



# **RHB Bank Thailand Operations**

## **Basel III Pillar 3 Disclosures**

**31<sup>st</sup> December 2018**

## **Statement by Chief Executive Officer, RHB Bank Thailand Operations**

In accordance with the requirements set forth in the Bank of Thailand's Notification No. SorNorSor. 4/2556 Re: Disclosure of Information on Capital Fund Maintenance for Commercial Banks, dated 2<sup>nd</sup> May 2013 and SorNorSor 2/2561 Re: Liquidity Coverage Ratio Disclosure Standard, dated 25th January 2018. On behalf of the Management of RHB Bank Thailand Operations, I am pleased to provide an attestation that the Pillar 3 disclosures of RHB Bank Thailand Operations for the year ended 31<sup>st</sup> December 2018 are accurate and complete.

**Wong Kee Poh**  
**Chief Executive Officer**  
**RHB Bank, Thailand Operations**

# RHB Bank Thailand Operations

## Basel III Pillar 3 Disclosures

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# RHB Bank Thailand Operations

## Basel III Pillar 3 Disclosures

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## **1.0 Disclosure A: Scope of Application**

The Basel III Pillar 3 Disclosures contained in this document relate to RHB Bank Thailand Operations for the year ended 31<sup>st</sup> December 2018 and is the annual disclosure prepared in compliance with the requirements set forth in Bank of Thailand's Notification No. SorNorSor 4/2556 Re: Disclosure of Information on Capital Fund Maintenance for Commercial Banks, dated 2<sup>nd</sup> May 2013 and No.SorNorSor 2/2561 Re: Liquidity Coverage Ratio Disclosure Standard, dated 25th January 2018. This report also includes comparative quantitative information of the preceding year 2017.

RHB Bank Berhad ('the Bank') has a network of two branches in Thailand. RHB Bank Thailand Operations is a branch office of the Bank and is part of RHB Banking Group with its Head Office in Malaysia. In operating the business, RHB Bank Thailand Operations is guided by the Group Policies, Bank Negara Malaysia's Guidelines and Bank of Thailand's Guidelines, whichever is more stringent.

The quantitative disclosure herein relates to RHB Bank Thailand Operations only whereas the general qualitative disclosure under Section 3.0: Disclosure C contains the Group's Risk Management Framework, Policies and Guidelines, which are also applicable to RHB Bank Thailand Operations.

Other details pertaining to the RHB Banking Group are available under the Corporate Profile: Investor Relations of the Bank's official website at [www.rhbgroup.com](http://www.rhbgroup.com).

## **2.0 Disclosure B: Capital**

### **2.1 Capital Structure**

#### **2.1.1 Qualitative Disclosure**

Total capital of RHB Bank Thailand Operations consists of assets maintained under Section 32 of the Financial Institutions Businesses Act B.E. 2551, as set forth by the Bank of Thailand Notification's No. SorNorSor. 8/2558 Re: Capital Components for Foreign Bank Branches, dated 22<sup>th</sup> May 2015.

As at 31<sup>st</sup> December 2018, total regulatory capital of RHB Bank Thailand Operations was THB 2,000 million.

Total assets maintained under Section 32 amounted to THB 2,000 million, and comprised two primary components, i.e. Treasury Bills and Central Bank bonds. Treasury Bills are short-term discounted government debt securities backed by the Thailand Government, whereas Central Bank bonds are short-term debt securities issued by the Bank of Thailand (BOT).

**2.1.2 Quantitative Disclosure**

**Table 1: Capital of RHB Bank Thailand Operations**

Unit: THB

No.	Items	31-Dec-2018	31-Dec-2017
1.	Assets Required to be Maintained under Section 32 of the Financial Institutions Businesses Act B.E. 2551	2,000,000,000	2,000,000,000
2.	Sum of Net Capital for Maintenance of Assets under Section 32 and Net Balance of Inter-office Accounts	2,000,000,000	2,000,000,000
2.1	Capital for Maintenance of Assets under Section 32	2,000,000,000	2,000,000,000
2.2	Net Balance of Inter-office Accounts which the branch is the Debtor (the Creditor) to the Head Office and Other Branches Located in Other Countries, the Parent Company and Subsidiaries of the Head Office	-	-
3.	Total Regulatory Capital	2,000,000,000	2,000,000,000
3.1	Total Regulatory Capital Before Deduction	2,000,000,000	2,000,000,000
3.2	Deductions	-	-

Note: There is no amount to be included in or deducted from capital under Basel III as required under disclosure of capital information during the transitional period under Basel III.

## **2.2 Capital Adequacy**

### **2.2.1 Qualitative Disclosure**

RHB Bank Thailand Operations calculates and reports its capital adequacy ratio for regulatory reporting purposes to Bank of Thailand on a monthly basis. In view of its small portfolio compared relatively to that of the overall portfolio of the Bank, RHB Bank Thailand Operations has adopted the Standardised Approach ('SA') for the calculation of its credit and market risks, and the Basic Indicator Approach ('BIA') for its operational risk.

Under the Bank of Thailand's Notification No. SorNorSor.12/2555 Re: Regulations on Capital Supervision for Commercial Banks, dated 8<sup>th</sup> November 2012, and as a foreign commercial bank branch, RHB Bank Thailand Operations is required to maintain a minimum capital adequacy ratio of 8.5%. A foreign commercial bank's branch shall also maintain the capital conservation buffer ratio in addition to its minimum regulatory total capital ratio. As such, commercial banks shall gradually increase their capital ratio at least 0.625% a year starting from 1 January 2016 until the capital buffer ratio of at least 2.5% is reached on 1 January 2019. Therefore, when calculating the sum of minimum capital ratio and conservation buffer ratio, commercial banks must maintain the ratio of total capital to total risk-weighted assets as summarised in the table below:

Foreign commercial bank's branch Capital Ratio	1 January 2016	1 January 2017	1 January 2018	1 January 2019
Total Capital Ratio	9.125%	9.75%	10.375%	11.000%

### **2.2.2 Quantitative Disclosures**

#### **Minimum Capital Requirement for Credit Risk Classified By Type of Assets Under Standardised Approach**

RHB Bank Thailand Operations subscribes to the Bank of Thailand's Notification No. SorNorSor. 15/2555 Re: Regulations on the Calculation of Credit Risk-Weighted Assets for Commercial Banks Using the Standardised Approach ('SA') for classification of its assets into the various asset categories for capital adequacy purposes.

External ratings provided by eligible external credit assessment institutions ('ECAIs') are applied to assign risk weights to calculate the risk-weighted asset of the exposures. These ECAIs are Moody's, Standard & Poor's, Fitch, Fitch Thailand and TRIS. Exposures which are not rated by any of the eligible ECAIs are considered 'unrated exposures' and the appropriate risk weight for unrated exposures is assigned.

As at 31<sup>st</sup> December 2018, the total credit risk-weighted assets amounted to THB 12,753.10 million and credit risk capital requirement was THB 1,084.01 million.

**Table 2: Minimum Capital Requirement for Credit Risk Classified by Type of Assets under Standardised Approach**

Unit: THB

		31-Dec-2018	31-Dec-2017
<b>Performing Assets</b>			
1.	Claims on sovereigns and central banks, multilateral development banks ('MDBs'), and non - central government public sector entities ('PSEs') treated as claims on sovereigns	-	-
2.	Claims on financial institutions, PSEs treated as claims on financial institutions, and securities firms	116,440,058	124,757,438
3.	Claims on corporates, and PSEs treated as claims on corporates	931,496,486	865,092,827
4.	Claims on retail portfolios	3,164,232	2,749,365
5.	Claims on housing loans	-	-
6.	Other assets	9,614,634	8,121,611
<b>Non-performing Claims</b>		23,297,991	33,350,691
<b>First-to-default Credit Derivatives and Securitisation</b>		-	-
<b>Total Minimum Capital Requirement for Credit Risk under Standardised Approach</b>		<b>1,084,013,401</b>	<b>1,034,071,932</b>



### Minimum Capital Requirement for Market Risk for Positions in the Trading Book

RHB Bank Thailand Operations applies the Standardised Approach as per the Bank of Thailand's Notification No. SorNorSor. 94/2551 Re: Guideline on Supervision of Market Risk and Capital Requirement for Market Risk of Financial Institutions dated 27<sup>th</sup> November 2008, to measure the market risk capital charge for exposures in the trading book.

As at 31<sup>st</sup> December 2018, the market risk capital requirement was THB 30.13 million. Total risk-weighted assets amounted to THB 376.60 million.

**Table 3: Minimum Capital Requirement for Market Risk**

Unit: THB

	31-Dec-2018	31-Dec-2017
<b>Minimum Capital Requirement for Market Risk under Standardised Approach</b>	<b>30,128,362</b>	<b>1,346,996</b>

### Minimum Capital Requirement for Operational Risk

RHB Bank Thailand Operations calculates its operational risk capital charge by using the Basic Indicator Approach ('BIA') as per Bank of Thailand's Notification No. SorNorSor. 95/2551 Re: Regulations on Minimum Capital Requirement for Operational Risk, dated 27<sup>th</sup> November 2008.

By applying the Basic Indicator Approach to measure operational risk, RHB Bank Thailand Operations uses its gross income, which includes net interest income and non-interest income, as a proxy. For the year ended 31<sup>st</sup> December 2018, the operational risk capital requirement was THB 41.10 million.

**Table 4: Minimum Capital Requirement for Operational Risk**

Unit: THB

	31-Dec-2018	31-Dec-2017
<b>Minimum Capital Requirement for Operational Risk under BIA</b>	<b>41,102,932</b>	<b>34,471,735</b>

### Total Capital Ratio

As at 31<sup>st</sup> December 2018, the Total Capital Ratio ('TCR') of RHB Bank Thailand Operations was 14.66% on total risk-weighted assets of THB 13,643.49 million, against a total regulatory capital of THB 2,000 million, and which was above the minimum TCR of 8.5% required of a foreign commercial bank branch.

**Table 5: Total Capital Ratio**

Unit: %

	31-Dec-2018	31-Dec-2017
<b>Total Capital Ratio</b>	<b>14.66</b>	<b>15.86</b>

### **3.0 Disclosure C: Risk Exposures and Assessment**

The risk management objectives and policies of the RHB Banking Group also apply to RHB Bank Thailand Operations. However, since RHB Bank Thailand Operations is a local network of branches in Thailand, its operations are also subject to the regulatory requirements of the Bank of Thailand, and these are indicated accordingly.

#### **3.1 Risk Management**

Risk is inherent in the Bank's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, strategic and cross-border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

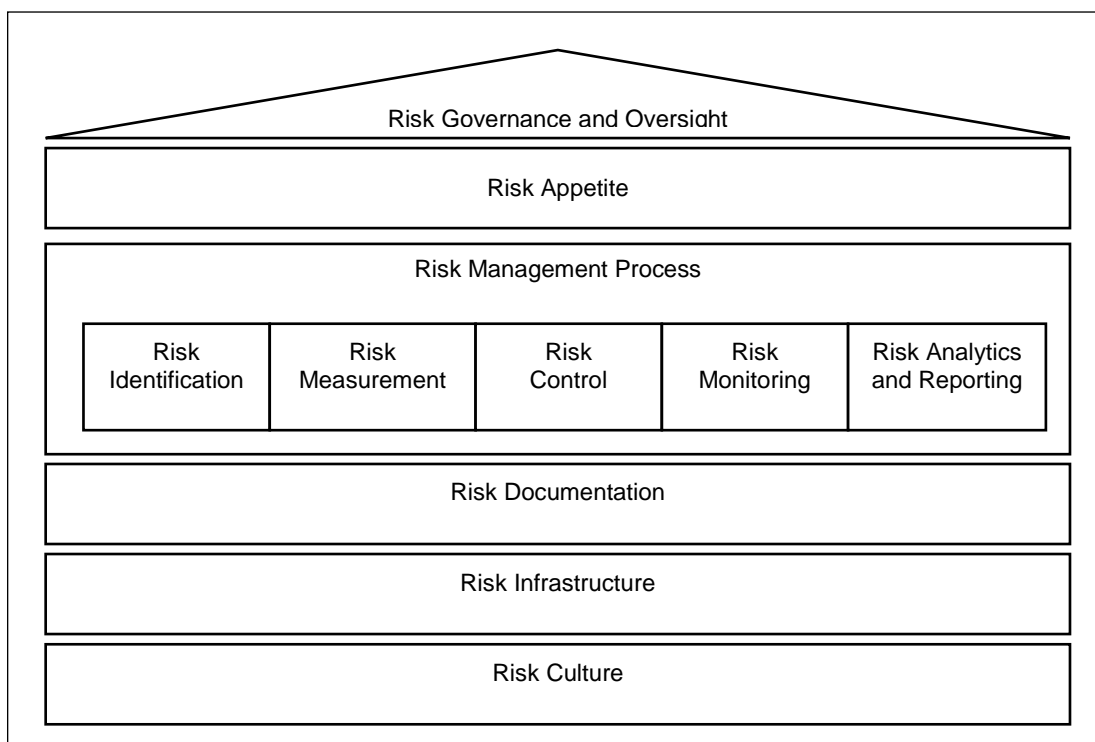
Effective risk management is fundamental to drive sustainable growth and shareholder value, while sustaining competitive advantage, and is thus a central part of the proactive risk management of the Bank.

The Group's Risk Management Framework governs the management of risks in the RHB Banking Group (the Group) inclusive of RHB Bank Thailand Operations as follows:

- It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.
- It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The Bank adopts and is guided by the Group Risk Management Framework in administration and implementation of its risk management activities.

The Group Risk Management Framework is represented in the following diagram:



The following sections describe some of these risk management content areas.

## OVERARCHING RISK MANAGEMENT PRINCIPLES

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group:

### **Principle 1: Risk Governance from the Boards of Directors of various operating entities in the Group**

The ultimate responsibility of the Board in the Group is to ensure that an effective risk management strategy is in place which is uniformly understood across the Group including RHB Bank Thailand Operations. The Group has a structured framework to support the Board's oversight responsibilities.

## RISK GOVERNANCE AND ORGANISATION

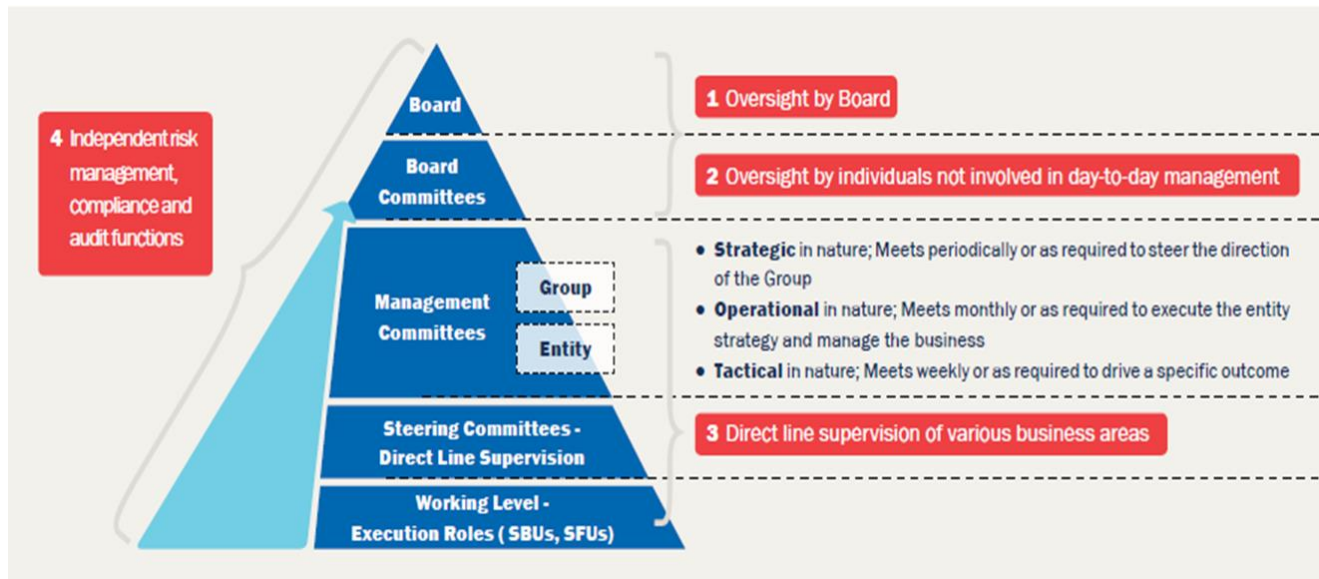
The Board of Directors (Board) through the Board Risk Committee (BRC), Group Capital and Risk Committee (GCRC) and the Group Risk & Credit Management function establishes the risk appetite and risk principles of the Group and relevant entities. The BRC is the principal Board Committee that provides oversight over risk management activities for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models.

The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the GCRC comprising Senior Management of the Group

and which reports to the BRC and the Group Management Committee. The Group Asset and Liability Committee (Group ALCO) assists the BRC to oversee market risk, liquidity risk and balance sheet management.

~~At the branch level, RHBTH Management Committee (MANCO) assist in the supervision of day-to-day management of enterprise risk and reports to the Group International Business (GIB).~~

An overview of this governance framework at Group level is as below:



**RHB Group Governance Framework**

## RISK CULTURE

### Principle 2: Clear Understanding of Risk Management Ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Group and the Bank adopts the principle that “Risk and Compliance is Everyone’s Responsibility”.

The strategic business units (SBUs) and strategic functional units (SFUs) of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function. The approach is based on the ‘three lines of defence’ model as depicted below:

<b>FIRST LINE</b>
Business/Functional Level

- Responsible for managing day-to-day risks and compliance issues
- Business Risk and Compliance Officer is to assist business/functional unit in day-to-day risks and compliance matters

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<b>SECOND LINE</b>
Group Risk Management & Group Compliance

- Responsible for oversight, establishing governance and providing support to business/functional unit on risk and compliance matters

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<b>THIRD LINE</b>
Group Internal Audit

- Provide independent assurance to the Board that risk and compliance management functions effectively as designed

## **RISK ENVIRONMENT AND INFRASTRUCTURE**

### **Principle 3: Institutionalisation of a Risk-Focused Organisation**

In addition to risk ownership, a risk-focused culture is promoted throughout the organisation through the strengthening of the central risk management functions as well as the continuous reinforcement of a risk and control environment within the Group including its regional branches such as RHB BANK THAILAND OPERATIONS .

#### **Central Risk Management Function**

Group Risk & Credit Management function is independent of the business function to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. The said function is headed by the Group Chief Risk Officer. The roles and responsibilities of the Group Chief Risk Officer include:

- Facilitating the setting of the strategic direction and overall policy on management and control of risk of the Group;
- Ensuring industry best practices in risk management are adopted across the Group, including the setting of risk management parameters and risk underwriting models;
- Developing a pro-active, balanced and risk-attuned culture within the Group; and
- Advising Senior Management, GCRC, BRC and the Board on risk issues and their possible impact on the Group in the achievement of its objectives and strategies.

## Risk and Control Environment

The business and functional heads are accountable for risk management in their businesses and functions and for overseas operations where they have governance responsibilities. The business and functional units have a clear segregation of duties to ensure that business processes are functioning effectively. There is accountability delegated to the appropriate authority to enable them to execute their respective authorities in meeting the business strategies without compromising the risk management processes.

The primary responsibility for managing risks, therefore, rests with the business managers, who are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. Business activities and processes are continuously reviewed for areas of significant risks and for implementation of appropriate control procedures to ensure they operate within established corporate policies and limits.

The risk management processes within the Group seek to identify, measure, monitor and control risk so that risk exposures are adequately managed and the expected returns adequately compensate the risks.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and ensure the risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.
- Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.
- Controlling and Monitoring: Controls, triggers and limits are used to manage risk exposures and to facilitate early identification of potential problem on a timely basis.
- Analytics and Reporting: Risk analysis and reports are prepared at the respective entities and consolidated level as well as business level are regularly escalated to the senior management and relevant Boards of the Group's entities to ensure that the risks identified remain within the established appetite and to support an informed decision-making process.

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation and infrastructure. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are implemented consistently across the Group including its regional branches such as RHB BANK THAILAND OPERATIONS .

In terms of risk infrastructure, the Group has organised its resources and talents into specific functions, and invested in the technology, including data management to support the Group's risk management activities.

## RISK APPETITE

### Principle 4: Alignment of Risk Management to Business Strategy

The Group's Risk Management Framework serves to align the Group's business strategy to risk strategy, and vice-versa. This is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

Risk appetite describes the types and level of risks the Group is prepared to accept in delivering its business strategies. It is a key component of risk management and is set by the Board, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

### Principle 5: Optimisation of Risk-Adjusted Returns

One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group including its regional branches such as RHB BANK THAILAND OPERATIONS . By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses.

The medium to long-term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return based framework for allocation of capital to business units and for performance measurement and management.

## 3.2 Credit Risk

Credit risk is the risk of loss arising from customers' or counterparties' failure to fulfill their financial and contractual obligations in accordance with the agreed terms. It stems primarily from the Group's lending, trade finance and its funding, investment and trading activities from on- and off-balance sheet transactions.

Credit risk management is conducted in a holistic manner. Credit underwriting standards are articulated in an approved Group Credit Policy and Group Credit Guidelines which are developed for the assurance of asset quality that is in line with the Group's risk appetite. Industry best practices are instilled in the continual updating of the Group's credit policies/guidelines including independent assessment of credit proposals, assignment of rating and adoption of multi-tiered delegated lending authorities spanning from individuals to credit approving committees.

Credit reviews and rating, where applicable are conducted on the credit exposures at least annually. Specific loans may be reviewed more frequently under appropriate circumstances. Such circumstances may arise if, for instance, the Group believes that heightened risk exists in a particular industry, or the borrower has defaulted on obligations to suppliers or other financial institutions or is facing cash flow or other difficulties.

Regular risk reporting is made to the MANCO, GIBC, GCRC, BRC and the Board. These reports include various credit risk aspects such as portfolio quality and concentration risk

exposures by business portfolio. Such reporting allows Senior Management to identify adverse credit trends, take prompt corrective actions, and ensure appropriate risk-adjusted decision making. Regular credit stress tests are conducted to assess the credit portfolio's vulnerability to adverse credit risk events.

**Group Internal Audit** conducts independent post-approval reviews on a sampling basis to ensure that the quality of credit appraisals and approval standards is in accordance with the credit underwriting standards and financing policies established by the Group's management, and relevant laws and regulations.

### **3.2.1 Credit Concentration Risk**

The analysis of large customer group exposures is conducted regularly. The lending units undertake account updates, monitoring and management of these exposures. Further, country and industry specific limits are also incorporated within the overall credit risk management framework for better assessment and management of credit concentration risk.

RHB Bank Thailand Operations is guided by the single counterparty exposure limit, bullet and balloon repayment limit, sectorial limit and country risk limits, as well as the Bank of Thailand's Notification No. SorNorSor. 22/2555 Re: Supervisory Guidelines on Large Exposure (Single Lending Limit) dated 17<sup>th</sup> December 2012.

### **3.2.2 Credit Risk Mitigation**

RHB Bank Thailand Operations generally does not grant credit facilities solely on the basis of collateral provided. All credit facilities are granted based on the credit standing of the borrower/customer, source of repayment and debt/financing servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Group's policies that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation and counter party risk of the guarantor. Recognised collaterals where relevant, include both financial and physical assets. Financial collaterals include cash deposits while physical collateral includes land and buildings. Apart from financial collateral and physical collateral, the Group has defined standards on the acceptance of guarantors as credit risk mitigants.

### **3.2.3 Impaired Loans and Impairment Provisioning**

RHB Bank Thailand Operations follows the general guideline on the management of impaired loans as prescribed by the Group's Non-Performing Loans/Impaired Loans Policy. For asset classification, classification for case of debt restructuring, making provision and write-offs of impaired assets, the Bank of Thailand's Notification No. SorNorSor. 31/2008 Re: Classification and Provision of the Financial Institutions, dated 3<sup>rd</sup> August 2008, is being adhered to.

RHB Bank Thailand Operations categorises its loan portfolio into six categories, i.e. Loss, Doubtful of Loss, Doubtful, Substandard, Special Mention and Normal.



Allowance for provision for loans classified as normal (Acceptable) and Special Mention is calculated based on the minimum percentage of 1.2% and 2% respectively in accordance with the Bank of Thailand's Guidelines. For loans classified as Substandard, Doubtful and Doubtful of Loss, the allowance rate is the full amount of the difference between the outstanding loan value and present value of expected cash flow from proceeds of collaterals.

### 3.2.4 Quantitative Disclosures

**Table 6: Outstanding Amounts of Significant On-balance Sheet Assets and Off-Balance Sheet Items before Adjusted by Credit Risk Mitigation**

Unit:

THB

Item	31-Dec-2018	31-Dec-2017
<b>1. On-balance Sheet Items</b>	<b>11,282,366,269</b>	<b>10,366,190,592</b>
1.1 Net Loans	11,164,259,787	10,238,326,708
1.2 Net investment in Debt Securities	-	-
1.3 Deposits (including accrued interest receivables)	70,009,493	-
1.4 Derivatives	48,096,989	127,863,884
<b>2. Off-balance Sheet Items</b>	<b>20,009,027,118</b>	<b>11,487,674,886</b>
2.1 Aval of Bills, Guarantees, and Letter of Credits	712,248,869	884,203,937
2.2 OTC Derivatives	15,885,474,447	5,820,258,919
2.3 Undrawn Committed Lines	3,411,303,802	4,783,212,030

**Table 7.1 : Outstanding Amounts of Significant On-balance Sheet Assets and Off-balance Sheet Items Before Credit Risk Mitigation Classified by Country or Geographic Area of Debtor as at 31<sup>st</sup> December 2018**

Unit: THB

Country or Geographic Area of Debtor	On-balance Sheet Assets					Off-balance Sheet Items			
	Total	Net Loans	Net Investment in Debt Securities	Deposit (include accrued interest receivables)	Derivatives	Total	Undrawn committed Lines	OTC Derivatives	Aval of Bills, Guarantees of Borrowings, and Letter of Credits
Thailand	<b>11,282,366,269</b>	11,164,259,787	-	70,009,493	48,096,989	<b>19,639,635,163</b>	3,411,303,802	15,885,474,447	342,856,914
Asia Pacific (exclude Thailand)	-	-	-	-	-	<b>369,391,955</b>	-	-	369,391,955
North America and Latin America	-	-	-	-	-	-	-	-	-
Africa and Middle East	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>11,282,366,269</b>	11,164,259,787	-	70,009,493	48,096,989	<b>20,009,027,118</b>	3,411,303,802	15,885,474,447	712,248,869

**Table 7.2 : Outstanding Amounts of Significant On-balance Sheet Assets and Off-balance Sheet Items Before Credit Risk Mitigation Classified by Country or Geographic Area of Debtor as at 31<sup>st</sup> December 2017**

Unit: THB

Country or Geographic Area of Debtor	On-balance Sheet Assets					Off-balance Sheet Items			
	Total	Net Loans	Net Investment in Debt Securities	Deposit (include accrued interest receivables)	Derivatives	Total	Undrawn committed Lines	OTC Derivatives	Aval of Bills, Guarantees of Borrowings, and Letter of Credits
Thailand	<b>10,366,190,592</b>	10,238,326,708	-	-	127,863,884	<b>11,018,835,764</b>	4,783,212,030	5,820,258,919	415,364,815
Asia Pacific (exclude Thailand)	-	-	-	-	-	<b>468,839,122</b>	-	-	468,839,122
North America and Latin America	-	-	-	-	-	-	-	-	-
Africa and Middle East	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>10,366,190,592</b>	10,238,326,708	-	-	127,863,884	<b>11,487,674,886</b>	4,783,212,030	5,820,258,919	884,203,937

**Table 8.1 : Outstanding Amounts of On-balance Sheet Assets and Off-balance Sheet Items Before Credit Risk Mitigation Classified by Residual Maturity as at 31<sup>st</sup> December 2018**

Unit: THB

Item	Maturity Not Exceeding 1 year	Maturity Exceeding 1 year	Total
<b>1. On-balance Sheet Assets</b>			
1.1 Net Loans (include inter-bank and money market item)	9,915,051,415	1,249,208,372	<b>11,164,259,787</b>
1.2 Net Investment in Debt Securities	-	-	-
1.3 Deposit (include accrued interest receivables)	70,009,493	-	<b>70,009,493</b>
1.4 Derivatives	48,096,989		<b>48,096,989</b>
<b>2. Off-balance Sheet Items</b>			
2.1 Aval of Bills, Guarantees of Borrowings, and Letter of Credits	712,248,869		<b>712,248,869</b>
2.2 OTC Derivatives	15,885,474,447		<b>15,885,474,447</b>
2.3 Undrawn Committed Lines	3,411,303,802		<b>3,411,303,802</b>

**Table 8.2 : Outstanding Amounts of On-balance Sheet Assets and Off-balance Sheet Items Before Credit Risk Mitigation Classified by Residual Maturity as at 31<sup>st</sup> December 2017**

Unit: THB

Item	Maturity Not Exceeding 1 year	Maturity Exceeding 1 year	Total
<b>1. On-balance Sheet Assets</b>			
1.1 Net Loans (include inter-bank and money market item)	7,417,225,937	2,821,100,771	<b>10,238,326,708</b>
1.2 Net Investment in Debt Securities	-	-	-
1.3 Deposit (include accrued interest receivables)	-	-	-
1.4 Derivatives	127,863,884		<b>127,863,884</b>
<b>2. Off-balance Sheet Items</b>			
2.1 Aval of Bills, Guarantees of Borrowings, and Letter of Credits	884,203,937		<b>884,203,937</b>
2.2 OTC Derivatives	5,820,258,919		<b>5,820,258,919</b>
2.3 Undrawn Committed Lines	4,783,212,030		<b>4,783,212,030</b>

**Table 9.1 : Net Loans and Investments in Debt Securities Before Credit Risk Mitigation Classified By Country or Geographic Area of Debtors and By Asset Classification Specified by the Bank of Thailand as at 31<sup>st</sup> December 2018**

Unit: THB

Country or Geographic Area of Debtor	Net Loans							Investment in Debt Securities Classified as Doubtful loss
	Normal	Special Mention	Substandard	Doubtful	Doubtful of Loss	Loss	Total	
Thailand	11,073,680,931	-	-	-	90,578,856	-	<b>11,164,259,787</b>	-
Asia Pacific (excluding Thailand)	-	-	-	-	-	-	-	-
North America and Latin America	-	-	-	-	-	-	-	-
Africa and Middle East	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-
<b>Total</b>	<b>11,073,680,931</b>	-	-	-	<b>90,578,856</b>	-	<b>11,164,259,787</b>	-

**Table 9.2 : Net Loans and Investments in Debt Securities Before Credit Risk Mitigation Classified By Country or Geographic Area of Debtors and By Asset Classification Specified by the Bank of Thailand as at 31<sup>st</sup> December 2017**

Unit: THB

Country or Geographic Area of Debtor	Net Loans							Investment in Debt Securities Classified as Doubtful loss
	Normal	Special Mention	Substandard	Doubtful	Doubtful of Loss	Loss	Total	
Thailand	10,093,490,448	-	2,753,360	-	142,082,900	-	<b>10,238,326,708</b>	-
Asia Pacific (excluding Thailand)	-	-	-	-	-	-	-	-
North America and Latin America	-	-	-	-	-	-	-	-
Africa and Middle East	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-
<b>Total</b>	<b>10,093,490,448</b>	<b>-</b>	<b>2,753,360</b>	<b>-</b>	<b>142,082,900</b>	<b>-</b>	<b>10,238,326,708</b>	<b>-</b>

**Table 10.1 : Provisions and Bad Debts Written-off During the Period For Net Loans and Investments in Debt Securities Classified by Country or Geographic Area as at 31<sup>st</sup> December 2018**

Unit: THB

Country or Geographic Area of Debtor	Provision			Specific Provision for Investment in Debt Securities
	General Provision	Specific Provision	Bad Debt Written-Off /(written back) During Period	
Thailand	135,646,704	99,696,410	(9,295,639)	-
Asia Pacific (exclude Thailand)	-	-	-	-
North America and Latin America	-	-	-	-
Africa, Middle East and Europe	-	-	-	-
<b>Total</b>	<b>135,646,704</b>	<b>99,696,410</b>	<b>(9,295,639)</b>	<b>-</b>

**Table 10.2 : Provisions and Bad Debts Written-off During the Period For Net Loans and Investments in Debt Securities Classified by Country or Geographic Area as at 31<sup>st</sup> December 2017**

Unit: THB

Country or Geographic Area of Debtor	Provision			Specific Provision for Investment in Debt Securities
	General Provision	Specific Provision	Bad Debt Written-Off /(written back) During Period	
Thailand	124,382,869	83,209,428	1,570,940	-
Asia Pacific (exclude Thailand)	-	-	-	-
North America and Latin America	-	-	-	-
Africa, Middle East and Europe	-	-	-	-
<b>Total</b>	<b>124,382,869</b>	<b>83,209,428</b>	<b>1,570,940</b>	<b>-</b>



**Table 11.1 : Net Loans Before Credit Risk Mitigation Classified by Type of Business  
as at 31<sup>st</sup> December 2018**

Unit: THB

Type of Business	Normal	Special Mention	Substandard	Doubtful	Doubtful of Loss	Loss	Total
Agriculture and Mining	99,445,151	-	-	-	-	-	<b>99,445,151</b>
Manufacturing and Commerce	5,639,203,359	-	-	-	12,872,017	-	<b>5,652,075,376</b>
Property and Construction	812,628,980	-	-	-	67,082,154	-	<b>879,711,134</b>
Public Utilities and Services	853,724,452	-	-	-	7,904,000	-	<b>861,628,452</b>
Housing	-	-	-	-	-	-	-
Others	3,668,678,989	-	-	-	2,720,685	-	<b>3,671,399,674</b>
<b>Total</b>	<b>11,073,680,931</b>	-	-	-	<b>90,578,856</b>	-	<b>11,164,259,787</b>

**Table 11.2 : Net Loans Before Credit Risk Mitigation Classified by Type of Business  
as at 31<sup>st</sup> December 2017**

Unit: THB

Type of Business	Normal	Special Mention	Substandard	Doubtful	Doubtful of Loss	Loss	Total
Agriculture and Mining	49,459,659	-	-	-	-	-	<b>49,459,659</b>
Manufacturing and Commerce	5,453,663,970	-	-	-	14,264,157	-	<b>5,467,928,127</b>
Property and Construction	193,937,717	-	-	-	119,919,231	-	<b>313,856,948</b>
Public Utilities and Services	1,081,317,601	-	-	-	-	-	<b>1,081,317,601</b>
Housing	-	-	-	-	-	-	-
Others	3,315,111,501	-	2,753,360	-	7,899,512	-	<b>3,325,764,373</b>
<b>Total</b>	<b>10,093,490,448</b>	-	<b>2,753,360</b>	-	<b>142,082,900</b>	-	<b>10,238,326,708</b>

**Table 12.1 : Provisions and Bad Debt Written-off During Period of Net Loans  
Classified by Types of Business as at 31<sup>st</sup> December 2018**

Unit: THB

Type of Business	General Provision	Specific Provision	Bad Debt Written-off/ (Written-back) During Period
Agriculture and Mining		-	-
Manufacturing and Commerce		81,215,917	-
Property and Construction		18,098,610	(9,295,639)
Public Utilities and Services		-	-
Housing		-	-
Others		381,883	-
<b>Total</b>	<b>135,646,704</b>	<b>99,696,410</b>	<b>(9,295,639)</b>

**Table 12.2 : Provisions and Bad Debt Written-off During Period of Net Loans  
Classified by Types of Business as at 31<sup>st</sup> December 2017**

Unit: THB

Type of Business	General Provision	Specific Provision	Bad Debt Written-off/ (Written-back) During Period
Agriculture and Mining		-	-
Manufacturing and Commerce		55,627,980	-
Property and Construction		27,199,565	-
Public Utilities and Services		-	-
Housing		-	-
Others		381,883	1,570,940
<b>Total</b>	<b>124,382,869</b>	<b>83,209,428</b>	<b>1,570,940</b>

**Table 13.1 : Reconciliation of Changes in Provisions for Classified Assets as at 31<sup>st</sup> December 2018**

Unit: THB

<b>Item</b>	<b>General Provision</b>	<b>Specific Provision</b>	<b>Total</b>
Provisions at the beginning of the period	124,382,869	83,209,428	<b>207,592,297</b>
Bad Debts written-off/(written back) during the period	-	(9,295,639)	<b>(9,295,639)</b>
Increases or (decreases) of provisions during the period	11,263,835	25,782,621	<b>37,046,456</b>
Other provisions (provisions for losses from foreign exchange, provisions for merger and sale of businesses)	-	-	-
Provisions at the end of the period	<b>135,646,704</b>	<b>99,696,410</b>	<b>235,343,114</b>

**Table 13.2 : Reconciliation of Changes in Provisions for Classified Assets as at 31<sup>st</sup> December 2017**

Unit: THB

<b>Item</b>	<b>General Provision</b>	<b>Specific Provision</b>	<b>Total</b>
Provisions at the beginning of the period	112,474,261	83,185,092	<b>195,659,353</b>
Bad Debts written-off/(written back) during the period	-	(246,084)	<b>(246,084)</b>
Increases or (decreases) of provisions during the period	11,908,608	270,420	<b>12,179,028</b>
Other provisions (provisions for losses from foreign exchange, provisions for merger and sale of businesses)	-	-	-
Provisions at the end of the period	<b>124,382,869</b>	<b>83,209,428</b>	<b>207,592,297</b>

**Table 14.1 : Outstanding Amounts of On-balance Sheet Assets and Off-balance Sheet Items By Type of Assets Under Standardised Approach as at 31<sup>st</sup> December 2018**

Unit: THB

Type of Asset	On-balance Sheet Assets	Off-balance Sheet Item	Total
<b>1. Performing Claims</b>			
1.1 Claims on sovereigns and central banks	4,169,550,210	-	4,169,550,210
1.2 Claims on non-central government public sector entities	2,401,702,823	-	2,401,702,823
1.3 Claims on multilateral development banks	-	-	-
1.4 Claims on banks	685,476,045	102,085,521	787,561,566
1.5 Claims on securities companies	971,336,603	40,000,000	1,011,336,603
1.6 Claims on corporate	10,655,089,855	987,947,427	11,643,037,282
1.7 Claims on retail portfolios	9,886,367	33,690,656	43,577,023
1.8 Residential mortgage exposures	-	-	-
1.9 Other assets	170,208,286	-	170,208,286
<b>2. Non-Performing Claims</b>	188,236,046	44,268	188,280,314
<b>3. First-to-default Credit Derivatives and Securitizations</b>	-	-	-
<b>Total</b>	<b>19,251,486,235</b>	<b>1,163,767,872</b>	<b>20,415,254,107</b>

**Table 14.2 : Outstanding Amounts of On-balance Sheet Assets and Off-balance Sheet Items By Type of Assets Under Standardised Approach as at 31<sup>st</sup> December 2017**

Unit: THB

Type of Asset	On-balance Sheet Assets	Off-balance Sheet Item	Total
<b>1. Performing Claims</b>			
1.1 Claims on sovereigns and central banks	2,805,678,325	-	2,805,678,325
1.2 Claims on non-central government public sector entities	3,381,002,436	-	3,381,002,436
1.3 Claims on multilateral development banks	-	-	-
1.4 Claims on banks	651,051,800	182,459,182	833,510,982
1.5 Claims on securities companies	940,184,438	45,800,000	985,984,438
1.6 Claims on corporate	9,389,762,313	1,271,644,868	10,661,407,181
1.7 Claims on retail portfolios	10,145,392	30,936,586	41,081,978
1.8 Residential mortgage exposures	-	-	-
1.9 Other assets	232,836,166	-	232,836,166
<b>2. Non-Performing Claims</b>	280,552,792	44,268	280,597,060
<b>3. First-to-default Credit Derivatives and Securitizations</b>	-	-	-
<b>Total</b>	<b>17,691,213,662</b>	<b>1,530,884,904</b>	<b>19,222,098,566</b>

**Table 15.1 : Outstanding of On-balance Sheet Assets and Off-balance Sheet Items After Credit Risk Mitigation for Each Type of Assets Classified by Risk Weight as at 31<sup>st</sup> December 2018**

Unit: THB

Type of Asset	Rated Outstanding				Unrated Outstanding						
	0	20	50	100	0	20	35	50	75	100	150
<b>Performing Claims</b>											
Claims on sovereigns and central banks	4,169,550,210	-	-	-	-	-	-	-	-	-	-
Claims on non-central government public sector entities	2,401,702,823	-	-	-	-	-	-	-	-	-	-
Claims on multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Claims on banks	-	287,334,538	398,295,007	101,932,021	-	-	-	-	-	-	-
Claims on securities companies	-	-	-	-	-	-	-	-	-	1,011,336,603	-
Claims on corporate	-	262,315,866	530,195,467	440,086,795	-	-	-	-	-	10,410,439,154	-
Claims on retail portfolios	-	-	-	-	-	-	-	-	737,153	42,839,870	-
Claims on housing loans	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	57,094,944	-	-	-	-	113,113,342	-
<b>Non-Performing Claims</b>	-	-	-	-	-	-	-	-	-	16,652,919	171,627,395
<b>Items which BOT allows to deduct from capital of FIs</b>	-	-	-	-	-	-	-	-	-	-	-

**Table 15.2 : Outstanding of On-balance Sheet Assets and Off-balance Sheet Items After Credit Risk Mitigation for Each Type of Assets Classified by Risk Weight as at 31<sup>st</sup> December 2017**

Unit: THB

Type of Asset	Rated Outstanding				Unrated Outstanding						
	0	20	50	100	0	20	35	50	75	100	150
<b>Performing Claims</b>											
Claims on sovereigns and central banks	2,805,678,325	-	-	-	-	-	-	-	-	-	-
Claims on non-central government public sector entities	3,381,002,436	-	-	-	-	-	-	-	-	-	-
Claims on multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Claims on banks	-	87,194,018	564,011,282	182,305,682	-	-	-	-	-	-	-
Claims on securities companies	-	-	-	-	-	-	-	-	-	985,984,438	-
Claims on corporate	-	-	454,490,625	705,028,740	-	-	-	-	-	9,501,887,816	-
Claims on retail portfolios	-	-	-	-	-	-	-	-	877,788	40,204,190	-
Claims on housing loans	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	137,287,806	-	-	-	-	95,548,360	-
<b>Non-Performing Claims</b>	-	-	-	-	-	-	-	-	-	57,069,038	223,528,022
<b>Items which BOT allows to deduct from capital of FIs</b>	-	-	-	-	-	-	-	-	-	-	-

**Table 16.1 : Part of Outstanding that is Secured by Collateral under Standardised Approach Classified by Type of Assets and Collateral as at 31<sup>st</sup> December 2018**

Unit: THB

Type of Asset		Eligible Financial Collateral	Guarantee and Credit Derivative
<b>Performing Assets</b>			
1.	Claims on sovereigns and central banks, multilateral development banks, and PSEs treated as claims on sovereigns	-	-
2.	Claims on financial institutions, PSEs treated as claims on financial institutions, and securities firms	-	-
3.	Claims on corporates, and PSEs treated as claims on corporates	266,798,883	743,510,725
4.	Claims on retail portfolios	460,000	-
5.	Claims on housing loans	-	-
6.	Other Assets	-	-
<b>Substandard Assets</b>		-	-
<b>Total</b>		<b>267,258,883</b>	<b>743,510,725</b>



**Table 16.2 : Part of Outstanding that is Secured by Collateral under Standardised Approach Classified by Type of Assets and Collateral as at 31<sup>st</sup> December 2017**

Unit: THB

Type of Asset		Eligible Financial Collateral	Guarantee and Credit Derivative
<b>Performing Assets</b>			
1.	Claims on sovereigns and central banks, multilateral development banks, and PSEs treated as claims on sovereigns	-	-
2.	Claims on financial institutions, PSEs treated as claims on financial institutions, and securities firms	-	-
3.	Claims on corporates, and PSEs treated as claims on corporates	312,897,681	1,241,014,369
4.	Claims on retail portfolios	446,906	-
5.	Claims on housing loans	-	-
6.	Other Assets	-	-
<b>Substandard Assets</b>		-	-
<b>Total</b>		<b>313,344,587</b>	<b>1,241,014,369</b>

### 3.3 Market Risk

#### 3.3.1 Qualitative Disclosure

Market risk is the risk of loss arising from adverse movements in market indicators, such as interest rates, credit spreads, equity prices, currency exchange rates and commodity prices within the trading portfolios and certain exposures in the banking.

Market risk is segregated into trading and non-trading market risk. Trading market risk arises from changes in interest rates, foreign exchange rates, equity prices and credit spreads on the value of assets held for trading, while non-trading market risk arises from changes in interest rates, foreign exchange rates and equity prices, of which the main non-trading market risk is interest rate risk arising from re-pricing mismatches of its assets and liabilities from its banking activities.

The Group Asset and Liability Committee (Group ALCO) and GCRC perform a critical role in the management of the market risk and supports the BRC in the overall market risk management. Group ALCO and GCRC meets regularly and is the forum where strategic and tactical decisions are made for the management of market risk; this includes the development of the Bank's market risk strategy, market risk management structure and the policies as well as measurement techniques to be put in place.

RHB Bank Thailand Operations' Treasury Head is responsible for managing all trading activities on a day-to-day basis and within established trading limits.

For effective control of operations, defined management action triggers and risk limits are established and monitored. Market risk measures include risk quantification methodologies such as risk factor sensitivity analysis and value-at-risk (VaR) measures. Stress testing is rigorously applied in ascertaining the susceptibility of and the extent to which the Group's financials and earnings are affected by prospective changes in market interest rates, key risk drivers or scenarios.

#### 3.3.2 Quantitative Disclosure

**Table 17: Minimum Capital Requirement for Each Type of Market Risk Under Standardised Approach**

Unit: THB

Minimum Capital Requirement for Each Type of Market Risk Under Standardised Approach	31-Dec-2018	31-Dec-2017
Interest Rate Risk	29,589,524	797,336
Equity Position Risk	-	-
Foreign Exchange Rate Risk	538,838	549,660
Commodity Risk	-	-
<b>Total Minimum Capital Requirements</b>	<b>30,128,362</b>	<b>1,346,996</b>

RHB Bank Thailand Operations do not have equity or commodity position as at 31<sup>st</sup> December 2018 and 31<sup>st</sup> December 2017 respectively.

### **3.4 Interest Rate Risk in the Banking Book**

Interest rate risk in the banking book refers to the risk to the Group's earnings and economic value of equity due to the adverse movements in interest rate. The risk may arise from the mismatches in the timing of repricing of assets and liabilities from both on and off-balance sheet positions in the banking book, changes in slope and shape of the yield curve, basis risk and optionality risk.

In line with the Group's Policy to achieve a balance between profitability from banking activities and minimising risk to earnings and capital from changes in interest rates, RHB Bank Thailand Operations' exposure to interest rate risk is managed with the objective that profits will not be unduly impacted by the volatility of the interest rates.

Analysis of interest rate risk is performed quarterly by applying the re-pricing gap model to evaluate assets, liabilities, and off-balance sheet positions affected by interest rate movements based on the remaining contractual duration until maturity (for fixed interest rates) or until the subsequent interest rate adjustment (for floating interest rates).

RHB Bank Thailand Operations is closely guided by the Bank of Thailand's Notification No. SorNorSor. 42/2008 Re. Supervision Guideline on Interest Rate Risk for Banking Book of the Financial Institutions dated 3<sup>rd</sup> August 2008, for the management of the interest rate risk in its banking book. .

The impact to net earnings have been prepared on the following basis:

- Interest rate sensitive assets and liabilities with residual maturity of re-pricing tenure of up to one year that is not captured in the trading portfolio are slotted into time bands based on the maturity or re-pricing tenure whichever is earlier.
- A set of risk weights with its respective time band is used to project the applicable basis point interest rate change impact.
- For assets and liabilities with indefinite maturity, e.g., current and saving accounts, certain assumptions are made to reflect the actual sensitivity behavior of interest bearing items.

Economic value is characterised by the impact of interest rate changes on the value of all net cash flows, i.e., the effect on the economic value of the Bank's assets, liabilities and off-balance sheet positions. This provides a more comprehensive view of the potential long-term effects of changes in interest rates than is offered by the earnings perspective.

The effect of changes in interest rates to net earnings for position 31<sup>st</sup> December 2018 and 31<sup>st</sup> December 2017 is shown below:

**Table 18 : The Effect of Changes in Interest Rates to Net Earnings**

Currency	31-Dec-2018	31-Dec-2017
	Effect to net earnings (%)	Effect to net earnings (%)
THB	-1.34	-4.70
USD	-4.41	-7.03
JPY	-0.03	-0.03
EUR	-0.01	-0.01
AUD	-0.01	-0.02
<b>Total effect</b>	<b>-5.80</b>	<b>-11.79</b>

\* Commercial banks shall use the percentage changes in interest rates of 100bps.

### 3.5 Liquidity Risk

Liquidity risk is the risk of the Group being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

There are two types of liquidity risk, namely funding liquidity and market liquidity risk. Funding liquidity risk is the risk that the Bank is unable to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Group. Market liquidity risk is the risk that the Group cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.

The Group ALCO supports the BRC by performing the critical role in the management of liquidity risk, and is responsible in establishing strategies that assist in controlling and reducing any potential exposure to liquidity risk. The Group ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of liquidity risk and the Bank's balance sheet profile.

RHB Bank Thailand's Liquidity Policy Statement sets out the framework for liquidity risk management and control, whereas the Group Liquidity Incident Management Plan covers contingency plans to address its liquidity incidents. Liquidity is managed both quantitatively and qualitatively, involving monitoring of depositors' behavior, economic conditions, financial markets and competitive environments. The responsibility to manage liquidity risk on day-to-day basis rests on the Thailand Operations Treasury Head, under Head of Group Treasury's oversight.

RHB Bank Thailand Operations is guided by the Bank of Thailand's Notification No. SorNorSor. 41/2008 Re. Liquidity Risk Management of the Financial Institutions dated 3<sup>rd</sup> August 2008, for its liquidity risk management.

### **3.6 Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT and legal risk but excludes strategic and reputational risk. Operational risk is inherent in the Bank's operations and can never be eliminated entirely. The impact can be in the form of actual financial loss as well as non-financial loss such as loss of reputation, non-compliance and unsatisfactory service level to customers.

One of the Bank's primary safeguards against operational risk is the existence of a sound internal control system based on the principle of dual control checks and balances, segregation of duties, independent checks and verification processes, and a segmented system access control and authorisation process. These controls are documented through a set of policies and procedures at the respective business and operation level. Each business and support unit of the Group owns and is responsible for understanding the operational risks inherent in its products, activities, processes and systems. They are aided in this function by the central risk coordination units which include the operational risk management function, the compliance function and the internal audit function.

The Group's Operational Risk Management Framework comprises a wide range of activities and elements, broadly classified into:

- Analysis and Enhancement – The Group has implemented a Basel II compliant operational risk management system to support its workflow and analytical capabilities.
- Education and Awareness – The Group undertakes change management activities to improve the risk management knowledge, culture and policies of the Bank personnel. This is aligned with the principle and requirement that the front-line business and support units of the Group, are by nature of their direct involvement in interfacing with customers and in operating the business, responsible for managing operational risk and acting as the first line of defence.
- Monitoring and Intervention – This is where the principal head office risk control units, including the risk management function, compliance function and the internal audit function, actively manage operational non compliances, and incidences as a second and third line of defence respectively. The second line of defence also undertakes recovery actions, including business continuity measures in cases of incidences causing disruption to business activities.

## Operational Risk Management Processes and Tools

The Bank applies a defined operational risk management process in managing operational risk to enable an institutional and transparent operational risk management practice. The 5 processes are as follows:-

1. Establish the context,
2. Risk identification,
3. Risk analysis,
4. Risk mitigating and
5. Risk monitoring

The Bank uses relevant operational risk tools and methodologies to support and ensure an effective operational risk management process. The following tools are being used:-

- Risk and Control Self-Assessment (RCSA)  
RCSA is a methodology to build risk profile for each business and support unit. RCSA sets out a structured process for the identification and assessment of inherent operational risk, the effectiveness of the control environment, and the adequacy of the risk mitigation in place. The RCSA process is facilitated by the business and support units themselves jointly with personnel from Group Operational Risk Management.
- Key Risk Indicators (KRI)  
KRI is a measurable indicator utilised to track and monitor key operational risk exposures. KRI serves as an early warning signal: once a risk indicator exceeds the predefined threshold, a warning message is sent to a predefined list of users. Business and support units are required to monitor their risk exposures via KRIs and are required to develop specific and concrete plans to address those where indicators are unfavourable. KRIs are embedded into critical processes to provide early warning signals of increasing risk and/or control failures by flagging up frequencies of events as a mechanism for continuous risk assessment and monitoring.
- Incident Management and Loss Data Collection (IMLDC)  
IMLDC provides structured process for the management of operational risk incidents that have occurred, from the point of discovery until resolution. Business and functional units are required to report all incidences within defined reporting timeline operational losses for further analysis of root cause to avoid further recurrence. This is also useful for reviewing the effectiveness of the RCSA and KRIs.

## **Risk Mitigation and Controls**

Risk mitigation strategies are used to minimise risk to an acceptable level and aim to decrease the likelihood of an undesirable event and the impact on the business, should it occur. The control tools and techniques, amongst others, are as follows:

- **Strengthening internal controls**

Internal controls are designed to commensurate operational risk exposures faced by the Group. It is mainly categorised into five components, namely:

- a. Control environment – management oversight and risk culture, which sets the tone and serves as a foundation for all other components;
- b. Risk assessment – analyses identified risks to achieve objectives and ensure risks are well managed;
- c. Control activities – policies and procedures implemented manually and/or system-based to ensure management’s directives are executed effectively and efficiently;
- d. Information and communication – relevant operational risk information are captured and communicated accordingly for decision making. Such information must be effective for utilisation, delivered timely, confidentiality is preserved, conform integrity needs, comply with relevant law/regulations, sufficient availability and reliable; and
- e. Monitoring – ongoing assessment and correcting deficiencies of internal control to assure it is operating as intended.

- **Business Continuity Management**

To mitigate the impact of unforeseen operational risk events, the Bank has on-going and actively managed Business Continuity Management (‘BCM’) programme for its major critical business operations and activities at the Head Office, data centre, and branches’ locations. The BCM programme is subject to regular testing to ensure efficacy, reliability and functionality, and come under the responsibility of the Bank’s Risk Management Department.

- **Outsourcing**

With the increasing need to outsource for cost and operational efficiency, the Group’ Sourcing Policy ensures that the risk arising from outsourcing activities is adequately identified, assessed and managed prior to entering into any new arrangements and on an on-going basis.

- **Insurance**

The Bank considers risk transfer by means of insurance to mitigate operational risk. The Bank has a programme of insurance designed to reduce its exposure to liability and to protect its assets. The Bank purchases insurance from leading insurers in the market covering fraud, theft, property and casualty, business disruption, liability and other risks for which it may be held responsible. These are provided by third-party insurers providers and will financially mitigate the economic consequences of risks.

Regular operational risk reporting is made to the Senior Management, MANCO, and GIBC. These reports include various operational risk aspects such as reporting of significant operational loss events. Such reporting enables Senior Management to identify adverse operational lapses, take prompt corrective actions, and ensure appropriate risk mitigation decision making and action plans.

In this respect, RHB Bank Thailand Operations is also closely guided by the Bank of Thailand's Policy Statements on Operational Risk Management, and Business Continuity Management and Business Continuity Plans.

### **3.7 Reputational Risk**

Reputational risk is defined as the risk that negative publicity regarding the conduct of the Bank or any of the entities within the Group, and its business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures. It also undermines public confidence in the Bank and the Group, affecting the share price.

Reputational risk in the Bank is managed and controlled through codes of conduct, governance practices and risk management practices, policies, procedures and training. Towards this end, the Group has developed and implemented a reputational risk management policy.

The key elements for management of reputational risk include:

- Practice good corporate governance and culture of integrity to promote execution and achievement of corporate strategies and business objective.
- Manage reputational risk within a very low risk appetite with zero tolerance level reporting approach on incident that affects the Group's reputation.
- Adopt sound risk management practices that include the practice of building "reputation capital" and earning the goodwill of key stakeholder.
- Maintain proper mechanisms to monitor and escalate material lapses/breaches of internal and regulatory policies/guidelines that may place the Bank's and Group's reputation at risk.
- Maintain proper channels of communication in dealing with internal and external stakeholders.

It is the responsibility of the Chief Executive Officer of RHB Bank Thailand Operations to promote awareness and application of the Group's policy and procedures regarding reputational risk, in all dealings with customers, potential investors and host regulators.

### **3.8 Internal Capital Adequacy Assessment Process**

Basel III Pillar 2 requires banks to undertake a comprehensive assessment of their risks and to determine the appropriate amount of capital to be held against these risks where other suitable risk mitigation techniques are not available. This risk and capital assessment is



commonly referred to as an Internal Capital Adequacy Assessment Process ('ICAAP') which covers much broader risk types beyond Pillar 1 risks, and these include credit concentration risk, interest rate risk in the banking book, liquidity risk, strategic risk, and reputational risk.

The Group has implemented ICAAP with the objective to forge a strong alignment between risk and capital. Capital adequacy is assessed in relation to the Bank's risk profile, and strategies are in place to maintain appropriate capital levels.

RHB Bank Thailand Operations is guided by the Bank of Thailand's Notification No. ThorPorTor. ForTor (52) 2136/2552 Re: Dispatch of Notification of the Bank of Thailand on Supervisory Guideline on Capital Fund under Pillar 2 dated 16<sup>th</sup> October 2009, and has commenced its ICAAP reporting since 2010 as required under the Bank of Thailand's Notification.

#### **4.0 Disclosure D: Additional Disclosure of Capital Information under the Basel Committee on Banking Supervision (BCBS) Guideline**

**Table 19: Disclosure of Capital Information**

<b>Value of Capital, Inclusions, Adjustments and Deductions for the six months ended 31 December 2018</b>	
Capital of RHB Bank Thailand Operations	2,000,000,000
Net amount of item to be included in or deducted from capital under Basel III	-
<b>Total Capital of RHB Bank Thailand Operations</b>	<b>2,000,000,000</b>

#### **5.0 Disclosure E: Liquidity coverage Ratio Disclosure Standard**

**Table 20: Liquidity Coverage Ratio (LCR)**

Unit: THB mil

	<b>Quarter 4/2018 (average)</b>	<b>Quarter 4/2017 (average)</b>
(1) Total high-quality liquid assets (HQLA)	6,867	5,944
(2) Total net cash outflows within the 30-day time horizon	6,770	6,189
<b>(3) LCR (%)</b> <i>Minimum LCR as specified by the Bank of Thailand (%)</i>	<b>102%</b> 80%	<b>96%</b> 70%

**Table 21: LCRs of the preceding quarters (for comparison)**

Unit: %

	<b>2018 (average)</b>	<b>2017 (average)</b>
<b>3<sup>rd</sup> quarter</b>	<b>118%</b>	<b>98%</b>
<b>4<sup>th</sup> quarter</b>	<b>102%</b>	<b>96%</b>

Commercial banks are required to maintain the liquidity coverage ratio in accordance with the guidelines as specified by the Bank of Thailand. The LCR is expected to encourage commercial banks to have robust and adequate liquidity position so that they can survive short-term severe liquidity stress. The minimum LCR, which is the ratio of high-quality liquid assets to total net cash outflows within the 30-day time horizon, of 60% was introduced on 1<sup>st</sup> January 2016 and increased by 10% each year until it reaches 100% in 2020.

$$\text{LCR} = \frac{\text{High Quality Liquid Assets (HQLA)}}{\text{Total net cash outflows within the 30-day time horizon under stressed scenarios}}$$

The average LCR for the 4<sup>th</sup> quarter of 2018 of the Bank is 101%, which is 21% higher than the minimum LCR as specified by the Bank of Thailand. This LCR is the average of LCRs as at the end of October – 98%, November – 103% and December – 104%. The LCR consists of 2 main components, namely:

1. High-quality liquid assets (HQLA) include unencumbered high-quality assets with low risk and low volatility that can be easily monetized without any significant changes to their values, even in times of liquidity stress. The value of each type of HQLA is after the application of both haircuts and any applicable caps as specified by the Bank of Thailand.

The average HQLA of the Bank for the 4<sup>th</sup> quarter of 2018 is 6,867 million Baht (66% of which is Level 1 assets, namely government bonds and cash), which is the average of HQLA as at the end of October – December. On this, the “Bank” holds several types of high-quality liquid assets to ensure the diversification of the stock of HQLA.

2. The amount of net cash outflows (net COF) is equal to expected cash outflows within the 30-day time horizon minus expected cash inflows within the 30-day time horizon under liquidity stress scenarios; but the expected cash inflows must not exceed 75% of the expected cash outflows. The average net COF of the Bank for the 4<sup>th</sup> quarter of 2018 is 6,770 million Baht, which is the average of net cash outflows within the 30-day time horizon as at the end of October – December. The expected cash outflows on which the Bank focuses under the severe liquidity stress scenarios are mostly corporate deposits and interbank borrowings to which the run-off rates as specified by the Bank of Thailand have been assigned. On the other hand, expected cash inflows are mostly from loan repayments with

high-quality customers, deposits from high-quality counterparties, and maturing debt securities, to which the inflow rates as specified by the Bank of Thailand have been assigned.

In addition, the Bank also regularly examines its liquidity gaps and funding concentrations, which is part of the assessment and analysis of liquidity risk, to ensure that it has adequate liquidity to support the business. Liquidity risk is measured daily and effectively managed in accordance to the Bank's liquidity risk appetite.

## Appendix Glossary of Terms

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Abbreviation	Brief Description
BCP	Business Continuity Planning
BIA	Basic Indicator Approach
Board	Board of Directors
BOT	Bank of Thailand
BRC	Board Risk Committee
ECAIs	External Credit Assessment Institutions
Fitch	Fitch Ratings
Fitch Thailand	Fitch Ratings (Thailand) Limited
GIBC	Group International Business Council
Group ALCO	Group Asset and Liability Committee
GCRC	Group Capital and Risk Committee
ICAAP	Internal Capital Adequacy Assessment Process
JPY	Japanese Yen (¥)
MANCO	Management committee
MDBs	Multilateral Development Banks
Moody's	Moody's Investor Service
OTC	Over the Counter
PSEs	Non Federal Government Public Sector Entities
SA	Standardised Approach
S&P	Standard & Poor's
TCR	Total Capital Ratio
THB	Thai Baht
TRIS	TRIS Rating Agency
USD	US Dollar (\$)
VaR	Value at Risk