HONG LEONG INVESTMENT BANK BERHAD

Company no: 10209-W
(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018

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1. INTRODUCTION

The capital adequacy ratios of Hong Leong Investment Bank Berhad ("HLIBB" or "the Bank") and its subsidiaries ("the Group") are computed in accordance with the Bank Negara Malaysia's ("BNM") revised Risk-Weighted Capital Adequacy Framework ("RWCAF") - Basel II issued on 2 February 2018.

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

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

2. SCOPE OF APPLICATION

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

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

The Group’s capital requirements are generally based on the principles of consolidation adopted in the preparation of its annual financial statements, as discussed in Note 2A to the Financial Statements for financial year ended 30 June 2018, and differs from that used for regulatory capital purposes.

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

3. CAPITAL STRUCTURE AND ADEQUACY

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

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

The following table sets forth details on the capital resources, capital adequacy ratios and risk-weighted assets for the Group and the Bank as at 31 December 2018. BNM's revised RWCAF - Basel II sets out the minimum capital adequacy ratios for the banking institutions and the methodology for calculating these ratios. As at 31 December 2018, the Group's and the Bank's Tier I and the total capital adequacy ratios were higher than BNM's minimum requirements.

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

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

31 December 2018

	The Group	The Bank
Before deducting proposed dividends:		
Common equity tier 1 ("CET1") ratio	**18.951%**	**18.937%**
Tier I capital ratio	**18.951%**	**18.937%**
Total capital ratio	**22.339%**	**22.327%**
After deducting proposed dividends:		
CET I capital ratio	**18.951%**	**18.937%**
Tier I capital ratio	**18.951%**	**18.937%**
Total capital ratio	**22.339%**	**22.327%**

The components of CET1, Tier 1 and total capital of the Bank are as follows:

	The Group RM'000	The Bank RM'000
CET1 capital		
Paid-up ordinary share capital	**252,950**	**252,950**
Share premium	**-**	**-**
Retained profits	**192,674**	**192,445**
Other reserves	**1,919**	**1,919**
Less: goodwill and intangible assets	**(31,121)**	**(31,121)**
Less: deferred tax assets	**(93,569)**	**(93,569)**
Less: Investment in subsidiaries	**-**	**(200)**
Less: 55% of cumulative gains of financial investments at FVOCI	**(1,055)**	**(1,055)**
Total CET1 capital	**321,798**	**321,369**
Tier 1 capital	**321,798**	**321,369**
Tier-2 capital		
General Provisions [1]	**7,534**	**7,534**
Subordinated Notes	**50,000**	**50,000**
Total Tier 2 capital	**57,534**	**57,534**
Total capital	**379,332**	**378,903**

Note:

(1) Pursuant to BNM's policy document on Financial Reporting, general provision refers to loss allowance, measured at an amount equal to 12-month and lifetime expected credit losses and regulatory reserve, to the extent they are ascribed to non-credit impaired exposures, determined under standardised approach for credit risk.

Breakdown of risk-weighted assets in the various risk weights:

	The Group RM'000	The Bank RM'000
Credit risk	**602,792**	**602,762**
Market risk	**819,780**	**819,184**
Operational risk	**275,525**	**275,141**
	1,698,097	**1,697,087**

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

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

30 June 2018

	The Group	The Bank
Before deducting proposed dividends:		
Common equity tier 1 ("CET1") ratio	33.091%	33.073%
Tier I capital ratio	33.091%	33.073%
Total capital ratio	37.634%	37.619%
After deducting proposed dividends:		
CET I capital ratio	29.135%	29.115%
Tier I capital ratio	29.135%	29.115%
Total capital ratio	33.679%	33.661%

The components of CET1, Tier 1 and total capital of the Bank are as follows:

	The Group RM'000	The Bank RM'000
CET1 capital		
Paid-up ordinary share capital	252,950	252,950
Share premium	-	-
Retained profits	250,314	250,085
Other reserves	(3,355)	(3,355)
Less: goodwill and intangible assets	(31,672)	(31,672)
Less: deferred tax assets	(87,582)	(87,582)
Less: Investment in subsidiaries	-	(200)
Less: 55% of cumulative gains of financial instruments available-for-sale	-	-
Total CET1 capital	380,655	380,226
Tier 1 capital	380,655	380,226
Tier-2 capital		
Collective assessment allowance [(1)]	2,266	2,266
Subordinated Notes	50,000	50,000
Total Tier 2 capital	52,266	52,266
Total capital	432,921	432,492

Note:
(1) Excludes collective assessment allowance attributable to loans and advances classified as impaired.

Breakdown of risk-weighted assets in the various risk weights:

	The Group RM'000	The Bank RM'000
Credit risk	407,913	407,598
Market risk	457,231	457,231
Operational risk	285,193	284,840
	1,150,337	1,149,669

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3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

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

The Group **31 December 2018** **Exposure Class**	**Gross Exposures RM'000**	**Net Exposures RM'000**	**Risk-Weighted Assets RM'000**	**Capital Requirements RM'000**
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns & Central Banks	**961,338**	**961,338**	**-**	**-**
Public Sector Entities	**3**	**3**	**1**	**-**
Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDBs")	**1,011,989**	**803,343**	**246,336**	**19,707**
Insurance Companies, Securities Firms & Fund Managers	**-**	**-**	**-**	**-**
Corporates	**1,057,055**	**1,057,055**	**224,255**	**17,940**
Regulatory Retail	**435**	**435**	**326**	**26**
Other Assets	**244,021**	**244,021**	**44,997**	**3,600**
Equity Exposures	**-**	**-**	**-**	**-**
Total On-Balance Sheet Exposures	**3,274,841**	**3,066,195**	**515,915**	**41,273**
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	**55,500**	**55,500**	**55,500**	**4,440**
Derivative Financial Instruments	**152,194**	**152,194**	**31,377**	**2,510**
Total Off-Balance Sheet Exposures	**207,694**	**207,694**	**86,877**	**6,950**
Total On and Off-Balance Sheet Exposures	**3,482,535**	**3,273,889**	**602,792**	**48,223**
(ii) Market Risk	Long Position	Short Position		
Interest Rate Risk	**10,799,867**	**9,894,673**	**655,678**	**52,454**
Equity Risk	**9,776**	**-**	**22,311**	**1,785**
Foreign Exchange Risk	**2,443**	**4,291**	**4,291**	**343**
Options Risk	**11,000**	**-**	**137,501**	**11,000**
	10,823,086	**9,898,964**	**819,780**	**65,582**
(iii) Operational Risk			**275,526**	**22,042**
Total RWA and Capital Requirements			**1,698,098**	**135,847**

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

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

The Group **30 June 2018** **Exposure Class**	**Gross Exposures RM'000**	**Net Exposures RM'000**	**Risk-Weighted Assets RM'000**	**Capital Requirements RM'000**
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns & Central Banks	1,037,432	1,037,432	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDBs")	354,072	354,072	76,143	6,091
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-
Corporates	1,099,255	862,317	258,353	20,668
Residential Mortgages	429	429	321	26
Other Assets	348,941	348,941	37,084	2,967
Equity Exposures	245	245	245	20
Total On-Balance Sheet Exposures	2,840,374	2,603,436	372,146	29,772
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	5,914	5,914	1,983	159
Derivative Financial Instruments	160,248	160,248	33,784	2,703
Total Off-Balance Sheet Exposures	166,162	166,162	35,767	2,862
Total On and Off-Balance Sheet Exposures	3,006,536	2,769,598	407,913	32,634
(ii) Market Risk	Long Position	Short Position		
Interest Rate Risk	9,430,468	8,248,377	442,265	35,381
Equity Risk	6,252	-	12,865	1,029
Foreign Exchange Risk	1,604	2,079	2,079	166
Options Risk	19	-	22	2
	9,438,343	8,250,456	457,231	36,579
(iii) Operational Risk			285,193	22,815
Total RWA and Capital Requirements			1,150,337	92,028

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3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

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

The Bank **31 December 2018** **Exposure Class**	**Gross Exposures RM'000**	**Net Exposures RM'000**	**Risk-Weighted Assets RM'000**	**Capital Requirements RM'000**
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns & Central Banks	**961,338**	**961,338**	-	-
Public Sector Entities	-	-	-	-
Banks, DFI & MDBs	**1,011,931**	**1,011,931**	**246,324**	**19,706**
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-
Corporates	**1,057,055**	**848,409**	**224,255**	**17,940**
Regulatory Retail	**435**	**435**	**326**	**26**
Other Assets	**244,004**	**244,004**	**44,980**	**3,598**
Equity Exposures	-	-	-	-
Total On-Balance Sheet Exposures	**3,274,763**	**3,066,117**	**515,885**	**41,270**
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	**55,500**	**55,500**	**55,500**	**4,440**
Derivative Financial Instruments	**152,194**	**152,194**	**31,377**	**2,510**
Total Off-Balance Sheet Exposures	**207,694**	**207,694**	**86,877**	**6,950**
Total On and Off-Balance Sheet Exposures	**3,482,457**	**3,273,811**	**602,762**	**48,220**
(ii) Market Risk	Long Position	Short Position		
Interest Rate Risk	**10,799,867**	**9,894,673**	**655,678**	**52,454**
Equity Risk	**9,478**	-	**21,715**	**1,737**
Foreign Exchange Risk	**2,443**	**4,291**	**4,291**	**343**
Options Risk	**11,000**	-	**137,501**	**11,000**
	10,822,788	**9,898,964**	**819,184**	**65,535**
(iii) Operational Risk			**275,141**	**22,011**
Total RWA and Capital Requirements			**1,697,087**	**135,766**

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

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

The Bank 30 June 2018 Exposure Class	**Gross Exposures RM'000**	**Net Exposures RM'000**	**Risk-Weighted Assets RM'000**	**Capital Requirements RM'000**
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns & Central Banks	1,037,432	1,037,432	-	-
Public Sector Entities	-	-	-	-
Banks, DFI & MDBs	353,962	353,962	76,121	6,090
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-
Corporates	1,098,962	862,024	258,060	20,645
Residential Mortgages	429	429	321	26
Other Assets	348,941	348,941	37,084	2,967
Equity Exposures	245	245	245	20
Total On-Balance Sheet Exposures	2,839,971	2,603,033	371,831	29,748
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	5,914	5,914	1,983	159
Derivative Financial Instruments	160,248	160,248	33,784	2,703
Total Off-Balance Sheet Exposures	166,162	166,162	35,767	2,862
Total On and Off-Balance Sheet Exposures	3,006,133	2,769,195	407,598	32,610
(ii) Market Risk	Long Position	Short Position		
Interest Rate Risk	9,430,468	8,248,377	442,265	35,381
Equity Risk	6,252	-	12,865	1,029
Foreign Exchange Risk	1,604	2,079	2,079	166
Options Risk	19	-	22	2
	9,438,343	8,250,456	457,231	36,579
(iii) Operational Risk			284,840	22,787
Total RWA and Capital Requirements			1,149,669	91,976

4. RISK MANAGEMENT

Overview

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

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

Risk governance structure

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

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

The BARMC is responsible for the following:

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

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

4. RISK MANAGEMENT (continued)

Risk governance structure (continued)

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

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

Eight broad principles of risk management

(i) Align risk appetite and strategy

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

(ii) Link growth, risk and return

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

(iii) Enhance risk response decisions

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

(iv) Minimise operational surprises and losses

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

(v) Identify and manage cross-risks

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

(vi) Provide integrated responses to multiple risks

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

4. RISK MANAGEMENT (continued)

Eight broad principles of risk management (continued)

(vii) Seize opportunities

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

(viii) Rationalise capital

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

Risk management framework

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

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

Risk management culture

The risk management culture of the Group encompasses the following:

(i) Developing strategies

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

(ii) Adopting skills

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

(iii) Cultivating shared values

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

4. RISK MANAGEMENT (continued)

Risk management approach

The risk management approach is summarised as follows:

(i) Strategy

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

(ii) Policy

Risks are addressed using specific risk policies.

(iii) Tools

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

(iv) Communication

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

(v) Implementation

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

(vi) Maintenance

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

Risk management process

The risk management approaches are based on four simple processes:

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

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

4. RISK MANAGEMENT (continued)

Risk management process (continued)

(ii) Analyse and evaluate risks:

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

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

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

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

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

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk

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

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

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

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

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

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

Credit Risk Management Process

(i) Identification

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

(ii) Assessment/Measurement

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

(iii) Control/Mitigation

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

(iv) Monitoring/Review

- Analysis/review on loan exposures, asset quality evaluation, and movement of impaired loans and advances.

- Reporting on exposures against approved credit limits.

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit quality of loans and advances

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

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

For description of approaches adopted by the Group and the Bank for the determination of expected credit losses (Stage 1, 2, 3), refer to Note 20(a) to the audited financial statements for financial year ended 31 December 2018.

Gross credit exposure

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

The Group and the Bank	**Malaysia RM'000**	**Other countries RM'000**	**Total RM'000**
31 December 2018			
On-Balance Sheet Exposures			
Financial assets at fair value through profit or loss *	**894,314**	**20,518**	**914,832**
Financial investments at fair value through other comprehensive income *	**1,642,777**	**97,946**	**1,740,723**
Financial investments at amortised cost	**725,652**	**14,564**	**740,216**
Derivatives financial assets	**27,390**	**17**	**27,407**
Loans and advances	**225,869**	**-**	**225,869**
Clients' and brokers' balances	**199,888**	**-**	**199,888**
Total On-Balance Sheet Exposures	**3,715,890**	**133,045**	**3,848,935**
Off-Balance Sheet Exposures			
Credit-related exposures	**55,500**	**-**	**55,500**
Derivative financial instruments	**152,084**	**110**	**152,194**
	207,584	**110**	**207,694**
Total On and Off-Balance Sheet Exposures	**3,923,474**	**133,155**	**4,056,629**

** Excludes equity securities*

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

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

The Group and the Bank	Malaysia RM'000	Other countries RM'000	Total RM'000
30 June 2018			
On-Balance Sheet Exposures			
Securities Purchased Under Resale Agreements	35,126	-	35,126
Financial assets held-for-trading *	1,213,655	4,077	1,217,732
Financial investments available-for-sale *	1,171,288	44,388	1,215,676
Financial investments held-to-maturity	833,420	14,239	847,659
Derivatives financial assets	28,373	978	29,351
Loans and advances	227,757	-	227,757
Clients' and brokers' balances	312,429	-	312,429
Total On-Balance Sheet Exposures	3,822,048	63,682	3,885,730
Off-Balance Sheet Exposures			
Credit-related exposures	5,914	-	5,914
Derivative financial instruments	158,652	1,596	160,248
	164,566	1,596	166,162
Total On and Off-Balance Sheet Exposures	3,986,614	65,278	4,051,892

** Excludes equity securities*

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4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

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

The Group and the Bank 31 December 2018	**Financial assets at fair value through profit or loss RM'000**	**Financial investments at fair value through other comprehensive income RM'000**	**Financial investments at amortised cost RM'000**	**Derivative financial assets RM'000**	**Loans and advances RM'000**	**Clients' and brokers' balances RM'000**	**Securities Purchased Under Resale Agreements RM'000**	**Total on-balance sheet risk exposures RM'000**	**Credit-related Exposures RM'000**	**Derivative Financial Instruments RM'000**	**Total off-balance sheet credit risk exposures RM'000**	**Total on and off-balance sheet credit risk exposures RM'000**
Agriculture	-	-	-	-	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-	-	**50,000**	-	**50,000**	**50,000**
Electricity, gas and water	-	**121,170**	-	-	-	-	-	**121,170**	-	-	-	**121,170**
Construction	**94,933**	**46,905**	**4,985**	-	-	-	-	**146,823**	**1,000**	-	**1,000**	**147,823**
Wholesale and retail	-	-	-	-	-	-	-	-	-	-	-	-
Transport, storage and								-				
communications	**62,225**	**25,301**	-	-	-	-	-	**87,526**	-	-	-	**87,526**
Finance, insurance, real estate								-				
and business services	**585,088**	**1,295,753**	**129,446**	**27,407**	-	-	-	**2,037,694**	-	**152,194**	**152,194**	**2,189,888**
Government and government							-	-				
agencies	**172,586**	**241,402**	**605,785**	-	-	-	-	**1,019,773**	-	-	-	**1,019,773**
Education	-	-	-	-	-	-	-	-	-	-	-	-
Household	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of securities	-	-	-	-	**208,509**	**199,888**	-	**408,397**	-	-	-	**408,397**
Others	-	**10,192**	-	-	**17,360**	-	-	**27,552**	**4,500**	-	**4,500**	**32,052**
	914,832	**1,740,723**	**740,216**	**27,407**	**225,869**	**199,888**	-	**3,848,935**	**55,500**	**152,194**	**207,694**	**4,056,629**

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

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

The Group and the Bank 30 June 2018	**Financial assets held-for-trading RM'000**	**Financial investments available-for-sale RM'000**	**Financial investments held-to-maturity RM'000**	**Derivative financial assets RM'000**	**Loans and advances RM'000**	**Clients' and brokers' balances RM'000**	**Securities Purchased Under Resale Agreements RM'000**	**Total on-balance sheet risk exposures RM'000**	**Credit-related Exposures RM'000**	**Derivative Financial Instruments RM'000**	**Total off-balance sheet credit risk exposures RM'000**	**Total on and off-balance sheet credit risk exposures RM'000**
Agriculture	-	-	-	-	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-	-	-	-	-	-
Electricity, gas and water	-	145,801	-	-	-	-	-	145,801	-	-	-	145,801
Construction	10,256	92,657	-	-	-	-	35,126	138,039	1,000	-	1,000	139,039
Wholesale and retail	-		-	-	-	-	-	-	-	-	-	-
Transport, storage and											-	
communications	59,733	65,722	-	-	-	-	-	125,455	-	-	-	125,455
Finance, insurance, real estate											-	
and business services	1,056,638	647,851	112,553	29,351	-	-	-	1,846,393	4,914	160,248	165,162	2,011,555
Government and government							-				-	
agencies	91,105	243,363	735,106	-	-	-	-	1,069,574	-	-	-	1,069,574
Education	-	-	-	-	-	-	-	-	-	-	-	-
Household	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of securities	-	-	-	-	208,041	312,429	-	520,470	-	-	-	520,470
Others	-	20,282	-	-	19,716	-	-	39,998	-	-	-	39,998
	1,217,732	1,215,676	847,659	29,351	227,757	312,429	35,126	3,885,730	5,914	160,248	166,162	4,051,892

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure

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

The Group and the Bank 31 December 2018	Up to 1 Year RM'000	1 to 5 Years RM'000	Over 5 Years RM'000	No specific maturity RM'000	Total RM'000
On-Balance Sheet Exposures					
Financial assets at fair value through profit or loss	**489,174**	**94,566**	**331,092**	**-**	**914,832**
Financial investments at fair value through other comprehensive income	**594,339**	**740,743**	**405,641**	**-**	**1,740,723**
Financial investments at amortised cost	**92,922**	**504,311**	**142,983**	**-**	**740,216**
Derivatives financial assets	**17,957**	**8,438**	**1,012**	**-**	**27,407**
Loans and advances	**222,310**	**3,504**	**55**	**-**	**225,869**
Clients and brokers balances	**199,888**	**-**	**-**	**-**	**199,888**
Total On-Balance Sheet Exposures	**1,616,590**	**1,351,562**	**880,783**	**-**	**3,848,935**
Off-Balance Sheet Exposures					
Credit-related Exposures	**50,000**	**5,500**	**-**	**-**	**55,500**
Derivative Financial Instruments	**61,336**	**78,069**	**12,789**	**-**	**152,194**
Total Off-Balance Sheet Exposures	**111,336**	**83,569**	**12,789**	**-**	**207,694**
Total On and Off-Balance Sheet Exposures	**1,727,926**	**1,435,131**	**893,572**	**-**	**4,056,629**

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure

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

The Group and the Bank **30 June 2018**	**Up to 1 Year** **RM'000**	**1 to 5 Years** **RM'000**	**Over 5 Years** **RM'000**	**No specific maturity** **RM'000**	**Total** **RM'000**
On-Balance Sheet Exposures					
Securities Purchased Under Resale Agreements	35,126	-	-	-	35,126
Financial assets held-for-trading	919,284	51,368	247,080	-	1,217,732
Financial investments available-for-sale	40,664	855,349	319,663	-	1,215,676
Financial investments held-to-maturity	55,371	670,773	121,515	-	847,659
Derivatives financial assets	17,382	11,285	684	-	29,351
Loans and advances	208,365	19,334	58	-	227,757
Clients and brokers balances	312,429	-	-	-	312,429
Total On-Balance Sheet Exposures	1,588,621	1,608,109	689,000	-	3,885,730
Off-Balance Sheet Exposures					
Credit-related Exposures	-	5,914	-	-	5,914
Derivative Financial Instruments	46,018	100,995	13,235	-	160,248
Total Off-Balance Sheet Exposures	46,018	106,909	13,235	-	166,162
Total On and Off-Balance Sheet Exposures	1,634,639	1,715,018	702,235	-	4,051,892

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans and advances

(i) The table below sets out the breakdown by sector the amount of past due loans and advances, credit impaired loans and advances, expected credit losses (Stage 1, 2 and 3), expected credit losses charges/(write back) and write-offs for Stage 3 during the period as follows:

The Group and the Bank 31 December 2018	Past due loans and advances RM'000	Credit impaired loans and advances RM'000	12-month expected credit losses (Stage 1) RM'000	Lifetime expected credit losses-not credit impaired (Stage 2) RM'000	Lifetime expected credit losses-credit impaired (Stage 3) RM'000	Charges/(write-back) lifetime expected credit losses-credit impaired during the year RM'000	Write offs during the year RM'000
Agriculture	-	-	-	-	-	-	-
Electricity, gas and water	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Finance, insurance, real estate and business services	-	-	-	-	-	-	-
Household	-	-	-	-	-	-	-
Purchase of securities	-	-	(132)	(5)	-	-	-
Transport, storage and communications	-	-	-	-	-	-	-
Wholesale and retail	-	-	-	-	-	-	-
Others	-	6,890	(60)	-	(3,006)	-	-
Total	-	6,890	(192)	(5)	(3,006)	-	-

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans and advances

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

The Group and the Bank 30 June 2018	Past due loans and advances RM'000	Impaired Loans and advances RM'000	Individual assessment allowance RM'000	Collective assessment allowance RM'000	Write-back of individual assessment allowance during the year RM'000	Write offs during the year RM'000
Agriculture	-	-	-	-	-	-
Electricity, gas and water	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Finance, insurance, real estate and business services	-	-	-	-	-	-
Household	-	-	-	-	-	-
Purchase of securities	-	-	-	(83)	-	-
Transport, storage and communications	-	-	-	-	-	-
Wholesale and retail	-	-	-	-	-	-
Others	-	6,885	(119)	(588)	-	5
Total	-	6,885	(119)	(671)	-	5

Note: Refer to Note 10 to the financial statement for financial year ended 30 June 2017 for "movement in individual assessment allowance and collective assessment allowance" during the year for the Group and the Bank.

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans and advances (continued)

(ii) The table below sets out the breakdown by sector the amount of past due loans and advances, credit impaired loans and advances, expected credit losses (Stage 1, 2 and 3) during the period as follows:

The Group and the Bank 31 December 2018	**Past due loans and advances RM'000**	**Credit impaired loans and advances RM'000**	**12-month expected credit losses (Stage 1) RM'000**	**Lifetime expected credit losses-not credit impaired (Stage 2) RM'000**	**Lifetime expected credit losses-credit impaired (Stage 3) RM'000**
Malaysia	**-**	**6,890**	**(192)**	**(5)**	**(3,006)**

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

The Group and the Bank 30 June 2018	**Past due loans and advances RM'000**	**Impaired Loans and advances RM'000**	**Individual assessment allowance RM'000**	**Collective assessment allowance RM'000**
Malaysia	-	6,885	(119)	(671)

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4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight

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

Risk Weights	Sovereigns/Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
The Group										
31 December 2018										
0%	961,338	-	30,479	-	167,804	-	197,702	-	1,357,323	-
20%	-	3	965,751	-	539,921	-	1,652	-	1,507,327	301,465
50%	-	-	166,781	-	48,827	-	-	-	215,608	107,804
75%	-	-	-	-	-	435	-	-	435	326
100%	-	-	-	-	148,529	-	44,667	-	193,196	193,196
150%	-	-	-	-	-	-	-	-	-	-
Total	961,338	3	1,163,011	-	905,081	435	244,021	-	3,273,889	602,792
Risk-Weighted Assets by Exposures	-	1	276,542	-	280,927	326	44,997	-	602,793	
Average Risk Weights	0.0%	33.3%	23.8%	0.0%	31.0%	74.9%	18.4%	0.0%	18.4%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight (continued)

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

Risk Weights	Sovereigns/Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Residential Mortgages RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
The Group										
30 June 2018										
0%	1,037,432	-	64,782	-	142,981	-	309,716	-	1,554,911	-
20%	-	-	391,332	-	567,313	-	2,677	-	961,322	192,264
50%	-	-	60,951	-	14,267	-	-	-	75,218	37,609
75%	-	-	-	-	-	429	-	-	429	322
100%	-	-	-	-	140,925	-	36,548	245	177,718	177,718
150%	-	-	-	-	-	-	-	-	-	-
Total	1,037,432	-	517,065	-	865,486	429	348,941	245	2,769,598	407,913
Risk-Weighted Assets by Exposures	-	-	108,742	-	261,522	322	37,083	245	407,914	
Average Risk Weights	0.0%	0.0%	21.0%	0.0%	30.2%	75.1%	10.6%	100.0%	14.7%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	

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4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight

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

Risk Weights	Sovereigns/Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
The Bank										
31 December 2018										
0%	961,338	-	30,479	-	167,804	-	197,702	-	1,357,323	-
20%	-	-	965,693	-	539,921	-	1,652	-	1,507,266	301,453
50%	-	-	166,781	-	48,827	-	-	-	215,608	107,804
75%	-	-	-	-	-	435	-	-	435	326
100%	-	-	-	-	148,529	-	44,650	-	193,179	193,179
150%	-	-	-	-	-	-	-	-	-	-
Total	961,338	-	1,162,953	-	905,081	435	244,004	-	3,273,811	602,762
Risk-Weighted Assets by Exposures	-	-	276,531	-	280,927	326	44,980	-	602,764	
Average Risk Weights	0.0%	0.0%	23.8%	0.0%	31.0%	74.9%	18.4%	0.0%	18.4%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	

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4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight

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

Risk Weights	Sovereigns/Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Residential Mortgages RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
The Bank										
30 June 2018										
0%	1,037,432	-	64,782	-	142,981	-	309,716	-	1,554,911	-
20%	-	-	391,222	-	567,313	-	2,677	-	961,212	192,242
50%	-	-	60,951	-	14,267	-	-	-	75,218	37,609
75%	-	-	-	-	-	429	-	-	429	322
100%	-	-	-	-	140,632	-	36,548	245	177,425	177,425
150%	-	-	-	-	-	-	-	-	-	-
Total	1,037,432	-	516,955	-	865,193	429	348,941	245	2,769,195	407,598
Risk-Weighted Assets by Exposures	-	-	108,720	-	261,229	322	37,083	245	407,599	
Average Risk Weights	0.0%	0.0%	21.0%	0.0%	30.2%	75.1%	10.6%	100.0%	14.7%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

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

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

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

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

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

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BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

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

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

(i) Ratings of Corporate by Approved ECAIs

	Moodys	**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 A3**	**BBB1 to BB3**	**B to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
The Group and the Bank	**Rating & Investment Inc**	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
31 December 2018						
On and Off-Balance Sheet Exposures						
Public Sector Entities		**-**	**-**	**-**	**-**	**3**
Insurance Cos, Securities Firms & Fund Managers		**-**	**-**	**-**	**-**	**-**
Corporates		**539,921**	**48,827**	**64,328**	**-**	**252,006**
		539,921	**48,827**	**64,328**	**-**	**252,009**
30 June 2018						
On and Off-Balance Sheet Exposures						
Public Sector Entities		-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-
Corporates		567,313	14,267	56,146	-	227,759
		567,313	14,267	56,146	-	227,759

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

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

(ii) Short term Ratings of Banking Institutions and Corporate by Approved ECAIs

	Moodys	**P-1**	**P-2**	**P-3**	**Others**	**Unrated**
	S&P	**A-1**	**A-2**	**A-3**	**Others**	**Unrated**
	Fitch	**F1+, F1**	**F2**	**F3**	**B to D**	**Unrated**
	RAM	**P-1**	**P-2**	**P-3**	**NP**	**Unrated**
	MARC	**MARC-1**	**MARC-2**	**MARC-3**	**MARC-4**	**Unrated**
The Group and the Bank	**Rating & Investment Inc**	**a-1+, a-1**	**a-2**	**a-3**	**b, c**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
31 December 2018						
On and Off-Balance Sheet Exposures						
Banks, MDBs and FDIs		**267,101**	**-**	**-**	**-**	**-**
30 June 2018						
On and Off-Balance Sheet Exposures						
Banks, MDBs and FDIs		101,973	-	-	-	-

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

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

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

	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Caa1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to D**	**Unrated**
The Group and the Bank	**Rating & Investment Inc**	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to C**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
31 December 2018							
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks		**-**	**-**	**-**	**-**	**-**	**961,338**
30 June 2018							
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks		-	-	-	-	-	1,037,432

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

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

(iv) Ratings of Banking Institutions by Approved ECAIs

	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Caa1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to D**	**Unrated**
	RAM	**AAA to AA3**	**A1 to A3**	**BBB+ to BBB3**	**BB1 to B3**	**C1 to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**C+ to D**	**Unrated**
The Group and the Bank	**Rating & Investment Inc**	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to C**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
31 December 2018							
On and Off-Balance Sheet Exposures							
Banks, MDBs and FDIs		**688,069**	**99,050**	**78,312**	**-**	**-**	**30,479**
30 June 2018							
On and Off-Balance Sheet Exposures							
Banks, MDBs and FDIs		289,356	31,913	29,040	-	-	64,783

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit Risk Mitigation ("CRM")

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

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

	31 December 2018		30 June 2018	
The Group	**Exposures before CRM RM'000**	**Exposures covered by eligible financial collateral RM'000**	**Exposures before CRM RM'000**	**Exposures covered by eligible financial collateral RM'000**
On-Balance Sheet Exposures				
Sovereigns/Central Banks	**961,338**	**-**	1,037,432	-
Public Sector Entities	**3**	**-**	-	-
Banks, DFIs and MDBs	**1,011,989**	**-**	354,072	-
Insurance Companies, Securities Firms & Fund Managers	**-**	**-**	-	-
Corporates	**1,057,055**	**236,938**	1,099,255	236,938
Regulatory Retail	**435**	**-**	429	-
Other Assets	**244,021**	**-**	348,941	-
Equity Exposures	**-**	**-**	245	-
Total On-Balance Sheet Exposures	**3,274,841**	**236,938**	2,840,374	236,938
Off-Balance Sheet Exposures				
Credit-related Exposures	**55,500**	**-**	5,914	-
Derivative Financial Instruments	**152,194**	**-**	160,248	-
Other Treasury-related Exposures	**-**	**-**	-	-
Total Off-Balance Sheet Exposures	**207,694**	**-**	166,162	-
Total On and Off-Balance Sheet Exposures	**3,482,535**	**236,938**	3,006,536	236,938

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit Risk Mitigation (continued)

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

	31 December 2018		30 June 2018	
The Bank	**Exposures before CRM RM'000**	**Exposures covered by eligible financial collateral RM'000**	**Exposures before CRM RM'000**	**Exposures covered by eligible financial collateral RM'000**
On-Balance Sheet Exposures				
Sovereigns/Central Banks	**961,338**	**-**	1,037,432	-
Public Sector Entities	**-**	**-**	-	-
Banks, DFIs and MDBs	**1,011,931**	**-**	353,962	-
Insurance Companies, Securities Firms & Fund Managers	**-**	**-**	-	-
Corporates	**1,057,055**	**236,938**	1,098,962	236,938
Regulatory Retail	**435**	**-**	429	-
Other Assets	**244,004**	**-**	348,941	-
Equity Exposures	**-**	**-**	245	-
Total On-Balance Sheet Exposures	**3,274,763**	**236,938**	2,839,971	236,938
Off-Balance Sheet Exposures				
Credit-related Exposures	**55,500**	**-**	5,914	-
Derivative Financial Instruments	**152,194**	**-**	160,248	-
Total Off-Balance Sheet Exposures	**207,694**	**-**	166,162	-
Total On and Off-Balance Sheet Exposures	**3,482,457**	**236,938**	3,006,133	236,938

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Off-Balance Sheet exposures and counterparty credit risk

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

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

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

Nature of commitments and contingencies

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

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

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

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

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

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

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

The Group and the Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
31 December 2018				
Derivative financial instruments				
Interest rate related contracts:				
- One year or less	**3,436,690**	**970**	**8,406**	**1,681**
- Over one year to five years	**3,112,731**	**8,438**	**77,439**	**15,768**
- Over five years	**225,000**	**1,012**	**12,788**	**2,558**
Foreign exchange related contracts				
- One year or less	**3,028,534**	**16,987**	**52,930**	**10,739**
Equity related contracts:				
- One year or less	**-**	**-**	**-**	**-**
- Over one year to five years	**7,000**	**1**	**631**	**631**
	9,809,955	**27,408**	**152,194**	**31,377**
Commitments				
Direct Credit Substitutes	**1,000**	**-**	**1,000**	**1,000**
Obligations under underwriting agreement	**100,000**	**-**	**50,000**	**50,000**
Other commitments, such as formal standby facilities and credit lines				
- maturity less than one year	**-**	**-**	**-**	**-**
- maturity more than one year	**9,000**	**-**	**4,500**	**4,500**
Any commitment that are unconditionally cancelled at any time by the Bank without prior notice				
- maturity less than one year	**709,916**	**-**	**-**	**-**
Lending of banking institutions' securities or the posting of securities as collateral by bank	**-**	**-**	**-**	**-**
	819,916	**-**	**55,500**	**55,500**
Total Off-Balance Sheet Exposures	**10,629,871**	**27,408**	**207,694**	**86,877**

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

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

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

The Group and the Bank	**Principal Amount RM'000**	**Positive Fair Value of Derivative Contracts RM'000**	**Credit Equivalent Amount RM'000**	**Risk-Weighted Assets RM'000**
30 June 2018				
Derivative financial instruments				
Interest rate related contracts:				
- One year or less	1,472,531	1,114	1,618	324
- Over one year to five years	3,580,750	11,266	100,346	20,349
- Over five years	215,000	684	13,235	2,647
Foreign exchange related contracts				
- One year or less	2,909,693	16,268	44,400	9,815
Equity related contracts:				
- One year or less	-	-	-	-
- Over one year to five years	7,000	19	649	649
	8,184,974	29,351	160,248	33,784
Commitments				
Direct Credit Substitutes	1,000	-	1,000	1,000
Obligations under underwriting agreement	-	-	-	-
Other commitments, such as formal standby facilities and credit lines				
- maturity less than one year	-	-	-	-
- maturity more than one year	-	-	-	-
Any commitment that are unconditionally cancelled at any time by the Bank without prior notice				
- maturity less than one year	662,442	-	-	-
Lending of banking institutions' securities or the posting of securities as collateral by bank	4,914	-	4,914	983
	668,356	-	5,914	1,983
Total Off-Balance Sheet Exposures	8,853,330	29,351	166,162	35,767

4. RISK MANAGEMENT (CONTINUED)

(B) Market risk

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

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

Management of market risk

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

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

Market risk is inherent in the ordinary course of the Group’s and the Bank's business and is prevalent especially in treasury activities of the Group and the Bank. The Group and the Bank broadly classify their financial assets at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments at amortised cost. The major differences between the classifications are the accounting treatment and intention of acquiring the financial instruments.

Market Risk Management Process

(i) Identification

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

(ii) Assessment/Measurement

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

4. RISK MANAGEMENT (CONTINUED)

(B) Market risk (continued)

Market Risk Management Process (continued)

(iii) Control/Mitigation

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

(iv) Monitoring/Review

- Monitoring of limits.
- Periodical review and reporting.

Regulatory Capital Requirements

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

The Group and the Bank	**Long Position RM'000**	**Short Position RM'000**	**Risk-Weighted Assets RM'000**	**Minimum Capital Requirement at 8% RM'000**
31 December 2018				
Interest Rate Risk	**10,799,867**	**9,894,673**	**655,678**	**52,454**
Equity Risk	**9,776**	**-**	**22,311**	**1,785**
Foreign Currency Risk	**2,443**	**4,291**	**4,291**	**343**
Option Risk	**11,000**	**-**	**137,501**	**11,000**
	10,823,086	**9,898,964**	**819,780**	**65,582**
30 June 2018				
Interest Rate Risk	9,430,468	8,248,377	442,265	35,381
Equity Risk	6,252	-	12,865	1,029
Foreign Currency Risk	1,604	2,079	2,079	166
Option Risk	19	-	22	2
	9,438,343	8,250,456	457,231	36,578

4. RISK MANAGEMENT (CONTINUED)

(C) Operational risk

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

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

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

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

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

5. EQUITY EXPOSURES IN BANKING BOOK

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

The Group's and the Bank's banking book's equity investments are classified and measured in accordance with MFRS 9 and are categorised as financial investments at fair value through other comprehensive income. Refer to Note 2D to the Audited Financial Statements for financial year ended 30 June 2018 for the accounting policies of the Group and the Bank.

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

	31 December 2018	
The Group and the Bank	**Exposures subject to risk-weighting RM'000**	**Risk weights %**
Financial investments at fair value through other comprehensive income		
Unquoted equity securities	**-**	**100**

	30 June 2018	
The Group and the Bank	**Exposures subject to risk-weighting RM'000**	**Risk weights %**
Financial investments available-for-sale		
Unquoted equity securities	245	100

Gain and Loss on Equity Exposures in Banking Book

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

	31 December 2018 RM'000	**30 June 2018 RM'000**
Realised gains/losses recognised in the income statements	-	-
Unrealised gain recognised in revaluation reserve		
- Unquoted equity securities	-	-

6. INTEREST RATE RISK/RATE OF RETURN RISK IN BANKING BOOK

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

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

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

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

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

	Impact on Position as at 31 December 2018		**Impact on Position as at 30 June 2018**	
	- 100 bps	**+ 100 bps**	**- 100 bps**	**+ 100 bps**
Type of currency	**Increase/(Decrease) in Economic Value**		**Increase/(Decrease) in Economic Value**	
	RM'000	**RM'000**	**RM'000**	**RM'000**
Ringgit Malaysia	54,066	(54,066)	61,233	(61,233)
US Dollar	7,324	(7,324)	3,061	(3,061)
	61,390	(61,390)	64,294	(64,294)