

**HONG LEONG INVESTMENT BANK BERHAD**

**Company no: 43526-P**

**(Incorporated in Malaysia)**

**BASEL II PILLAR 3 DISCLOSURES**

**FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

# **HONG LEONG INVESTMENT BANK BERHAD**

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## **BASEL II PILLAR 3 DISCLOSURES**

**FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

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# **HONG LEONG INVESTMENT BANK BERHAD**

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## **BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

### **1. INTRODUCTION**

The capital adequacy ratios of Hong Leong Investment Bank Berhad ("HLIBB" or "the Bank") and its subsidiaries ("the Group") are computed in accordance with the Bank Negara Malaysia's ("BNM") revised Risk-Weighted Capital Adequacy Framework ("RWCAF") - Basel II effective from 1 January 2008.

The Group places great importance to Basel II and view Basel II as a group-wide initiative that will ensure that the Group continues to meet international best practices for the credit, market and operational risk management practices. By adopting Basel II, the Group will be able to enhance and embed sound risk management practices within the Group and be equipped with the right risk management discipline, practices, processes and systems.

The following information concerning the Group's risk exposures, risk management practices and capital adequacy is disclosed as accompanying information to the annual report and does not form part of the audited accounts.

### **2. SCOPE OF APPLICATION**

The capital adequacy ratios of the Group consist of capital base and risk-weighted assets derived from consolidated balances of the Bank and its subsidiary companies.

The capital adequacy ratios of the Bank and the Group are computed in accordance with BNM's revised RWCAF - Basel II. The Bank and the Group have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

The Group's capital requirements are generally based on the principles of consolidation adopted in the preparation of its annual financial statements, as discussed in Note 2A to the Financial Statements for financial year ended 30 June 2011, and differs from that used for regulatory capital purposes.

During the course of the year, the Bank and its subsidiaries did not experience any restrictions or other major impediments on transfer of funds or regulatory capital within the Group.

### **3. CAPITAL STRUCTURE AND ADEQUACY**

The Group monitors the capital adequacy position of the Bank and its subsidiaries to ensure compliance with requirements of BNM and to take prompt actions to address projected capital deficiency. The capital position is reviewed on a monthly basis by undertaking stress tests and taking into account the levels and trend of material risks. The sufficiency of capital is assessed against the various risks in the balance sheet as well as future capital requirements based on the Group's expansion plans.

The Group has also formalised an overall capital management framework, which seeks to ensure that there is an adequate balance between Tier I and Tier II capital. The Group is also following very closely the global developments on capital management.

The following table sets forth details on the capital resources, capital adequacy ratios and risk-weighted assets for the Group and the Bank as at 31 December 2011. BNM's revised RWCAF - Basel II sets out the minimum capital adequacy ratios for the banking institutions and the methodology for calculating these ratios. As at 31 December 2011, the Group's and the Bank's Tier I and the total capital adequacy ratios were higher than BNM's minimum requirements.

**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)**

(a) The capital adequacy ratios of the Group and the Bank are analysed as follows:

	<b>The Group</b>		<b>The Bank</b>	
	<b>31/12/2011</b>	<b>30/06/2011</b>	<b>31/12/2011</b>	<b>30/06/2011</b>
<b>Before deducting proposed dividends</b>				
Tier 1 capital ratio	<b>20.47%</b>	38.14%	<b>20.48%</b>	38.18%
Risk-weighted capital ratio	<b>20.80%</b>	38.63%	<b>20.75%</b>	38.58%
<b>After deducting proposed dividends</b>				
Tier 1 capital ratio	<b>20.47%</b>	35.62%	<b>20.48%</b>	35.66%
Risk-weighted capital ratio	<b>20.80%</b>	36.11%	<b>20.75%</b>	36.06%

The component of Tier I and Tier II capital and deductions from capital are as follows:

	<b>The Group</b>		<b>The Bank</b>	
	<b>31/12/2011</b>	<b>30/06/2011</b>	<b>31/12/2011</b>	<b>30/06/2011</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Tier I capital</b>				
Paid-up capital	<b>265,535</b>	265,535	<b>265,535</b>	265,535
Other reserves	<b>35,964</b>	52,272	<b>37,106</b>	53,414
Less: Goodwill	<b>(28,986)</b>	(28,986)	<b>(30,236)</b>	(30,236)
Deferred tax assets, net	<b>(41,716)</b>	(41,716)	<b>(41,716)</b>	(41,716)
Total Tier I capital	<b>230,797</b>	247,105	<b>230,689</b>	246,997
<b>Tier II capital</b>				
Redeemable preference shares ("RPS")	<b>1,631</b>	1,631	<b>1,631</b>	1,631
Collective assessment allowance <sup>(N1)</sup>	<b>1,982</b>	1,574	<b>1,982</b>	1,574
	<b>3,613</b>	3,205	<b>3,613</b>	3,205
Total capital	<b>234,410</b>	250,310	<b>234,302</b>	250,202
Less: Investment in subsidiary companies	-	-	<b>(588)</b>	(588)
Total capital base	<b>234,410</b>	250,310	<b>233,714</b>	249,614

(N1) Excludes collective assessment allowance attributable to loans and advances classified as impaired.

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**3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)**

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows:

<b>The Group 31 December 2011 Exposure Class</b>	<b>Gross Exposures RM'000</b>	<b>Net Exposures RM'000</b>	<b>Risk- Weighted Assets RM'000</b>	<b>Capital Requirements RM'000</b>
<b>(i) Credit Risk</b>				
<b>On-Balance Sheet Exposures:</b>				
Sovereigns & Central Banks	596,924	596,924	-	-
Public Sector Entities	17	17	3	-
Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDBs")	1,157,723	1,157,723	313,896	25,111
Insurance Companies, Securities Firms & Fund Managers	4,392	4,392	2,196	176
Corporates	412,864	340,471	189,188	15,135
Other Assets	156,968	156,968	29,533	2,363
Equity Exposures	2,445	2,445	2,445	196
<b>Total On-Balance Sheet Exposures</b>	<b>2,331,333</b>	<b>2,258,940</b>	<b>537,261</b>	<b>42,981</b>
<b>Off-Balance Sheet Exposures:</b>				
Credit-related Off-Balance Sheet Exposures	76,030	76,030	76,030	6,082
Derivative Financial Instruments	57,790	57,790	11,559	925
<b>Total Off-Balance Sheet Exposures</b>	<b>133,820</b>	<b>133,820</b>	<b>87,589</b>	<b>7,007</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>2,465,153</b>	<b>2,392,760</b>	<b>624,850</b>	<b>49,988</b>
<b>(ii) Large Exposure Risk Requirement</b>	-	-	-	-
<b>(iii) Market Risk</b>				
	<b>Long Position</b>	<b>Short Position</b>		
Interest Rate Risk	5,603,918	4,772,475	277,162	22,173
Equity Risk	18,061	-	25,137	2,011
Foreign Exchange Risk	4,615	-	4,612	369
Options Risk	35,761	-	39,625	3,170
	<b>5,662,355</b>	<b>4,772,475</b>	<b>346,536</b>	<b>27,723</b>
<b>(iv) Operational Risk</b>			<b>155,839</b>	<b>12,467</b>
<b>Total RWA and Capital Requirements</b>			<b>1,127,225</b>	<b>90,178</b>

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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**2. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)**

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows (continued):

<b>The Group 30 June 2011 Exposure Class</b>	<b>Gross Exposures RM'000</b>	<b>Net Exposures RM'000</b>	<b>Risk- Weighted Assets RM'000</b>	<b>Capital Requirements RM'000</b>
<b>(i) Credit Risk</b>				
<b>On-Balance Sheet Exposures:</b>				
Sovereigns & Central Banks	396,924	396,924	-	-
Public Sector Entities	17	17	3	-
Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDBs")	827,730	827,730	188,651	15,092
Insurance Companies, Securities Firms & Fund Managers	4,420	4,420	2,210	177
Corporates	192,208	101,599	40,748	3,260
Other Assets	210,102	210,102	36,770	2,941
Equity Exposures	2,445	2,445	2,445	196
<b>Total On-Balance Sheet Exposures</b>	<b>1,633,846</b>	<b>1,543,237</b>	<b>270,827</b>	<b>21,666</b>
<b>Off-Balance Sheet Exposures:</b>				
Credit-related Off-Balance Sheet Exposures	10,119	10,119	10,119	810
Derivative Financial Instruments	24,322	24,322	5,226	418
<b>Total Off-Balance Sheet Exposures</b>	<b>34,441</b>	<b>34,441</b>	<b>15,345</b>	<b>1,228</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>1,668,287</b>	<b>1,577,678</b>	<b>286,172</b>	<b>22,894</b>
<b>(ii) Large Exposure Risk Requirement</b>				
	-	-	-	-
<b>(iii) Market Risk</b>				
	<b>Long Position</b>	<b>Short Position</b>		
Interest Rate Risk	3,843,920	3,474,880	159,881	12,790
Equity Risk	97,449	-	43,475	3,479
Foreign Exchange Risk	2,112	1,080	2,113	169
Options Risk	20,238	-	32,025	2,562
	<b>3,963,719</b>	<b>3,475,960</b>	<b>237,494</b>	<b>19,000</b>
<b>(iv) Operational Risk</b>				
			124,294	9,944
<b>Total RWA and Capital Requirements</b>			<b>647,960</b>	<b>51,838</b>

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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**2. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)**

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows (continued):

<b>The Bank 31 December 2011 Exposure Class</b>	<b>Gross Exposures RM'000</b>	<b>Net Exposures RM'000</b>	<b>Risk- Weighted Assets RM'000</b>	<b>Capital Requirements RM'000</b>
<b>(i) Credit Risk</b>				
<b>On-Balance Sheet Exposures:</b>				
Sovereigns & Central Banks	596,924	596,924	-	-
Public Sector Entities	17	17	3	-
Banks, DFI & MDBs	1,154,645	1,154,645	313,280	25,062
Insurance Companies, Securities Firms & Fund Managers	4,392	4,392	2,196	176
Corporates	412,864	340,471	189,188	15,135
Other Assets	158,511	158,511	31,076	2,486
Equity Exposures	2,445	2,445	2,445	196
<b>Total On-Balance Sheet Exposures</b>	<b>2,329,798</b>	<b>2,257,405</b>	<b>538,188</b>	<b>43,055</b>
<b>Off-Balance Sheet Exposures:</b>				
Credit-related Off-Balance Sheet Exposures	76,030	76,030	76,030	6,082
Derivative Financial Instruments	57,790	57,790	11,559	925
<b>Total Off-Balance Sheet Exposures</b>	<b>133,820</b>	<b>133,820</b>	<b>87,589</b>	<b>7,007</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>2,463,618</b>	<b>2,391,225</b>	<b>625,777</b>	<b>50,062</b>
<b>(ii) Large Exposure Risk Requirement</b>				
	-	-	-	-
<b>(iii) Market Risk</b>				
	<b>Long Position</b>	<b>Short Position</b>		
Interest Rate Risk	5,603,918	4,772,475	277,162	22,173
Equity Risk	18,061	-	25,137	2,011
Foreign Exchange Risk	4,615	-	4,612	369
Options Risk	35,761	-	39,625	3,170
	<b>5,662,355</b>	<b>4,772,475</b>	<b>346,536</b>	<b>27,723</b>
<b>(iv) Operational Risk</b>				
			154,061	12,325
<b>Total RWA and Capital Requirements</b>			<b>1,126,374</b>	<b>90,110</b>

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**2. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)**

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows (continued):

<b>The Bank 30 June 2011 Exposure Class</b>	<b>Gross Exposures RM'000</b>	<b>Net Exposures RM'000</b>	<b>Risk- Weighted Assets RM'000</b>	<b>Capital Requirements RM'000</b>
<b>(i) Credit Risk</b>				
<b>On-Balance Sheet Exposures:</b>				
Sovereigns & Central Banks	396,924	396,924	-	-
Public Sector Entities	17	17	3	-
Banks, DFI & MDBs	827,433	827,433	188,592	15,087
Insurance Companies, Securities Firms & Fund Managers	4,420	4,420	2,210	177
Corporates	192,208	101,599	40,748	3,260
Other Assets	210,823	210,823	37,490	2,999
Equity Exposures	2,445	2,445	2,445	196
<b>Total On-Balance Sheet Exposures</b>	<b>1,634,270</b>	<b>1,543,661</b>	<b>271,488</b>	<b>21,719</b>
<b>Off-Balance Sheet Exposures:</b>				
Credit-related Off-Balance Sheet Exposures	10,119	10,119	10,119	810
Derivative Financial Instruments	24,322	24,322	5,226	418
<b>Total Off-Balance Sheet Exposures</b>	<b>34,441</b>	<b>34,441</b>	<b>15,345</b>	<b>1,228</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>1,668,711</b>	<b>1,578,102</b>	<b>286,833</b>	<b>22,947</b>
<b>(ii) Large Exposure Risk Requirement</b>				
	-	-	-	-
<b>(iii) Market Risk</b>				
	<b>Long Position</b>	<b>Short Position</b>		
Interest Rate Risk	3,843,920	3,474,880	159,881	12,790
Equity Risk	97,449	-	43,475	3,479
Foreign Exchange Risk	2,112	1,080	2,113	169
Options Risk	20,238	-	32,025	2,562
	<b>3,963,719</b>	<b>3,475,960</b>	<b>237,494</b>	<b>19,000</b>
<b>(iv) Operational Risk</b>				
			122,594	9,808
<b>Total RWA and Capital Requirements</b>			<b>646,921</b>	<b>51,755</b>



**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**4. RISK MANAGEMENT**

**Overview**

The Group believes that an integrated risk management framework is key to ensuring the overall financial soundness and stability of the Group's business operations. Key components of our enterprise wide risk management framework include:

- (i) A structured risk governance model, incorporating strong Board and senior management oversight.
- (ii) Sound capital management processes.
- (iii) Comprehensive assessment of material risks.
- (iv) A rigorous system of check and balance reviews.
- (v) Regular monitoring and reporting.
- (vi) Independent reviews by the internal and external auditors.

**Risk governance structure**

The Board has overall responsibility for providing leadership, overseeing risk appetite and ensuring that a robust risk and compliance culture prevails. The Board is assisted by the following Board and management committees:

- (i) Board, Audit and Risk Management Committee ("BARMC").
- (ii) Assets and Liabilities Management Committee ("ALMCO").
- (iii) Management Credit and Underwriting Committee ("MCUC").

The BARMC is responsible for the following:

- (i) Reviewing and recommending risk management strategies, policies and risk tolerance for the Board's approval.
- (ii) Reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
- (iii) Ensuring infrastructure, resources and systems are in place for risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of risk taking activities.
- (iv) Reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

The Risk Management Department is responsible for assisting the BARMC, ALMCO, MCUC and the Board in ensuring that the risk management activities are carried out as per their directives. Amongst others, Risk Management Department is responsible for setting the risk management framework and developing tools and methodologies for the identification, measurement, monitoring, control and valuation of risks. The Risk Management Department consists of three main units namely Market and Liquidity Risk, Operational Risk and Credit Risk Management.

**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**4. RISK MANAGEMENT** (continued)

**Risk governance structure** (continued)

The Group Internal Audit function complements the Risk Management Department in the management of risk by:

- (i) Ensuring that the risk policies prepared by the Risk Management Department are enforced through its regular audit cycle.
- (ii) Performing independent reviews to assess the risk control environment developed by the Risk Management Department.
- (iii) Performing independent reviews to assess the risk grading system and the credit process.
- (iv) Forming independent opinions on risk controls being formulated by the Risk Management Department.

**Eight broad principles of risk management**

- (i) Align risk appetite and strategy

Risk appetite is the degree of risk that the Group is willing to accept in pursuit of its goals. Risk appetite is set first in evaluating strategic alternatives, then in setting objectives aligned with the selected strategy and in developing mechanisms to manage the related risks.

- (ii) Link growth, risk and return

Framework provides an enhanced ability to identify and assess risks and establish acceptable levels of risk relative to growth and return objectives.

- (iii) Enhance risk response decisions

The Group strives to identify and select among alternative risk responses - risk avoidance, reduction, sharing and acceptance based on generally accepted practices and methodologies.

- (iv) Minimise operational surprises and losses

The Group continually enhances its capability to identify potential events, assess risk and establish responses, thereby reducing the occurrence of surprises and related costs or losses.

- (v) Identify and manage cross-risks

Every product faces a myriad of risks. The Group not only manages the individual risks, but also manages interrelated impacts.

- (vi) Provide integrated responses to multiple risks

Business processes carry many inherent risks and the Group continually finds solutions for managing the risks.

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**4. RISK MANAGEMENT** (continued)

**Eight broad principles of risk management** (continued)

(vii) Seize opportunities

The Group considers potential events, using risk management as offensive initiatives rather than just risks (defensive), and by considering a full range of events, the Group gains an understanding of how certain events represent opportunities.

(viii) Rationalise capital

More robust information on total risk allows the Group to more effectively assess overall capital needs and improve capital allocation.

**Risk management framework**

The Group's risk management framework outlines the overall structure, aspirations, values and risk management strategies, and is a structured approach in balancing risks and returns.

Appropriate methodologies and measures have been developed in our risk management approaches to manage uncertainties such that the deviations from the intended strategic objectives are monitored and kept within tolerable levels.

**Risk management culture**

The risk management culture of the Group encompasses the following:

(i) Developing strategies

Documentation that is approved by the Board which expresses the Group's risk management strategies and appetite.

(ii) Adopting skills

The capabilities and resources required for implementing the risk management function.

(iii) Cultivating shared values

The universal risk management culture that the Group expects and promotes throughout the business units.

**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**4. RISK MANAGEMENT** (continued)

**Risk management approach**

The risk management approach is summarised as follows:

(i) Strategy

Risk management policies are integrated with business and strategies, in line with Board approved risk appetite.

(ii) Policy

Risks are addressed using specific risk policies.

(iii) Tools

Risks are measured and assessed using clearly defined models, methodologies and benchmarking.

(iv) Communication

Risks are adequately communicated across the Group in a timely manner.

(v) Implementation

Risks and returns are identified and managed by respective accountable business, support and operating units.

(vi) Maintenance

Risk management policies are clearly and formally documented, with a review in place to respond to changes in operating environment.

**Risk management process**

The risk management approaches are based on four simple processes:

(i) Identify what, why and how risks can arise:

- Nature of risk.
- Circumstances.
- Causes.
- Potential contributing factors.

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**4. RISK MANAGEMENT** (continued)

**Risk management process** (continued)

(ii) Analyse and evaluate risks:

- Analyse and measure risk exposures using impact and probability analysis.
- Establish priorities using risk matrix.
- Compare risk exposures with Group's risk appetite.

(iii) Measures to control or mitigate the identified risks:

- Measures to mitigate the identified risks or risk controls.
- Action plans to either prevent or mitigate the risks.

(iv) Monitor and review the performance of the risk management process:

- Review effectiveness of mitigating measures or controls.
- Tracking of incidences and losses.
- Review feedback from internal reports and take appropriate action.

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**4. RISK MANAGEMENT (CONTINUED)**

**(A) Credit risk**

Credit risk arises as a result of customers or counterparties not being able to or willing to fulfill their financial and contractual obligations as and when they fall due. These obligations arise from lending, trade finance and other activities undertaken by the Group.

The primary objective of the credit risk management framework is to ensure that exposure to credit risk is kept within the Group's financial capacity to withstand potential future losses. Lending activities are guided by internal credit policies and guidelines that are approved by the Board. These policies were reviewed and further enhanced during the year.

Credit portfolio management strategies and significant exposures are reviewed by the Board. These portfolio management strategies are designed to achieve a desired ideal portfolio risk tolerance level and sector distribution. This includes minimum credit rating targets for new credit facilities.

The Group's credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. While the business units are responsible for credit origination, the credit approving function rests mainly with the MCUC.

Credit risk is also identified as part of the new product sign-off process to ensure that new products prior to marketing are acceptable from a credit risk management perspective.

The Group also believes that authority limits for credit approvals should be directly related to the risk levels of the borrower and the transaction. In this respect, a Delegated Authority Limit structure had been implemented.

**Credit Risk Management Process**

(i) Identification

- Risk assessment on the potential impact of internal and external factors on transactions and positions.

(ii) Assessment/Measurement

- Internal credit rating systems to evaluate customer's credit worthiness.

(iii) Control/Mitigation

- Credit risk management policies and guidelines on credit rating, collateral and loan recovery.
- Exposure limits based on credit worthiness level for corporate groups, and prudent thresholds by economic sectors.
- Monitoring the benchmark return to consider the risk taken.

(iv) Monitoring/Review

- Analysis/review on loan exposures, asset quality evaluation, and movement of impaired loans and advances.
- Reporting on exposures against approved credit limits.

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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011****4. RISK MANAGEMENT (CONTINUED)****(A) Credit risk (continued)****Credit quality of loans and advances**

A loan is defined as "past due" when the counterparty has failed to make a principal or interest payment when contractually due. Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans advances and financing less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary.

A loan or a group of loans is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For description of approaches adopted by the Group and the Bank for the determination of individual and collective assessment impairment allowances, refer to Note 20(a) to the audited financial statements for financial year ended 30 June 2011.

**Gross credit exposure**

- (i) The table below sets out the breakdown of gross credit exposures by geographical distribution as follows:

<b>The Group and the Bank</b>	<b>Malaysia</b>	<b>Other</b>	<b>Total</b>
	<b>RM'000</b>	<b>countries</b>	<b>RM'000</b>
		<b>RM'000</b>	<b>RM'000</b>
<b>31 December 2011</b>			
<b>On-Balance Sheet Exposures</b>			
Financial assets held-for-trading *	822,544	-	822,544
Financial investments available-for-sale *	139,329	-	139,329
Financial investments held-to-maturity	160,949	367,370	528,319
Derivatives financial assets	15,105	21	15,126
Loans and advances	134,166	-	134,166
Clients' and brokers' balances	122,945	-	122,945
<b>Total On-Balance Sheet Exposures</b>	<b>1,395,038</b>	<b>367,391</b>	<b>1,762,429</b>
<b>Off-Balance Sheet Exposures</b>			
Credit-related exposures	76,030	-	76,030
Derivative financial instruments	57,080	710	57,790
	<b>133,110</b>	<b>710</b>	<b>133,820</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>1,528,148</b>	<b>368,101</b>	<b>1,896,249</b>

\* Excludes equity securities

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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011****4. RISK MANAGEMENT (CONTINUED)****(A) Credit risk (continued)****Gross credit exposure (continued)**

- (i) The table below sets out the breakdown of gross credit exposures by geographical distribution as follows (continued):

<b>The Group and the Bank</b>	<b>Malaysia</b>	<b>Other</b>	<b>Total</b>
	<b>RM'000</b>	<b>countries</b>	<b>RM'000</b>
		<b>RM'000</b>	<b>RM'000</b>
<b>30 June 2011</b>			
<b>On-Balance Sheet Exposures</b>			
Financial assets held-for-trading *	342,013	28,869	370,882
Financial investments available-for-sale *	72,437	-	72,437
Financial investments held-to-maturity	35,937	76,710	112,647
Derivatives financial assets	5,233	125	5,358
Loans and advances	107,975	-	107,975
Clients' and brokers' balances	165,813	-	165,813
<b>Total On-Balance Sheet Exposures</b>	<u>729,408</u>	<u>105,704</u>	<u>835,112</u>
<b>Off-Balance Sheet Exposures</b>			
Credit-related exposures	10,119	-	10,119
Derivative financial instruments	24,322	-	24,322
	<u>34,441</u>	<u>-</u>	<u>34,441</u>
<b>Total On and Off-Balance Sheet Exposures</b>	<u>763,849</u>	<u>105,704</u>	<u>869,553</u>

\* Excludes equity securities



BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

(ii) The table below sets out the breakdown of gross credit exposures by sector as follows:

The Group and the Bank 31 December 2011	Financial assets held- for-trading RM'000	Financial investments available-for- sale RM'000	Financial investments held-to- maturity RM'000	Derivative financial assets RM'000	Loans and advances RM'000	Clients' and brokers' balances RM'000	On-balance sheet total RM'000	Credit-related Exposures RM'000	Derivative Financial Instruments RM'000	Total off- balance sheet credit risk	Total on and off-balance sheet credit risk
										exposures RM'000	exposures RM'000
Agriculture	25,461	55,298	10,046	-	9,866	-	100,671	-	-	-	100,671
Mining and quarrying	-	-	-	-	3,989	-	3,989	-	-	-	3,989
Manufacturing	-	-	10,228	-	10,729	-	20,957	12,880	-	12,880	33,837
Electricity, gas and water	-	6,770	-	-	29,582	-	36,352	-	-	-	36,352
Construction	36,407	-	-	-	-	-	36,407	50,750	-	50,750	87,157
Wholesale and retail	-	15,582	15,567	-	-	-	31,149	-	-	-	31,149
Transport, storage and communications	41,054	-	23,112	-	-	-	64,166	-	-	-	64,166
Finance, insurance, real estate and business services	699,100	30,633	464,224	15,126	-	-	1,209,083	12,400	57,790	70,190	1,279,273
Government and government Agencies	20,522	31,046	5,142	-	-	-	56,710	-	-	-	56,710
Purchase of securities	-	-	-	-	61,465	122,945	184,410	-	-	-	184,410
Others	-	-	-	-	18,535	-	18,535	-	-	-	18,535
	<b>822,544</b>	<b>139,329</b>	<b>528,319</b>	<b>15,126</b>	<b>134,166</b>	<b>122,945</b>	<b>1,762,429</b>	<b>76,030</b>	<b>57,790</b>	<b>133,820</b>	<b>1,896,249</b>

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

(ii) The table below sets out the breakdown of gross credit exposures by sector as follows:

The Group and the Bank 30 June 2011	Financial assets held- for-trading RM'000	Financial investments available-for- sale RM'000	Financial investments held-to- maturity RM'000	Derivative financial assets RM'000	Loans and advances RM'000	Clients' and brokers' balances RM'000	On-balance sheet total RM'000	Credit-related Exposures RM'000	Derivative Financial Instruments RM'000	Total off- balance sheet credit risk exposures RM'000	Total on and off-balance sheet credit risk exposures RM'000
Agriculture	-	10,099	-	-	15,588	-	25,687	-	-	-	25,687
Mining and quarrying	-	-	-	-	4,627	-	4,627	-	-	-	4,627
Manufacturing	-	-	10,246	-	12,108	-	22,354	-	-	-	22,354
Electricity, gas and water	-	6,482	-	-	-	-	6,482	10,039	-	10,039	16,521
Construction	-	-	-	3,000	-	-	3,000	-	-	-	3,000
Wholesale and retail	-	10,398	-	-	-	-	10,398	-	-	-	10,398
Transport, storage and communications	59,163	-	5,089	-	-	-	64,252	-	-	-	64,252
Finance, insurance, real estate and business services	311,719	19,797	92,159	2,358	-	-	426,033	80	24,322	24,402	450,435
Government and government Agencies	-	25,661	5,153	-	-	-	30,814	-	-	-	30,814
Purchase of securities	-	-	-	-	74,564	165,813	240,377	-	-	-	240,377
Others	-	-	-	-	1,088	-	1,088	-	-	-	1,088
	370,882	72,437	112,647	5,358	107,975	165,813	835,112	10,119	24,322	34,441	869,553

**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**4. RISK MANAGEMENT (CONTINUED)**

**(A) Credit risk (continued)**

**Gross credit exposure**

(iii) The table below sets out the breakdown of gross credit exposures by residual contractual maturity as follows:

<b>The Group and the Bank</b>	<b>Up to 1</b>	<b>1 to 5</b>	<b>Over 5</b>	<b>Total</b>
<b>31 December 2011</b>	<b>Year</b>	<b>Years</b>	<b>Years</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>On-Balance Sheet Exposures</b>				
Financial assets held-for-trading	523,284	226,886	72,374	822,544
Financial investments available-for-sale	20,134	119,195	-	139,329
Financial investments held-to-maturity	49,181	402,350	76,788	528,319
Derivatives financial assets	5,362	9,764	-	15,126
Loans and advances	134,166	-	-	134,166
Clients and brokers balances	122,945	-	-	122,945
<b>Total On-Balance Sheet Exposures</b>	<b>855,072</b>	<b>758,195</b>	<b>149,162</b>	<b>1,762,429</b>
<b>Off-Balance Sheet Exposures</b>				
Credit-related Exposures	25,280	50,750	-	76,030
Derivative Financial Instruments	22,986	34,804	-	57,790
<b>Total Off-Balance Sheet Exposures</b>	<b>48,266</b>	<b>85,554</b>	<b>-</b>	<b>133,820</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>903,338</b>	<b>843,749</b>	<b>149,162</b>	<b>1,896,249</b>

**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**4. RISK MANAGEMENT (CONTINUED)**

**(A) Credit risk (continued)**

**Gross credit exposure**

(iii) The table below sets out the breakdown of gross credit exposures by residual contractual maturity as follows:

<b>The Group and the Bank 30 June 2011</b>	<b>Up to 1 Year RM'000</b>	<b>1 to 5 Years RM'000</b>	<b>Over 5 Years RM'000</b>	<b>Total RM'000</b>
<b>On-Balance Sheet Exposures</b>				
Financial assets held-for-trading	252,714	77,128	41,040	370,882
Financial investments available-for-sale	10,099	62,338	-	72,437
Financial investments held-to-maturity	-	52,077	60,570	112,647
Derivatives financial assets	1,370	3,970	18	5,358
Loans and advances	103,351	-	4,624	107,975
Clients and brokers balances	165,813	-	-	165,813
<b>Total On-Balance Sheet Exposures</b>	<b>533,347</b>	<b>195,513</b>	<b>106,252</b>	<b>835,112</b>
<b>Off-Balance Sheet Exposures</b>				
Credit-related Exposures	10,119	-	-	10,119
Derivative Financial Instruments	5,750	18,572	-	24,322
<b>Total Off-Balance Sheet Exposures</b>	<b>15,869</b>	<b>18,572</b>	<b>-</b>	<b>34,441</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>549,216</b>	<b>214,085</b>	<b>106,252</b>	<b>869,553</b>

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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011****4. RISK MANAGEMENT (CONTINUED)****(A) Credit risk (continued)****Loans and advances**

- (i) The table below sets out the breakdown by sector the amount of past due loans and advances, impaired loans and advances, individual assessment allowance, collective assessment allowance, charges for individual assessment allowance during the financial period and write-offs during the financial period as follows:

<b>The Group and the Bank 31 December 2011</b>	<b>Past due loans and advances RM'000</b>	<b>Impaired Loans and advances RM'000</b>	<b>Individual assessment allowance RM'000</b>	<b>Collective assessment allowance RM'000</b>	<b>Write-back of individual assessment allowance during the period RM'000</b>	<b>Write offs during the period RM'000</b>
Agriculture	-	-	-	150	-	-
Mining and quarrying	-	7,608	3,559	61	-	-
Manufacturing	-	-	-	163	-	-
Construction	-	-	-	451	-	-
Purchase of securities	-	1,186	1,186	936	-	-
Others	-	-	-	282	-	-
<b>Total</b>	<b>-</b>	<b>8,794</b>	<b>4,745</b>	<b>2,043</b>	<b>-</b>	<b>-</b>

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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011****4. RISK MANAGEMENT (CONTINUED)****(A) Credit risk (continued)****Loans and advances**

- (i) The table below sets out the breakdown by sector the amount of past due loans and advances, impaired loans and advances, individual assessment allowance, collective assessment allowance, charges for individual assessment allowance during the financial period and write-offs during the financial period as follows (continued):

<b>The Group and the Bank 30 June 2011</b>	<b>Past due loans and advances RM'000</b>	<b>Impaired Loans and advances RM'000</b>	<b>Individual assessment allowance RM'000</b>	<b>Collective assessment allowance RM'000</b>	<b>Write-back of individual assessment allowance during the year RM'000</b>	<b>Write offs during the year RM'000</b>
Agriculture	-	-	-	237	-	-
Mining and quarrying	-	8,254	3,559	70	-	-
Manufacturing	-	-	-	184	-	-
Purchase of securities	-	1,120	1,120	1,136	(482)	-
Others	-	-	-	17	-	-
<b>Total</b>	<b>-</b>	<b>9,374</b>	<b>4,679</b>	<b>1,644</b>	<b>(482)</b>	<b>-</b>

Note: Refer to Note 15 to the interim financial statement for financial period ended 31 December 2011 for "movement in individual assessment allowance and collective assessment allowance" during the period for the Group and the Bank.

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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011****4. RISK MANAGEMENT (CONTINUED)****(A) Credit risk (continued)****Loans and advances (continued)**

(ii) The table below sets out the breakdown by geographical areas the amount of past due loans and advances, impaired loans and advances, individual assessment allowance and collective assessment allowance as follows:

	<b>Past due loans and advances RM'000</b>	<b>Impaired Loans and advances RM'000</b>	<b>Individual assessment allowance RM'000</b>	<b>Collective assessment allowance RM'000</b>
<b>The Group and the Bank 31 December 2011</b>				
Malaysia	-	8,794	4,745	2,043
<b>The Group and the Bank 30 June 2011</b>				
Malaysia	-	9,374	4,679	1,644

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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**4. RISK MANAGEMENT (CONTINUED)**

**(A) Credit risk (continued)**

**Credit risk exposure by risk weight**

The breakdown of credit risk exposures by risk weight is as follows:

<b>Risk Weights</b>	<b>Sovereigns/ Central Banks RM'000</b>	<b>Public Sector Entities RM'000</b>	<b>Banks, DFIs and MDBs RM'000</b>	<b>Insurance Companies, Securities Firms &amp; Fund Managers RM'000</b>	<b>Corporates RM'000</b>	<b>Other Assets RM'000</b>	<b>Equity Exposures RM'000</b>	<b>Total Exposures after Netting &amp; Credit Risk Mitigation RM'000</b>	<b>Total Risk- Weighted Assets RM'000</b>
<b>The Group 31 December 2011</b>									
0%	596,924	-	-	-	-	118,451	-	715,375	-
20%	-	17	941,006	-	143,169	11,230	-	1,095,422	219,084
50%	-	-	274,507	4,392	73,496	-	-	352,395	176,198
100%	-	-	-	-	199,836	27,287	2,445	229,568	229,568
<b>Total</b>	<b>596,924</b>	<b>17</b>	<b>1,215,513</b>	<b>4,392</b>	<b>416,501</b>	<b>156,968</b>	<b>2,445</b>	<b>2,392,760</b>	<b>624,850</b>
Risk-Weighted Assets by Exposures	-	3	325,455	2,196	265,218	29,533	2,445	624,850	
Average Risk Weights	0.0%	17.6%	26.8%	50.0%	63.7%	18.8%	100.0%	26.1%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	



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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011****4. RISK MANAGEMENT (CONTINUED)****(A) Credit risk (continued)****Credit risk exposure by risk weight (continued)**

The breakdown of credit risk exposures by risk weight is as follows:

<b>Risk Weights</b>	<b>Sovereigns/ Central Banks RM'000</b>	<b>Public Sector Entities RM'000</b>	<b>Banks, DFIs and MDBs RM'000</b>	<b>Insurance Companies, Securities Firms &amp; Fund Managers RM'000</b>	<b>Corporates RM'000</b>	<b>Other Assets RM'000</b>	<b>Equity Exposures RM'000</b>	<b>Total Exposures after Netting &amp; Credit Risk Mitigation RM'000</b>	<b>Total Risk- Weighted Assets RM'000</b>
<b>The Group 30 June 2011</b>									
0%	396,924	-	-	-	-	165,354	-	562,278	-
20%	-	17	774,582	-	72,013	9,974	-	856,586	171,317
50%	-	-	77,017	4,420	6,482	-	-	87,919	43,960
100%	-	-	-	-	33,676	34,774	2,445	70,895	70,895
<b>Total</b>	<b>396,924</b>	<b>17</b>	<b>851,599</b>	<b>4,420</b>	<b>112,171</b>	<b>210,102</b>	<b>2,445</b>	<b>1,577,678</b>	<b>286,172</b>
Risk-Weighted Assets by Exposures	-	3	193,424	2,210	51,320	36,770	2,445	286,172	
Average Risk Weights	0.0%	17.6%	22.7%	50.0%	45.8%	17.5%	100.0%	18.1%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	

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**4. RISK MANAGEMENT (CONTINUED)**

**(A) Credit risk (continued)**

**Credit risk exposure by risk weight**

The breakdown of credit risk exposures by risk weight is as follows:

<b>Risk Weights</b>	<b>Sovereigns/ Central Banks RM'000</b>	<b>Public Sector Entities RM'000</b>	<b>Banks, DFIs and MDBs RM'000</b>	<b>Insurance Companies, Securities Firms &amp; Fund Managers RM'000</b>	<b>Corporates RM'000</b>	<b>Other Assets RM'000</b>	<b>Equity &amp; Credit Risk Exposures RM'000</b>	<b>Total Exposures after Netting &amp; Credit Risk Mitigation RM'000</b>	<b>Total Risk- Weighted Assets RM'000</b>
<b>The Bank 31 December 2011</b>									
0%	596,924	-	-	-	-	118,451	-	715,375	-
20%	-	17	937,928	-	143,169	11,230	-	1,092,344	218,468
50%	-	-	274,507	4,392	73,496	-	-	352,395	176,198
100%	-	-	-	-	199,836	28,830	2,445	231,111	231,111
<b>Total</b>	<b>596,924</b>	<b>17</b>	<b>1,212,435</b>	<b>4,392</b>	<b>416,501</b>	<b>158,511</b>	<b>2,445</b>	<b>2,391,225</b>	<b>625,777</b>
Risk-Weighted Assets by Exposures	-	3	324,839	2,196	265,218	31,076	2,445	625,777	
Average Risk Weights	0.0%	17.6%	26.8%	50.0%	63.7%	19.6%	100.0%	26.2%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	

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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011****4. RISK MANAGEMENT (CONTINUED)****(A) Credit risk (continued)****Credit risk exposure by risk weight**

The breakdown of credit risk exposures by risk weight is as follows:

<b>Risk Weights</b>	<b>Sovereigns/ Central Banks RM'000</b>	<b>Public Sector Entities RM'000</b>	<b>Banks, DFIs and MDBs RM'000</b>	<b>Insurance Companies, Securities Firms &amp; Fund Managers RM'000</b>	<b>Corporates RM'000</b>	<b>Other Assets RM'000</b>	<b>Equity Exposures RM'000</b>	<b>Total Exposures after Netting &amp; Credit Risk Mitigation RM'000</b>	<b>Total Risk- Weighted Assets RM'000</b>
<b>The Bank 30 June 2011</b>									
0%	396,924	-	-	-	-	165,354	-	562,278	-
20%	-	17	774,285	-	72,013	9,974	-	856,289	171,257
50%	-	-	77,017	4,420	6,482	-	-	87,919	43,960
100%	-	-	-	-	33,676	35,495	2,445	71,616	71,616
<b>Total</b>	<b>396,924</b>	<b>17</b>	<b>851,302</b>	<b>4,420</b>	<b>112,171</b>	<b>210,823</b>	<b>2,445</b>	<b>1,578,102</b>	<b>286,833</b>
<b>Risk-Weighted Assets by Exposures</b>	<b>-</b>	<b>3</b>	<b>193,365</b>	<b>2,210</b>	<b>51,320</b>	<b>37,490</b>	<b>2,445</b>	<b>286,833</b>	
<b>Average Risk Weights</b>	<b>0.0%</b>	<b>17.6%</b>	<b>22.7%</b>	<b>0.0%</b>	<b>45.8%</b>	<b>17.8%</b>	<b>100.0%</b>	<b>18.2%</b>	
<b>Deduction from Capital Base</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**4. RISK MANAGEMENT (CONTINUED)**

**(A) Credit risk (continued)**

**Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs")**

Under Basel II, credit risk for the Group is computed using the Standardised Approach.

External credit assessments (or external ratings) on the customer (the issuer) or specific securities issued by the issuer (the issue) form as a basis for the determination of risk weights under the Standardised Approach for exposures to sovereigns, central banks, public sector entities, banking institutions, corporates as well as certain other specific portfolios.

The approved External Credit Assessment Institutions ("ECAI") ratings and the prescribed risk weights on the above stated asset classes are used in the computation of regulatory capital. An exposure would be deemed to have an external rating if the issuer or the issue has a rating provided by an ECAI. In cases where an exposure does not have an issuer or issue rating, the exposure shall be deemed unrated and shall be accorded a risk weight appropriate for unrated exposures in their respective exposure category.

The ECAI used by the Group are Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's"), Standard & Poor's ("S&P"), Malaysia Rating Corporation Berhad ("MARC") and Rating Agency Malaysia ("RAM"). ECAI ratings are mapped to a common credit quality grade as prescribed by BNM.

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The following tables summarise the rated exposures according to ratings ECAIs as follows:

**(i) Ratings of Corporate by Approved ECAIs**

	<b>Moody's</b>	<b>Aaa to Aa3</b>	<b>A1 to A3</b>	<b>Baa1 to Ba3</b>	<b>B1 to C</b>	<b>Unrated</b>
	<b>S&amp;P</b>	<b>AAA to AA-</b>	<b>A+ to A-</b>	<b>BBB+ to BB-</b>	<b>B+ to D</b>	<b>Unrated</b>
	<b>Fitch</b>	<b>AAA to AA-</b>	<b>A+ to A-</b>	<b>BBB+ to BB-</b>	<b>B+ to D</b>	<b>Unrated</b>
	<b>RAM</b>	<b>AAA to AA3</b>	<b>A1 to A3</b>	<b>BBB1 to BB3</b>	<b>B to D</b>	<b>Unrated</b>
	<b>MARC</b>	<b>AAA to AA-</b>	<b>A+ to A-</b>	<b>BBB+ to BB-</b>	<b>B+ to D</b>	<b>Unrated</b>
	<b>Rating &amp;</b>					
<b>The Group</b>	<b>Investment Inc</b>	<b>AAA to AA-</b>	<b>A+ to A-</b>	<b>BBB+ to BB-</b>	<b>B+ to D</b>	<b>Unrated</b>
		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>

**31 December 2011****On and Off-Balance Sheet Exposures**

Public Sector Entities	-	-	-	-	-	17
Insurance Cos, Securities Firms & Fund Managers	-	-	4,392	-	-	-
Corporates	143,169	73,496	73,496	59,100	-	213,129
	<b>143,169</b>	<b>77,888</b>	<b>77,888</b>	<b>59,100</b>	<b>-</b>	<b>213,146</b>

**30 June 2011****On and Off-Balance Sheet Exposures**

Public Sector Entities	-	-	-	-	-	17
Insurance Cos, Securities Firms & Fund Managers	-	-	4,420	-	-	-
Corporates	72,013	6,482	6,482	1,094	-	123,191
	<b>72,013</b>	<b>10,902</b>	<b>10,902</b>	<b>1,094</b>	<b>-</b>	<b>123,208</b>

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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011****4. RISK MANAGEMENT (CONTINUED)****(A) Credit risk (continued)****Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs") (continued)****(ii) Short term Ratings of Banking Institutions and Corporate by Approved ECAIs**

	<b>Moody's</b>	<b>P-1</b>	<b>P-2</b>	<b>P-3</b>	<b>Others</b>	<b>Unrated</b>
	<b>S&amp;P</b>	<b>A-1</b>	<b>A-2</b>	<b>A-3</b>	<b>Others</b>	<b>Unrated</b>
	<b>Fitch</b>	<b>F1+, F1</b>	<b>F2</b>	<b>F3</b>	<b>B to D</b>	<b>Unrated</b>
	<b>RAM</b>	<b>P-1</b>	<b>P-2</b>	<b>P-3</b>	<b>NP</b>	<b>Unrated</b>
	<b>MARC</b>	<b>MARC-1</b>	<b>MARC-2</b>	<b>MARC-3</b>	<b>MARC-4</b>	<b>Unrated</b>
	<b>Rating &amp;</b>					
<b>Group</b>	<b>Investment Inc</b>	<b>a-1+, a-1</b>	<b>a-2</b>	<b>a-3</b>	<b>b, c</b>	<b>Unrated</b>
		<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>31 December 2011</b>						
<b>On and Off-Balance Sheet Exposures</b>						
Banks, MDBs and FDIs		<b>850,221</b>	-	-	-	-
<b>30 June 2011</b>						
<b>On and Off-Balance Sheet Exposures</b>						
Banks, MDBs and FDIs		716,996	-	-	-	-

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**4. RISK MANAGEMENT (CONTINUED)**

(A) Credit risk (continued)

**Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs") (continued)**

(iii) Ratings of Sovereigns and Central Banks by Approved ECAIs

	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA- RM'000	A+ to A- RM'000	BBB+ to BBB- RM'000	BB+ to B- RM'000	CCC+ to C RM'000	Unrated RM'000
<b>31 December 2011</b>							
<b>On and Off-Balance Sheet Exposures</b>							
Sovereigns and Central Banks		-	-	-	-	-	<b>596,924</b>
<b>30 June 2011</b>							
<b>On and Off-Balance Sheet Exposures</b>							
Sovereigns and Central Banks		-	-	-	-	-	396,924

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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**4. RISK MANAGEMENT (CONTINUED)**

**(A) Credit risk (continued)**

**Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs") (continued)**

(iv) Ratings of Banking Institutions by Approved ECAIs

	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB+ to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
Group	Rating & Investment Inc	AAA to AA- RM'000	A+ to A- RM'000	BBB+ to BBB- RM'000	BB+ to B- RM'000	CCC+ to C RM'000	Unrated RM'000
<b>31 December 2011</b>							
<b>On and Off-Balance Sheet Exposures</b>							
Banks, MDBs and FDIs		110,545	135,199	119,548	-	-	-
<b>30 June 2011</b>							
<b>On and Off-Balance Sheet Exposures</b>							
Banks, MDBs and FDIs		27,336	30,427	76,840	-	-	-



**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**4. RISK MANAGEMENT (CONTINUED)**

**(A) Credit risk (continued)**

**Credit Risk Mitigation ("CRM")**

The Group's and the Bank's credit principle is principally granting credit facilities on the basis of the borrower's credit standing, repayment and debt servicing ability. Where possible, collateral is taken to mitigate and reduce any credit risk for the particular credit facility extended. The value of the collateral is monitored periodically and where applicable, a revised valuation may be requested from the borrower. The main types of collateral accepted are cash, marketable securities and securities from listed exchange. There are policies and processes in place to monitor collateral concentration. For credit risk mitigation ("CRM") purposes, only collateral or guarantees that are legally enforceable are taken into account. The credit exposures are computed on a net basis only when there is a legally enforceable netting arrangements for loans and deposits. The Group and the Bank use the Comprehensive Approach for computation of the adjusted exposures.

The following tables present the credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach for the Group. Eligible financial collateral consists primarily of securities from listed exchange. The Group does not have any credit exposure which is reduced through the application of other eligible collateral.

	31 December 2011		30 June 2011	
	Exposures before CRM RM'000	Exposures covered by eligible financial collateral RM'000	Exposures before CRM RM'000	Exposures covered by eligible financial collateral RM'000
<b>The Group</b>				
<b>On-Balance Sheet Exposures</b>				
Sovereigns/Central Banks	596,924	-	396,924	-
Public Sector Entities	17	-	17	-
Banks, DFIs and MDBs	1,157,723	-	827,730	-
Insurance Companies, Securities Firms & Fund Managers	4,392	-	4,420	-
Corporates	412,864	72,393	192,208	90,609
Other Assets	156,968	-	210,102	-
Equity Exposures	2,445	-	2,445	-
<b>Total On-Balance Sheet Exposures</b>	<b>2,331,333</b>	<b>72,393</b>	<b>1,633,846</b>	<b>90,609</b>
<b>Off-Balance Sheet Exposures</b>				
Credit-related Exposures	76,030	-	10,119	-
Derivative Financial Instruments	57,790	-	24,322	-
<b>Total Off-Balance Sheet Exposures</b>	<b>133,820</b>	<b>-</b>	<b>34,441</b>	<b>-</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>2,465,153</b>	<b>72,393</b>	<b>1,668,287</b>	<b>90,609</b>

**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**4. RISK MANAGEMENT (CONTINUED)**

**(A) Credit risk (continued)**

**Credit Risk Mitigation (continued)**

The following tables present the credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach for the Group. Eligible financial collateral consists primarily of securities from listed exchange. The Group does not have any credit exposure which is reduced through the application of other eligible collateral.

	31 December 2011		30 June 2011	
	Exposures before CRM RM'000	Exposures covered by eligible financial collateral RM'000	Exposures before CRM RM'000	Exposures covered by eligible financial collateral RM'000
<b>The Bank 2011</b>				
<b>On-Balance Sheet Exposures</b>				
Sovereigns/Central Banks	596,924	-	396,924	-
Public Sector Entities	17	-	17	-
Banks, DFIs and MDBs	1,154,645	-	827,433	-
Insurance Companies, Securities Firms & Fund Managers	4,392	-	4,420	-
Corporates	412,864	72,393	192,208	90,609
Other Assets	158,511	-	210,823	-
Equity Exposures	2,445	-	2,445	-
<b>Total On-Balance Sheet Exposures</b>	<b>2,329,798</b>	<b>72,393</b>	1,634,270	90,609
<b>Off-Balance Sheet Exposures</b>				
Credit-related Exposures	76,030	-	10,119	-
Derivative Financial Instruments	57,790	-	24,322	-
<b>Total Off-Balance Sheet Exposures</b>	<b>133,820</b>	-	34,441	-
<b>Total On and Off-Balance Sheet Exposures</b>	<b>2,463,618</b>	<b>72,393</b>	1,668,711	90,609

**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**4. RISK MANAGEMENT (CONTINUED)**

**(A) Credit risk (continued)**

**Off-Balance Sheet exposures and counterparty credit risk**

Credit limits are established to ensure that the Group and the Bank are not duly exposed to unnecessary credit risk with parties who are unable to meet or honour their financial obligations with the Group and the Bank.

The counterparty limits for the Group and the Bank are established by taking into consideration the tenor of the obligation, rating assignment of the counterparty, counterparty's shareholder's funds, the Group's and the Bank's shareholder's funds.

The credit exposure limit for derivative transactions is calculated based on the standardised approach by applying a specific percentage of risk factor i.e. the potential loss of the contract value to the counterparty limit for the Group and the Bank, which in general is a fraction of the derivative contract or notional amount used to express the volume of instruments.

**Nature of commitments and contingencies**

Obligations under underwriting agreements arise from underwriting agreements relating to the issuance of equity and debts securities, where the Group and the Bank are obliged to subscribe for or purchase the securities in the event the securities are not taken up when issued.

Irrevocable commitments to extend credit include all obligations on the part of the Group and the Bank to provide funding facilities or the undrawn portion of an approved credit facilities to customers.

Forward foreign exchange contracts are agreements to buy or sell fixed amounts of currency at agreed rates of exchange on a specified future date.

Interest rate swaps involve the exchange of interest obligations with a counterparty for a specified period without the exchange of the underlying principal.

**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**4. RISK MANAGEMENT (CONTINUED)**

**(A) Credit risk (continued)**

**Off-Balance Sheet exposures and counterparty credit risk (continued)**

The off-balance sheet exposures and their related counterparty credit risk of the Group and the Bank are as follows:

<b>The Group and the Bank</b>	<b>Principal Amount RM'000</b>	<b>Positive Fair Value of Derivative Contracts RM'000</b>	<b>Credit Equivalent Amount RM'000</b>	<b>Risk- Weighted Assets RM'000</b>
<b>31 December 2011</b>				
<b>Derivative financial instruments</b>				
Interest rate related contracts:				
- One year or less	862,272	370	737	147
- Over one year to five years	2,052,024	6,763	34,804	6,962
- Over five years	95,040	-	-	-
Foreign exchange related contracts				
- One year or less	316,027	4,993	22,249	4,450
Equity related contracts:				
- One year or less	5,129	-	-	-
- Over one year to five years	10,000	3,000	-	-
	<b>3,340,492</b>	<b>15,126</b>	<b>57,790</b>	<b>11,559</b>
<b>Commitments</b>				
Direct Credit Substitutes	50,750	-	50,750	50,750
Obligations under underwriting agreement	25,761	-	12,880	12,880
Other commitments, such as formal standby facilities and credit lines				
- maturity less than one year	62,000	-	12,400	12,400
Any commitment that are unconditionally cancelled at any time by the Bank without prior notice				
- maturity less than one year	343,934	-	-	-
	<b>482,445</b>	<b>-</b>	<b>76,030</b>	<b>76,030</b>
Total Off-Balance Sheet Exposures	<b>3,822,937</b>	<b>15,126</b>	<b>133,820</b>	<b>87,589</b>

**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011**

**4. RISK MANAGEMENT (CONTINUED)**

**(A) Credit risk (continued)**

**Off-Balance Sheet exposures and counterparty credit risk (continued)**

The off-balance sheet exposures and their related counterparty credit risk of the Group and the Bank are as follows (continued):

<b>The Group and the Bank</b>	<b>Principal Amount RM'000</b>	<b>Positive Fair Value of Derivative Contracts RM'000</b>	<b>Credit Equivalent Amount RM'000</b>	<b>Risk- Weighted Assets RM'000</b>
<b>30 June 2011</b>				
<b>Derivative financial instruments</b>				
Interest rate related contracts:				
- One year or less	527,573	149	-	-
- Over one year to five years	1,817,370	910	18,572	3,714
- Over five years	123,810	79	-	-
Foreign exchange related contracts				
- One year or less	112,788	1,220	5,750	1,512
Equity related contracts:				
- One year or less	44,675	-	-	-
- Over one year to five years	10,000	3,000	-	-
	<u>2,636,216</u>	<u>5,358</u>	<u>24,322</u>	<u>5,226</u>
<b>Commitments</b>				
Obligations under underwriting agreement	20,238	-	10,119	10,119
Any commitment that are unconditionally cancelled at any time by the Bank without prior notice				
- maturity less than one year	302,249	-	-	-
	<u>322,487</u>	<u>-</u>	<u>10,119</u>	<u>10,119</u>
<b>Total Off-Balance Sheet Exposures</b>	<u>2,958,703</u>	<u>5,358</u>	<u>34,441</u>	<u>15,345</u>

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### 4. RISK MANAGEMENT (CONTINUED)

#### (B) Market risk

Market risk is defined as the risk of potential losses in earnings arising from changes in interest rates, foreign exchange rates, credit spreads, equity prices and commodity prices. This change can affect the value of financial instruments and may also affect proprietary trading revenues.

The main objectives of Market Risk Management is to ensure that losses from market risk can be promptly addressed without incurring a potential loss that is beyond the Group's and the Bank risk appetite.

#### Management of market risk

The ALMCO is the management level committee which supports the BARMC in the oversight of market and liquidity risk. The ALMCO is chaired by the Chief Executive Officer ("CEO") and includes senior representatives from both business and support units. It is primarily responsible for the development, implementation and review of frameworks, broad strategies and policies for managing the Group's and the Bank's balance sheet, funding management, market risk and liquidity risk.

The Risk Management Department is responsible for the development, implementation and maintenance of consistent policies and methodologies to identify, measure, monitor, control and report market risk and liquidity risk.

Market risk is inherent in the ordinary course of the Group's and the Bank's business and is prevalent especially in treasury activities of the Group and the Bank. The Group and the Bank broadly classify their financial instruments as Held-for-Trading ("HFT"), Available-for-Sale ("AFS") and Held-to-Maturity ("HTM") securities. The major differences between the classifications are the accounting treatment and intention of acquiring the financial instruments.

#### Market Risk Management Process

##### (i) Identification

- Identify market risks within existing and new products.
- Review market-related information e.g. market trends, economic data.

##### (ii) Assessment/Measurement

- Sensitivity.
- Value-at-Risk.
- Stress test.

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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011****4. RISK MANAGEMENT (CONTINUED)****(B) Market risk** (continued)**Market Risk Management Process** (continued)

## (iii) Control/Mitigation

- Establish market risk limits.
- Limits are set with reference to business profitability, budgets and aligned with the risk appetite approved by the Board.

## (iv) Monitoring/Review

- Monitoring of limits.
- Periodical review and reporting.

**Regulatory Capital Requirements**

The following tables present the minimum regulatory capital requirement on market risk.

	Long Position RM'000	Short Position RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
<b>The Group and the Bank</b>				
<b>31 December 2011</b>				
Interest Rate Risk	5,603,918	4,772,475	277,162	22,173
Equity Risk	18,061	-	25,137	2,011
Foreign Currency Risk	4,615	-	4,612	369
Option Risk	35,761	-	39,625	3,170
	<b>5,662,355</b>	<b>4,772,475</b>	<b>346,536</b>	<b>27,723</b>
<b>30 June 2011</b>				
Interest Rate Risk	3,843,920	3,474,880	159,881	12,790
Equity Risk	97,449	-	43,475	3,479
Foreign Currency Risk	2,112	1,080	2,113	169
Option Risk	20,238	-	32,025	2,562
	<b>3,963,719</b>	<b>3,475,960</b>	<b>237,494</b>	<b>19,000</b>

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**4. RISK MANAGEMENT (CONTINUED)**

**(C) Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risks.

An Operational Risk Management Framework, approved by the HLIBB's Board, has been implemented across the Group to all business and support units. The Framework consists of operational risk's tools including loss event data reporting, control self-assessment and key risk indicators, to assist these units to identify, assess, monitor and control their operational risks. The information is channeled to the Risk Management Department to facilitate risk analysis, monitoring and reporting.

Related policies and procedures are in place to provide guidance to risk taking units in the areas of developing new products and services and outsourcing of operational functions.

A Business Continuity Framework has been developed to ensure business sustainability in event of business disruptions.

The Risk Management Department oversees the Group's operational risk management infrastructure, including the Framework, policies, processes, information, methodologies and systems. The Risk Management Department performs regular reviews of the operational risk profiles of the Group, and recommends related operational risk policies to be endorsed and approved at management and Board level.



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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011****5. EQUITY EXPOSURES IN BANKING BOOK**

The Group's and the Bank's banking book's equity investments consist of equity holdings in organisations which are set up for specific socio-economic reasons (i.e. equity interest in Cagamas, MEPS, RAM, IBBM and CGC) and equity holdings and equity instruments received as a result of loan/financing restructuring or loan/financing conversion.

The Group's and the Bank's banking book's equity investments are classified and measured in accordance with FRS 139 and are categorised as financial investments available-for-sale. Refer to Note 2D to the audited financial statements for financial year ended 30 June 2011 for the accounting policies of the Group and the Bank.

The following table summarises the Group and the Bank's equity exposures in the banking book.

<b>The Group and the Bank</b>	<b>31 December 2011</b>		<b>30 June 2011</b>	
	<b>Exposures subject to risk- weighting RM'000</b>	<b>Risk weights %</b>	<b>Exposures subject to risk- weighting RM'000</b>	<b>Risk weights %</b>
<u>Financial investments available-for-sale</u>				
Unquoted equity securities	<u>2,445</u>	<u>100</u>	<u>2,445</u>	<u>100</u>

**Gain and Loss on Equity Exposures in Banking Book**

The tables below present the gains and losses on equity exposure in the banking book.

	<b>30 December 2011 RM'000</b>	<b>30 June 2011 RM'000</b>
Realised gains/losses recognised in the income statements	<u>-</u>	<u>-</u>
Unrealised gain recognised in revaluation reserve - Unquoted equity securities	<u>-</u>	<u>-</u>

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**BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011****6. INTEREST RATE RISK/RATE OF RETURN RISK IN BANKING BOOK**

To evaluate the potential impact of interest/profit rate risk in the Banking Book, the Group and the Bank consider the effect on their underlying economic value.

The economic perspective provides a measurement of the underlying value of the Group's and the Bank's current position and seeks to evaluate the sensitivity of that value to changes in interest/profit rates. This perspective will allow the Group and the Bank to evaluate the changes in economic value of assets, liabilities, and off-balance sheet instruments against the movement in interest/profit rate. The economic values of these instruments are equivalent to the instruments' present value of future cash flows.

By analyzing the impact of interest/profit rate changes on the value of all future cash flows, the economic perspective can provide a more comprehensive measurement of interest/profit rate risk. The future cash flow projections used to estimate the economic exposure provides a pro forma estimate of the future income generated by its current position. In general, the measurement of present value of the instrument will be able to give an overview of the Group's and the Bank's economic value of equity ("EVE") over a longer time period.

The increase or decline in economic value for upward and downward rate shocks which are consistent with shocks applied in the Group's and the Bank's stress test for measuring IRR/RORR in the banking book are as follows:

The following tables present the projected Group's sensitivity to a 100 basis point parallel shock to interest rates across all maturities applied on the Group's interest sensitivity gap as at reporting date.

Type of currency	Impact on Position as at 31 December 2011		Impact on Position as at 30 June 2011	
	- 100 bps	+ 100 bps	- 100 bps	+ 100 bps
	Increase/(Decrease) in Economic Value RM'000		Increase/(Decrease) in Economic Value RM'000	
Ringgit Malaysia	3,933	(3,933)	3,205	(3,205)
US Dollar	15,233	(15,233)	3,007	(3,007)
	<b>19,166</b>	<b>(19,166)</b>	6,211	(6,211)