Company No.

316347	D

J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

2319A8/nm

Company No.

316347	D

J.P. MORGAN CHASE BANK BERHAD
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1 OVERVIEW

The Pillar 3 Disclosures is governed under the Bank Negara Malaysia (“BNM”)’s revised Risk-Weighted Capital Adequacy Framework (“RWCAF”) – Pillar 3, which aims to enhance transparency of financial institution activities and risks by setting minimum disclosure standards on risk exposures, risk management practices and capital adequacy.

2 SCOPE OF APPLICATION

The Pillar 3 Disclosures attached herewith relates to J.P. Morgan Chase Bank Berhad (“the Bank”) only.

The capital adequacy ratios of the Bank are computed in accordance with BNM’s revised RWCAF – Basel II. The Bank has adopted the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operational risk.

During the financial year, the Bank did not experience any restrictions or impediments in the transfer of funds or regulatory capital and did not report any capital deficiencies.

3 CAPITAL STRUCTURE AND ADEQUACY

The Bank aims to maintain appropriate capital levels relative to regulatory minimum requirements and to maintain an adequate buffer to accommodate future business growth plans. The capital adequacy position, together with the results of the stress testing on material risks, are reviewed on a monthly basis and tabled to the Risk/Asset & Liability Committee for deliberation.

The Bank’s regulatory capital is determined under BNM’s revised RWCAF – Basel II and the capital adequacy ratios were higher than BNM’s minimum requirements.

The following table presents the capital adequacy ratio and risk-weighted assets as at 31 December 2017.

3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

The capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework: Standardised Approach for Credit and Market Risk, and Basic Indicator Approach for Operational Risk (Basel II).

The capital adequacy ratios of the Bank are as follows:

	31.12.2017 RM'000	31.12.2016 RM'000
Tier-I capital		
Paid-up share capital	127,500	85,500
Share premium	-	42,000
Retained earnings	896,950	734,627
Fair value reserve – available-for-sale securities	40	252
Option reserve	18,053	15,914
Statutory reserve	-	97,778
	1,042,543	976,071
Deferred tax assets	(3,110)	(2,403)
Available-for-sale securities	(22)	(138)
Total Tier I capital	1,039,411	973,530
Tier-II capital		
Regulatory reserve	2,415	6,379
Collective assessment allowance	1,285	1,053
Total Tier II capital	3,700	7,432
Total capital	1,043,111	980,962
Common Equity Tier 1 capital ratio	25.911%	19.842%
Tier 1 capital ratio	25.911%	19.842%
Total capital ratio	26.004%	19.993%

3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2017:

Exposure Class	Gross exposures	Net exposures	Risk weighted assets	Capital requirements
	RM'000	RM'000	RM'000	RM'000
(a) Credit Risk				
On-balance sheet exposures				
Sovereigns/central banks	4,087,691	4,087,691	81,099	6,488
Banks	594,364	594,364	124,962	9,997
Insurance companies, securities firms and fund managers	32,715	32,715	16,372	1,310
Corporates	306,960	306,960	306,960	24,557
Residential mortgages	1,328	1,328	508	41
Higher risk assets	4	4	6	-
Other assets	10,576	10,576	10,150	812
Defaulted exposures	111	111	111	9
Total on-balance sheet exposures	5,033,749	5,033,749	540,168	43,214
Off-balance sheet exposures				
Over-the-counter ('OTC') Derivatives	2,393,518	2,393,518	949,839	75,987
Off balance sheet exposures other than OTC derivatives	310,922	310,922	302,695	24,216
Total off-balance sheet exposures	2,704,442	2,704,442	1,252,534	100,203
Total on and off-balance sheet exposures	7,738,191	7,738,191	1,792,702	143,417
	Long position	Short position		
(b) Market risk				
Interest rate risk	85,484,880	84,242,850	1,274,852	101,988
Equity position risk			-	-
Foreign currency risk	744	184,585	184,588	14,767
Options risk			321,413	25,713
(c) Operational risk			437,854	35,028
Total risk weighted assets and capital requirements			4,011,409	320,913

3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2016:

Exposure Class		Gross exposures RM'000	Net exposures RM'000	Risk weighted assets RM'000	Capital requirements RM'000
(a)	Credit Risk				
	On-balance sheet exposures				
	Sovereigns/central banks	4,523,241	4,523,241	89,732	7,179
	Banks	1,069,456	1,069,456	213,891	17,111
	Insurance companies, securities firms and fund managers	622,541	622,541	314,902	25,192
	Corporates	619,312	619,312	618,570	49,486
	Residential mortgages	1,229	1,229	434	35
	Higher risk assets	17	17	26	2
	Other assets	27,989	27,989	27,357	2,189
	Defaulted exposures	123	123	123	10
	Total on-balance sheet exposures	6,863,908	6,863,908	1,265,035	101,204
	Off-balance sheet exposures				
	Over-the-counter ('OTC') derivatives	2,717,421	2,717,421	1,266,361	101,309
	Off balance sheet exposures other than OTC derivatives	396,105	396,105	381,145	30,492
	Total off-balance sheet exposures	3,113,526	3,113,526	1,647,506	131,801
	Total on and off-balance sheet exposures	9,977,434	9,977,434	2,912,541	233,005
		Long position	Short position		
(b)	Market risk				
	Interest rate risk	81,390,360	81,613,133	1,453,306	116,265
	Equity position risk			1,000	80
	Foreign currency risk	6,214	11	6,213	497
	Options risk			150,900	12,072
(c)	Operational risk			382,539	30,603
	Total risk weighted assets and capital requirements			4,906,499	392,522

4 RISK MANAGEMENT

Risk Management Framework

Risk is an inherent part of JPMorgan Chase & Co. ("JPMC")'s business activities and the overall risk tolerance is established in the context of the earnings power, capital, and diversified business model. JPMC and the Bank's risk management framework and governance structure are intended to provide comprehensive controls and an ongoing management of the major risks inherent in its business activities. It is also intended to create a culture of risk awareness and personal responsibility throughout Bank. The Bank's ability to properly identify, to measure, to monitor and to report risk is critical to both its soundness and profitability.

Risk Governance

The Board of Directors ("BOD") is ultimately responsible for the operations, conduct and the financial soundness of the Bank through competent management, reviewing and monitoring the objectives, strategies and business plans of the Bank, ensuring that proper controls are in place and that the business of the Bank is carried out with a high standard of integrity.

The Board Risk Committee ("BRC") is responsible for oversight of the management's responsibility to assess and manage the Bank's credit risk, market risk, interest rate risk, liquidity risk, operational risk, strategic risk and reputation risk. The Risk/Asset & Liability Committee ("RALCO") is delegated by the BOD to be responsible for the overall risk management for the Bank.

The RALCO's responsibilities include establishing, reviewing, monitoring and implementing policies and procedures and limits with regard to market risk, liquidity risk, credit risk, and generally the management of risk relating to the Bank. The RALCO also ensures a consistent approach to risk management and ensures appropriate procedures exist for the identification of risks and that suitable mechanisms exist to ensure risks are controlled and reported to management, BRC and BOD on a timely basis.

At management level, the Location Management Committee ("LMC") has primary responsibility for corporate governance as well as to provide management oversight for the various businesses, from a performance, operational as well as control perspective.

The Audit Committee, supported by the Internal Audit Department, is responsible for oversight of guidelines and policies that govern the process by which risk assessment and management is undertaken. In addition, the Audit Committee reviews with management the system of internal controls and financial reporting that is relied upon to provide reasonable assurance of compliance with the Bank's operational risk management processes.

Risk Measurement

The Bank measures risk using a variety of methodologies, including calculating probable loss, unexpected loss and value-at-risk, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely reviewed with the goal of ensuring that the Bank's risk estimates are reasonable and reflect underlying positions.

Risk Reporting and Monitoring

Risk reporting and monitoring is executed on both a line of business and a consolidated basis. This information is reported to management on a regular basis. RALCO reviews and monitors any significant risk issues and reports to the BRC.

5 CREDIT RISK

Credit risk is the risk of loss from obligor or counterparty default. The Bank provides credit (for example, through loans, lending-related commitments, guarantees and derivatives) to a variety of customers, from large corporate and institutional clients to the individual consumer. Credit risk management actively monitors the portfolio to ensure that it is well diversified across industry, geography, risk rating, maturity and individual client categories.

Credit Risk Management

The Bank follows the policies and practices established by JPMC's Credit Risk Policy Group and BNM's Best Practices for the Management of Credit Risk, to preserve the independence and integrity of the approval and decision-making process of extending credit, and to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio review parameters and guidelines for management of distressed exposure. Management of the Bank's exposure is accomplished through a number of means including: loan syndication and participations, loan sales, use of master netting agreements and collaterals.

The Credit Risk function in the Bank is overseen by the Country Credit Officer ("CCO"). The CCO works closely with regional as well as Global Credit Risk Management teams to ensure that the credit exposure taken at the Bank is in line with the Bank's risk management policy framework.

There is a comprehensive credit authority framework in place which enables decision making to be escalated in response to the size and risk intensity of the request. There is adequate credit authority delegated to the CCO for smooth functioning of the overall portfolio and business needs. The CCO will review each new credit application and approve the credit if it is within the CCO's authority. If it is not within the CCO's authority, the CCO will make recommendation and submit to Regional, and the approval is subsequently ratified by the BOD.

Credit reviews varies with the profile of the exposure to a client, the internal risk grade for the client, and its risk dimensions such as industry and geography. Subject to these considerations, and the Credit Executive's judgement, credit reviews are usually expected to be done at least annually. Additional credit reviews may be triggered by Risk Reviews or external events.

5.1 Distribution of Credit Exposures

(i) Geographical Distribution

Credit risk exposure analysed by country in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table.

The country exposure analysis is based on the residency of the borrowers and counterparties. In respect of derivatives financial instruments, the amount subject to, and hence disclosed as, credit risk is limited to the current fair value of the instruments that are favourable to the Bank (i.e. assets).

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5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(i) Geographical Distribution (continued)

	31.12.2017									
	Short term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held for trading	Derivative financial instruments	Financial assets available-for-sale	Loans and advances	Amount due from related parties	Other assets*	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	3,885,066	46,776	785,970	431,368	148,476	273,506	170,274	63,435	5,804,871	2,253,543
United Kingdom	-	-	-	63,792	-	-	13,369	-	77,161	340,989
USA	-	-	-	12,998	-	-	363,899	17	376,914	69,907
Hong Kong	-	-	-	690	-	-	1,098	-	1,788	5,056
Singapore	5,389	-	-	3,427	-	-	90	19,309	28,215	14,010
Others	3,231	-	101,520	4,484	-	33,571	1,017	-	143,823	20,937
	3,893,686	46,776	887,490	516,759	148,476	307,077	549,747	82,761	6,432,772	2,704,442

* Other assets include statutory deposits with Bank Negara Malaysia, tax recoverable deferred tax assets and fixed assets.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(i) Geographical Distribution (continued)

	31.12.2016									
	Short term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held for trading	Derivative financial instruments	Financial assets available-for-sale	Loans and advances	Amount due from related parties	Other assets*	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	3,899,490	602,550	690,442	819,486	140,963	571,614	-	43,430	6,767,975	2,713,087
United Kingdom	-	-	-	35,719	-	-	9,627	-	45,346	223,286
USA	-	-	-	2,801	-	-	891,804	39	894,644	74,794
Hong Kong	-	-	-	7,848	-	-	7,450	12	15,310	14,390
Singapore	7,405	-	-	26,001	-	-	362,290	253,294	648,990	42,552
Others	12,098	-	295,849	25,780	-	46,648	6,206	-	386,581	45,417
	3,918,993	602,550	986,291	917,635	140,963	618,262	1,277,377	296,775	8,758,846	3,113,526

* Other assets include statutory deposits with Bank Negara Malaysia, tax recoverable deferred tax assets and fixed assets.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(ii) Industry Distribution

Credit risk exposure analysed by industry sectors in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table.

The industry sector exposure analysis is based on the industry sector of the borrowers and counterparties. In respect of derivatives financial instruments, the amount subject to, and hence disclosed as, credit risk is limited to the current fair value of the instruments that are favourable to the Bank (i.e. assets).

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(ii) Industry Distribution (continued)

										31.12.2017
	Short term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held for trading	Derivative financial instruments	Financial assets available-for-sale	Loans and advances*	Amount due from related parties	Other assets**	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Manufacturing	-	-	-	29,015	-	164,523	-	-	193,538	101,953
Wholesale and retail	-	-	-	-	-	19,188	-	-	19,188	210
Finance, insurance and business services	26,352	-	101,520	477,676	-	123,248	549,747	50,033	1,328,576	2,553,389
Government and Government Agencies	3,866,909	46,776	785,970	2,738	148,476	-	-	2	4,850,871	16,867
Electricity, gas and water	-	-	-	1,983	-	-	-	-	1,983	28,943
Transport, storage and communication	-	-	-	877	-	-	-	-	877	1,327

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5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(ii) Industry Distribution (continued)

	31.12.2017									
	Short term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held for trading	Derivative financial instruments	Financial assets available-for-sale	Loans and advances*	Amount due from related parties	Other assets**	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Individual/Purchase of landed property - residential	-	-	-	-	-	1,403	-	-	1,403	172
Consumption credit	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	4,470	-	-	-	2,803	7,273	1,581
	3,893,261	46,776	887,490	516,759	148,476	308,362	549,747	52,838	6,403,709	2,704,442
Assets not subject to credit risk	425	-	-	-	-	-	-	29,923	30,348	-
	3,893,686	46,776	887,490	516,759	148,476	308,362	549,747	82,761	6,434,057	2,704,442

* Excludes collective assessment allowance amounting to RM1,285,000.

** Other assets include tax recoverable, fixed assets and statutory deposits with Bank Negara Malaysia.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

	31.12.2016									
	Short term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held for trading	Derivative financial instruments	Financial assets available-for-sale	Loans and advances*	Amount due from related parties	Other assets**	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Manufacturing	-	-	-	43,407	-	270,256	-	-	313,663	240,512
Wholesale and retail	-	-	-	94	-	-	-	-	94	2,307
Finance, insurance and business services	153,426	-	396,398	620,541	-	257,499	1,277,377	261,563	2,966,804	2,286,175
Government and Government Agencies	3,764,935	602,550	589,893	76,923	140,963	-	-	2	5,175,266	110,868
Electricity, gas and water	-	-	-	166,218	-	-	-	-	166,218	454,790
Transport, storage and communication	-	-	-	3	-	89,897	-	12	89,912	878

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(ii) Industry Distribution (continued)

	31.12.2016									
	Short term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held for trading	Derivative financial instruments	Financial assets available-for-sale	Loans and advances*	Amount due from related parties	Other assets**	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Individual/Purchase of landed property - residential	-	-	-	-	-	1,630	-	-	1,630	231
Consumption credit	-	-	-	-	-	31	-	-	31	-
Others	-	-	-	10,449	-	2	-	11,881	22,332	17,765
	3,918,361	602,550	986,291	917,635	140,963	619,315	1,277,377	273,070	8,735,562	3,113,526
Assets not subject to credit risk	632	-	-	-	-	-	-	23,705	24,337	-
	3,918,993	602,550	986,291	917,635	140,963	619,315	1,277,377	296,775	8,759,899	3,113,526

* Excludes collective assessment allowance amounting to RM1,053,000.

** Other assets include tax recoverable, fixed assets and statutory deposits with Bank Negara Malaysia.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(iii) Residual Contractual Maturity

Credit risk exposure analysed by residual contractual maturity in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table.

	Less than 1 year RM'000	1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
31.12.2017				
On-balance sheet exposures				
Cash and short-term funds	3,893,686	-	-	3,893,686
Securities purchased under resale agreement	46,776	-	-	46,776
Financial assets held for trading	125,983	437,781	323,727	887,490
Derivative financial instruments	331,342	160,362	25,055	516,759
Financial assets available-for-sale	148,476	-	-	148,476
Loans and advances	305,647	290	1,140	307,077
Amount due from related parties	549,747	-	-	549,747
Total on-balance sheet exposures	5,401,657	598,433	349,922	6,350,011
Off-balance sheet exposures				
Over-the-counter ('OTC') derivatives	761,898	1,283,480	348,140	2,393,518
Off balance sheet exposures other than OTC derivatives	194,581	114,968	1,375	310,924
Total off-balance sheet exposures	956,479	1,398,448	349,515	2,704,442
Total on and off-balance sheet exposures	6,358,136	1,996,881	699,437	9,054,453

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(iii) Residual Contractual Maturity (continued)

	Less than 1 year RM'000	1 – 5 years RM'000	Over 5 years RM'000	Total RM'000
31.12.2016				
On-balance sheet exposures				
Cash and short-term funds	3,918,993	-	-	3,918,993
Securities purchased under resale agreement	602,550	-	-	602,550
Financial assets held for trading	665,733	174,817	145,741	986,291
Derivative financial instruments	639,865	182,597	95,173	917,635
Financial assets available-for-sale	140,963	-	-	140,963
Loans and advances	616,623	314	1,325	618,262
Amount due from related parties	1,277,377	-	-	1,277,377
Total on-balance sheet exposures	7,862,104	357,728	242,239	8,462,071
Off-balance sheet exposures				
Over-the-counter ('OTC') derivatives	1,075,218	1,313,845	328,358	2,717,421
Off balance sheet exposures other than OTC derivatives	310,164	85,941	-	396,105
Total off-balance sheet exposures	1,385,382	1,399,786	328,358	3,113,526
Total on and off-balance sheet exposures	9,247,486	1,757,514	570,597	11,575,597

5 CREDIT RISK (CONTINUED)

5.2 Past Due and Impaired Loans and Advances

Past due accounts are loan accounts with any interest or principal payments due and not paid, but are not classified as impaired. Loans are classified as impaired if the judgemental or mandatory triggers are triggered.

Impairment losses are incurred if there is objective evidence of impairment as a result of one or more loss events that occurred. Evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, delinquency in interest or principal payments, probability that they will enter bankruptcy and where observable data indicating that there is a measurable decrease in the estimated future cash flows.

The Bank first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loans and advances, whether significant or not, it includes the asset in a group of loans and advances with similar credit risk characteristics and collectively assesses them for impairment.

For the collective evaluation of impairment, loans and advances are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

5 CREDIT RISK (CONTINUED)

5.2 Past Due and Impaired Loans and Advances (continued)

(i) Industry Distribution

The sectoral analysis of past due and impaired loans and advances and the individual and collective assessment allowance by sectors are set out in the following table:

	Past due loans and advances RM'000	Impaired loans and advances RM'000	Individual impairment allowance RM'000	Collective impairment allowance RM'000	Individual impairment allowance during the year RM'000	Write offs during the year RM'000
31 Dec 2017						
Agricultural	-	-	-	-	-	-
Mining and Quarrying	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Transport, storage and communications	-	-	-	-	-	-
Finance, insurance, business services	-	-	-	-	-	-
Government and Government Agencies	-	-	-	-	-	-
Individual/Purchase of landed property – residential	-	111	41	1,285	(4)	-
Electricity, gas and water	-	-	-	-	-	-
Household	-	-	-	-	-	-
Others	-	-	-	-	-	-
	-	111	41	1,285	(4)	-
31 Dec 2016						
Agricultural	-	-	-	-	-	-
Mining and Quarrying	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Transport, storage and communications	-	-	-	-	-	-
Finance, insurance, business services	-	-	-	-	-	-
Government and Government Agencies	-	-	-	-	-	-
Individual/Purchase of landed property – residential	-	123	45	1,053	(3)	-
Electricity, gas and water	-	-	-	-	-	-
Household	-	-	-	-	-	-
Others	-	-	-	-	-	-
	-	123	45	1,053	(3)	-

5 CREDIT RISK (CONTINUED)

5.2 Past Due and Impaired Loans and Advances (continued)

(ii) Geographical Distribution

The geographical analysis of past due and impaired loans and advances and the individual and collective assessment allowance are set out in the following table:

	Past due loans and advances RM'000	Impaired loans and advances RM'000	Individual impairment allowance RM'000	Collective impairment allowance RM'000
31 Dec 2017				
Malaysia	-	111	41	1,285
31 Dec 2016				
Malaysia	-	123	45	1,053

(iii) Movements in allowance for impaired loans and advances

	31.12.2017 RM'000	31.12.2016 RM'000
Individual assessment allowance		
At 1 January	45	48
Allowance written back during the financial year	(4)	(3)
Balance at end of financial year	41	45
Collective assessment allowance		
At 1 January	1,053	1,603
Allowance made/(written back) during the financial year	232	(550)
Balance at end of financial year	1,285	1,053

5 CREDIT RISK (CONTINUED)

5.3 Credit Risk Exposures under Standardised Approach

The Bank applies external ratings assigned by recognised External Credit Assessment Institutions ("ECAIs") in determining risk weight for credit exposure classes and are recognised by BNM in RWCAF. The Bank uses ratings assigned by Standard & Poor's ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch").

The following tables set out the credit exposures by risk weights and after credit risk mitigation:

Risk weight as at 31 December 2017 for credit risk exposures:

Weighted	Sovereigns & Central bank	PSE	Banks	Insurance companies, securities firms and funds managers	Corporates	Residential mortgages	Higher risk assets	Other assets	Total exposures after netting and credit risk	Total risk weighted assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	3,682,197	-	-	-	-	-	-	426	3,682,623	-
20%	406,003	34,225	1,700,757	-	-	-	-	-	2,140,985	428,196
35%	-	-	-	-	-	1,037	-	-	1,037	363
50%	-	-	899,023	199,489	7	291	-	-	1,098,810	549,405
75%	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	67,796	736,675	111	-	10,150	814,732	814,732
150%	-	-	-	-	-	-	4	-	4	6
Total	4,088,200	34,225	2,599,780	267,285	736,682	1,439	4	10,576	7,738,191	1,792,702

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5 CREDIT RISK (CONTINUED)

5.3 Credit Risk Exposures under Standardised Approach (continued)

Risk weight as at 31 December 2016 for credit risk exposures:

Weighted	Sovereigns & Central bank RM'000	PSE RM'000	Banks RM'000	Insurance companies, securities firms and funds managers RM'000	Corporates RM'000	Residential mortgages RM'000	Higher risk assets RM'000	Other assets RM'000	Total exposures after netting and credit risk RM'000	Total risk weighted assets RM'000
0%	4,074,620	-	-	-	-	-	-	632	4,075,252	-
20%	448,661	110,828	2,069,991	-	-	-	-	-	2,629,480	525,896
35%	-	-	-	-	-	1,201	-	-	1,201	420
50%	-	-	1,067,065	702,003	1,321	28	-	-	1,770,417	885,209
75%	-	-	-	-	306	-	-	-	306	230
100%	-	-	-	125,681	1,347,600	123	-	27,357	1,500,761	1,500,761
150%	-	-	-	-	-	-	17	-	17	25
Total	4,523,281	110,828	3,137,056	827,684	1,349,227	1,352	17	27,989	9,977,434	2,912,541

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BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

5 CREDIT RISK (CONTINUED)

5.3 Credit Risk Exposures under Standardised Approach (continued)

The following tables set out the rated exposures according to rating by ECAIs:

(i) Ratings of corporate by approved ECAIs

	Moody S & P Fitch RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A+ to A- A1 to A- A+ to A-	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 BBB+ to BB-	B1 to C B+ to D B+ to D B to D B+ to D	Unrated Unrated Unrated Unrated Unrated
Exposure class		RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2017						
On and Off: Balance Sheet Exposures						
Public Sector Entities		-	34,225	-	-	-
Insurance companies, securities firms and fund managers		-	211,218	56,067	-	-
Corporates		-	75,517	437,813	223,179	173
		-	320,960	493,880	223,179	173
31.12.2016						
On and Off: Balance Sheet Exposures						
Public Sector Entities		-	110,828	-	-	-
Insurance companies, securities firms and fund managers		-	716,163	111,521	-	-
Corporates		-	146,499	918,176	283,982	570
		-	973,490	1,029,697	283,982	570

5 CREDIT RISK (CONTINUED)

5.3 Credit Risk Exposures under Standardised Approach (continued)

(i) Ratings of Sovereigns/Central Banks and Banking Institutions by approved ECAIs

	Moody S & P Fitch RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A+ to A- A1 to A- A+ to A-	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 BBB+ to BB-	B1 to C B+ to D B+ to D B to D B+ to D	Unrated Unrated Unrated Unrated Unrated
Exposure class		RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2017						
On and Off: Balance Sheet Exposures						
Sovereigns/Central Banks		-	4,088,200	-	-	-
Banks		1,066,315	1,178,234	355,227	4	-
		1,066,315	5,266,434	355,227	4	-
31.12.2016						
On and Off: Balance Sheet Exposures						
Sovereigns/Central Banks		-	4,523,281	-	-	-
Banks		1,038,642	1,977,741	120,652	-	21
		1,038,642	6,501,022	120,652	-	21

5.4 Credit Risk Mitigation ("CRM")

Management of the Bank's exposure is accomplished through a number of means including: loan syndication and participations, loan sales, use of master netting agreements and collaterals.

(a) Collateral

The Bank takes collateral as a secondary recourse to the borrower. Collaterals include cash, securities and guarantees. The Bank may also take fixed and floating charges on assets of borrowers. It has put in place policies which governs the determination of eligibility of various collaterals to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigants. The collateral is revalued periodically depending on the type of collateral. The Bank generally considers the collateral assets to be diversified.

5 CREDIT RISK (CONTINUED)

5.4 Credit Risk Mitigation ("CRM") (continued)

(b) Master netting arrangements

Master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract. It does not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short year, as it is affected by each transaction subject to the arrangement.

The Bank participates in the Derivative Credit Risk Master Insurance Policy where it pays a credit charge to its Head Office as a credit insurance protection for its derivative transactions. The head office credit portfolio management process includes entering into hedges using Credit Default Swaps ("CDS"), CDS Indices, Foreign Exchange, Interest Rate Swaps and through loan sales.

The following tables set out the credit exposures that are covered by eligible guarantees and collaterals as allowed under the RWCAF.

31.12.2017	Exposures before CRM	Exposures covered by guarantees/ credit derivatives	Exposures covered by eligible financial collateral
	RM'000	RM'000	RM'000
Exposure Class			
On-balance sheet exposures			
Sovereigns/central banks	4,087,691	-	-
Banks	594,364	-	-
Insurance companies, securities firms and fund managers	32,715	-	-
Corporates	306,960	-	-
Residential mortgages	1,328	-	-
Higher risk assets	4	-	-
Other assets	10,576	-	-
Defaulted exposures	111	-	-
Total on-balance sheet exposures	5,033,749	-	-
Off-balance sheet exposures			
Over-the-counter ('OTC') derivatives	2,393,518	11,059	151,344
Off balance sheet exposures other than OTC derivatives	310,924	-	-
Total off-balance sheet exposures	2,704,442	11,059	151,344
Total on and off-balance sheet exposures	7,738,191	11,059	151,344

5 CREDIT RISK (CONTINUED)

5.4 Credit Risk Mitigation ("CRM") (continued)

31.12.2016	Exposures before CRM	Exposures covered by guarantees/ credit derivatives	Exposures covered by eligible financial collateral
	RM'000	RM'000	RM'000
Exposure Class			
On-balance sheet exposures			
Sovereigns/central banks	4,523,241	-	-
Banks	1,069,456	-	-
Insurance companies, securities firms and fund managers	622,541	-	-
Corporates	619,312	-	-
Residential mortgages	1,229	-	-
Higher risk assets	17	-	-
Other assets	27,989	-	-
Defaulted exposures	123	-	-
Total on-balance sheet exposures	6,863,908	-	-
Off-balance sheet exposures			
Over-the-counter ('OTC') derivatives	2,717,421	55,394	157,166
Off balance sheet exposures other than OTC derivatives	396,105	-	-
Total off-balance sheet exposures	3,113,526	55,394	157,166
Total on and off-balance sheet exposures	9,977,434	55,394	157,166

5 CREDIT RISK (CONTINUED)

5.5 Off-Balance Sheet Exposures and Counterparty Credit Risk

Counterparty Credit Risk ("CCR") is the risk that the counterparty to a transaction involving financial instruments such as foreign exchange and derivatives, could default before the final settlement of the transaction's cash flows.

For derivatives, the Bank is not exposed to credit risk for the full face value of the contracts. The CCR is limited to the potential cost of replacing the cash-flow if the counterparty defaults. As such, the credit equivalent amount will depend on the maturity of the contract and on the volatility of the rates underlying that type of instrument.

Counterparty limits for the Bank are established at the individual counterparty level and are set based on the counterparty's credit rating, tenor and size.

To mitigate the counterparty risk for derivative transactions, the Bank participates in the Derivative Credit Risk Master Insurance Policy where it pays a credit charge to its Head Office as a credit insurance protection for its derivative transactions. The head office credit portfolio management process includes entering into hedges using CDS, CDS Indices, Foreign Exchange, Interest Rate Swaps and through loan sales.

The counterparty risk is further mitigated via master netting agreements. Master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract. It does not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short year, as it is affected by each transaction subject to the arrangement.

5 CREDIT RISK (CONTINUED)

5.5 Off-Balance Sheet Exposures and Counterparty Credit Risk (continued)

The following tables set out the off-balance sheet exposures and counterparty credit risk.

31.12.2017	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
Direct credit substitutes	211,350	-	211,350	205,445
Transaction-related contingent items	37,791	-	18,895	16,573
Short-term self-liquidating trade related contingencies	27,485	-	5,497	5,497
Foreign exchange related contracts:				
- less than one year	18,957,817	243,566	524,512	250,330
- one year to less than five years	2,742,824	38,820	295,514	128,328
- more than five years	1,019,626	22,401	190,831	44,370
Interest rate related contracts:				
- less than one year	8,838,712	34,203	43,128	18,100
- one year to less than five years	25,891,420	93,537	848,925	297,510
- more than five years	2,198,070	2,654	157,309	61,996
Equity related contracts				
- less than one year	1,855,696	53,573	194,258	71,575
- one year to less than five years	712,939	23,953	127,984	75,418
Credit related contracts				
- one year to less than five years	50,050	4,052	11,059	2,212
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	150,361	-	75,180	75,180
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in borrower's creditworthiness	1,431,395	-	-	-
	64,125,536	516,759	2,704,442	1,252,534

* The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

5 CREDIT RISK (CONTINUED)

5.5 Off-Balance Sheet Exposures and Counterparty Credit Risk (continued)

31.12.2016	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
Direct credit substitutes	298,477	-	298,477	287,625
Transaction-related contingent items	55,796	-	27,898	23,791
Short-term self-liquidating trade related contingencies	125,042	-	25,008	25,008
Foreign exchange related contracts:				
- less than one year	18,985,033	611,098	948,484	597,791
- one year to less than five years	2,596,930	44,805	338,171	148,128
- more than five years	1,038,420	68,796	205,961	51,392
Interest rate related contracts:				
- less than one year	7,119,002	6,697	36,408	14,912
- one year to less than five years	27,298,029	117,658	853,890	315,059
- more than five years	1,466,299	26,376	122,397	49,329
Equity related contracts				
- less than one year	903,647	22,071	90,326	37,950
- one year to less than five years	373,558	16,286	66,390	29,988
Credit related contracts				
- one year to less than five years	282,082	3,848	55,394	21,811
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	89,444	-	44,722	44,722
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in borrower's creditworthiness	1,135,614	-	-	-
	61,767,373	917,635	3,113,526	1,647,506

* The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

6 MARKET RISK

Market risk comes mainly from trading and investing in client-focused activities, and is the risk of losses arising from adverse movements in market prices. Market risks are most commonly sub-divided into interest rate risk, equity risk, foreign exchange risk and commodity risk, depending on whether the risk factor is an interest rate, a stock price, etc.

Market Risk Management

Market risk is identified, measured, monitored and controlled by an independent corporate risk governance function. Market Risk Management is responsible for the establishment of market risk policies and monitoring of risk limits.

The portfolio effect of holding different instruments across a variety of business activities and asset classes helps to diversify the market risk the Bank is exposed to and reduces the potential losses from market risk.

The Bank’s ability to measure and monitor potential losses that could arise from adverse changes in market conditions is key to managing market risks. Quantitative and qualitative measures are an integral and crucial part in the Bank’s assessment of market risks.

The Bank’s primary tool for the systematic measuring and monitoring of market risk is the Value at Risk (“VAR”) calculation, which is measured and monitored at the regional level by lines of businesses. VAR is an estimate of the expected loss in the value of the various regional lines of businesses’ activities, where the Bank’s activities are rolled up into, over a one-day time horizon. VAR allows for a consistent and uniform measure of market risk across all applicable products and activities. To calculate VAR, the Bank uses historical simulation, which measures risk across instruments and portfolios in a consistent and comparable way. This approach assumes that historical changes in market values are representative of future changes. The simulation is based upon data for the previous twelve months.

Besides VAR, other non-statistical limits such as basis point value and net open positions are used as market risk tools to limit the risk to which the businesses can be exposed to.

The quality of the VAR model is monitored by back-testing the VAR results for trading books. All back-testing exceptions are investigated, and all back-testing results are reported to senior management.

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Market Risk Management include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing. The results of the stress tests are reviewed by senior management and by the Board of Directors.

6 MARKET RISK (CONTINUED)

The risk weighted assets and capital requirements for the various categories of risk under Market risk are set out in the following table:

31.12.2017	Long position	Short position	Risk weighted assets RM'000	Capital requirements RM'000
Interest rate risk	85,484,880	84,242,850	1,274,852	101,988
Equity position risk				
Foreign currency risk	744	184,585	184,588	14,767
Options risk			321,413	25,713
			1,780,853	142,468

31.12.2016	Long position	Short position	Risk weighted assets RM'000	Capital requirements RM'000
Interest rate risk	81,390,360	81,613,133	1,453,306	116,265
Equity position risk			1,000	80
Foreign currency risk	6,214	11	6,213	497
Options risk			150,900	12,072
			1,611,419	128,914

7 OPERATIONAL RISK

Operational risk is an inherent risk element in each of the Bank's business and support activities.

Operational Risk Management

The Bank maintains a system of comprehensive policies and control framework designed to provide a sound and well-controlled operational environment.

Primary responsibility for managing operating risk rests with the business managers. These individuals, with the support of their staff, are responsible for establishing and maintaining internal control procedures that are appropriate for their operating environments. To this end, the objectives of each business activities are identified and the risks associated with those objectives are assessed. The business managers institute a series of standards and procedures to manage these risks and to comply with the Bank's operational risk related policies, considering their nature and magnitude.

At the operational level, Internal Audit conducts annual audits and reviews on key operation areas. The focus of the audit is to provide assurance to management on the compliance with statutory requirements, laws, corporate policies and internal guidelines.

The Bank adopts the Basic Indicator Approach in calculating the operational risk RWA.

8 INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK

Interest rate risk/rate of return risk in the banking book ("IRRBB") arise from exposures of banking book products to changes in the level, slope and curvature of the yield curve and the volatility of interest rates. Interest rate risk is one of the categories of market risk.

IRRBB Management

Treasury manages the funding activities of the Bank and serves as a funds clearing house for the various lines of businesses; businesses with excess cash from deposit raising activities sell those funds to Treasury, while businesses with funding requirements purchase those funds from Treasury. The funds are transacted using market based rates established in accordance with funds transfer pricing procedures employed by the firm and with the objectives of insulating the business from interest rate risk and transfer any such risk arising from the business activities to Treasury.

As lines of businesses transfer all interest rate risk arising from business activities to Treasury, Treasury subsequently manages the banking book interest rate risk for the bank in conjunction with its investment activities, subject to the limits governing the activities/positions at the Bank.

The limit structure in place uses Basis Point Value ("BPV") as a measure of IRRBB. BPV is used to quantify the change in value of the balance sheet across all accrual positions to a one basis point change in interest rates. The greater the BPV, the greater the sensitivity of the balance sheet and therefore earnings to changes in interest rates.

The sensitivity of the Bank's positions in banking book to interest rate changes are set out in the following table:

	Increase/(Decrease)	
31.12.2017	+100bps	-100 bps
	RM'000	RM'000
Impact on Economic Value		
MYR	11,965	(11,965)
USD	18,226	(18,226)
Other	291	(291)
	30,482	(30,482)

	Increase/(Decrease)	
31.12.2016	+100bps	-100 bps
	RM'000	RM'000
Impact on Economic Value		
MYR	11,795	(11,795)
USD	40,009	(40,009)
Other	862	(862)
	52,666	(52,666)