liquidity positions.

The management of liquidity and funding is mainly carried out in compliance with BNM’s New Liquidity Framework; and practices set by ICBC Group, and the Asset and Liability Committee (ALCO). It is the Bank's responsibility to maintain a strong liquidity position and constantly manage the liquidity profile of its assets, liabilities and commitments to ensure that cash flow requirements are appropriately balanced and all obligations are met accordingly.

As an establishing entity in the Malaysian banking industry, it is imperative for the Bank to continuously seek and maintain new sources of funding to increase and diversify its funding base.