Standard Chartered Saadiq Berhad

Pillar 3 Disclosures
31 December 2017

Incorporated in Malaysia with registered Company No. 823437K

Registered Office and Principal Place of Businesses

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Standard Chartered Saadiq Berhad
Pillar 3 disclosures

1. Overview

This document describes Standard Chartered Saadiq Berhad ("the Bank")'s risk profile, risk management practises and capital adequacy position in accordance with the disclosure requirement as outlined in the Capital Adequacy Framework for Islamic Banks ("CAFIB") - Disclosure Requirements ("Pillar 3") issued by Bank Negara Malaysia ("BNM").

Basel II

The Basel Committee on Banking Supervision ("BCBS") published a framework for International Convergence of Capital Measurement and Capital Standards (commonly referred to as 'Basel II'), which replaced the original 1988 Basel I Accord. Basel II is structured around three 'pillars' which are outlined below:-

- Pillar 1 sets out minimum regulatory capital requirements – the minimum amount of regulatory capital banks must hold against the risks they assume;
- Pillar 2 sets out the key principles for supervisory review of a bank's risk management framework and its capital adequacy. It sets out specific oversight responsibilities for the Board of Directors ("the Board") and senior management, thus reinforcing principles of internal control and other corporate governance practices; and
- Pillar 3, covered in the supplementary financial information (unaudited), aims to bolster market discipline through enhanced disclosure by banks.

Basel II provides three credit risk approaches of increasing sophistication, namely, the Standardised Approach ("TSA"), the Foundation Internal Ratings Based Approach ("FIRB") and the Advanced Internal Ratings Based Approach ("AIRB").

In Malaysia, the Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets) came into effect on 1 January 2008, last updated on 2 February 2018. The framework (previously known as Capital Adequacy Framework for Islamic Banks) sets out the approaches for the computation of Risk Weighted Asset (RWA) for Islamic banking institutions. The Framework should be read together with the Capital Adequacy Framework for Islamic Banks (Capital Components) and shall form the basis for the computation of the capital adequacy ratios.

Bank Negara Malaysia ("BNM") has formally approved Standard Chartered Saadiq Berhad ("SCSB") or ("the Bank") to use the AIRB for calculating and reporting credit risk regulatory capital in June 2010. As a result, since July 2010 regulatory capital submission, the Bank has been using AIRB for calculating and reporting the credit risk capital requirement. Formal approval was obtained from BNM in May 2013 for the use of The Standardised Approach ("TSA") for calculating and reporting operational risk. Effective September 2013, the Bank commenced the use of TSA for calculating and reporting operational risk capital requirement.

The following summarise the approaches adopted by the Bank:

Risk Type	**Approach Adopted**
1. Credit	Advanced Internal Ratings-Based Approach
2. Market	The Standardised Approach
2. Operational	The Standardised Approach

2. Capital management

The Bank's capital position is in line with Board-approved risk appetite. The Bank is well capitalised with loss absorbing capacity.

Details of the Bank's capital management approach are disclosed in Note 36 of the Bank's financial statements, while details of regulatory capital structure of the Bank are disclosed in Note 37 to the financial statements. All ordinary shares in issue confer identical rights in respect of capital, dividends and voting.

3. Risk management

Risk management is the set of end-to-end activities through which we make risk-taking decisions and we control and optimize the risk-return profile of the Bank. It is a bank-wide activity and starts right at the front-line. The management of risk lies at the heart of the Bank's business. Effective risk management is a central part of the financial and operational management of the Bank and fundamental to our ability to generate profits consistently and maximize the interests of shareholders and other stakeholders.

Our risk management framework, principles and governance are disclosed in Note 32 of the Bank's financial statements.

The Syariah Advisory Committee, through the authority delegated by the Board, is responsible for assuring that all Islamic Banking products and services comply with the Syariah requirements.

4. Regulatory capital requirement

Disclosure on capital adequacy under the Standardised and Internal Ratings Based ("IRB") approach

31 December 2017 Exposure class	Gross exposures RM'000	Net exposures RM'000	Risk weighted assets RM'000	Risk weighted assets absorbed by Profit Sharing Investment Account ("PSIA") RM'000	Total risk weighted assets after effects of PSIA RM'000	Minimum Capital requirement at 8% RM'000
(a) Credit risk						
Exposures under the Standardised approach						
On-balance sheet exposures:						
Corporates	1,604	1,604	1,604	-	1,604	128
Regulatory retail	116,702	116,702	114,966	-	114,966	9,197
Home financing	339	339	119	-	119	10
Other assets	75,869	75,869	72,786	-	72,786	5,823
Defaulted exposures	14,082	14,082	15,848	-	15,848	1,268
Total on-balance sheet exposures	208,596	208,596	205,323	-	205,323	16,426
Off-balance sheet exposures:						
Off-balance sheet exposures other than Islamic Over-The-Counter ("OTC") derivative transactions and Islamic credit derivatives	5,319	3,897	3,881	-	3,881	310
Total off-balance sheet exposures	5,319	3,897	3,881	-	3,881	310
Total on and off-balance sheet exposures	213,915	212,493	209,204	-	209,204	16,736
Exposures under the IRB approach						
On-balance sheet exposures:						
Sovereigns/central banks	1,849,481	1,849,481	236,088	(125,623)	110,465	8,837
Banks, development financial institutions ("DFIs") & multilateral development banks ("MDBs")	110,016	110,016	38,821	-	38,821	3,106
Corporates	2,101,607	2,101,639	1,695,979	(511,802)	1,184,177	94,734
Home financing	2,588,198	2,588,198	397,985	-	397,985	31,839
Other retail	683,816	683,784	198,184	-	198,184	15,855
Defaulted exposures	82,477	82,477	223,799	-	223,799	17,904
Total on-balance sheet exposures	7,415,595	7,415,595	2,790,856	(637,425)	2,153,431	172,275
Off-balance sheet exposures:						
OTC derivatives	389,444	389,444	167,098	(128,832)	38,266	3,061
Off-balance sheet exposures other than Islamic OTC derivative transactions and Islamic credit derivatives	704,263	704,263	454,366	(138,518)	315,848	25,268
Defaulted exposures	9	9	14	-	14	1
Total off-balance sheet exposures	1,093,716	1,093,716	621,478	(267,350)	354,128	28,330
Total on and off-balance sheet exposures	8,509,311	8,509,311	3,412,334	(904,775)	2,507,559	200,605
(b) Large exposures risk requirement			-	-	-	-
(c) Market risk			-	-	-	-
(d) Operational risk (Standardised approach)			320,217	-	320,217	25,617
Total RWA and capital requirements			3,941,755	(904,775)	3,036,980	242,958

Common Equity Tier ("CET") 1, Tier 1 and Total capital ratios

	Before effect of PSIA	After effect of PSIA
CET 1 capital ratio	15.906%	20.644%
Tier 1 capital ratio	15.906%	20.644%
Total capital ratio	18.874%	24.497%

4. Regulatory capital requirement (continued)

Disclosure on capital adequacy under the Standardised and IRB approach (continued)

31 December 2016 **Exposure class**	**Gross exposures RM'000**	**Net exposures RM'000**	**Risk weighted assets RM'000**	**Risk weighted assets absorbed by PSIA RM'000**	**Total risk weighted assets after effects of PSIA RM'000**	**Minimum Capital requirement at 8% RM'000**
(a) Credit risk						
Exposures under the Standardised approach						
On-balance sheet exposures:						
Corporates	32,321	32,321	32,321	-	32,321	2,586
Regulatory retail	187,990	187,990	184,967	-	184,967	14,797
Home financing	351	351	123	-	123	10
Other assets	73,945	73,945	70,559	-	70,559	5,645
Defaulted exposures	6,974	6,974	8,806	-	8,806	704
Total on-balance sheet exposures	301,581	301,581	296,776	-	296,776	23,742
Off-balance sheet exposures:						
Off-balance sheet exposures other than Islamic OTC derivative transactions and Islamic credit derivatives	38,291	36,741	36,738	-	36,738	2,939
Total off-balance sheet exposures	38,291	36,741	36,738	-	36,738	2,939
Total on and off-balance sheet exposures	339,872	338,322	333,514	-	333,514	26,681
Exposures under the IRB approach						
On-balance sheet exposures:						
Sovereigns/central banks	1,631,325	1,631,325	215,711	(122,208)	93,503	7,480
Banks, development financial institutions ("DFIs") & multilateral development banks ("MDBs")	642,725	642,725	139,809	-	139,809	11,185
Takaful companies, Syariah compliant securities firms & fund managers	201,195	201,195	76,483	(27,941)	48,542	3,883
Corporates	2,521,146	2,521,190	2,328,280	(891,391)	1,436,889	114,951
Home financing	2,753,085	2,753,085	437,675	-	437,675	35,014
Other retail	854,354	854,310	335,024	-	335,024	26,802
Defaulted exposures	109,007	109,007	282,531	-	282,531	22,602
Total on-balance sheet exposures	8,712,837	8,712,837	3,815,513	(1,041,540)	2,773,973	221,917
Off-balance sheet exposures:						
OTC derivatives	565,517	565,517	324,858	(225,619)	99,239	7,939
Off-balance sheet exposures other than Islamic OTC derivative transactions and Islamic credit derivatives	715,088	715,088	285,682	(46,547)	239,135	19,131
Defaulted exposures	227	227	232	-	232	19
Total off-balance sheet exposures	1,280,832	1,280,832	610,772	(272,166)	338,606	27,089
Total on and off-balance sheet exposures	9,993,669	9,993,669	4,426,285	(1,313,706)	3,112,579	249,006
(b) Large exposures risk requirement			-	-	-	-
(c) Market risk			-	-	-	-
(d) Operational risk (Standardised approach)			350,763	-	350,763	28,061
Total RWA and capital requirements			5,110,562	(1,313,706)	3,796,856	303,748

CET 1, Tier 1 and Total capital ratios

	Before effect of PSIA	After effect of PSIA
CET 1 capital ratio	11.743%	15.806%
Tier 1 capital ratio	11.743%	15.806%
Total capital ratio	13.922%	18.739%

5. Credit risk

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the bank in accordance with agreed terms. Credit exposures may arise from both the banking and trading book. Credit risk is managed through a framework which sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and the approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework.

Our credit risk management policies, governance and reporting & measurement system are disclosed in Note 32(b) of the Bank's financial statements.

The Bank has adopted the IRB approach to manage credit risk for the majority of its portfolio. This allows the Bank to use its own internal estimates of Probability of Default ("PD"), Loss Given Default ("LGD"), Residual Maturity, Exposure at Default ("EAD") and Credit Conversion Factor ("CCF") to determine an asset risk-weighting. TSA is applied to portfolios that are classifies as permanently exempt from the IRB approach, and those portfolios that are currently under transition to the IRB approach or too small an exposure for IRB model built. The development, use and governance of models under the IRB approach is covered in more detail in Section 5(i).

(i) Internal Ratings Based models

The overall governance and development process for the Bank's IRB models are consistent across all portfolios.

The table below provides the Bank's portfolio under IRB models:

Portfolio	Exposure
Sovereign and Central Bank	Central Government, Central Government department, Central banks, Entities owned or guaranteed by Central Government
Bank, DFIs and MDBs	Bank, Finance & Leasing, Life/ Family Takaful, Non-life/ Non-family Takaful, Broker dealer, Funds managers
Corporates	Large Corporate, Mid Corporate, Emerging Middle Market, Commodity Traders & Buyers, Medium Enterprise, Small Business
Home Financing	Retail Clients Home Financing
Qualifying revolving retail exposures	Not applicable
Other retail exposures	Corporate Small Medium Enterprise ("SME") (including Business & Commercial Clients) property financing, Corporate SME (including Business & Commercial Clients) financing, Personal financing, and residential properties under construction

<u>Model governance</u>

All IRB Models are developed by Group Risk Measurement ("GRM"). Both new and existing models, as well as changes to existing models, are subject to independent validation by the Group Model Validation ("GMV") and are reviewed and approved by the Group Credit Model Assessment Committee ("CMAC") and the Group Stress Testing Committee. GRM and GMV are separate departments within the Group Risk.

The performance of existing IRB models, including actual against predicted metrics, is monitored regularly by GRM and reported to Group CMAC on a quarterly basis. In addition, existing models are subject to annual independent validation by GMV. The Group CMAC sets out internal standards for model development, validation and performance monitoring.

Group Internal Audit is responsible for carrying out independent audit reviews of IRB models development, validation, approval and monitoring.

As part of local governance, IRB model development and validation findings are subjected to local Executive Risk Committee ("ERC") and local Board Risk Committee ("BRC") review, endorsement and recommendation to the Board for adoption or approval. These decision making bodies are comprised of senior management whose role is to review model assumptions, performance, local regulatory requirements, agree on appropriate model use for local business decision making and capital reporting.

5. Credit risk (continued)

(i) Internal Ratings Based models (continued)

Probability of Default

Standard Chartered PLC Group employs a variety of techniques to develop its PD models. PDs are estimated based on one of the three industry standard approaches, namely the good-bad approach where a sufficient number of internal defaults is available, the shadow-bond/sukuk approach where there are not sufficient internal defaults but there are external ratings for a large number of obligors, or the constrained expert judgement approach where neither internal defaults nor external ratings are available.

In Corporate and Institutional Banking ("CIB"), the largest portfolios are rated based on the shadow bond/sukuk approach (Sovereigns, Banks, Corporates) or the good-bad approach (Mid-Corporates). Central governments and Central Banks are rated using the sovereign model, and institutions are rated using models depending on their line of business. Corporate clients are differentiated by their annual sales turnover and rated using one of the corporate models, unless they are classified under specialised lending/financing.

PD models for retail clients under each asset class are developed based on the good-bad approach. The main drivers of retail PD models are the application and behavioural scores. The application scores are computed at the point of origination and used for approval decisions, while behavioural scores are updated monthly using customer behaviour and transaction data, and are used for portfolio management. PD models are also segmented by other drivers such as months-on-book and delinquency status.

Loss Given Default

The CIB LGD model is a parameter based model which takes into account risk drivers such as portfolio segment, product, credit grade of the obligor and collateral attached to the exposure. The model is calibrated based on downturn experience. Regulatory floors are applied to unsecured LGD for Sovereign and to secured facilities.

LGD for retail portfolio follow two approaches:
i) LGDs for unsecured products are based on historical loss experience of defaults during a downturn; these are portfolio specific LGD estimates segmented by default status (including restructuring).
ii) LGDs for secured products are parameter based estimates mainly driven by how the default is resolved (cure, sale or charge-off).

Exposure at Default

EAD takes into consideration the potential disbursement of a commitment as an obligor defaults by estimating the CCF of undrawn commitments. EAD for corporate and institutional clients is determined on a global basis, while the commercial and retail EAD is dependent on country product data.

The corporate and institutional EAD model has adopted the momentum approach to estimate the CCF, with the type of facility being one of the key drivers of CCF. EAD for retail products differs between revolving products and term products. For revolving products, EAD is computed by estimating the CCF of the undrawn commitments. For term products, EAD is set at the outstanding balance plus any undrawn portion.

Model use

IRB models cover a substantial majority of the Group's financing and are used extensively in assessing risks at customer and portfolio level, setting strategy and optimising the risk-return decisions. The Group makes use of internal estimates of PD, LGD and EAD in the areas of credit approval and decision, pricing, limit setting, provisioning, economic capital calculation and risk appetite. Key inputs used in the assessment of business and market variables for setting Risk Appetite includes but not limited to consideration of risk based methodologies such as IRB parameters.

Section 5.3 provides further analysis on the Bank's credit risk exposures under the IRB approach.

Corporates, Institutional and Commercial model results

IRB have been developed from a dataset that spans at least a full business cycle. This data has been used to calibrate estimates of PD to the Group’s long run experience. Actual (‘point in time’) default rates will typically differ from this ‘through the cycle’ experience as economies move above or below cyclical norms.

IRB PD estimates are computed as of 1 January 2017 and are compared with default observations through 31 December 2017. Since the historical default experience for central governments or central banks, institutions and corporates has been minimal, the predicted PD for these asset classes has been minimal.

5. Credit risk (continued)

(i) Internal Ratings Based Models (continued)

Corporates, Institutional and Commercial model results (continued)

The calculation of realised versus predicted loss given default ("LGD") is affected by the fact that it may take a number of years for the workout process to be completed. To address this, our approach for corporates and institutions is based on a four-year rolling period of predicted and realised LGD, which for the current reporting year includes 2014 to 2017 defaults that have completed their workout process as at the end of 2017. However, there have been no defaulted cases since the Bank started its operations in October 2008 for corporates, institutions, central governments or central banks making it therefore not meaningful to compute the realised versus predicted outcomes for this period.

Exposure at default ("EAD") takes into consideration the potential disbursement of a commitment as an obligor defaults by estimating the Credit Conversion Factor of undrawn commitments. For assets which defaulted in 2017, the comparison of realised versus predicted EAD is summarised in the ratio of the EAD one year prior to default to the outstanding amount at time of default. No ratio is reportable for corporate, institutions and central governments or central banks given there was no default in 2017.

Corporate SME observed default is lower than the predicted PD. Predicted PD was computed as at 31 December 2016 and compared to the actual default observations over a one year period ended 31 December 2017. Portfolio size remained stable and default pool has been minimal, as such the observed default rate is lower than the predicted default rate. The observed LGD was calculated based on actual recoveries during the 2015 to 2017 period for existing non- defaults as of December 2013 where defaulted in 2014 and further segmented by secured and unsecured. The high LGD% for SME lending/financing is due small population portfolio. The ratios for EAD model are larger than one, indicating that the predicted EAD is higher than the realised outstanding amount at default.

	Predicted PD %	Observed PD %	Predicted LGD %	Realised LGD %	Predicted EAD/ Realised EAD
IRB exposures					
Central governments or central banks	0.1%	N/A	N/A	N/A	N/A
Institutions	1.3%	N/A	N/A	N/A	N/A
Corporates	2.3%	N/A	N/A	N/A	N/A
SME property financing	1.3%	0.2%	N/A	N/A	1.0
SME lending/financing	5.6%	4.1%	78.0%	97.3%	2.2

Retail model results

Retail models have been developed for majority of its portfolios. Predicted PD was computed as at 31 December 2016 and compared to the actual default observation over a one year period ending 31 December 2017.

The observed default rates for all asset classes are lower than predicted.

The realised LGD is calculated based on 12 months default window, recoveries over a 24 months workout period and compared to the predicted LGD. Realised LGDs are lower than the predicted values for Home Financing and Other Retail exposures.

No material difference observed between predicted EAD as compared to realised EAD.

	Predicted PD %	Observed PD %	Predicted LGD %	Realised LGD %	Predicted EAD/ Realised EAD
IRB exposures					
Home Financing	2.3%	0.9%	14.7%	7.8%	1.0
Other retail exposures	13.3%	9.4%	90.4%	67.2%	1.0

5. Credit risk (continued)

(ii) Actual losses

The table below shows net individual impairment charges raised and write off during the financial year of 2017 versus 2016 for IRB exposure classes. The net individual impairment charge is a point in time actual charge raised in accordance with accounting standards that require the Bank to either provide for or write-off debts when certain conditions are met. Expected loss ("EL") represents model derived and/or regulatory prescribed estimated of future loss on potential defaults over a one-year time horizon.

	31 December 2017		31 December 2016	
	Actual losses RM'000	**Expected losses RM'000**	**Actual losses RM'000**	**Expected losses RM'000**
Sovereigns/Central banks	-	209	-	177
Banks, development financial institutions & MDBs	-	160	-	561
Takaful companies, Syariah compliant securities firms	-			
& fund managers	-	8	-	160
Corporate exposures (excluding specialised financing and firm-size adjustment)	-	12,489	-	13,773
Corporate exposures (with firm-size adjustment)	2,417	3,027	-	1,898
Specialised financing	-	441	-	-
Retail exposures				
Home financing	12,491	8,264	8,809	8,687
Other retail exposures	42,016	42,918	65,396	60,662
	56,924	**67,516**	**74,205**	**85,918**

The lower actual loss as compared to the corresponding period was mainly due to lower retail provisions made during the period due to lower exposures.

(iii) Risk grade profile

Exposures by internal credit grading

For IRB portfolios, an alphanumeric credit risk-grading system is used in all client or product segment. The grading is based on Standard Chartered PLC Group’s internal estimate of PD over a one-year horizon, with customers or portfolios assessed against a range of quantitative and qualitative factors. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Lower credit grades are indicative of a lower likelihood of default. Credit grades 1 to 12 are assigned to performing customers or accounts, while credit grades 13 and 14 are assigned to non-performing or defaulted customers.

The Bank's credit grades in Corporates, Institutional and Commercial clients are not intended to replicate external credit grades, and ratings assigned by external ratings agencies are not used in determining internal credit grades. Nonetheless, as the factors used to grade a customer may be similar, a customer rated poorly by an ECAI is typically expected to be assigned a weak internal credit grade.

5. Credit risk (continued)

(iii) Risk grade profile (continued)

As a guide, the table below presents the Bank's credit grades corresponding to that of Standard and Poor's credit

	Standard and Poor's Mapping	
Credit Grade	Corp/NBFIs *	Banks
1A	AAA/AA+	AAA/AA+
1B	AA	AA
2A	AA/AA-	AA-
2B	AA-	A+
3A	A+	A
3B	A	A-/BBB+
4A	A-	BBB
4B	BBB+	BBB/BBB-
5A	BBB	BBB-
5B	BBB-/BB+	BB+
6A	BB+/BB	BB+/BB
6B	BB	BB
7A	BB/BB-	BB/BB-
7B	BB-	BB-
8A	BB-/B+	BB-/B+
8B	B+	B+
9A	B+	B
9B	B+/B	B/B-
10A	B	B-
10B	B/B-	B-
11A	B-	B-/CCC
11B	B-	CCC/C
11C	B-/CCC	CCC/C
12A	CCC/C	CCC/C
12B	CCC/C	CCC/C
12C	CCC/C	CCC/C

* Represents corporates/non-bank financial institutions.

Credit grades for Retail Clients accounts covered by IRB models are based on a probability of default. These models are based on application and behavioural scorecards which make use of credit bureau information as well as Bank's internal data.

IRB models cover a substantial majority of the Bank's financing and are used extensively in assessing risks at customer and portfolio level, setting strategy and optimising the Bank's risk-return decisions.

The Bank makes use of internal risk estimates of PD, LGD, EL and EAD in the areas of:

- Credit Approval and Decision – The level of authority required for the sanctioning of credit requests and the decision made is based on PD, LGD, EL and EAD of the obligor with reference to the nominal exposure;
- Pricing – In Corporates, Institutional and Commercial clients, a pre-deal pricing calculator is used which takes into consideration PD, LGD and EAD in the calculation of expected loss and risk weighted assets, is used for the proposed transactions to ensure appropriate return. Retail Clients pricing considers obligor's risk profile (as it takes into account the financing size and customer segment), pricing regulations if any, and competition in the market place;
- Limit Setting – In Retail Clients, portfolio limits are based on recession loss. In Corporates, Institutional and Commercial clients concentration limits for some portfolios, as counterparty limits are determined by PD, LGD and EAD. The limits operate on a sliding scale to ensure that the Bank does not have over concentration of low credit quality assets;
- Provisioning – Collective Impairment Provision ("CIP") are raised at the portfolio level and are set with reference to expected loss which is based on PD, LGD and EAD amongst other qualitative and quantitative factors;
- Risk Appetite assessment – Key inputs used in the assessment of business and market variables for setting Risk Appetite includes but not limited to consideration of risk based methodologies such as IRB parameters; and
- Economic Capital – PD, LGD and EAD are key components of the model in credit risk economic capital calculation.

5. Credit risk (continued)

(iv) Counterparty credit risk in the trading book

Counterparty credit risk ("CCR") is the risk that the Bank's counterparty in a foreign exchange, profit rate, commodity, equity or credit derivative contract defaults prior to maturity date of the contract and that the Bank at the time has a claim on the counterparty. CCR arises predominantly in the trading book, but also arises in the non-trading book due to hedging of external funding.

The credit risk arising from all financial derivatives is managed as part of the overall financing limits to banks and customers.

The Bank will seek to negotiate Credit Support Annexes ("CSA") with counterparties on a case by case basis, where collateral is deemed a necessary or desirable mitigant to the exposure. The credit terms of the CSA are specific to each legal document and determined by the credit risk approval unit responsible for the counterparty. The nature of the collateral will be specified in the legal document and will typically be cash or highly liquid securities.

A daily operational process takes place to calculate the Marked-to-Market ("MTM") on all trades captured under the CSA. Additional collateral will be called from the counterparty if total uncollateralised MTM exposure exceeds the threshold and minimum transfer amount specified in the CSA to provide an extra buffer to the daily variation margin

In line with market convention, the Bank negotiates CSA terms for certain counterparties where the thresholds related to each party are dependent on their internal rating model. Such clauses are typically mutual in nature. It is therefore recognised that a downgrade in the Bank's rating could result in counterparties seeking additional collateral calls to cover negative MTM portfolios where thresholds are lowered.

<u>Credit reserves</u>

Using risk factors such as PD and LGD, a Regulatory Expected Loss is calculated for each counterparty across the CCR portfolio, and based on this calculation, credit reserves are set aside for traded products. The reserve is a dynamic calculation based on the EAD risk profile for each counterparty, alongside PD and LGD factors.

<u>Wrong way risk</u>

Wrong way risk occurs when either the EAD or LGD increases as the credit quality of an obligor decreases. For example, as the MTM on a derivative contract increases in favour of the Bank, this can correspond to a higher replacement cost (EAD), and the counterparty may increasingly be unable to meet its obligations. Furthermore the EAD may become larger as the counterparty finds it harder to meet its payment, margin call or collateral posting requirements. The Bank employs various policies and procedures to ensure that deterioration in credit grading is alerted to management.

<u>Exposure value calculation</u>

Exposure values for regulatory capital purposes on over the counter traded products are calculated according to the CCR MTM method. This is calculated as a sum of the current replacement cost and the potential future credit exposure. The current replacement cost is the Ringgit equivalent amount owed by the counterparty to the Bank for various financial derivative transactions. The potential future credit exposure is an add-on based on a percentage of the notional principal of each transaction. Such percentages vary according to the underlying asset class and tenor of each trade.

Section 5.6 provides further analysis on the Bank's off-balance sheet and counterparty credit risk.

5. Credit risk (continued)

5.1 Exposure values

The following tables detail the Bank's EAD before the effect of credit risk mitigation, broken down by the relevant exposure class against the relevant industry, maturity and geography. EAD is based on the current outstanding and accrued profit and fees, plus a proportion of the undrawn component of the facility. The amount of the undisbursed facility included is dependant on the product type, and for IRB exposure classes this amount is modeled internally.

5.1.1 Geographical analysis

The below tables provide the Bank's EAD analysed by the booking location of the exposure.

31 December 2017	**Malaysia RM'000**	**Others RM'000**	**Total RM'000**
IRB exposures			
Sovereigns/Central banks	1,849,481	-	1,849,481
Banks, development financial institutions & MDBs	220,840	236,981	457,821
Takaful companies, Syariah compliant securities firms & fund managers	10,047	-	10,047
Corporate exposures (excluding specialised financing and firm-size adjustment)	1,518,843	606,402	2,125,245
Corporate exposures (with firm-size adjustment)	535,652	-	535,652
Specialised financing	110,602	29,900	140,502
Retail exposures	3,390,563	-	3,390,563
Home financing	*2,633,091*	-	*2,633,091*
Other retail exposures	*757,472*	-	*757,472*
Total IRB exposures	**7,636,028**	**873,283**	**8,509,311**
Standardised exposures			
Corporates	6,860	-	6,860
Regulatory retail	130,847	-	130,847
Home financing	339	-	339
Other assets	70,510	5,359	75,869
Total Standardised exposures	**208,556**	**5,359**	**213,915**
Total credit risk exposures	**7,844,584**	**878,642**	**8,723,226**

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5. Credit risk (continued)

5.1 Exposure values (continued)

5.1.1 Geographical analysis (continued)

31 December 2016	Malaysia RM'000	Others RM'000	Total RM'000
IRB exposures			
Sovereigns/Central banks	1,631,325	-	1,631,325
Banks, development financial institutions & MDBs	747,883	401,657	1,149,540
Takaful companies, Syariah compliant securities firms & fund managers	210,472	48,051	258,523
Corporate exposures (excluding specialised financing and firm-size adjustment)	2,249,419	244,291	2,493,710
Corporate exposures (with firm-size adjustment)	562,748	-	562,748
Retail exposures	3,897,823	-	3,897,823
Home financing	*2,887,321*	-	*2,887,321*
Other retail exposures	*1,010,502*	-	*1,010,502*
Total IRB exposures	**9,299,670**	**693,999**	**9,993,669**
Standardised exposures			
Corporates	69,124	1,475	70,599
Regulatory retail	194,977	-	194,977
Home financing	351	-	351
Other assets	64,015	9,930	73,945
Total Standardised exposures	**328,467**	**11,405**	**339,872**
Total credit risk exposures	**9,628,137**	**705,404**	**10,333,541**

5. Credit risk (continued)

5.1 Exposure values (continued)

5.1.2 Sector or economic purpose analysis

The below tables provide the Bank's EAD analysed by sector or economic purpose of the exposure.

31 December 2017	Agricultural, hunting, forestry and fishing RM'000	Mining quarrying RM'000	Manufacturing RM'000	Electricity, gas and water RM'000	Construction RM'000	Wholesale & retail trade and restaurants & hotels RM'000	Transportation, storage and communication RM'000	Finance, insurance/ takaful and services RM'000	Real estate RM'000	Household RM'000	Others RM'000	Total RM'000
IRB exposures												
Sovereigns/Central banks	-	-	-	-	-	-	-	1,849,481	-	-	-	1,849,481
Banks, development financial institutions & MDBs	-	-	-	-	-	-	-	457,821	-	-	-	457,821
Takaful companies, Syariah compliant securities firms & fund managers	-	-	-	-	-	-	-	10,047	-	-	-	10,047
Corporate exposures (excluding specialised financing and firm-size adjustment)	118,580	252,150	364,134	-	73,609	325,446	592,741	135,647	231,433	-	31,505	2,125,245
Corporate exposures (with firm-size adjustment)	932	7,531	8,848	-	152,308	20,159	28,502	56,010	-	-	261,362	535,652
Specialised financing	-	-	-	-	-	110,602	-	-	-	-	29,900	140,502
Retail exposures	922	446	21,655	593	29,933	50,851	17,203	25,591	-	2,685,972	557,397	3,390,563
Home financing	-	-	-	-	-	-	-	-	-	2,633,091	-	2,633,091
Other retail exposures	922	446	21,655	593	29,933	50,851	17,203	25,591	-	52,881	557,397	757,472
Total IRB exposures	**120,434**	**260,127**	**394,637**	**593**	**255,850**	**507,058**	**638,446**	**2,534,597**	**231,433**	**2,685,972**	**880,164**	**8,509,311**
Standardised exposures												
Corporates	-	-	-	-	5,460	-	-	-	-	-	1,400	6,860
Regulatory retail	-	-	-	-	-	-	-	-	-	130,847	-	130,847
Home financing	-	-	-	-	-	-	-	-	-	339	-	339
Other assets	-	-	-	-	-	-	-	-	-	-	75,869	75,869
Total Standardised exposures	**-**	**-**	**-**	**-**	**5,460**	**-**	**-**	**-**	**-**	**131,186**	**77,269**	**213,915**
Total credit risk exposures	**120,434**	**260,127**	**394,637**	**593**	**261,310**	**507,058**	**638,446**	**2,534,597**	**231,433**	**2,817,158**	**957,433**	**8,723,226**

5. Credit risk (continued)

5.1 Exposure values (continued)

5.1.2 Sector or economic purpose analysis (continued)

31 December 2016	Agricultural, hunting, forestry and fishing RM'000	Mining and quarrying RM'000	Manufacturing RM'000	Electricity, gas and water RM'000	Construction RM'000	Wholesale & retail trade and restaurants & hotels RM'000	Transportation, storage and communication RM'000	Finance, insurance/ takaful and services RM'000	Real estate RM'000	Household RM'000	Others RM'000	Total RM'000
IRB exposures												
Sovereigns/Central banks	-	-	-	-	-	-	-	1,631,325	-	-	-	1,631,325
Banks, development financial institutions & MDBs	-	-	-	-	-	-	-	1,149,540	-	-	-	1,149,540
Takaful companies, Syariah compliant securities firms & fund managers	-	-	-	-	-	-	-	258,523	-	-	-	258,523
Corporate exposures (excluding specialised financing and firm-size adjustment)	137,377	43,973	968,791	-	27,155	673,466	96,745	214,689	289,643	-	41,871	2,493,710
Corporate exposures (with firm-size adjustment)	-	-	17,501	-	106,846	29,063	40,657	41,532	3,338	304,947	18,864	562,748
Retail exposures	1,372	1,385	38,395	870	42,637	81,942	28,635	35,853	24	3,654,877	11,833	3,897,823
Home financing	-	-	-	-	-	-	-	-	-	2,887,321	-	2,887,321
Other retail exposures	1,372	1,385	38,395	870	42,637	81,942	28,635	35,853	24	767,556	11,833	1,010,502
Total IRB exposures	**138,749**	**45,358**	**1,024,687**	**870**	**176,638**	**784,471**	**166,037**	**3,331,462**	**293,005**	**3,959,824**	**72,568**	**9,993,669**
Standardised exposures												
Corporates	-	-	-	-	69,124	-	-	-	-	1,475	-	70,599
Regulatory retail	-	-	-	-	-	-	-	-	-	194,977	-	194,977
Home financing	-	-	-	-	-	-	-	-	-	351	-	351
Other assets	-	-	-	-	-	-	-	-	-	-	73,945	73,945
Total Standardised exposures	**-**	**-**	**-**	**-**	**69,124**	**-**	**-**	**-**	**-**	**196,803**	**73,945**	**339,872**
Total credit risk exposures	**138,749**	**45,358**	**1,024,687**	**870**	**245,762**	**784,471**	**166,037**	**3,331,462**	**293,005**	**4,156,627**	**146,513**	**10,333,541**

5. Credit risk (continued)

5.1 Exposure values (continued)

5.1.3 Residual contractual maturity analysis

The following tables show the Bank's residual maturity of EAD by each principal category of exposure class.

31 December 2017	Up to 1 year RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
IRB exposures				
Sovereigns/Central banks	1,747,698	101,783	-	1,849,481
Banks, development financial institutions & MDBs	147,321	310,500	-	457,821
Takaful companies, securities firms & Syariah compliant fund managers	9,915	132	-	10,047
Corporate exposures (excluding specialised financing and firm-size adjustment)	1,089,677	981,772	53,796	2,125,245
Corporate exposures (with firm-size adjustment)	205,511	78,261	251,880	535,652
Specialised financing	110,212	30,290	-	140,502
Retail exposures	52,450	168,268	3,169,845	3,390,563
Home financing	*29,862*	*15,592*	*2,587,637*	*2,633,091*
Other retail exposures	*22,588*	*152,676*	*582,208*	*757,472*
Total IRB exposures	**3,362,784**	**1,671,006**	**3,475,521**	**8,509,311**
Standardised exposures				
Corporates	1,831	3,660	1,369	6,860
Regulatory retail	10,832	109,121	10,894	130,847
Home financing	-	-	339	339
Other assets	75,869	-	-	75,869
Total Standardised exposures	**88,532**	**112,781**	**12,602**	**213,915**
Total credit risk exposures	**3,451,316**	**1,783,787**	**3,488,123**	**8,723,226**

Note: The above table shows that exposures with residual contractual maturity more than 5 years, of which 74% are collateralized.

5. Credit risk (continued)

5.1 Exposure values (continued)

5.1.3 Residual contractual maturity analysis (continued)

31 December 2016	Up to 1 year RM'000	> 1 - 5 years RM'000	Over 5 years RM'000	Total RM'000
IRB exposures				
Sovereigns/Central banks	1,529,378	101,947	-	1,631,325
Banks, development financial institutions & MDBs	648,317	501,223	-	1,149,540
Takaful companies, securities firms & Syariah compliant fund managers	206,872	51,651	-	258,523
Corporate exposures (excluding specialised financing and firm-size adjustment)	1,720,908	576,551	196,251	2,493,710
Corporate exposures (with firm-size adjustment)	127,868	140,495	294,385	562,748
Retail exposures	216,222	221,129	3,460,472	3,897,823
Home financing	*90,851*	*12,312*	*2,784,158*	*2,887,321*
Other retail exposures	*125,371*	*208,817*	*676,314*	*1,010,502*
Total IRB exposures	**4,449,565**	**1,592,996**	**3,951,108**	**9,993,669**
Standardised exposures				
Corporates	9,863	59,322	1,414	70,599
Regulatory retail	1,993	188,822	4,162	194,977
Home financing	-	-	351	351
Other assets	73,945	-	-	73,945
Total Standardised exposures	**85,801**	**248,144**	**5,927**	**339,872**
Total credit risk exposures	**4,535,366**	**1,841,140**	**3,957,035**	**10,333,541**

Note: The above table shows that exposures with residual contractual maturity more than 5 years, of which 71% are collateralized.

5. Credit risk (continued)

5.2 Credit risk mitigation

The Bank's approach to credit risk mitigation are disclosed in disclosed in Note 32(b)(iii) of the Bank's financial statements.

The following tables disclose the total exposure before the effect of Credit Risk Mitigation ("CRM") and the exposures covered by guarantees/credit derivatives, eligible financial collateral and other eligible collateral, shown by exposure class.

31 December 2017	Exposures before CRM RM'000	Exposures covered by guarantees or credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000	Exposures covered by other eligible collateral RM'000
On-balance sheet exposures				
Sovereigns/Central banks	1,849,481	-	-	-
Banks, development financial institutions & MDBs	110,016	-	-	-
Corporates	2,025,631	891	104,166	94,287
Regulatory retail	800,518	32	1,638	3,423
Home financing	2,588,537	-	-	2,580,119
Other assets	75,869	-	-	-
Specialised financing	77,580	-	-	-
Defaulted exposures	96,559	-	-	11,541
Total on-balance sheet exposures	**7,624,191**	**923**	**105,804**	**2,689,370**
Off-balance sheet exposures				
OTC derivatives	389,444	-	43,421	23,781
Off balance sheet exposures other than Islamic OTC derivatives or Islamic credit derivatives	709,582	4,281	21,259	28,963
Defaulted exposures	9	-	-	-
Total off-balance sheet exposures	**1,099,035**	**4,281**	**64,680**	**52,744**
Total on and off-balance sheet exposures	**8,723,226**	**5,204**	**170,484**	**2,742,114**

5. Credit risk (continued)

5.2 Credit risk mitigation (continued)

31 December 2016	Exposures before CRM RM'000	Exposures covered by guarantees or credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000	Exposures covered by other eligible collateral RM'000
On-balance sheet exposures				
Sovereigns/Central banks	1,631,325	-	-	-
Banks, development financial institutions & MDBs	642,725	-	-	-
Takaful companies, Syariah compliant securities firms & fund managers	201,195	-	2,741	-
Corporates	2,553,467	560	69,005	327,166
Regulatory retail	1,042,344	44	1,326	6,908
Home financing	2,753,436	-	-	2,713,280
Other assets	73,945	-	-	-
Defaulted exposures	115,981	-	-	21,068
Total on-balance sheet exposures	**9,014,418**	**604**	**73,072**	**3,068,422**
Off-balance sheet exposures				
OTC derivatives	565,517	-	-	-
Off balance sheet exposures other than Islamic OTC derivatives or Islamic credit derivatives	753,379	4,165	24,894	90,519
Defaulted exposures	227	-	-	227
Total off-balance sheet exposures	**1,319,123**	**4,165**	**24,894**	**90,746**
Total on and off-balance sheet exposures	**10,333,541**	**4,769**	**97,966**	**3,159,168**

5. Credit risk (continued)

5.3 Exposures under IRB approach

5.3.1 Exposures under the IRB approach by risk grade or PD band for non-retail exposures

The below tables analyse the Bank's PD range or internal risk grading for non-retail exposures.

31 December 2017	0-0.04% RM'000	0.04-0.17% RM'000	0.17-0.59% RM'000	0.59-3.05% RM'000	3.05-12.00% RM'000	12.00-100% RM'000	Default or 100% RM'000
Non-retail exposures (EAD)							
On-balance sheet exposures							
Sovereign	-	1,849,481	-	-	-	-	-
Banks	-	104,091	5,925	-	-	-	-
Corporate	-	519,953	678,700	603,102	269,248	30,604	1,340
Total on-balance sheet exposures	**-**	**2,473,525**	**684,625**	**603,102**	**269,248**	**30,604**	**1,340**
Undrawn commitments							
Corporate	-	130	153,670	140,335	34,029	3,256	-
Total undrawn commitments	**-**	**130**	**153,670**	**140,335**	**34,029**	**3,256**	**-**
Derivatives							
Banks	-	112,381	44,346	191,078	-	-	-
Corporate	-	37,941	375	3,294	-	29	-
Total derivatives	**-**	**150,322**	**44,721**	**194,372**	**-**	**29**	**-**
Contingent							
Banks	-	-	-	-	-	-	-
Corporate	-	80,239	92,814	153,615	8,188	584	-
Total contingent	**-**	**80,239**	**92,814**	**153,615**	**8,188**	**584**	**-**
Exposure weighted average LGD (%)							
Sovereign	-	46.20%	-	-	-	-	-
Banks	-	41.09%	41.93%	41.20%	-	-	-
Corporate	-	48.99%	48.12%	46.47%	41.75%	54.41%	28.40%
Exposure weighted average risk weight (%)							
Sovereign	-	12.77%	-	-	-	-	-
Banks	-	31.42%	6.80%	67.39%	-	-	-
Corporate	-	34.57%	53.54%	100.40%	140.01%	262.93%	179.83%

5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

5.3.1 Exposures under the IRB approach by risk grade or PD band for non-retail exposures (continued)

31 December 2016	0-0.04% RM'000	0.04-0.17% RM'000	0.17-0.59% RM'000	0.59-3.05% RM'000	3.05-12.00% RM'000	12.00-100% RM'000	Default or 100% RM'000
Non-retail exposures (EAD)							
On-balance sheet exposures							
Sovereign	-	1,631,325	-	-	-	-	-
Banks	-	642,725	-	-	-	-	-
Corporate	-	218,913	711,102	1,529,425	253,686	9,215	418
Total on-balance sheet exposures	**-**	**2,492,963**	**711,102**	**1,529,425**	**253,686**	**9,215**	**418**
Undrawn commitments							
Corporate	-	71,525	117,382	65,791	30,869	79	-
Total undrawn commitments	**-**	**71,525**	**117,382**	**65,791**	**30,869**	**79**	**-**
Derivatives							
Banks	-	105,120	89,921	311,736	-	-	-
Corporate	-	52,995	-	5,736	6	3	-
Total derivatives	**-**	**158,115**	**89,921**	**317,472**	**6**	**3**	**-**
Contingent							
Bank	-	38	-	-	-	-	-
Corporate	-	88,842	1,436	144,441	12,905	212	-
Total contingent	**-**	**88,880**	**1,436**	**144,441**	**12,905**	**212**	**-**
Exposure weighted average LGD (%)							
Sovereign	-	46.20%	-	-	-	-	-
Banks	-	41.17%	41.20%	41.20%	-	-	-
Corporate	-	35.24%	49.83%	44.04%	38.65%	69.66%	95.81%
Exposure weighted average risk weight (%)							
Sovereign	-	13.22%	-	-	-	-	-
Banks	-	23.99%	33.52%	79.40%	-	-	-
Corporate	-	18.79%	53.91%	97.20%	134.58%	322.36%	937.48%

5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

5.3.2 Exposures under the IRB approach by risk grade or PD band for retail exposures

The below tables analyse the Bank's PD range for retail exposures.

31 December 2017	0-0.11% RM'000	0.11-0.30% RM'000	0.30-0.43% RM'000	0.43-3.05% RM'000	3.05-9.20% RM'000	9.20-100% RM'000	Default or 100% RM'000
Retail exposures (EAD)							
On-balance sheet exposures							
Home financing	2,257	660,912	325,010	1,346,050	161,274	92,695	13,987
Other retail	97,416	131,359	97,852	238,145	76,353	42,691	67,150
Total on-balance sheet exposures	**99,673**	**792,271**	**422,862**	**1,584,195**	**237,627**	**135,386**	**81,137**
Undrawn commitments							
Home financing	-	369	-	29,875	-	653	9
Other retail	-	-	-	6,238	268	-	-
Total undrawn commitments	**-**	**369**	**-**	**36,113**	**268**	**653**	**9**
Exposure weighted average LGD (%)							
Home financing	13.41%	12.45%	12.27%	12.29%	12.41%	13.03%	16.74%
Other retail	16.62%	18.15%	19.52%	34.17%	32.88%	43.67%	74.92%
Exposure weighted average risk weight (%)							
Home financing	3.34%	5.18%	8.06%	15.35%	43.83%	66.94%	103.57%
Other retail	3.34%	9.61%	11.71%	39.89%	50.55%	86.59%	308.13%

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5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

5.3.2 Exposures under the IRB approach by risk grade or PD band for retail exposures (continued)

31 December 2016	0-0.11% RM'000	0.11-0.30% RM'000	0.30-0.43% RM'000	0.43-3.05% RM'000	3.05-9.20% RM'000	9.20-100% RM'000	Default or 100% RM'000
Retail exposures (EAD)							
On-balance sheet exposures							
Home financing	2,610	638,460	293,462	1,577,152	160,471	80,930	22,072
Other retail	100,150	124,962	115,241	355,303	94,756	63,942	86,517
Total on-balance sheet exposures	**102,760**	**763,422**	**408,703**	**1,932,455**	**255,227**	**144,872**	**108,589**
Undrawn commitments							
Home financing	949	7,271	2,836	99,924	648	309	227
Other retail	404	-	382	68,315	530	-	-
Total undrawn commitments	**1,353**	**7,271**	**3,218**	**168,239**	**1,178**	**309**	**227**
Exposure weighted average LGD (%)							
Home financing	16.36%	12.49%	12.41%	12.48%	12.49%	12.94%	16.47%
Other retail	15.04%	15.90%	18.51%	36.87%	44.84%	56.31%	76.63%
Exposure weighted average risk weight (%)							
Home financing	3.79%	5.35%	8.15%	16.45%	44.52%	68.56%	103.58%
Other retail	3.00%	8.52%	11.18%	43.60%	69.61%	117.11%	295.61%

5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

5.3.3 Exposures under the IRB approach by expected loss range for retail exposures

The below tables analyse the Bank's expected loss range for retail exposures.

31 December 2017	Up to 0.10% RM'000	>0.10 to 0.20% RM'000	>0.20 to 0.50% RM'000	>0.50 to 1.00% RM'000	>1.00 to 30.00% RM'000	>30 to <100% RM'000	100% RM'000
Retail exposures (EAD)							
On-balance sheet exposures							
Home financing	1,691,713	483,032	203,138	91,216	133,086	-	-
Other retail	365,612	95,750	10,927	112,596	103,516	62,565	-
Total on-balance sheet exposures	**2,057,325**	**578,782**	**214,065**	**203,812**	**236,602**	**62,565**	**-**
Undrawn commitments							
Home financing	7,502	3,474	19,268	-	662	-	-
Other retail	159	-	6,079	-	268	-	-
Total undrawn commitments	**7,661**	**3,474**	**25,347**	**-**	**930**	**-**	**-**
Exposure weighted average risk weight (%)							
Home financing	8.16%	17.40%	28.83%	44.08%	68.53%	-	-
Other retail	17.05%	15.37%	36.76%	42.73%	106.66%	264.16%	-

5. Credit risk (continued)

5.3 Exposures under IRB approach (continued)

5.3.3 Exposures under the IRB approach by expected loss range for retail exposures (continued)

31 December 2016	Up to 0.10% RM'000	>0.10 to 0.20% RM'000	>0.20 to 0.50% RM'000	>0.50 to 1.00% RM'000	>1.00 to 30.00% RM'000	>30 to <100% RM'000	100% RM'000
Retail exposures (EAD)							
On-balance sheet exposures							
Home financing	1,721,978	529,233	298,252	92,000	133,694	-	-
Other retail	422,141	93,317	20,971	135,719	182,170	86,553	-
Total on-balance sheet exposures	**2,144,119**	**622,550**	**319,223**	**227,719**	**315,864**	**86,553**	**-**
Undrawn commitments							
Home financing	21,684	16,855	72,441	275	909	-	-
Other retail	1,389	-	67,605	358	279	-	-
Total undrawn commitments	**23,073**	**16,855**	**140,046**	**633**	**1,188**	**-**	**-**
Exposure weighted average risk weight (%)							
Home financing	8.45%	17.80%	27.99%	44.35%	71.34%	-	-
Other retail	13.78%	14.46%	26.92%	50.95%	114.17%	271.41%	-

5. Credit Risk (continued)

5.4 Exposures under the Standardised approach

Risk weights under the Standardised approach

The following tables set out analysis of risk weights under the Standardised approach for the Bank.

31 December 2017	← Exposures After Netting and Credit Risk Mitigation → Corporates* RM'000	Regulatory retail RM'000	Home financing RM'000	Other assets RM'000	Total exposures after netting and credit risk mitigation RM'000	Total risk weighted assets RM'000
Risk weights						
0%	-	-	-	3,083	3,083	-
35%	-	-	339	-	339	119
50%	-	493	-	-	493	247
75%	-	7,007	-	-	7,007	5,254
100%	5,437	119,322	-	72,786	197,545	197,545
150%	-	4,026	-	-	4,026	6,039
Total exposures	5,437	130,848	339	75,869	212,493	209,204
Risk-weighted assets by exposures	5,437	130,862	119	72,786	209,204	
Average risk weight	100.0%	100.0%	35.1%	95.9%	98.5%	
Deduction from capital base	-	-	-	-	-	

* All corporate standardised exposures are unrated.

31 December 2016	← Exposures After Netting and Credit Risk Mitigation → Corporates* RM'000	Regulatory retail RM'000	Home financing RM'000	Other assets RM'000	Total exposures after netting and credit risk mitigation RM'000	Total risk weighted assets RM'000
Risk weights						
0%	-	-	-	3,386	3,386	-
35%	-	-	351	-	351	123
50%	-	407	-	-	407	204
75%	-	12,105	-	-	12,105	9,079
100%	69,049	178,395	-	70,559	318,003	318,003
150%	-	4,070	-	-	4,070	6,105
Total exposures	69,049	194,977	351	73,945	338,322	333,514
Risk-weighted assets by exposures	69,049	193,783	123	70,559	333,514	
Average risk weight	100.0%	99.4%	35.0%	95.4%	98.6%	
Deduction from capital base	-	-	-	-	-	

* All corporate standardised exposures are unrated.

5. Credit risk (continued)

5.5 Problem credit management and provisioning

The Bank's problem credit management policies are disclsosed in Note 32(b)(iv) of the Bank's financial statements.

The Bank's individual impairment provisions and collective impairment provision by significant geographic area are disclsosed in Note 33(iii) of the Bank's financial statements.

5.5.1 Impairment provisions analysed by customers' business or industry

The following tables show the Bank's collective impairment provisions and movement in individual impairment provisions by each principal category of customers' business or industry.

31 December 2017	Collective impairment provisions as at 31 December 2017 RM'000	Individual impairment provisions held as at 1 January 2017 RM'000	Net individual impairment charge during the financial year RM'000	Amounts written off or other movements during the financial year RM'000	Individual impairment provisions held as at 31 December 2017 RM'000
Home financing	9,699	4,649	12,491	(7,954)	9,186
Others	31,853	20,328	42,016	(42,377)	19,967
Retail Clients	**41,552**	**24,977**	**54,507**	**(50,331)**	**29,153**
Agriculture	3,073	-	-	-	-
Mining and quarrying	2,128	-	-	-	-
Manufacturing	3,434	1,185	-	(956)	229
Construction	1,727	-	-	-	-
Real estate	1,257	-	-	-	-
Wholesale & retail trade and restaurants & hotels	6,006	-	-	-	-
Transportation, storage and communication	2,344	-	2,417	-	2,417
Finance, insurance/takaful and business services	2,788	-	-	-	-
Others	144	-	-	-	-
Corporates, Institutional and Commercial Clients	**22,901**	**1,185**	**2,417**	**(956)**	**2,646**
Total Impairment Provisions	**64,453**	**26,162**	**56,924**	**(51,287)**	**31,799**

5. Credit risk (continued)

5.5 Problem credit management and provisioning (continued)

5.5.1 Impairment provisions analysed by customers' business or industry (continued)

31 December 2016	Collective impairment provisions as at 31 December 2016 RM'000	Individual impairment provisions held as at 1 January 2016 RM'000	Net individual impairment charge during the financial year RM'000	Amounts written off or other movements during the financial year RM'000	Individual impairment provisions held as at 31 December 2016 RM'000
Home financing	7,018	3,410	8,809	(7,570)	4,649
Others	50,307	24,027	65,396	(69,095)	20,328
Retail Clients	**57,325**	**27,437**	**74,205**	**(76,665)**	**24,977**
Agriculture	3,797	-	-	-	-
Mining and quarrying	644	-	-	-	-
Manufacturing	7,884	1,185	-	-	1,185
Construction	1,363	-	-	-	-
Real estate	657	-	-	-	-
Wholesale & retail trade and restaurants & hotels	5,203	-	-	-	-
Transportation, storage and communication	689	-	-	-	-
Finance, insurance/takaful and business services	2,823	-	-	-	-
Others	279	-	-	-	-
Corporates, Institutional and Commercial Clients	**23,339**	**1,185**	**-**	**-**	**1,185**
Total Impairment Provisions	**80,664**	**28,622**	**74,205**	**(76,665)**	**26,162**

A reconciliation of changes to financing and advances impairment provision as at 31 December 2017 and 31 December 2016 are dislcosed in Note 6 of the Bank's financial statements.

5. Credit risk (continued)

5.5 Problem credit management and provisioning (continued)

A financing is considered to be past due when the counterparty has failed to make a principal or profit payment when contractually due. Past due does not necessarily mean that a financing is impaired.

The following table analyses the Bank's financing and advances past due but not impaired, analysed by customers' business or industry.

	31 December 2017 RM'000	31 December 2016 RM'000
Home financing	388,826	314,864
Others	35,984	106,833
Retail Clients	**424,810**	**421,697**
Transport, storage and communication	432	-
Corporates, Institutional and Commercial Clients	**432**	**-**

The following table analyses the Bank's financing and advances past due but not impaired, analysed by significant geographical areas.

	31 December 2017 RM'000	31 December 2016 RM'000
Malaysia	425,242	421,697

5. Credit risk (continued)

5.6 Off-balance sheet and counterparty credit risk

The following table analyses the Bank's off-balance sheet and counterparty credit risk.

31 December 2017	Principal amount RM'000	Positive fair value of contracts RM'000	Negative fair value of contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Direct credit substitutes	13,591	-	-	13,591	4,855
Transaction related contingent items	256,891	-	-	256,891	53,986
Short term self liquidating trade related contingencies	70,373	-	-	70,373	16,232
Foreign exchange related contracts					
One year or less	1,291,601	23,651	24,810	48,668	12,599
Over one year to five years	2,080,252	167,103	167,103	294,624	147,558
Profit rate related contracts					
Over one year to five years	1,487,573	16,550	17,909	46,152	6,941
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	419,623	-	-	43,398	62,810
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	36,211	-	-	35,319	8,375
Any commitments that are unconditionally at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	4,093,840	-	-	290,019	312,003
	9,749,955	207,304	209,822	1,099,035	625,359

31 December 2016	Principal amount RM'000	Positive fair value of contracts RM'000	Negative fair value of contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Direct credit substitutes	2,817	-	-	2,817	1,206
Transaction related contingent items	212,675	-	-	212,675	35,960
Short term self liquidating trade related contingencies	41,190	-	-	41,190	10,136
Foreign exchange related contracts					
One year or less	610,656	7,183	7,178	12,108	5,844
Over one year to five years	2,335,014	260,564	271,979	481,323	306,296
Profit rate related contracts					
Over one year to five years	1,503,293	27,153	29,176	72,086	12,718
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	404,986	-	-	93,936	80,683
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	184,041	-	-	182,838	46,728
Any commitments that are unconditionally at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a customer's creditworthiness	3,071,121	-	-	220,150	147,939
	8,365,793	294,900	308,333	1,319,123	647,510

6. Market risk

The Bank recognises market risk as the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices.

As the Bank does not maintain a trading book, the Bank does not expose to traded market risk.

The Bank's market risk arises in the non-trading book from the holding of high quality liquid debt securities.

Our market risk management governance, measurement, valuation framework and exposure are disclosed in Note 32(c) and 33 of the Bank's financial statements.

7. Operational risk

Operational risk is the potential for loss from inadequate or failed internal processes, people, and systems or from the impact of external events, including legal risks. Syariah non-compliance risk is an integral part of operational risk.

Our operational risk governance, approach and measurement methodology are disclosed in Note 32(a) of the Bank's financial statements.

8. Syariah Governance Disclosure

Our syariah governance are disclosed in the page 9 of the Bank's financial statements.

During the financial period, there were six (2016: five) syariah non-compliant events being detected. One event has resulted in syariah non-compliant income amounting to RM5,850 (2016: RM347,009). The Bank is in the midst of channelling the RM5,850 to a charitable organization.

Standard Chartered Saadiq Berhad
Pillar 3 disclosures

Attestation

In accordance with Bank Negara Malaysia's Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3), I hereby attest that to the best of my knowledge, the disclosures contained in Standard Chartered Saadiq Berhad's Pillar 3 Disclosures report for the financial year ended 31 December 2017 are consistent with the manner in which the Bank assesses and manages its risk, and are not misleading in any particular way.

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Mohammad Ali Allawala
Acting Chief Executive Officer

Date: 24 April 2018