Company No.

316347	D

PRELIMINARY DRAFT
For Discussion Purposes
Subject to Changes

J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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 2018.

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:

	31.12.2018 RM'000	31.12.2017 RM'000
Tier-I capital		
Paid-up share capital	127,500	127,500
Retained earnings	959,653	896,950
Fair value reserve – available-for-sale securities	-	40
Fair value reserve through other comprehensive income	133	-
Option reserve	11,953	18,053
	1,099,239	1,042,543
Deferred tax assets	(3,120)	(3,110)
Financial Assets available-for-sale securities	-	(22)
Financial Assets at fair value through other comprehensive income	(73)	-
Total Tier I capital	1,096,046	1,039,411
Tier-II capital		
Regulatory reserve	14,206	2,415
Collective assessment allowance	-	1,285
ECL not credit impaired	181	-
Total Tier II capital	14,387	3,700
Total capital	1,110,433	1,043,111
Common Equity Tier 1 capital ratio	23.174%	25.911%
Tier 1 capital ratio	23.174%	25.911%
Total capital ratio	23.478%	26.004%

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J.P. MORGAN CHASE BANK BERHAD
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BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements as at 31 December 2018:

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	6,054,980	6,054,980	248,235	19,859
Public Sector Entities	158	158	32	3
Banks	261,662	261,662	52,345	4,188
Insurance companies, securities firms and fund managers	298,911	298,911	149,870	11,990
Corporates	354,525	354,525	353,312	28,265
Residential mortgages	1,182	1,182	414	33
Higher risk assets	4	4	6	1
Other assets	24,748	24,748	24,594	1,967
Defaulted exposures	43	43	21	2
Total on-balance sheet exposures	6,996,213	6,996,213	828,829	66,308
Off-balance sheet exposures				
Over-the-counter ('OTC') Derivatives	2,498,437	2,498,437	951,363	76,108
Off balance sheet exposures other than OTC derivatives	600,948	600,948	584,962	46,796
Total off-balance sheet exposures	3,099,385	3,099,385	1,536,325	122,904
Total on and off-balance sheet exposures	10,095,598	10,095,598	2,365,154	189,212
	Long position	Short position		
(b) Market risk				
Interest rate risk	92,387,526	90,369,435	1,446,957	115,756
Equity position risk	15,909	-	6,363	509
Foreign currency risk	1,533	90,754	90,750	7,260
Options risk			357,613	28,609
(c) Operational risk			462,880	37,030
Total risk weighted assets and capital requirements			4,729,717	378,376

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BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

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

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	4,087,691	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	2,393,520	2,393,520	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	1,274,851	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			4,011,408	320,913

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

Expected credit loss measurement

Approach to measuring expected credit losses

The Bank estimates credit impairment through an allowance for expected credit losses ("ECLs"). ECLs are recognised for financial assets that are measured at amortised cost or fair value through other comprehensive income (FVOCI) and for specified lending-related commitments, such as loan commitments and financial guarantee contracts. The measurement of ECLs must reflect:

(a) An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes

(b) The time value of money; and

(c) Reasonable and supportable information about past events, current economic conditions, and forecasts of future economic conditions.

The measurement of ECL also reflects how the Bank manages the financial instruments it uses for credit risk purposes such as Traditional Credit Products ("TCP"), debt securities measured at FVOCI, and non-traditional credit products ("Non-TCP"). TCP are wholesale loans and lending-related commitments from extensions of credit to borrowers; debt securities which are debt instruments such as government bonds; whereas Non-TCP are all other debt financial assets measured at amortised cost which include, but are not limited, to reverse repurchase agreements, margin loans, fee receivables, and inter-company receivables or loans.

The Bank uses statistical models to estimate ECLs for TCP on a collective basis; however ECL for credit-impaired instruments is estimated on an individual borrower basis. When determining how exposures should be grouped for collective assessment, the Bank considers many factors including, but not limited to, internal credit risk ratings, tenor, borrower geography and industry. The Bank's internal risk ratings generally correspond to the ratings as defined by Standard & Poor's ("S&P") and Moody's Investors Service. For Non-TCPs, the Bank utilises a combination of an established provision matrix, as well as quantitative and qualitative considerations to estimate ECLs.

Impact of staging on measuring expected credit losses

ECLs are measured using a three stage model based on changes in credit quality of the financial instrument since it was initially recognised ("initial recognition"):

- Stage 1 – performing financial instruments that have not had a significant increase in credit risk since initial recognition;
- Stage 2 – performing financial instruments that have experienced a significant increase in credit risk; and
- Stage 3 – non-performing financial instruments that have been determined to be credit-impaired.

5 CREDIT RISK (CONTINUED)

Expected credit loss measurement (continued)

Stage 1 - Unimpaired and without significant increase in credit risk

Financial instruments that have not had a SICR since initial recognition are included in Stage 1 unless they are purchased or originated credit impaired (“POCI”). For Stage 1 instruments, ECL is calculated by considering the probability of default within 12 months after the reporting date on a collective basis and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for the credit loss allowance).

ECL measurement for TCP Portfolios

Key Inputs

In broad terms, ECLs for the Bank’s TCP portfolios are generally calculated based on the following key inputs:

- Probability of Default (“PD”): The PD model estimates the probability of downgrade and default each quarter. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The model considers input variables that are region-, industry- and borrower segment-specific and considers both scenario- and borrower-specific information. PDs are determined at a facility-level based on risk ratings and other characteristics.

- Exposure at Default (“EAD”): The EAD model predicts gross exposure upon a borrower’s default as a percentage of the total commitment at the reporting date under a given macroeconomic environment. The model estimates the probability of a change in the utilisation, and direction and magnitude of the change. Input variables include exposure and utilization at the reporting date, facility purpose, industry and macro-economic variables (“MEVs”).

- Loss Given Default (“LGD”): The LGD model estimates expected losses under given macroeconomic environments on the EAD given the event of default and, taking into account, among other attributes, the mitigating effect of collateral and the time value of money.

The 12-month ECL is calculated by multiplying the 12-month PD, EAD and LGD. Lifetime ECL is calculated using the lifetime PD instead.

Forward-looking information

ECL estimates are derived from historical experience and future forecasted economic conditions. To incorporate forward-looking information into the ECL calculation, three forecasted economic scenarios (base, upside and downside cases are developed). Each of these scenarios contain a set of MEVs that reflect forward-looking economic and financial conditions. MEVs include, but are not limited to FX rates, inflation and GDP per country or country block. MEVs for each scenario are projected over a reasonable and supportable forecast period of two years. After the forecast period, the losses revert to historical averages over a one-year transition period.

5 CREDIT RISK (CONTINUED)

Expected credit loss measurement (continued)

Stage 1 - Unimpaired and without significant increase in credit risk (continued)

Forward-looking information (continued)

On a quarterly basis, the three economic scenarios are updated and probability weighted. Judgement is involved to develop the scenarios and assign probability weightings. The most likely economic scenario in management's view is the base case which would generally be expected to be weighted more heavily than the other two scenarios.

The PD, LGD and EAD models are designed to forecast the credit quality and performance of a TCP portfolio based on industry, geography, rating and size of obligors, among other attributes of the portfolio. PD, LGD and EAD models are calibrated based on historical MEVs and use forecasted macroeconomic scenarios for projecting PD, LGD and EAD values.

ECL calculation

ECL calculation is based on the forward-looking PD, LGD, and EAD values for each of the scenarios to produce the scenario credit losses ("SCLs"). The modelled ECL estimate is a probability-weighted calculation of the three SCLs discounted using the original effective interest rate or an approximation thereof.

The modelled ECL results are reviewed by management and adjustments ('management overlays') are considered to ensure final results reflect the Bank's best estimate of ECLs on its exposures. Management overlays are only applied if necessary to account for significant idiosyncratic risks which are not yet reflected in underlying risk ratings, LGD, exposure profile or scenario weights used and which are expected to have a high probability of occurrence.

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 and the Assessment of the Allowance for Credit Losses, to preserve the independence and integrity of the approval and decision-making process.

For Multinational Corporations ('MNC') exposures which are not supported by legally enforceable guarantee, management makes judgement based of local standalone risk grading for ECL measurement.

There have not been any significant changes in estimation techniques or assumptions made during the reporting period.

5 CREDIT RISK (CONTINUED)

Expected credit loss measurement (continued)

Stage 3 portfolio estimation techniques

The Bank also uses three scenarios to estimate ECL for Stage 3 loans. However, these scenarios focus on the microeconomic conditions applicable to a specific borrower as those considered the most relevant in predicting losses for that borrower are applied. The borrower may be experiencing a variety of specific difficulties, and no one macroeconomic theme can be applied to the total impaired loan portfolio.

ECL measurement for Non-TCP portfolio

The Bank's approach to measuring ECLs for Non-TCP portfolios depends on the type of instrument.

Fee receivables

For fee receivables arising from contracts with customers (e.g. brokerage fee receivables), the Bank applies a provision matrix as a practical expedient for calculating expected credit losses. The matrix provides that in the case of institutional customers, a receivable is considered to have had a SICR (i.e. Stage 2) if it is 90 days past due and credit-impaired (i.e. Stage 3) if it is 180 days past due at which point an ECL for 100% of the amount owned is recognised. In the case of non-institutional customers, a receivable is considered to have had a SICR (i.e. Stage 2) if it is 30 days past due and credit-impaired (i.e. Stage 3) if it is 90 days past due at which point an ECL for 100% of the amount owned is recognised. The Bank has not had significant losses on its fee receivable portfolios and are considered to be immaterial.

Other non-TCP

The Bank has determined that ECLs on all other non-TCP portfolios are immaterial due to: the existence of credit risk mitigants such as the existence of the collateral; the credit quality of the borrower (e.g. investment-grade); and/or the short-term nature of the instrument. Similarly the Bank has determined that these non-TCP portfolios are without SICR (i.e Stage 1) due to the credit quality of the borrower and/or the short-term nature of the instrument.

For inter-company loans and receivables, the Bank evaluates the counterparty based on the consolidated Firm's resolution and recovery plan, tenor of the loan/receivable, and any collateral received. The Bank has not experienced any losses on inter-company loans and receivables.

The Bank continues to monitor its Non-TCP portfolios to ensure the described framework is appropriate and its exposure to credit risk and ECLs on these portfolios is adequately reflected in the allowance for credit losses.

5 CREDIT RISK (CONTINUED)

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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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(i) Geographical Distribution (continued)

	31.12.2018									
	Short-term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held at fair value through profit and loss	Derivative financial instruments	Financial assets held at other comprehensive income	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	4,654,069	39,166	2,024,152	503,745	1,356,469	333,825	95,191	39,599	9,046,216	2,643,754
United Kingdom	-	-	-	24,297	-	-	254,706	-	279,003	272,369
USA	-	-	-	20,295	-	-	101,416	19	121,730	101,298
Hong Kong	-	-	-	334	-	-	4,361	-	4,695	5,106
Singapore	3,055	-	-	7,179	-	-	123	47,236	57,593	56,485
Others	7,823	-	-	12,357	-	19,528	870	-	40,578	20,373
	4,664,947	39,166	2,024,152	568,207	1,356,469	353,353	456,667	86,854	9,549,815	3,099,385
Assets not subject to credit risk	154	-	-	-	-	(204)	-	21,852	21,802	-
	4,665,101	39,166	2,024,152	568,207	1,356,469	353,149	456,667	108,706	9,571,617	3,099,385

* 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.

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BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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 RM'000	Securities purchased under resale agreement RM'000	Financial assets held for trading RM'000	Derivative financial instruments RM'000	Financial assets available-for-sale RM'000	Loans and advances RM'000	Amount due from related parties RM'000	Other assets* RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Malaysia	3,884,641	46,776	785,970	431,368	148,476	274,832	170,274	33,512	5,775,849	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
	3,893,261	46,776	887,490	516,759	148,476	308,403	549,747	52,838	6,403,750	2,704,442
Assets not subject to credit risk	425	-	-	-	-	(1,326)	-	29,923	29,022	-
	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)

(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)

	31.12.2018									
	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Financial assets held at fair value through profit and loss RM'000	Derivative financial instruments RM'000	Financial assets held at other comprehensive income RM'000	Loans and advances RM'000	Amount due from related parties RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Manufacturing	-	-	-	24,771	-	208,776	-	-	233,547	420,446
Wholesale and retail	-	-	-	1,285	-	4,606	-	-	5,891	5,690
Finance, insurance and business services	29,294	-	204,946	526,385	-	60,045	453,435	79,559	1,353,664	2,377,584
Government and Government Agencies	4,635,653	39,166	1,819,206	12,165	1,356,469	-	-	60	7,862,719	44,489
Electricity, gas and water	-	-	-	1,673	-	75,208	-	3	76,884	147,197
Transport, storage and communication	-	-	-	12	-	3,466	-	-	3,478	88,750

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5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(ii) Industry Distribution (continued)

31.12.2018

	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Financial assets held at fair value through profit and loss RM'000	Derivative financial instruments RM'000	Financial assets held at other comprehensive income RM'000	Loans and advances RM'000	Amount due from related parties RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Individual/Purchase of landed property - residential	-	-	-	-	-	1,252	-	-	1,252	182
Others	-	-	-	1,916	-	-	3,232	7,232	12,380	15,047
	4,664,947	39,166	2,024,152	568,207	1,356,469	353,353	456,667	86,854	9,549,815	3,099,385
Assets not subject to credit risk	154	-	-	-	-	(204)	-	21,852	21,802	-
	4,665,101	39,166	2,024,152	568,207	1,356,469	353,149	456,667	108,706	9,571,617	3,099,385

** 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.

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5 CREDIT RISK (CONTINUED)

(ii) Industry Distribution (continued)

31.12.2017

	Short term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Financial assets held for trading RM'000	Derivative financial instruments RM'000	Financial assets available-for-sale RM'000	Loans and advances* RM'000	Amount due from related parties RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies 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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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

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 RM'000	Securities purchased under resale agreement RM'000	Financial assets held for trading RM'000	Derivative financial instruments RM'000	Financial assets available-for-sale RM'000	Loans and advances RM'000	Amount due from related parties RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Individual/Purchase of landed property - residential	-	-	-	-	-	1,444	-	-	1,444	172
Consumption credit	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	4,470	-	-	-	2,803	7,273	1,581
	3,893,261	46,776	887,490	516,759	148,476	308,403	549,747	52,838	6,403,750	2,704,442
Assets not subject to credit risk	425	-	-	-	-	(1,326)	-	29,923	29,022	-
	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 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
31.12.2018				
On-balance sheet exposures				
Cash and short-term funds	4,665,101	-	-	4,665,101
Securities purchased under resale agreement	39,166	-	-	39,166
Financial assets held at fair value through profit and loss ("FVTPL")	1,313,369	303,909	406,874	2,024,152
Derivative financial instruments	415,579	141,189	11,439	568,207
Financial assets held at fair value through other comprehensive income ("FVOCI")	1,356,469	-	-	1,356,469
Loans and advances	352,051	216	882	353,149
Amount due from related parties	456,667	-	-	456,667
Total on-balance sheet exposures	8,598,402	445,314	419,195	9,462,911
Off-balance sheet exposures				
Over-the-counter ('OTC') derivatives	1,034,047	1,360,367	104,023	2,498,437
Off balance sheet exposures other than OTC derivatives	467,356	130,604	2,988	600,948
Total off-balance sheet exposures	1,501,403	1,490,971	107,011	3,099,385
Total on and off-balance sheet exposures	10,099,805	1,936,285	526,206	12,562,296

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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
31.12.2017				
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	437,780	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	598,432	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	1,996,880	699,437	9,054,453

5 CREDIT RISK (CONTINUED)

5.2 Past Due and Impaired Loans and Advances

Stage 3 - Default and credit-impairment

Financial instruments are included in Stage 3 when there is objective evidence of impairment at the reporting date. For Stage 3 instruments, ECL is calculated considering the probability of default over the remaining life of each instrument ("Lifetime ECL") on an individual asset basis and interest revenue is calculated on the net carrying amount (that is, net of the allowance for credit losses). All financial assets, regardless of their category as TCP, Non-TCP or debt security, are considered to be credit-impaired and included in Stage 3 when one or more of the following events that have a detrimental impact on the estimated future cash flows of that financial asset has occurred:

a) Significant financial difficulty of the issuer or the borrower;
b) A default or past due event;
c) The Bank have granted a concession to the borrower for economic or contractual reasons relating to the borrower's financial difficulty;
d) It has become probable the borrower will enter bankruptcy or other financial reorganization;
e) An active market for that financial asset no longer exists because of the borrower's financial difficulties; or
f) A financial asset is purchased or originated at a deep discount that reflects a credit loss has been incurred.

The criteria above are consistent with how the Bank defines 'default' for internal credit risk management purposes.

A financial asset is considered to no longer be in default (i.e. the default has been cured) when the borrower has made payments for a minimum of six months and there is other objective evidence of credit improvement.

Stage 2 - Significant increase in credit risk

Financial instruments that have experienced a significant increase in credit risk ("SICR") since initial recognition for which there is no objective evidence of impairment are included in Stage 2. For Stage 2 instruments, ECL is calculated considering the probability of default over the remaining life of the instrument on a collective basis and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for the credit loss allowance).

The Bank assesses for evidence of a SICR by considering whether there has been a change in the risk of a default occurring since the financial instrument was initially recognised.

For TCP, the Bank considers a financial instrument to have experienced a SICR when any of the following quantitative or qualitative criteria have been met:

- Quantitative criteria

  The Bank determines whether the probability of a default ("PD") occurring has changed between a financial instruments initial recognition and the reporting date. If the change in PD exceeds certain relative and absolute thresholds, the instrument has experienced a SICR. The assessment of the PD takes into account reasonable and supportable information, including information about past events, current and future economic conditions.

5 CREDIT RISK (CONTINUED)

5.2 Past Due and Impaired Loans and Advances (continued)

Stage 2 - Significant increase in credit risk (continued)

- Qualitative criteria

  The Bank monitors borrowers that may become impaired by including them on its watch list. Obligors that are on the watch list are considered to have experienced a SICR. The Bank also monitors changes in internal credit risk ratings and delinquency triggers to determine if a borrower has experienced a SICR.

  The Bank's TCP portfolio is mostly comprised of large, international, wholesale borrowers. For these borrowers, short-term delinquencies alone are not considered to be a meaningful credit quality indicator as the Bank's experience has shown that other internal credit quality indicators generally identifies increases in credit risk well before delinquency. As such, the Bank has determined that using the quantitative and qualitative criteria described above are most appropriate for capturing SICR for TCP.

  Financial instruments that are in Stage 2 are moved to Stage 1 as described below in the period that the quantitative and qualitative criteria for a SICR no longer exist.

  The approach for determining whether there has been a SICR for Non-TCP portfolios depends on the type of instrument. The Bank presumes non-TCP financial assets that are 30 days past due have experienced a SICR and are included in Stage 2 except for certain fee receivables that are classified in Stage 2 at 90 days past due. Finally, the remainder of the Bank's Non-TCP are mostly short-term and generally no SICR has arisen prior to the maturity of that instrument.

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/ECL allowance by sectors are set out in the following table:

	Stage 2 credit not impaired loans and advances RM'000	Stage 3 credit impaired loans and advances RM'000	ECL credit impaired allowance RM'000	ECL not credit impaired allowance RM'000	ECL credit impaired allowance during the year RM'000	Write offs during the year RM'000
31 Dec 2018						
Individual/Purchase of landed property – residential	-	66	23	181	(18)	-
	-	66	23	181	(18)	-

	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						
Individual/Purchase of landed property – residential	-	111	41	1,285	(4)	-
	-	111	41	1,285	(4)	-

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:

	Stage 2 credit not impaired loans and advances RM'000	Stage 3 credit impaired loans and advances RM'000	ECL credit impaired allowance RM'000	ECL not credit impaired allowance RM'000
31 Dec 2018				
Malaysia	-	66	23	181

	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

(iii) Movements in allowance for impaired loans and advances

(b) Movements in allowance for impaired loans and advances are as follows:

	31.12.2018 RM'000	31.12.2017 RM'000
Individual assessment allowance		
At 1 January	41	45
Effects of adoption of MFRS 9	(41)	-
	-	45
Written back during the financial year	-	(4)
At 31 December	-	41
Collective assessment allowance		
At 1 January	1,285	1,053
Effects of adoption of MFRS 9	(1,285)	-
	-	1,053
Written back during the financial year	-	232
At 31 December	-	1,285

5 CREDIT RISK (CONTINUED)

5.2 Past Due and Impaired Loans and Advances (continued)

(iii) Movement in expected credit losses for loans and advances

	Stage 1	Stage 2	Stage 3	
	12 months ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
	RM'000	RM'000	RM'000	RM'000
As at 1 January 2018	85	-	39	124
Loans derecognised or repaid	(7)	-	(3)	(10)
New originated or purchased	40	16	-	56
Changes due to change in credit risk	37	-	(13)	24
Changes in models/risk parameters	3	-	-	3
Transfers:				
Transfer from Stage 1 to Stage 2	(20)	27	-	7
As at 31 December 2018	138	43	23	204

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 2018 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%	4,813,802	-	-	-	-	-	-	154	4,813,956	-
20%	1,241,436	44,389	1,567,748	-	-	-	-	-	2,853,573	570,715
35%	-	-	-	-	-	1,182	-	-	1,182	414
50%	-	-	773,084	488,650	3,950	43	-	-	1,265,727	632,864
100%	-	-	-	104,838	1,031,724	-	-	24,594	1,161,156	1,161,155
150%	-	-	-	-	-	-	4	-	4	6
Total	6,055,238	44,389	2,340,832	593,488	1,035,674	1,225	4	24,748	10,095,598	2,365,154

PRELIMINARY DRAFT
For Discussion Purposes
Subject to Changes

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5 CREDIT RISK (CONTINUED)

5.3 Credit Risk Exposures under Standardised Approach (continued)

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
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

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

Exposure class	Moody S & P Fitch RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA- RM'000	A1 to A3 A+ to A- A+ to A- A1 to A- A+ to A- RM'000	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 BBB+ to BB- RM'000	B1 to C B+ to D B+ to D B to D B+ to D RM'000	Unrated Unrated Unrated Unrated Unrated RM'000
31.12.2018						
On and Off: Balance Sheet Exposures						
Public Sector Entities		-	44,231	-	-	158
Insurance companies, securities firms and fund managers		-	514,730	78,758	-	-
Corporates		-	95,494	502,782	437,216	182
		-	654,455	581,540	437,216	340
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

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	Aaa to Aa3	A1 to A3	Baa1 to 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	A1 to A-	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure class		RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2018						
On and Off: Balance Sheet Exposures						
Sovereigns/Central Banks		-	6,055,238	-	-	-
Banks		-	1,984,129	356,662	41	-
		-	8,039,367	356,662	41	-
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	-

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.

31.12.2018	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	6,054,980	-	-
Public Sector Entities	158	-	-
Banks	261,662	-	-
Insurance companies, securities firms and fund managers	298,911	-	-
Corporates	354,525	-	-
Residential mortgages	1,182	-	-
Higher risk assets	4	-	-
Other assets	24,748	-	-
Defaulted exposures	43	-	-
Total on-balance sheet exposures	6,996,213	-	-
Off-balance sheet exposures			
Over-the-counter ('OTC') derivatives	2,498,437	-	-
Off balance sheet exposures other than OTC derivatives	600,948	83,572	350,990
Total off-balance sheet exposures	3,099,385	83,572	350,990
Total on and off-balance sheet exposures	10,095,598	83,572	350,990

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5 CREDIT RISK (CONTINUED)

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

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)

5.5 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.

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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.

31.12.2018	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	479,113	-	479,113	467,360
Transaction-related contingent items	69,002	-	34,500	30,267
Short-term self-liquidating trade related contingencies	1,382	-	276	276
Foreign exchange related contracts:				
- less than one year	33,639,324	145,076	579,311	259,452
- one year to less than five years	3,461,257	37,847	349,180	123,066
- more than five years	206,850	7,485	42,236	11,798
Interest rate related contracts:				
- less than one year	5,588,611	3,782	15,280	4,995
- one year to less than five years	27,887,921	72,487	763,008	262,044
- more than five years	1,049,595	3,954	61,787	19,758
Equity related contracts				
- less than one year	2,346,030	266,721	439,456	136,257
- one year to less than five years	1,121,817	12,803	164,607	106,245
Credit related contracts				
- one year to less than five years	374,346	18,052	83,572	27,748
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	174,117	-	87,059	87,059
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	1,117,244	-	-	-
	77,516,609	568,207	3,099,385	1,536,325

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

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5 CREDIT RISK (CONTINUED)

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

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)

The table below shows the credit derivative contracts for client intermediation activities:

31.12.2018	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Credit related contracts			
Credit default swap			
- Protection bought	203,821	46,792	9,358
- Protection sold	170,525	36,780	18,390
	374,346	83,572	27,748

31.12.2017	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Credit related contracts			
Credit default swap			
- Protection bought	50,050	11,059	2,212

6 MARKET RISK

Market risk is the risk associated with the effect of changes in market factors such as interest and foreign exchange rates, equity and commodity prices, credit spreads or implied volatilities, on the value of assets and liabilities held for both the short and long term.

Market Risk Management monitors market risks throughout the Bank and defines market risk policies and procedures. The Market Risk Management function reports to the Bank CRO, and seeks to manage risk, facilitate efficient risk/return decisions, reduce volatility in operating performance and provide transparency into the Bank's market risk profile.

Risk Governance and Policy Framework

The Bank's approach to market risk governance mirrors the Firmwide approach and is outlined in the Bank's Market Risk Management Framework ('Framework'), which includes the following:

- Responsibilities of the Legal Entity Risk Manager ('LERM') and Regional Legal Entity Market Risk ('Market Risk')
- Market Risk measures utilised such as VaR, Stress and non-statistical measures
- Controls such as JPMCB Berhad's market risk limit framework (limit levels, limit signatories, limit reviews and escalation)

The Bank's Risk/Asset Liability Committee ('RALCO') approves substantive changes to the Framework and approves this Framework annually.

Risk Measurement

The Bank uses various metrics both statistical and non-statistical to assess risk. As the appropriate set of risk measures utilised for a given business activity depends on business mandate, risk horizon, materiality, market volatility and other factors, not all measures are used in all cases.

VaR

The Bank utilises Value-at risk ("VaR"), a statistical risk measure, to estimate the potential loss from adverse market moves in the current market environment. The Bank has a single VaR framework used as a basis for calculating Risk Management VaR.

The framework uses the Bank using historical simulation based on data for the previous 12 months. Risk Management VaR is calculated assuming a one-day holding period and an expected tail-loss methodology which approximates a 95% confidence level. These VaR results are reported to RALCO and Board of Directors.

The Bank applies the Firmwide approach for Risk Management VaR, utilizing a 99% confidence level, as described above, for internal risk management purposes.

6 MARKET RISK (CONTINUED)

VaR (Continued)

The table below shows the result of the Bank's VaR:

	2018 RM'000	2017 RM'000
99% VaR	3,338	2,597

Stress Testing

Along with VaR, stress testing is an important tool in measuring and controlling risk. The Firmwide Stress Infrastructure ("FSI") is intended to capture the Firm's (including the Bank's) exposure to unlikely but plausible events in abnormal markets. The Bank run weekly stress tests on market-related risks across the lines of business using multiple scenarios that assume significant changes in risk factors such as credit spreads, equity prices, interest rates, currency rates or commodity prices.

The Bank use a number of standard scenarios that capture different risk factors across asset classes including geographical factors, specific idiosyncratic factors and extreme tail events. The stress testing framework calculates multiple magnitudes of potential stress for both market rallies and market sell-offs for each risk factor and combines them in multiple ways to capture different market scenarios. The flexibility of the stress testing framework allows risk managers to construct new, specific scenarios that can be used to form decisions about future possible stress events.

Stress testing complements VaR by allowing risk managers to shock current market prices to more extreme levels relative to those historically realised, and to stress test the relationships between market prices under extreme scenarios.

Stress-test results, trends and qualitative explanations based on current market risk positions are reported to the Bank's RALCO as appropriate.

Stress scenarios are defined and reviewed by Market Risk, and significant changes are reviewed by the relevant line of business's risk committees and may be redefined on a periodic basis to reflect current market conditions.

Other Non-Statistical

Aside from VaR and stress testing, other specific risk measures, such as, but not limited to, credit spread sensitivities, net open positions, basis point values, option sensitivities, are also utilised within specific market context and aggregated across businesses.

The Bank utilizes non-statistical risk measures to measure and monitor risk e.g. FX Delta, IR BPV, etc.

6 MARKET RISK (CONTINUED)

Risk Monitoring and Control

Limits

Market risk limits are employed as the primary control to align the Bank's market risk with certain quantitative parameters within the firm's Risk Appetite framework.

Senior management, including the Bank's CEO, CRO and Market Risk Management are responsible for reviewing and approving limits on an ongoing basis. Limits that have not been reviewed within a specified time period by Market Risk Management are escalated to senior management.

Limit breaches are required to be reported in a timely manner to limit signatories. Market Risk Management and senior management as appropriate determine the course of action required to return to compliance, such as a reduction in risk or the granting a temporary increase in limits. Aged or significant breaches are escalated to senior management, the line of business risk committee, and/or the Bank's Risk/Asset Liability Committee ('RALCO').

Market Risk reviews the Bank's market risk limits at least semi-annually. Limit reviews appropriately consider the underlying trading, investing and hedging strategies of the business, along with capital or regulatory requirements, as appropriate.
The risk weighted assets and capital requirements for the various categories of risk under Market risk are set out in the following table:

31.12.2018	Long position	Short position	Risk weighted assets RM'000	Capital requirements RM'000
Interest rate risk	92,387,526	90,369,435	1,446,957	115,756
Equity position risk	15,909	-	6,363	509
Foreign currency risk	1,533	90,754	90,750	7,260
Options risk			357,613	28,609
			1,901,683	152,134
31.12.2017				
Interest rate risk	85,484,880	84,242,850	1,274,852	101,988
Foreign currency risk	744	184,585	184,588	14,767
Options risk			321,413	25,173
			1,780,853	142,468

7 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or due to external events that are neither market- nor credit-related. Operational risk is inherent in the Bank's activities and can manifest itself in various ways, including fraudulent acts, business interruptions, inappropriate employee behaviour, failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their arrangements. These events could result in financial losses, litigation and regulatory fines, as well as other damages to the Bank.

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 in the Banking Book (IRRBB) is defined as interest rate risk resulting from the Bank's traditional banking activities (accrual accounted on and off-balance sheet positions) which includes extension of loans and credit facilities, taking deposits and issuing debt (collectively referred to as 'non-trading' activities); and also the impact from Treasury and Chief Investment Office (T/CIO) investment portfolio and other related T/CIO activities. Interest rate risk from non-trading activities can occur due to a variety of factors, including but not limited to:

- Difference in the timing of re-pricing of assets, liabilities and off-balance sheet instruments;
- Differences in the balances of assets, liabilities and off-balance sheet instruments that re-price at the same time;
- Differences in the amounts by which short-term and long-term market interest rates change;
- Impact of changes in the duration of various assets, liabilities or off-balance sheet instruments as interest rates change

8 INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK (CONTINUED)

IRRBB Management

Treasury and Chief Investment Office (T/CIO) manages IRRBB exposure on behalf of the Bank by identifying, measuring, modelling and monitoring interest rate risk across the Bank's balance sheet. T/CIO identifies and understands material balance sheet impacts of new initiatives and products and executes market transactions to manage interest rate risk through T/CIO investment portfolio's positions.

IRRBB is evaluated using Economic Value Sensitivity ("EVS") under two parallel and four non-parallel shifts in interest rate curve on the economic value of the banking book.

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

	Increase/(Decrease)	
31.12.2018	+100bps	-100 bps
	RM'000	RM'000
Impact on Economic Value		
MYR	15,867	(15,867)
USD	40,665	(40,665)
Other	463	(463)
	56,995	(56,995)

	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)