BANGKOK BANK BERHAD

(Company No. 299740-W)

Risk Weighted Capital Adequacy Framework (BASEL II)
- Pillar 3 Disclosures
As at 30 June 2018

CONTENTS

1. Introduction

Bangkok Bank Berhad (the Bank) realizes that effective risk management and good corporate governance are essential to the Bank's stability and sustainable credibility. The Bank therefore places great emphasis on continually improving its risk management processes to ensure that at all times its capital reserves are sufficient to support its operations and absorb potential losses from the risks it is taking.

Recognizing that the effectiveness of the Bank's risk management can be improved and further enhanced through improved market discipline, the Bank discloses information on its capital, risk exposures, risk assessment processes, and capital adequacy, consistent with international standards and in accordance with the Bank Negara Malaysia's (BNM) disclosure requirements.

The Bank believes that transparent disclosure will not only serve the market participants to assess the Bank's risks but also demonstrate the Bank's commitment to its stakeholders by continuously promoting safety and soundness of the Bank's operations.

The Bank shall make full disclosure as per BNM's requirements on an annual and semi-annual basis except where there are material changes in the interim reporting period.

The information provided herein has been reviewed and verified by the Audit & Control Department and certified by the Bank's Chief Executive Officer. Under the BNM's Risk Weighted Capital Adequacy Framework (RWCAF), the information disclosed herein is not required to be audited by external auditors.

The Bank's disclosure is in accordance with market discipline, includes both qualitative and quantitative information, and are available on the Bank's website under **www.bangkokbank.com.my**

2. Scope of Application

The Bank, a locally-incorporated foreign bank wholly owned by Bangkok Bank Public Company Limited, discloses its capital information on an entity basis. The Bank does not offer Islamic financial services nor is involved in Islamic banking operations.

The Bank's subsidiary, BBL Nominees (Tempatan) Sdn Bhd is not involved in banking operations and is of an immaterial size relative to the Bank. Therefore, no separate Group capital adequacy ratios for the purpose of consolidation is prepared for regulatory reporting.

3. Capital

3.1 Capital Structure

As at 30 June 2018 and 31 December 2017, the Bank's total capital according to the BNM's Capital Adequacy Framework (CAF) Basel III is as follows:

Table 1: The Bank's total capital

		RM'000
	30 June 2018	**31 December 2017**
Common Equity Tier-1 Capital		
Paid-up share capital	1,000,000	1,000,000
Statutory reserve	-	-
Unrealised gain on "available for sale" financial instruments	7,263	757
Retained profits	218,742	236,845
Less: Other intangibles	(799)	(776)
Deferred tax assets	(9,830)	(2,701)
Total Common Equity Tier-1 Capital	**1,215,376**	**1,234,125**
Tier 2 Capital		
Collective impairment (only those attributable to non-impaired loan, advances and financing)	52,730	48,232
Investment in subsidiary	(10)	(10)
Total Tier 2 Capital	**52,720**	**48,222**
Total Capital	**1,268,096**	**1,282,347**

3.2 Capital Adequacy

The objective of the Bank's capital management guidelines is to maintain an adequate level of capital to support business growth strategies under an acceptable risk framework, and to meet regulatory requirements and market expectations.

The Bank's capital assessment and management process under ICAAP (Internal Capital Adequacy Assessment process) involves a careful analysis of the capital requirement to support business growth and the source of capital, both from financial performance as well as external funding sources, if necessary. The Bank regularly assesses its capital adequacy for the purpose of capital planning and management to ensure that the capital is at the level suitable for the prevailing business conditions.

The Bank adopts the Standardized Approach (SA) in computing credit risk and market risk, while adopting Basic Indicator Approach (BIA) for operational risk.

As at 30 June 2018 and 31 December 2017, the Bank’s capital requirements for each type of risks and capital adequacy ratios, in accordance with the BNM’s Basel II guidelines, are as follows:

Table 2: Capital requirements for each type of risks classified by asset types under Basel II

Exposure Class		Gross Exposures	Net Exposures	Risk Weighted Assets	Capital Requirement
					RM’000
30 June 2018					
Credit Risk					
On-Balance Sheet Exposures					
- Sovereigns/Central Banks		841,557	841,557	-	-
- Banks, Development Financial Institutions & MDBs		518,801	518,801	110,825	8,866
- Corporates		3,443,185	3,395,762	3,230,033	258,403
- Regulatory Retail		-	-	-	-
- Residential Mortgages		1,670	1,670	821	66
- Higher Risk Assets		-	-	-	-
- Other Assets		164,080	164,080	156,956	12,556
- Equity Exposures		16,785	16,785	16,785	1,343
- Defaulted Exposures		39,149	39,149	24,726	1,978
Total for On-Balance Sheet Exposures		5,025,227	4,977,804	3,540,146	283,212
- OTC Derivatives		7,185	7,185	3,781	302
- Credit Derivatives		-	-	-	-
- Off-Balance Sheet Exposures other than OTC or Credit Derivatives		680,481	678,710	674,440	53,955
- Defaulted Exposures		-	-	-	-
Total for Off-Balance Sheet Exposures		687,666	685,895	678,221	54,257
Total for On & Off-Balance Sheet Exposures		**5,712,893**	**5,663,699**	**4,218,367**	**337,469**
	Long Position	**Short Position**			
Market Risk					
Interest Rate Risk	361,864	361,791	73	3,452	276
Foreign Currency Risk	39,200	32,735	6,465	7,090	567
Operational Risk				168,355	13,469
Total Risk Weighted Assets				**4,397,264**	**351,781**

RM'000

Exposure Class		Gross Exposures	Net Exposures	Risk Weighted Assets	Capital Requirement
31 December 2017					
Credit Risk					
On-Balance Sheet Exposures					
- Sovereigns/Central Banks		925,230	925,230	-	-
- Banks, Development Financial Institutions & MDBs		490,486	490,486	141,746	11,340
- Corporates		3,196,944	3,163,538	3,017,503	241,401
- Regulatory Retail		-	-	-	-
- Residential Mortgages		1,955	1,955	739	59
- Higher Risk Assets		-	-	-	-
- Other Assets		161,330	161,330	156,981	12,558
- Equity Exposures		872	872	872	70
- Defaulted Exposures		36,333	36,333	22,067	1,765
Total for On-Balance Sheet Exposures		4,813,150	4,779,744	3,339,908	267,193
- OTC Derivatives		8,731	8,731	6,017	481
- Credit Derivatives		-	-	-	-
- Off-Balance Sheet Exposures other than OTC or Credit Derivatives		519,970	518,747	512,596	41,008
- Defaulted Exposures		-	-	-	-
Total for Off-Balance Sheet Exposures		528,701	527,478	518,613	41,489
Total for On & Off-Balance Sheet Exposures		**5,341,851**	**5,307,222**	**3,858,521**	**308,682**
	Long Position	**Short Position**			
Market Risk					
Interest Rate Risk	306,837	305,638	1,199	876	70
Foreign Currency Risk	19,848	13,192	6,656	6,656	532
Operational Risk				164,508	13,161
Total Risk Weighted Assets				**4,030,561**	**322,445**

The Bank has complied with BNM's capital adequacy requirements as follows:

	BNM Minimum Requirement	**30 June 2018**	**31 December 2017**
Total Capital Ratio (TCR)	9.875%	28.8%	31.8%
Tier 1 Capital Ratio	7.875%	27.6%	30.6%
Common Equity Tier-1 (CET1) Capital Ratio	6.375%	27.6%	30.6%

4. Information Related to the Bank's Risks

The Bank recognizes that the operations of the Bank could be affected by certain risk factors. The Bank has continuously analyzed major risk factors which could affect its financial operations and reshaped its organizational structure and risk management processes. This is to ensure that its risk management system is in line with industry practices and is in accordance with the guidelines set out by BNM.

The Bank's Risk Management Committee plays a significant role in prescribing the risk management policy, reviewing the sufficiency of the risk management policy and system, defining the strategy for risk management, and monitoring the Bank's risk to an appropriate level, in compliance with the Bank's risk management policy which has been approved by the Board of Directors based on the Risk Management Committee's recommendation. The objectives are to manage the relevant risks within designated boundaries, in particular strengthening the quality of capital in accordance with the revised capital adequacy requirements under the Basel III guidelines which have been implemented since the beginning of 2013, and to achieve an appropriate rate of return.

Important processes in the risk management system comprise the identification of significant risks which may potentially impact the Bank's business operations, the assessment of each type of risk, the monitoring of risks to an appropriate level under the Bank's policy, and the reporting of the status of each type of risk to relevant parties so as to enable them to manage and/or handle the risks in a timely manner.

A key principle of the risk management system is that business units shall be responsible for continuously managing their risk exposures in order to ensure that the risk is within the specified limits and in compliance with the overall risk management policy approved by the Board of Directors, while the Risk Management Department is responsible for monitoring and controlling the risks on a regular basis. The Bank's Audit and Control Department is responsible for auditing the operation of other departments related to particular risk types as well as Risk Management Department to assess the effectiveness, sufficiency, and appropriateness of the internal control systems.

The Bank existing capital structure is being refined to include other risks in line with the requirement of BNM-Internal Capital Adequacy Assessment Process (ICAAP) Pillar 2. The objective of Pillar 2 is to ensure the Bank has adequate capital to support its banking business at all times. In line with Pillar 2 guidelines, the Bank has established the ICAAP Committee to take on the responsibility of the oversight function for the overall implementation of ICAAP. The Bank has established the ICAAP Policy and the Bank's Risk Appetite Statement. Based on the Bank's exposure and mitigation controls currently in place, the Bank has sufficient processes to manage and monitor the risks under Pillar 2. The Board-approved ICAAP report is submitted to BNM on yearly basis.

The Bank's guidelines for the management of credit risk, market risk and operational risk are as follows:

4.1 Credit Risk

Credit Risk is the risk that arises from the inability of the borrowers or counterparties to perform their obligations under contractual agreements in relation to the Bank's lending, investment and other contractual commitments, for example, the borrowers' failure to repay principal and/or interest as agreed with the Bank, etc.

4.1.1 Credit Risk (General Disclosures)

Credit Risk Management

The Bank has specified the processes for credit approval which include the formulation of credit policy, the credit risk rating for customers, and the establishment of different levels of delegation of authority for credit approval depending upon the type of business and/or the size of the credit line. In considering the approval of loans in general, the Bank considers the purpose of the loan and assesses the repayment ability of the applicant; taking into account the applicant's operating cash flows, business feasibility and the capability of management, as well as collateral coverage.

The Bank also performs credit reviews which include reviewing credit risk rating levels on a regular basis. The Bank has therefore set up the following units to monitor and manage the relevant risks.

- Credit Policy Function/Unit oversees the credit policy framework and coordinates the improvement and adjustment of the credit policy. It is also responsible for disseminating the credit policy, credit standards and credit processes; for monitoring and overseeing exceptional cases which are inconsistent with the credit policy; and for gathering various inputs which may be used for improving the credit policy.
- Credit Acceptance Function/Unit oversees the quality of credit extensions to ensure they are in line with the credit policy and credit underwriting standards, reviews the appropriateness of loan structures as well as the results of customers' credit risk ratings, promotes the development of a good credit culture, and maintains a systematic and reliable credit extension process.
- Portfolio Management Function/Unit is responsible for analyzing and making recommendations for adjustments to the portfolio structure, recommending the appropriate portfolio composition and the provision of reserves for losses at the portfolio level, overseeing credit risk management tools and methodologies, constructing credit databases and overseeing related management standards.
- Special Asset Management Function/Unit is responsible for managing impaired loans, and for determining and executing strategies for the resolution and restructuring of troubled loans.

All the functions/units specified are responsible for monitoring, reporting and ensuring that they operate in accordance with the Bank's risk management policy. Normally a credit application is submitted to the Credit Acceptance Function/Unit to analyze and ensure that the proposals comply with the Bank's credit policies in areas such as credit underwriting standards, credit risk rating, and collateral evaluation, in order to manage credit risk. In handling impaired loans, the Bank has established a specific unit to monitor and resolve such loans.

The Bank also has Independent Loan Review Unit to review credit quality and credit management processes; evaluate effectiveness in complying with credit policy, regulations and credit underwriting standards. Independent Loan Review Unit, which performs post-lending reviews, also assesses the asset quality and identifies any potential assets impairment and it is responsible for reporting the review results to the Board of Directors and the Risk Management Committee on a regular basis.

In addition, the Bank imposes limits to control credit risk. The Bank's limit is determined by the sum of the total amount of credits granted, investments, and contingent liabilities undertaken with borrowers or groups of debtors. The limit specified is to limit the loss of the Bank's capital when the economic recession or other factors impact negatively on a business or a group of businesses. For risk control purposes, the Bank has specified limits in various areas such as large borrower concentrations and country concentrations. With such limits, the Bank can be certain that it will have adequate capital to ensure the continuity of its business operations even in difficult times.

Managing Credit Risk Concentration

Credit risk concentration exists in lending to single customer or group of related counterparties of borrowers, or borrowers engaged in similar activities/industry. To manage these concentrations, exposure limits are established for single borrowing groups and industry sectors.

The Bank is in compliance with BNM Guidelines on Lending to the Broad Property Sector and Lending for the Purchase of Shares and Units of Unit Trust Fund which limit Broad Property Sector exposure to not more than 20% of its total outstanding loans and advances.

Classification and Impairment of Credit Facility

The Bank adopted the Malaysian Financial Reporting Standard 9 (MFRS 9 Financial Instruments) with effect from 1 January 2018. Under the impairment approach in MFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, the Bank accounts for expected credit losses (ECL), and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

MFRS 9 requires ECLs to reflect an unbiased and probability-weighted estimate taking into account time value of money and using reasonable and supportable information that is available about past events, current conditions and forecasts of future conditions. The Bank has incorporated these components into the ECL model leveraging on the Basel II methodology on Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The amount of ECLs recognised as a loss allowance or provision depends on the extent of credit deterioration since initial recognition, as follows:

- 12-month ECLs (Stage 1), which applies to all items (from initial recognition) as long as there is no significant deterioration in credit quality;
- Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis. Stage 3 refers to accounts that are credit-impaired and assessed on an individual assessment basis.

Lifetime ECL would be estimated based on the present value of all cash shortfalls over the remaining life of the credit facility. The 12-month ECL is a portion of the lifetime ECL that is associated with the probability of default events occurring within the 12 months after the reporting date.

Special attention is paid to problem exposures, which are subject to more frequent and intensive review and reporting, in order to accelerate remedial action.

In line with BNM's Financial Reporting, the Bank shall classify a credit facility as credit-impaired:

i. where the principal or interest/profit or both of the credit facility is past due for more than 90 days or 3 months. In the case of revolving credit facilities (e.g. overdraft facilities), the facility shall be classified as credit-impaired where the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months;

ii. where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less, and the credit facility exhibits weaknesses that render a classification appropriate based on the Bank's policy subject to Loan Committee's decision; or

iii. when the credit facility is classified as rescheduled or restructured in the Central Credit Reference Information System (CCRIS) and approved by LCM as impaired.

Where repayments are scheduled on intervals of 3 months or longer, the credit facility is classified as credit-impaired as soon as a default occurs, unless it does not exhibit any weakness that would render it to be classified as impaired.

The following tables present the Bank's quantitative information related to credit risk:

Table 3: Geographic Distribution of Gross Credit Exposures

Exposure Class	Malaysia	Thailand	USA	Others	Total
					RM'000
30 June 2018					
Sovereigns/Central Banks	841,568	-	-	-	841,568
Banks, Development Financial Institutions & MDBs	497,727	7,778	16,055	10,027	531,587
Corporates	4,113,566	-	-	4,488	4,118,054
Regulatory Retail	-	-	-	-	-
Residential Mortgages	1,670	-	-	-	1,670
Higher Risk Assets	-	-	-	-	-
Other Assets	164,080	-	-	-	164,080
Equity Exposures	16,785	-	-	-	16,785
Defaulted Exposures	39,149	-	-	-	39,149
Total Credit Exposures	**5,674,545**	**7,778**	**16,055**	**14,515**	**5,712,893**

Exposure Class	Malaysia	Thailand	USA	Others	Total
					RM'000
31 December 2017					
Sovereigns/Central Banks	925,240	-	-	-	925,240
Banks, Development Financial Institutions & MDBs	436,475	11,179	45,092	13,137	505,883
Corporates	3,704,307	-	-	5,931	3,710,238
Regulatory Retail	-	-	-	-	-
Residential Mortgages	1,955	-	-	-	1,955
Higher Risk Assets	-	-	-	-	-
Other Assets	161,330	-	-	-	161,330
Equity Exposures	872	-	-	-	872
Defaulted Exposures	36,333	-	-	-	36,333
Total Credit Exposures	**5,266,512**	**11,179**	**45,092**	**19,068**	**5,341,851**

* The Bank's country risk management based on customer's country of residence

Table 4: Distribution of Gross Credit Exposures by Sector

												RM'000
Exposure Class	**Government**	**Individuals**	**Primary Agriculture**	**Manufacturing**	**Electricity, Gas and Water Supply**	**Construction**	**Wholesale & Retails**	**Real Estate**	**Finance, Insurance & Business Services**	**Transport , Storage & Telecomm**	**Others**	**Total**
As at 30 June 2018												
Sovereigns/Central Banks	841,568	-	-	-	-	-	-	-	-	-	-	841,568
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	-	531,587	-	-	531,587
Corporates	-	111,914	380,672	1,094,120	50,759	499,372	631,750	531,850	705,941	95,405	16,271	4,118,054
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	-	-
Residential Mortgages	-	1,670	-	-	-	-	-	-	-	-	-	1,670
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	3,335	-	160,745	164,080
Equity Exposures	-	-	-	-	-	-	-	-	16,785	-	-	16,785
Defaulted Exposures	-	1,117	-	25,236	-	-	12,796	-	-	-	-	39,149
Total Credit Exposures	**841,568**	**114,701**	**380,672**	**1,119,356**	**50,759**	**499,372**	**644,546**	**531,850**	**1,257,648**	**95,405**	**177,016**	**5,712,893**

RM'000

Exposure Class	Government	Individuals	Primary Agriculture	Manufacturing	Electricity, Gas and Water Supply	Construction	Wholesale & Retails	Real Estate	Finance, Insurance & Business Services	Transport , Storage & Telecomm	Others	Total
As at 31 December 2017												
Sovereigns/Central Banks	925,240	-	-	-	-	-	-	-	-	-	-	925,240
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	-	505,883	-	-	505,883
Corporates	-	115,323	307,396	927,492	50,837	399,507	568,029	532,367	709,350	95,549	4,388	3,710,238
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	-	-
Residential Mortgages	-	1,955	-	-	-	-	-	-	-	-	-	1,955
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	2,682	-	158,648	161,330
Equity Exposures	-	-	-	-	-	-	-	-	872	-	-	872
Defaulted Exposures	-	941	-	29,410	-	-	5,982	-	-	-	-	36,333
Total Credit Exposures	**925,240**	**118,219**	**307,396**	**956,902**	**50,837**	**399,507**	**574,011**	**532,367**	**1,218,787**	**95,549**	**163,036**	**5,341,851**

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Table 5: Residual Contractual Maturity of Gross Credit Exposures

Exposure Class	One year or less	One to five years	More than five years	RM'000 Total
30 June 2018				
Sovereigns/Central Banks	518,550	323,018	-	841,568
Banks, Development Financial Institutions & MDBs	531,587	-	-	531,587
Corporates	3,027,519	768,245	322,290	4,118,054
Regulatory Retail	-	-	-	-
Residential Mortgages	5	72	1,593	1,670
Higher Risk Assets	-	-	-	-
Other Assets	3,335	-	160,745	164,080
Equity Exposures	16,785	-	-	16,785
Defaulted Exposures	9,727	26,516	2,906	39,149
Total Credit Exposures	**4,107,508**	**1,117,851**	**487,534**	**5,712,893**

Exposure Class	One year or less	One to five years	More than five years	RM'000 Total
31 December 2017				
Sovereigns/Central Banks	600,779	324,461	-	925,240
Banks, Development Financial Institutions & MDBs	505,883	-	-	505,883
Corporates	2,745,994	719,527	244,717	3,710,238
Regulatory Retail	-	-	-	-
Residential Mortgages	22	83	1,850	1,955
Higher Risk Assets	-	-	-	-
Other Assets	2,682	-	158,648	161,330
Equity Exposures	872	-	-	872
Defaulted Exposures	8,525	26,852	956	36,333
Total Credit Exposures	**3,864,757**	**1,070,923**	**406,171**	**5,341,851**

Table 6: Impaired Loans, Expected Credit Losses and Bad Debt Written off Classified by Economic Purpose.

Economic Purpose	30 June 2018			RM'000
	Impaired Loans	Stage 1 & 2 ECL	Stage 3 ECL	Bad debt Written off
- Purchase of Securities	-	4,920	-	-
- Purchase of Transport Vehicles	44	4	-	-
- Purchase of Residential Properties	1,509	76	1,307	-
- Purchase of Non-Residential Properties	6,635	4,263	-	-
- Purchased of Fixed Assets Other Than Land and Building	-	2,277	-	-
- Personal Use	-	48	-	-
- Construction	-	7,853	-	-
- Mergers and Acquisition	-	-	-	-
- Working Capital	118,946	53,562	89,695	45
- Others	1,065	516	-	-
Total	**128,199**	**73,519**	**91,002**	**45**

Economic Purpose	Impaired Loans	Collective Impairment	Individual Impairment	Bad debt written off
		31 December 2017		RM'000
- Purchase of Securities	-	2,436	-	-
- Purchase of Transport Vehicles	43	4	-	-
- Purchase of Residential Properties	1,396	77	496	-
- Purchase of Non-Residential Properties	6,751	4,085	-	-
- Purchased of Fixed Assets Other Than Land and Building	-	1,616	-	-
- Personal Use	-	55	-	-
- Construction	-	7,299	-	-
- Mergers and Acquisition	-	22	-	-
- Working Capital	112,270	48,842	85,290	4,509
- Others	1,065	666	-	-
Total	**121,525**	**65,102**	**85,786**	**4,509**

Table 7: Reconciliation of Changes in the Expected Credit Losses

			RM'000
Item	**Stage 1 & 2**	**Stage 3**	**Total**
Balance as at 1 January 2018	**65,102**	**85,786**	**150,888**
MFRS 9 Day 1 Adjustment	5,228	592	5,820
Impairment during the period	15,493	4,951	20,444
Recovered and written back	(12,304)	(282)	(12,586)
Written off	-	(45)	(45)
Balance as at 30 June 2018	**73,519**	**91,002**	**164,521**

All impaired loans, expected credit losses and bad debt written off of the Bank are attributable to customers in Malaysia and other countries.

4.1.2 Credit Rating

Where available, the Bank uses external ratings issued by recognized external credit assessment institutions (ECAIs) such as Standard & Poor, Moody's, Fitch, RAM and MARC to determine the risk weights of its credit exposure as per the Standardised Approach.

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Table 8: Disclosure on Credit Risk: Disclosure on Risk Weights under Standardised Approach

RM'000

Risk Weights	Exposures after Netting and Credit Risk Mitigation							Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereign / Central Bank	Banks, MDBs and FDIs	Corporates	Regulatory Retail	Residential Mortgages	Other Assets	Equity		
As at 30 June 2018									
0%	841,557	-	-	-	-	7,124	-	848,681	-
20%	-	499,507	172,090	-	-	-	-	671,597	134,319
35%	-	-	-	-	1,305	-	-	1,305	457
50%	11	32,080	88,129	-	-	-	-	120,220	60,110
75%	-	-	-	-	-	-	-	-	-
100%	-	-	3,843,504	-	1,482	156,956	16,785	4,018,727	4,018,727
150%	-	-	3,169	-	-	-	-	3,169	4,754
Average Risk Weight								**5,663,699**	**4,218,367**
Deduction from Capital Base	-	-	-	-	-	-	-	-	

Risk Weights	Sovereign / Central Bank	Banks, MDBs and FDIs	Corporates	Regulatory Retail	Residential Mortgages	Other Assets	Equity	Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Exposures after Netting and Credit Risk Mitigation								RM'000
As at 31 December 2017									
0%	925,230	-	-	-	-	4,349	-	929,579	-
20%	-	348,863	172,545	-	-	-	-	521,408	104,282
35%	-	-	-	-	1,587	-	-	1,587	555
50%	10	157,020	47,759	-	368	-	-	205,157	102,578
75%	-	-	-	-	-	-	-	-	-
100%	-	-	3,487,468	-	941	156,981	872	3,646,262	3,646,262
150%	-	-	3,229	-	-	-	-	3,229	4,844
Average Risk Weight								**5,307,222**	**3,858,521**
Deduction from Capital Base	-	-	-	-	-	-	-	-	

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Table 9: Disclosure on Rated and Unrated Exposures according to Ratings by ECAIs

Position as at **30 June 2018**

Exposure Class	**Ratings of Corporate by Approved ECAIs**					
	Moodys	Aaa to Aa3	A1 to A3	Baa1to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance Sheet Exposures						
Credit Exposure (using Corporate Risk Weights)						
Corporate		172,090	15,313	-	-	3,968,682
Equity		123	-	-	-	16,662
Total		172,213	15,313	-	-	3,985,344

Exposure Class	**Ratings of Sovereigns and Central Banks by Approved ECAIs**						
	Moodys	Aaa to Aa3	A1 to A3	Baa1to 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
On and Off Balance Sheet Exposures							
Sovereigns / Central Banks		-	841,568	-	-	-	-
Total		-	841,568	-	-	-	-

Exposure Class	**Ratings of Banking Institutions by Approved ECAIs**						
	Moodys	Aaa to Aa3	A1 to A3	Baa1to 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 BBB-	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs		262,685	192,191	69,364	-	-	7,347
Total		262,685	192,191	69,364	-	-	7,347

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Position as at **31 December 2017**

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance Sheet Exposures						
Credit Exposure (using Corporate Risk Weights)						
Corporate		172,545	15,198	-	-	3,557,887
Equity		123	-	-	-	749
Total		172,668	15,198	-	-	3,558,636

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1to 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
On and Off Balance Sheet Exposures							
Sovereigns / Central Banks		-	925,240	-	-	-	-
Total		-	925,240	-	-	-	-

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1to 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 BBB-	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs		262,733	174,266	66,324	-	-	2,560
Total		262,733	174,266	66,324	-	-	2,560

4.1.3 Credit Risk Mitigation (Disclosures under the Comprehensive Approach)

The Bank's policy is to mitigate credit risk which may arise when borrowers are unable or unwilling to repay loans. Prior to granting credits, the Bank shall request collateral to mitigate against potential losses.

The main types of collateral obtained by the Bank to mitigate against potential losses include:

a) for residential mortgages – charges over residential properties
b) for corporate loans – charges over business assets such as premises, inventories, trade receivables, deposits or pledges over listed securities.
c) for other loans – charges over business assets such as premises, inventories, trade receivables or deposits.

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

Accordingly, policies and procedures are in place to govern the protection of the Bank's position from the onset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed upon documentation to ensure legal enforceability of the Credit Risk Mitigation. In addition, the Bank has set up units to verify the correctness and completeness of collateral before drawdown as well as to monitor that the conditions of the agreement are strictly complied with. Specific unit has to ensure that all documentation used in collateralized transactions must be binding on all parties and legally enforceable in all relevant jurisdictions.

In order to protect the Bank against depreciation or devaluation of collateral value, processes and procedures on the periodic valuation reviews and updates on collateral is in place to ensure this. The value of pledged property is updated from time to time during the review of borrower's credit facilities to reflect the recent market value. The market value of pledged shares is monitored on daily basis.

As for financial collaterals such as cash, deposits, and equity securities, the Bank currently adopts the Comprehensive Approach for credit risk mitigation as specified by the BNM.

Table 10: Disclosure on Credit Risk Mitigation under Standardised Approach

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposure Covered by Eligible Financial Collateral	Exposure Covered by Other Eligible Collateral
				RM'000
30 June 2018				
Credit Risk				
On-Balance Sheet Exposures				
- Sovereigns/Central Banks	841,557	-	-	-
- Banks, Development Financial Institutions & MDBs	518,801	-	-	-
- Corporates	3,443,185	-	47,423	-
- Regulatory Retail	-	-	-	-
- Residential Mortgages	1,670	-	-	-
- Higher Risk Assets	-	-	-	-
- Other Assets	164,080	-	-	-
- Equity Exposures	16,785	-	-	-
- Defaulted Exposures	39,149	-	-	-
Total for On-Balance Sheet Exposures	5,025,227	-	47,423	-
Off-Balance Sheet Exposures				
- OTC Derivatives	7,185	-	-	-
- Credit Derivatives	-	-	-	-
- Off-Balance Sheet Exposures other than OTC or Credit Derivatives	680,481	-	1,770	-
- Defaulted Exposures	-	-	-	-
Total for Off-Balance Sheet Exposures	687,666	-	1,770	-
Total for On & Off-Balance Sheet Exposures	**5,712,893**	-	**49,193**	-

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Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposure Covered by Eligible Financial Collateral	Exposure Covered by Other Eligible Collateral
				RM'000
31 December 2017				
Credit Risk				
On-Balance Sheet Exposures				
- Sovereigns/Central Banks	925,230	-	-	-
- Banks, Development Financial Institutions & MDBs	490,486	-	-	-
- Corporates	3,196,944	-	33,406	-
- Regulatory Retail	-	-	-	-
- Residential Mortgages	1,955	-	-	-
- Higher Risk Assets	-	-	-	-
- Other Assets	161,330	-	-	-
- Equity Exposures	872	-	-	-
- Defaulted Exposures	36,333	-	-	-
Total for On-Balance Sheet Exposures	4,813,150	-	33,406	-
Off-Balance Sheet Exposures				
- OTC Derivatives	8,731	-	-	-
- Credit Derivatives	-	-	-	-
- Off-Balance Sheet Exposures other than OTC or Credit Derivatives	519,970	-	1,223	-
- Defaulted Exposures	-	-	-	-
Total for Off-Balance Sheet Exposures	528,701	-	1,223	-
Total for On & Off-Balance Sheet Exposures	**5,341,851**	**-**	**34,629**	**-**

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4.1.4 Off-Balance Sheet Exposures and Counterparty Credit Risk (CCR)

The Bank has put in place credit limits for counterparty in relation to derivative transactions entered into. However, the Bank does not impose collateral from counterparty and establish credit reserve for off-balance sheet transactions.

Table 11: Disclosure on Off-Balance Sheet and Counterparty Credit Risk

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent	Risk Weighted Assets
				RM'000
30 June 2018				
Direct credit substitutes	51,620		51,620	51,066
Transaction-related contingent items	327,077		163,539	158,058
Short-term self-liquidating trade-related contingencies	140,511		28,102	28,096
Forward foreign exchange				
- less than one year	528,024	3,751	7,185	3,781
Interest/Profit Rate Contracts				
- less than one year	-	-	-	-
- One to five years	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with original				
- maturity more than one year	144,101		72,051	72,050
- maturity less than one year	1,825,847		365,169	365,169
Any commitment that are unconditionally cancelled at any time without prior notice	25,572		-	-
Total	**3,042,752**	**3,751**	**687,666**	**678,220**

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent	Risk Weighted Assets
				RM'000
31 December 2017				
Direct credit substitutes	47,280		47,280	46,655
Transaction-related contingent items	302,978		151,489	144,748
Short-term self-liquidating trade-related contingencies	42,555		8,511	8,503
Forward foreign exchange				
- less than one year	376,100	4,713	8,731	6,017
Interest/Profit Rate Contracts				
- less than one year	-	-	-	-
- One to five years	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with original				
- maturity more than one year	12,000		6,000	6,000
- maturity less than one year	1,533,451		306,690	306,690
Any commitment that are unconditionally cancelled at any time without prior notice	76,564		-	-
Total	**2,390,928**	**4,713**	**528,701**	**518,613**

4.1.5 Securitisation Disclosures under Standardised Approach

Currently, the Bank does not have any securitisation transaction.

4.2 Market Risk

Market risk is the adverse impact on earnings or capital arising from changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

4.2.1 Market Risk Management

The Bank aims to manage market risk to be in line with the overall risk management policy of the Bank. In general, the Bank's policy is to manage assets and liabilities denominated in both Ringgit Malaysia and foreign currencies through the use of risk measurement and limits to optimize interest rate risk and foreign exchange risk. If the risk increases significantly, the Bank may take steps to reduce the mismatches of assets and liabilities besides restructuring its assets and liabilities profile**,** to mitigate the risk. Currently, the Bank does not take any hedging activities. The Asset and Liability Management Committee (ALCO), Treasury Department and Market Risk Unit are responsible for managing and monitoring the risk, as well as proposing the enhancement of the risk management policy and/or the risk measurement and limits appropriate for the prevailing market conditions.

ALCO is responsible for establishing guidelines for the management of assets and liabilities as well as monitoring and managing interest rate risk and liquidity risk to be at an acceptable level with minimal fluctuations and in compliance with the policies set by the Risk Management Committee and the Board of Directors. ALCO operates with the support mainly from the Market Risk Unit (which is responsible for identifying, assessing, monitoring, reporting and controlling the Bank's market risk).

Treasury Department manages and controls day-to-day trading of foreign currencies and manages the Bank's liquidity portfolio in line with the Bank's policy. Treasury Department's activities are monitored by the Market Risk Unit to ensure that the risks taken are in line with the relevant monitoring references. The Market Risk Unit will report to ALCO which in turn reviews the appropriateness of risk exposures and the monitoring references on a regular basis.

4.2.2 Traded Market Risk

Traded market risk arises mainly from proprietary trading and client servicing. The Bank's traded market risk mainly comprises of interest rate and foreign exchange risk.

Risk Assessment and Monitoring for Traded Market Risk

The Bank uses a set of tools/measurements to assess market risk exposures in the trading book, including:

1. Present Value of a Basis Point (PV01)

   The Present Value of a Basis Point (PV01) measures the change in value of interest rate sensitive exposures resulting from one basis point increase in interest rate.

2. Marked-to-Market (MTM)

   Apart from the PV01 measurement, the Bank also conducts daily portfolio mark-to-market profit and loss, and monitor the portfolio size with approved limits to assess market risk exposures in the trading book.

Risk Control for Traded Market Risk

Traded market risk is controlled primarily through a series of limits such as PV01 Limit, Cut-Loss Limits and Portfolio Limits, which are regularly reviewed by ALCO.

The Board of Directors approves limits at least once a year or as and when appropriate.

Capital Treatment for Traded Market Risk

The Bank currently adopts the SA approach for the calculation of regulatory market risk capital and internally uses PV01 method to measure, monitor and control traded market risks, as mentioned in the risk assessment and monitoring.

4.2.3 Equity Exposure in the Banking Book

The Bank does not take proprietary position in equity. The equity positions that the Bank has are related to equity holdings held in organizations which are set up for specific socio-economic reasons (e.g. Cagamas) and received as a result of loan restructuring or loan conversion. These non-listed equity securities are fair valued using the discounted cash flow approach or the net asset value approach, as appropriate.

Table 12: Equity Exposures in the Banking Book

		RM'000
Equity exposures	**30 June 2018**	**31 December 2017**
Equity exposures		
• Equity securities - unquoted		
- Cost value *	16,785	872
- Market value	-	-
Realised gains (losses) on sales of equity securities for the period/ year	-	-
Unrealized gains (losses) on revaluation from available-for-sale equity securities	-	-
Minimum capital for equity exposures under SA approach	**1,343**	**70**

* Net of the impairment charges for the investment in equity securities, if any

4.2.4 Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk in the banking business normally arises when the repricing and/or maturity schedule of assets, liabilities, and off-balance sheet positions are not matched, and negatively affects the Bank's net interest income (NII) and/or economic value of equity (EVE).

Sources of Interest Rate Risk can be classified as follows:

- Re-pricing Risk arises from timing differences in the maturity (for fixed rate) and re-pricing period (for floating rate) of the Bank's assets, liabilities, and off-balance sheet positions. Re-pricing Risk is the primary and most material form of interest rate risk.
- Yield Curve Risk arises from changes in the shape and slope of the yield curves. In other words, it arises from the unparallel shift of the yield curves, including yield curve twist.
- Basis Risk arises from imperfect correlation of the reference interest rates applicable to the Bank's assets, liabilities and off-balance sheet positions.
- Embedded Option Risk arises from changes in interest rate, causing uncertainty of cash flows due to the options embedded in assets, liabilities and off-balance sheet positions, such as non-maturity deposits and prepayment of loans without penalty.

Risk Assessment and Monitoring for IRRBB

The Bank measures interest rate risk in the banking book by assessing the potential impact of interest rate change on NII. The NII impact is used to determine alternative balance sheet strategies that the Bank may undertake to achieve its business return targets. The Bank also assesses the potential impact on EVE which reflects the change in present value of its asset, liabilities and off-balance sheet positions when interest rates change.

The Bank employs static analysis tools to assess interest rate risk in banking book, including:

1. Re-pricing Gap Analysis and Sensitivity Analysis

   Re-pricing Gap Analysis is a method widely used to assess the interest rate risk of current balance sheet positions. It captures re-pricing risk which is a primary form of interest rate risk, but does not capture yield curve risk, basis risk and embedded option risk.

   The Bank uses re-pricing gap analysis to assess NII impact in the year ahead assuming assets, liabilities and off-balance sheet positions are static and interest rates change immediately across the curves. The re-pricing of loan is based on earliest repricing date or contractual maturity date, whichever is earlier. Non-maturity deposits such as savings and demand deposits are assumed to re-price in “1 week to 1 month” and “>1 to 2 years” buckets at 33% and 67% respectively as per BNM methodology on IRRBB. Re-pricing gap analysis is also used in conjunction with duration-based weights to estimate the potential impact of interest rate change on EVE.

   The Bank assesses and monitors interest rate risk in its banking book through NII impact and EVE impact on daily basis.

2. Stress Testing

   The Bank performs stress testing for interest rate risk in the banking book on a half yearly basis using static NII and EVE simulation, which takes into account only the current position, to reflect the potential impact to NII and EVE under various stress scenarios. The results of stress testing are analyzed and used by ALCO to improve the Bank’s asset and liability management in order to achieve the business return target and review the change in present value of its assets, liabilities and off-balance sheet positions under the acceptable level of risk.

As at 30 June 2018 and 31 December 2017, the impact of interest rate change to NII and EVE using re-pricing gap analysis is as follows:

Table 13: Interest Rate Risk Impact if the yield curves parallel move by 100 bps

RM’000

Interest Rate Risk Impact	**30 June 2018**	**31 December 2017**
Net Interest Income (NII)	+/-13,153	+/-10,989
Economic Value of Equity (EVE)	+/-3,441	+/-6,647

Note:-

A positive (+) sign followed by a negative (-) sign on the impact indicate gains if interest rate were to hike and loss if interest rate were to dip. A reversal order of such sign will indicate a loss if interest rate were to hike and gain if interest rate were to dip.

NII will impact the Profit and Loss Account whereas EVE will impact the reserves on Balance Sheet.

Risk Control for IRRBB

The Bank establishes a series of gapping limits by re-pricing maturity tenors for each currency to control interest rate risk. These limits are proposed by Treasury Department to ALCO for approval annually or as appropriate.

Treasury Department is responsible to manage these risks to be within the risk tolerance limit, based on Assets and Liabilities Management (ALM) policy and guidelines.

4.3 Operational Risk

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

The Bank understands that good operational risk management is vital to sustainable business success, particularly in the current environment of uncertainty, both domestic and international. The Bank therefore places great importance on effective operational risk management with sufficient coverage of all aspects of operations, and is well-prepared to deal promptly with any unpredictable event.

Operational Risk Management

The Bank has implemented the Operational Risk Management Policy and Guidelines which stipulates the operational risk management framework governing identification of risks, assessment of inherent risks, identification of controls, assessment of residual risk, mitigation of risks, monitor & review of risks and communication & consultation.

All business and functional lines in the Bank are directly responsible for managing their respective operational risks and establishing measures to mitigate and control risks to the designated level by allocating appropriate resources and establishing an organizational culture in managing operational risk.

The Bank has a dedicated operational risk management unit under Risk Management Department in managing operational risk. The operational risk management unit is responsible for developing tools and methodologies to identify, assess, manage and monitor operational risks (including reporting of such risks to the senior management on regular basis).

Operational Risk Assessment and Monitoring

A key principle underlying the Bank's operational risk management is to inculcate an operational risk culture in the Bank by instilling a consistent understanding of operational risk methodology and practices, so that operational risks are identified, significant risks assessed and appropriate action plans formulated to mitigate these risks. This is supplemented by systematic monitoring of action plans until completion.

Business and functional lines are also required to report loss data/ incidents to operational risk unit (ORU) based on the incident reporting procedure / criteria within the stipulated timelines as outlined in the Operational Risk Management Policy and Guidelines.

The Risk Control Self Assessment (RCSA) and Key Risk Indicator (KRI) are the operational risk tools used by the Bank to assess risks levels (RCSA – impact and likelihood) & potential operational risks (KRI) respectively at business and functional lines, with the primary objective of ensuring risks identified are duly mitigated by relevant controls to an acceptable level while potential risks are identified and addressed at an early stage before it evolves into a significant operational risk issue that may lead to policy breaches (both internal and regulatory) / losses subsequently.

Operational Risk Control

Operational risk is managed via a sound internal control system which includes the following:

a) Implementation of policies, guidelines, processes and methodology to ensure that operational risk is appropriately identified and managed with effective controls.

b) The three lines of defense model which helps to ensure proper accountability and define the roles and responsibilities for operational risk management.

c) The individual business and functional lines' accountability for the management and control of their respective operational risks.

d) Separation of duties between key functions (e.g. "maker" and "checker" control)

In addition, the Bank also has a Business Continuity Management (BCM) policy in place to minimize / address the impact of any unplanned operational risk loss events, with emphasis on critical functions, processes and systems. The policy has been approved by the Board of Directors and tested on regular basis.

The Calculation of Value Equivalent to Operational Risk-weighted Asset

The Bank currently uses Basic Indicator Approach (BIA) to calculate its value equivalent to operational risk-weighted assets. The Bank must hold capital for operational risk equal to the average over the previous three years of a fixed percentage (denoted as "α") of positive annual gross income as prescribed by BNM.