

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 30 June 2012**

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 1-16 have been prepared in accordance with the Risk Weighted Capital Adequacy Framework (Basel II), and are accurate and complete.



TIAN FENGLIN
Chief Executive Officer

Date: 30 July 2012

**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 seeks to diversify its capital base in a range of different forms from various sources. On top of the minimum regulatory capital requirements, a buffer is added on to arrive at the Bank's internal capital target to ensure adequacy of capital to support the current and anticipated business growth. Internal Capital Adequacy Assessment Process ("ICAAP") is formulated to identify the material risks in the business. The material risk areas that are taken into consideration are credit risk, market risk, liquidity risk, operational risk, compliance risk as well as business risk.

Internal capital assessment is carried out to determine the level of internal capital required by the Bank based on the Pillar I and II requirements as well as actual results of the preceding financial year (as the base case). Capital plan, business plan and 3-year budget are approved by the Board of Director on annual basis. Senior Management is responsible in ensuring a smooth development and implementation of the ICAAP framework as well as effective systems and processes are in place. 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.

The Bank undertakes stress test exercise on half yearly basis to assess the Bank's capability to withstand the adverse environment. The stress test will at least cover the exceptional but plausible event and the worst case scenario. The possible impact to the Bank due to occurrence of adverse events, i.e. significant deterioration in borrowers' credit profile, decline in collateral value, erosion in the Bank's net interest margin and sizeable foreign exchange loss will be examined. 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:

	30 Jun 2012	31 Dec 2011
(a) Capital Adequacy Ratio		
Core Capital Ratio	23.59%	53.57%
Risk-Weighted Capital Ratio	24.30%	54.42%

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

Risk type	30 Jun 2012		Risk Weighted Assets RM'000	Capital Requirement RM'000
	Gross Exposures RM'000	Net Exposures RM'000		
<i>Credit Risk</i>				
<u>On-Balance Sheet Exposures</u>				
Sovereigns/Central Bank	423,190	423,190	-	-
Banks, Development Financial Institutions and MDBs	2,550,634	2,550,634	661,669	52,934
Corporates	686,011	686,011	487,804	39,024
Regulatory retail	167	167	167	13
Residential mortgages	962	962	481	38
Other assets	26,273	26,273	24,267	1,941
Total On-Balance Sheet Exposures	3,687,237	3,687,237	1,174,388	93,950
<u>Off-Balance Sheet Exposures</u>				
Credit-related off-balance sheet exposures	225,287	225,287	176,487	14,119
OTC derivatives	21,863	21,863	11,047	884
Total Off-Balance Sheet Exposures	247,150	247,150	187,534	15,003
Total On and Off-Balance Sheet Exposures	3,934,387	3,934,387	1,361,922	108,953
Large exposure risk requirement*	-	-	-	-
<i>Market Risk</i>				
	<u>Long Position</u>	<u>Short Position</u>		
Foreign currency risk	41,416	39,085	41,416	3,313
<i>Operational Risk</i>	-	-	48,659	3,893
Total RWA and Capital Requirements			1,451,997	116,159

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	31 Dec 2011			
	Gross Exposures RM'000	Net Exposures RM'000	Risk Weighted Assets RM'000	Capital Requirement RM'000
<i>Credit Risk</i>				
<u>On-Balance Sheet Exposures</u>				
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
<u>Off-Balance Sheet Exposures</u>				
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*	-	-	-	-
<i>Market Risk</i>				
	Long Position	Short Position		
Foreign currency risk	1,939	2,733	2,733	219
<i>Operational Risk</i>	-	-	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.

3.0 Capital Structure

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

	30 Jun 2012 RM'000	31 Dec 2011 RM'000
<u>Tier 1 Capital</u>		
Paid-up share capital	331,000	331,000
Retained earnings	6,867	6,867
Statutory reserves	6,869	6,869
	344,736	344,736
Less: Deferred tax assets	(2,235)	(2,235)
Total Tier 1 Capital (a)	342,501	342,501
<u>Tier 2 Capital</u>		
Collective impairment allowance	10,299	5,420
Total Tier 2 Capital (b)	10,299	5,420
Total Capital Base (a) + (b)	352,800	347,921

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. Unsecured exposures are managed in a prudent manner and collaterals are taken whenever required as risk mitigation measures. The Bank's unsecured exposures are diversified to a larger pool of clients to promote a more effective use of capital. Risk management policies and systems are reviewed regularly to reflect changes in the market condition, products and services offered. Periodic credit review is performed on the Bank's loan portfolio to assess the impact of changes in economic environment to the Bank's exposures and the collaterals taken. 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.

<i>Loan Class</i>	<i>Grade</i>
Pass	AAA to BB
Impaired	Default Grade

A collective assessment shall be performed on "collective basis" on the Bank's loan portfolio using statistical techniques with the necessary model risk adjustments to the credit grades and probability of defaults. However, the Bank is in the midst of finalising its model and accordingly, had maintained its collective impairment provision at 1.5% of total outstanding loans, net of individual impairment provision. The collective impairment provision may be materially different when the internally developed model is applied. 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 three (3) months is to be classified as impaired. In general, loans that are not repaid on time as they come due, be it the principal or interests, will be monitored closely as the likelihood of impairment from the past due loans is expected to be higher.

The methodology adopted for collective assessment and the list of trigger events for individual 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 30 June 2012										
Central Bank	Financial Services	Manufacturing	Construction	Real Estate	Wholesale & Retail Trade and Restaurants & Hotels	Transport, Storage and Communication	Finance, Insurance and Business Services	Mining and Quarrying	Household	Total
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet exposures										
Cash and short-term funds	371,845	245,699	-	-	-	-	-	-	-	617,544
Deposits and placements with banks and other financial institutions	-	2,306,941	-	-	-	-	-	-	-	2,306,941
Investments securities available-for-sale	51,345	-	-	-	-	-	-	-	-	51,345
Loans, advances and financing	-	-	14,232	59,727	74,050	268,901	45,726	223,376	-	687,141
Term loans										
- housing loans	-	-	-	-	-	-	-	-	541	541
- other term loans	-	-	5,360	59,727	63,867	258,768	45,726	102,701	-	536,149
Bills receivable	-	-	6,400	-	-	8,839	-	109,175	-	124,414
Trust receipts	-	-	-	-	-	-	-	1,389	-	1,389
Overdrafts	-	-	2,472	-	117	1,294	-	517	-	4,400
Revolving credit	-	-	-	-	10,066	-	-	9,594	-	19,660
Staff loans	-	-	-	-	-	-	-	-	588	588
	423,190	2,552,640	14,232	59,727	74,050	268,901	45,726	223,376	-	3,662,971
Commitments and Contingencies										
Contingent liabilities	-	-	57,862	2,500	-	7,632	250	53,300	-	121,544
Commitments	-	20,897	11,771	-	6,878	30,384	3,196	25,253	23,969	125,606
	-	20,897	69,633	2,500	6,878	38,016	3,446	78,553	23,969	247,150
Total Credit Exposures	423,190	2,573,537	83,865	62,227	80,928	306,917	49,172	301,929	23,969	3,910,121
As at 31 December 2011										
Central Bank	Financial Services	Manufacturing	Construction	Real Estate	Wholesale & Retail Trade and Restaurants & Hotels	Transport, Storage and Communication	Finance, Insurance and Business Services	Mining and Quarrying	Household	Total
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet exposures										
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
Bills receivable	-	-	27,639	-	-	9,491	-	12,839	-	49,969
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	-	-	48,403.00	-	-	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

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 30 June 2012		
	Within	Outside	Total
	Malaysia	Malaysia	
	RM'000	RM'000	RM'000
On-Balance Sheet exposures			
Cash and short-term funds	374,243	243,301	617,544
Deposits and placements with banks and other financial institutions	29,888	2,277,053	2,306,941
Investments securities available-for-sale	51,345	-	51,345
Loans, advances and financing	91,532	595,609	687,141
Term loans			
- housing loans	541	-	541
- other term loans	49,715	486,434	536,149
Bills receivable	15,239	109,175	124,414
Trust receipts	1,389	-	1,389
Overdrafts	4,400	-	4,400
Revolving credit	19,660	-	19,660
Staff loans	588	-	588
	547,008	3,115,963	3,662,971
Commitments and Contingencies			
Contingent liabilities	37,259	84,285	121,544
Commitments	69,378	56,228	125,606
	106,637	140,513	247,150
Total Credit Exposures	653,645	3,256,476	3,910,121

	As at 31 December 2011		
	Within	Outside	Total
	Malaysia	Malaysia	
	RM'000	RM'000	RM'000
On-Balance Sheet exposures			
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
Bills receivable	37,130	12,839	49,969
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

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 and off-balance sheet exposures of financial assets.

As at 30 June 2012						
	Up to 1 month	>1 - 3 months	>3 - 12 months	1 - 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet exposures						
Cash and short-term funds	617,544	-	-	-	-	617,544
Deposits and placements with banks and other financial institutions	-	2,120,384	186,557	-	-	2,306,941
Investments securities available-for-sale	-	-	-	51,345	-	51,345
Loans, advances and financing	99,153	20,330	488,809	69,742	9,107	687,141
Term loans						
- housing loans	3	2	10	53	473	541
- other term loans	89,402	1,093	367,876	69,533	8,245	536,149
Bills receivable	832	7,649	115,933	-	-	124,414
Trust receipts	473	916	-	-	-	1,389
Overdrafts	4,400	-	-	-	-	4,400
Revolving credit	4,038	10,665	4,957	-	-	19,660
Staff loans	5	5	33	156	389	588
	716,697	2,140,714	675,366	121,087	9,107	3,662,971
Commitments and Contingencies						
Contingent liabilities	2,673	299	8,355	76,211	34,006	121,544
Commitments	62	1,114	86,463	37,967	-	125,606
	2,735	1,413	94,818	114,178	34,006	247,150
Total Credit Exposures	719,432	2,142,127	770,184	235,265	43,113	3,910,121

As at 31 December 2011						
	Up to 1 month	>1 - 3 months	>3 - 12 months	1 - 5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On-Balance Sheet exposures						
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
Bills receivable	12,743	14,173	23,053	-	-	49,969
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

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 30 June 2012											
Central Bank	Financial Services	Manufacturing	Construction	Real Estate	Wholesale & Retail Trade and Restaurants & Hotels	Transport, Storage and Communication	Finance, Insurance and Business Services	Mining and Quarrying	Household	Total	
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
On-Balance Sheet exposures											
Loans, advances and financing	-	-	203	896	1,111	4,034	686	3,352	-	17	10,299
Term loans	-	-	-	-	-	-	-	-	-	8	8
- housing loans	-	-	-	-	-	-	-	-	-	8	8
- other term loans	-	-	80	896	958	3,882	686	1,541	-	-	8,043
Bills receivable	-	-	96	-	-	133	-	1,638	-	-	1,867
Trust receipts	-	-	-	-	-	-	-	21	-	-	21
Overdrafts	-	-	27	-	2	19	-	8	-	-	56
Revolving credit	-	-	-	-	151	-	-	144	-	-	295
Staff loans	-	-	-	-	-	-	-	-	-	9	9
	-	-	203	896	1,111	4,034	686	3,352	-	17	10,299
As at 31 December 2011											
Central Bank	Financial Services	Manufacturing	Construction	Real Estate	Wholesale & Retail Trade and Restaurants & Hotels	Transport, Storage and Communication	Finance, Insurance and Business Services	Mining and Quarrying	Household	Total	
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
On-Balance Sheet exposures											
Loans, advances and financing	-	-	594	890	8	2,634	-	1,294	-	-	5,420
Term loans	-	-	129	890	7	2,484	-	768	-	-	4,278
Bills receivable	-	-	415	-	-	142	-	193	-	-	750
Overdrafts	-	-	50	-	1	8	-	33	-	-	92
Revolving credit	-	-	-	-	-	-	-	300	-	-	300
	-	-	594	890	8	2,634	-	1,294	-	-	5,420

(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.

On-Balance Sheet exposures	As at 30 June 2012			As at 31 December 2011		
	Within Malaysia	Outside Malaysia	Total	Within Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Loans, advances and financing	1,364	8,935	10,299	1,636	3,784	5,420
Term loans						
- housing loans	8	-	8	-	-	-
- other term loans	746	7,297	8,043	687	3,591	4,278
Bills receivable	229	1,638	1,867	557	193	750
Trust receipts	21	-	21	-	-	-
Overdrafts	56	-	56	92	-	92
Revolving credit	295	-	295	300	-	300
Staff loans	9	-	9	-	-	-
	1,364	8,935	10,299	1,636	3,784	5,420

5.1 Distribution of Credit Exposures (continued)**(vi) Movements in collective allowance for impairment on loans, advances and financing**

	30 Jun 2012	31 Dec 2011
	RM'000	RM'000
At beginning of the financial period/year	5,420	1,809
Allowance made during the financial period/year	5,507	5,047
Allowance written back	<u>(628)</u>	<u>(1,436)</u>
At end of the financial period/year	<u>10,299</u>	<u>5,420</u>
As % of gross loans, advances and financing (net of individual allowance)	<u>1.5%</u>	<u>1.5%</u>

A collective assessment shall be performed on "collective basis" on the Bank's loan portfolio using statistical techniques with the necessary model risk adjustments to the credit grades and probability of defaults. However, the Bank is in the midst of finalising its model and accordingly, had maintained its collective impairment provision at 1.5% of total outstanding loans, net of individual impairment provision. The collective impairment provision may be materially different when the internally developed model is applied.

5.2 Off-Balance Sheet Exposures and Counterparty Credit Risk

Off-balance sheet exposures of the Bank arise mainly from the followings:

- Bank guarantee which represents the Bank's undertaking to make payment to the beneficiary in the event the customer unable to meet its obligations to the latter.
- Undrawn credit commitment represents the Bank's commitment to extend credit for approved credit facilities which have yet to be fully utilized within the availability period.
- Documentary letter of credit is the Bank's undertaking on behalf of customer to make payment in relation to trade transaction.
- 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:

	30 Jun 2012			
	Principal	Positive	Credit	Risk
	Amount	Value of	Equivalent	Weighted
	RM'000	Derivative	Amount	Assets
		Contracts	RM'000	RM'000
		RM'000		
<u>Credit-related exposures</u>				
Transaction-related contingent items	242,145	-	121,073	75,831
Short term self-liquidating trade-related contingencies	2,354	-	471	471
Other commitments, such as formal standby facilities and credit lines, with an original maturity of:				
- exceeding one year	75,934	-	37,967	36,338
- not exceeding one year	328,879	-	65,776	63,847
<u>Derivative financial contracts</u>				
Foreign exchange related contracts:				
- less than one year	696,067	40	21,863	11,047
Total	<u>1,345,379</u>	<u>40</u>	<u>247,150</u>	<u>187,534</u>

5.2.1 Composition of Off-Balance Sheet Exposures (continued)

	31 Dec 2011			
	Principal Amount RM'000	Positive Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
<u>Credit-related exposures</u>				
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
<u>Derivative financial contracts</u>				
Foreign exchange related contracts:				
- less than one year	222,573	824	2,429	962
Total	586,493	824	148,592	93,831

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. It is the interest of the Bank to diversify its unsecured exposures to a larger pool of clients that carry good credit grade.

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.

In order to manage any potential concentration risk within the mitigation taken, there is a credit risk management report which is prepared on a monthly basis, and any undue CRM concentration will be reported to the Board Risk Management Committee. Thus, the CRM concentration risk is appropriately managed whilst the Bank's loan portfolio continues growing and diversifying.

There is no netting arrangement in place for the Bank's existing on- and off-balance sheet exposures. The netting arrangement will be considered on as-and-when basis to minimize the Bank's risk exposures.

5.3 Credit Risk Mitigation (continued)

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

	30 Jun 2012		
	Total Exposures before CRM RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000
<i>Credit Risk</i>			
<u>On-Balance Sheet Exposures</u>			
Sovereigns/Central Bank	423,190	-	-
Banks, Development Financial Institutions and MDBs	2,550,634	-	-
Corporates	686,011	518,759	8,268
Regulatory retail	167	-	-
Residential mortgages	962	-	-
Other assets	26,273	-	-
Total On-Balance Sheet Exposures	3,687,237	518,759	8,268
<u>Off-Balance Sheet Exposures</u>			
Credit-related off-balance sheet exposures	225,287	147,777	1,850
OTC derivatives	21,863	-	-
Total Off-Balance Sheet Exposures	247,150	147,777	1,850
Total On and Off-Balance Sheet Exposures	3,934,387	666,536	10,118

	31 Dec 2011		
	Total Exposures before CRM RM'000	Total Exposures Covered by Guarantees RM'000	Total Exposures Covered by Eligible Financial Collateral RM'000
<i>Credit Risk</i>			
<u>On-Balance Sheet Exposures</u>			
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
<u>Off-Balance Sheet Exposures</u>			
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

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:

- Standard & Poor's Rating Services ("S&P")
- Moody's Investors Service ("Moody's")
- Fitch Ratings ("Fitch")
- RAM Rating Services Berhad ("RAM")
- Malaysian Rating Corporation Berhad ("MARC")
- Rating and Investment Information, Inc. ("R&I").

5.4.1 Rated Exposures As Per ECAIs

The following tables present the credit exposures, categorised according to the credit quality rating as at 30 June 2012:

	Ratings of Sovereigns and Central Bank					
	1	2	3	4	5	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and Off-Balance Sheet Exposures</u>						
Sovereigns and Central Bank	-	-	-	-	-	423,190

	Ratings of Banking Institutions					
	1	2	3	4	5	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and Off-Balance Sheet Exposures</u>						
Banks, MDBs and DFIs	3	2,570,751	-	777	-	-

	Ratings of Corporate					
	1	2	3	4	Unrated	
	RM'000	RM'000	RM'000	RM'000	RM'000	
<u>On and Off-Balance Sheet Exposures</u>						
Corporates	-	372,920	94,943	272,636	168,508	

	Ratings of Regulatory Retail					
	1	2	3	4	Unrated	
	RM'000	RM'000	RM'000	RM'000	RM'000	
<u>On and Off-Balance Sheet Exposures</u>						
Regulatory Retail	-	-	-	-	167	

	Ratings of Residential Mortgages					
	1	2	3	4	Unrated	
	RM'000	RM'000	RM'000	RM'000	RM'000	
<u>On and Off-Balance Sheet Exposures</u>						
Residential Mortgages	-	-	-	-	4,220	

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
<u>On and Off-Balance Sheet Exposures</u>						
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
<u>On and Off-Balance Sheet Exposures</u>						
Banks, MDBs and DFIs	-	986,637	-	-	-	-

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

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								
	Sovereigns & Central Bank	Banks, MDBs and DFIs	Corporates	Regulatory Retail	Residential Mortgages	Other assets	Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
30 Jun 2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Risk Weights								
0%	423,190	-	11,446	-	-	2,006	436,642	-
20%	-	2,045,495	-	-	-	1,227	2,046,722	409,344
50%	-	505,139	467,862	-	4,220	19,670	996,891	498,446
100%	-	-	428,731	167	-	25,234	454,132	454,132
Total Exposures	423,190	2,550,634	908,039	167	4,220	48,137	3,934,387	1,361,922
Risk-Weighted Assets by Exposures	-	661,669	662,662	167	2,110	35,314	1,361,922	
Average Risk Weight	0.0%	25.9%	73.0%	100.0%	50.0%	73.4%	34.6%	
Deduction from Capital Base	-	-	-	-	-	-	-	

Exposures after Netting and Credit Risk Mitigation								
	Sovereigns & Central Bank	Banks, MDBs and DFIs	Corporates	Regulatory Retail	Residential Mortgages	Other assets	Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
31 Dec 2011	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Risk Weights								
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%	0.0%	0.0%	71.5%	31.5%	
Deduction from Capital Base	-	-	-	-	-	-	-	

Note:

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.

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 period is disclosed in note 2.0 (b).

6.1 Interest Rate Risk in the Banking Book (IRRBB)

The projection, by using the repricing gap method, assumes that interest rate moves up and down parallelly by 100 basis points across all maturities for all the interest bearing assets and liabilities. It is further assumed that all positions are repriced at the mid-point of each time band and will run to maturity. The repricing profile of loan that does not have maturity is based on the earliest possible repricing dates. The impact on earnings and economic value is measured on half yearly basis.

The table below illustrates the impact under a 100 bps parallel upward interest rate shock on the Bank's earnings and economic value.

	30 Jun 2012	
	-100 bps	+100 bps
	RM'000	RM'000
Impact on net interest income		
Ringgit Malaysia	(2,897)	2,897
Foreign currencies	(406)	406
Total	(3,303)	3,303
Impact on economic value		
Ringgit Malaysia	1,721	(1,721)
Foreign currencies	(160)	160
Total	1,561	(1,561)

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 period 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.