Bangkok Bank

BANGKOK BANK BERHAD 199401014060 (299740-W)

Risk Weighted Capital Adequacy Framework (BASEL II) - Pillar 3 Disclosures As at 30 June 2023

CONTENTS

1. Introduction

Bangkok Bank Berhad ("the Bank") recognizes that effective risk management and good corporate governance are essential to the Bank's stability and sustainable credibility. Therefore, the Bank places great emphasis on continuous improvement of its risk management processes to ensure that its capital reserves are sufficient to support its operations and absorb any potential loss.

The Bank discloses information on its capital, risk exposures, risk assessment processes, and capital adequacy, which is consistent with international standards and in accordance with Bank Negara Malaysia's ("BNM") requirements.

The Bank shall make full disclosure as per BNM's requirements on semi-annual basis. Additional disclosures may be required if there are material changes in the interim reporting period.

The information provided herein has been reviewed and verified by the Audit & Control Department and certified by the Bank's Chief Executive Officer. Under the BNM's Risk Weighted Capital Adequacy Framework ("RWCAF"), the information disclosed herein is not required to be audited by external auditors.

2. Scope of Application

The Bank, a locally-incorporated foreign bank wholly owned by Bangkok Bank Public Company Limited, discloses its capital information on an entity basis. The Bank does not offer Islamic financial services nor is involved in Islamic banking operations.

The Bank's sole subsidiary, BBL Nominees (Tempatan) Sdn Bhd is not involved in banking operations.

3. Capital

3.1 Capital Structure

As at 30 June 2023 and 31 December 2022, the Bank's total capital according to the BNM's Capital Adequacy Framework (CAF) Basel III is as follows:

Table 1: The Bank's total capital

		RM'000
	30 June 2023	**31 December 2022**
Common Equity Tier 1 Capital		
Paid-up share capital	1,000,000	1,000,000
Unrealised gain on financial assets at FVOCI	12,777	4,005
Retained profits	324,696	317,091
Less: Regulatory adjustments, applied on CET 1 Capital:		
- Other intangibles	(152)	(242)
- Deferred tax assets	(22,485)	(22,049)
Total Common Equity Tier 1 Capital	**1,314,836**	**1,298,805**
Tier 2 Capital		
Stage 1 and Stage 2 ECL*	46,376	46,366
Less: Investment in subsidiary	(10)	(10)
Total Tier 2 Capital	**46,366**	**46,356**
Total Capital	**1,361,202**	**1,345,161**

* General provisions are subject to a maximum of 1.25% of the total credit RWA determined under the Standardised Approach for credit risk.

3.2 Capital Adequacy

In terms of capital management, the Bank strives to maintain an adequate level of capital to support business growth strategies under an acceptable risk framework, and to meet regulatory requirements and market expectations.

The Bank's capital assessment and management process under its Internal Capital Adequacy Assessment Process ("ICAAP") involves a careful analysis of the capital requirement to support business growth and the source of capital, both from financial performance as well as external funding sources, if necessary. The Bank regularly assesses its capital adequacy for the purpose of capital planning and management to ensure that the capital is at the level suitable for the prevailing business conditions.

The Bank adopts the Standardized Approach ("SA") in computing credit risk and market risk, while adopting Basic Indicator Approach ("BIA") for operational risk.

As at 30 June 2023 and 31 December 2022, the Bank’s capital requirements for each type of risks and capital adequacy ratios, in accordance with the BNM’s Basel II guidelines, are as follows:

Table 2: Capital requirements for each type of risks classified by asset types under Basel II

					RM’000
Exposure Class		**Gross Exposures**	**Net Exposures**	**Risk Weighted Assets**	**Capital Requirement**
30 June 2023					
Credit Risk					
On-Balance Sheet Exposures					
- Sovereigns/Central Banks		637,042	637,042	-	-
- Banks, Development Financial Institutions & MDBs		702,840	702,840	165,781	13,262
- Corporates		2,929,215	2,906,074	2,701,244	216,100
- Regulatory Retail		4,551	3,572	2,997	240
- Residential Mortgages		531	531	186	15
- Higher Risk Assets		-	-	-	-
- Other Assets		159,081	159,081	156,038	12,483
- Equity Exposures		29,180	29,180	29,180	2,334
- Defaulted Exposures		22,810	20,810	13,322	1,066
Total for On-Balance Sheet Exposures		4,485,250	4,459,130	3,068,748	245,500
- OTC Derivatives		1,922	1,922	1,512	121
- Credit Derivatives		-	-	-	-
- Off-Balance Sheet Exposures other than OTC or Credit Derivatives		643,244	636,445	635,915	50,873
- Defaulted Exposures		3,866	3,866	3,905	312
Total for Off-Balance Sheet Exposures		649,032	642,233	641,332	51,306
Total for On & Off-Balance Sheet Exposures		**5,134,282**	**5,101,363**	**3,710,080**	**296,806**
	Long Position	**Short Position**			
Market Risk					
Interest Rate Risk	150,317	151,711	(1,394)	1,927	154
Foreign Currency Risk	1,376	1,272	104	1,376	110
Operational Risk				199,596	15,968
Total Risk Weighted Assets				**3,912,979**	**313,038**

					RM'000
Exposure Class		**Gross Exposures**	**Net Exposures**	**Risk Weighted Assets**	**Capital Requirement**
31 December 2022					
Credit Risk					
On-Balance Sheet Exposures					
- Sovereigns/Central Banks		642,422	642,422	-	-
- Banks, Development Financial Institutions & MDBs		281,241	281,241	77,101	6,168
- Corporates		3,174,166	3,143,786	2,929,467	234,357
- Regulatory Retail		1,356	262	197	16
- Residential Mortgages		623	623	218	18
- Higher Risk Assets		-	-	-	-
- Other Assets		161,404	161,404	156,225	12,498
- Equity Exposures		13,964	13,964	13,964	1,117
- Defaulted Exposures		16,916	16,916	9,312	745
Total for On-Balance Sheet Exposures		4,292,092	4,260,618	3,186,484	254,919
- OTC Derivatives		3,786	3,786	2,883	230
- Credit Derivatives		-	-	-	-
- Off-Balance Sheet Exposures other than OTC or Credit Derivatives		522,857	516,568	516,048	41,284
- Defaulted Exposures		3,846	3,846	3,875	310
Total for Off-Balance Sheet Exposures		530,489	524,200	522,806	41,824
Total for On & Off-Balance Sheet Exposures		**4,822,581**	**4,784,818**	**3,709,290**	**296,743**
	Long Position	**Short Position**			
Market Risk					
Interest Rate Risk	278,210	278,149	61	3,228	258
Foreign Currency Risk	3,346	5	3,341	3,346	268
Operational Risk				194,249	15,540
Total Risk Weighted Assets				**3,910,113**	**312,809**

The Bank has complied with BNM's capital adequacy requirements as follows:

	BNM Minimum Requirement	**30 June 2023**	**31 December 2022**
Total Capital Ratio (TCR)	10.50%	34.79%	34.40%
Tier 1 Capital Ratio	8.50%	33.60%	33.22%
Common Equity Tier-1 (CET1) Capital Ratio	7.00%	33.60%	33.22%

4. Information Related to the Bank's Risks

The Bank recognizes that its operations could be affected by certain risk factors and continuously analyzes major risk factors which could affect its financial operations to ensure that its risk management is in line with industry practices and in accordance with BNM guidelines.

The Bank's Risk Management Committee ("RMC") plays a significant role in reviewing and recommending risk management policies and the Risk Appetite Statement ("RAS") for the Board of Directors' approval to manage relevant risks within designated boundaries, particularly in strengthening the quality of capital in accordance with the revised capital adequacy requirements under Basel III guidelines.

The key risk management processes comprise identification of significant risks which may potentially impact the Bank's business operations, assessment of each type of risk, monitoring of risks to an appropriate level and reporting of the status of each type of risk to relevant parties.

A key principle of risk management is the business units, as the 1st line of defense, are responsible to manage their risk exposures so that the risk is within specified limits and complies with the overall risk management policy approved by the Board of Directors. The Risk Management Department, as the 2nd line of defense, is responsible to monitor and control the risks on a regular basis and the 3rd line of defense i.e. the Audit and Control Department, is responsible to audit other departments to assess the effectiveness of internal control processes.

The Bank has established an ICAAP Committee with the responsibility to oversee the implementation of ICAAP. An ICAAP Policy has been duly established. The Board-approved ICAAP report is submitted to BNM annually.

The Bank's guidelines for the management of credit risk, market risk and operational risk are as follows:

4.1 Credit Risk

Credit Risk is the risk arising from the inability of borrowers or counterparties to perform their obligations under contractual agreements in relation to the Bank's lending, investment and other contractual commitments.

4.1.1 Credit Risk (General Disclosures)

Credit Risk Management

The Bank has specific processes for credit approval which include the formulation of a credit policy, credit risk ratings for customers and the establishment of different levels of delegated authority for credit approval. In terms of loan approval process, the Bank considers the purpose of the loan and assesses the repayment ability of the applicant, taking into account, amongst others, the applicant's operating cash flows, business viability, character and capability of management and collateral coverage.

The Bank also performs credit reviews (inclusive of credit risk rating) regularly. The following units have been set up to monitor and manage the relevant risks.

- Credit Policy Unit oversees the credit policy framework and is responsible for disseminating the credit policies, credit underwriting standards and guidelines and gathering inputs from relevant stakeholders to develop new credit policies or enhance the existing credit policies.
- Credit Acceptance Unit oversees the quality of credit extensions, assesses any non-compliance in credit policies and credit underwriting standards and guidelines, reviews the appropriateness of credit structures and credit risk ratings, inculcates a good credit culture and maintains a systematic credit extension process.
- Portfolio Management Unit is responsible for analyzing and making recommendations on adjustments to the portfolio structure, recommending the appropriate portfolio composition and the provisioning at portfolio level, overseeing credit risk management tools and methodologies, constructing credit databases and overseeing related management standards.
- Special Asset Management Unit is responsible for managing impaired loans and for determining and executing strategies for the resolution and restructuring of troubled loans.

Business Units are responsible for monitoring, reporting and complying with the Bank's credit management policies. Credit Acceptance Unit would assess the credit applications or proposals by Business Units, and ensure compliance with the Bank's credit policies and underwriting standards, credit risk rating and collateral requirements. For handling of impaired loans, the Bank has established a specific unit to monitor and resolve such loans.

The Bank's Risk Asset Review Unit (RAR) undertakes the post lending review function by reviewing the credit quality, credit management processes, compliance with credit policy, regulations and credit underwriting standards and other relevant credit-related matters. RAR's quarterly Loan Review Report is submitted to the Risk Management Committee and the Board of Directors.

The Bank manages credit risk by imposing limits on the total amount of credits granted, investments, and contingent liabilities undertaken with borrowers or groups of debtors to control the loss of the Bank's capital during an adverse scenario. For example, the Bank has specified limits in areas such as large borrower concentrations and country concentrations to manage portfolio concentration risk.

Managing Credit Risk Concentration

Credit risk concentration arises from lending to a single customer or group of related counterparties of borrowers, or borrowers engaged in similar activities/industry. To manage these concentrations, exposure limits are established for single borrowing groups and industry sectors.

Classification and Impairment of Credit Facility

The Bank adopted the Malaysian Financial Reporting Standard 9 (MFRS 9 Financial Instruments) with effect from 1 January 2018. Under the MFRS 9 impairment approach, the Bank accounts for expected credit losses (ECLs) and changes in those expected credit losses instead of recognizing credit losses after occurrence of a credit event. The amount of ECLs is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided on the ECLs.

MFRS 9 requires ECLs to reflect an unbiased and probability-weighted estimate, taking into account time value of money and using reasonable and supportable information available on past events, current conditions and forecasts of future conditions. The Bank has incorporated these components into the ECL model leveraging on the Basel II methodology on Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The amount of ECLs recognized as a loss allowance or provision depends on the extent of credit deterioration since initial recognition, as follows:

- 12-month ECLs (Stage 1), which applies to all items (from initial recognition) as long as there is no significant deterioration in credit quality;
- Lifetime ECLs (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis. Stage 3 refers to accounts that are credit-impaired and assessed on an individual assessment basis.

Lifetime ECL would be estimated based on the present value of all cash shortfalls over the remaining life of the credit facility. The 12-month ECL is a portion of the lifetime ECL that is associated with the probability of default events occurring within the 12 months after the reporting date.

Special attention is paid to problem exposures, which are subject to more frequent and intensive review and reporting, in order to accelerate remedial action.

The Bank shall classify a loan as impaired based on the following:

i. Where the principal or interest or both is past due for more than <u>90 days / 3 months;</u>

ii. In the case of revolving facilities (e.g. overdraft facilities), the facility shall be classified as impaired where the outstanding amount has remained in excess of the approved limit for a period of more than 90 days / 3 months;

iii. Where the amount is past due or outstanding amount has been in excess of the approved limit for less than 90 days or 3 months, but the loan exhibits weaknesses that render a classification appropriate based on the Bank’s policy; or

iv. As soon as default (inability to meet the contractual repayment terms) occurs where the principal and/or interest repayments are scheduled on intervals of 3 months or longer.

In general, classification of loans as impaired is mandatory if the credit facility falls under the above items i, ii and iv. For classification of loans as impaired based on judgmental trigger under the above item iii, a credit review paper should be put up with a complete analysis, considering the list of circumstances or events stipulated in the Bank’s Policy on Classification and Impairment Provisions of Loans before submitting the paper for credit assessment and Loan Committee for impairment decision.

The following tables present the Bank's quantitative information related to credit risk:

Table 3: Geographic Distribution of Gross Credit Exposures

					RM'000
Exposure Class	**Malaysia**	**Thailand**	**USA**	**Others**	**Total**
30 June 2023					
Sovereigns/Central Banks	637,042	-	-	-	637,042
Banks, Development Financial Institutions & MDBs	648,604	14,497	25,817	14,639	703,557
Corporates	3,572,495	-	-	-	3,572,495
Regulatory Retail	5,720	-	-	-	5,720
Residential Mortgages	531	-	-	-	531
Higher Risk Assets	-	-	-	-	-
Other Assets	159,081	-	-	-	159,081
Equity Exposures	29,180	-	-	-	29,180
Defaulted Exposures	26,676	-	-	-	26,676
Total Credit Exposures	**5,079,329**	**14,497**	**25,817**	**14,639**	**5,134,282**

					RM'000
Exposure Class	**Malaysia**	**Thailand**	**USA**	**Others**	**Total**
31 December 2022					
Sovereigns/Central Banks	642,422	-	-	-	642,422
Banks, Development Financial Institutions & MDBs	245,505	6,489	21,879	8,723	282,596
Corporates	3,698,130	-	-	-	3,698,130
Regulatory Retail	2,680	-	-	-	2,680
Residential Mortgages	623	-	-	-	623
Higher Risk Assets	-	-	-	-	-
Other Assets	161,404	-	-	-	161,404
Equity Exposures	13,964	-	-	-	13,964
Defaulted Exposures	20,762	-	-	-	20,762
Total Credit Exposures	**4,785,490**	**6,489**	**21,879**	**8,723**	**4,822,581**

* The Bank's country risk management based on customer's country of residence

Table 4: Distribution of Gross Credit Exposures by Sector

Exposure Class	Government	Individuals	Primary Agriculture	Manufacturing	Electricity, Gas and Water Supply	Construction	Wholesale & Retails	Real Estate	Finance, Insurance & Business Services	Transport , Storage & Telecomm	Others	Total (RM'000)
As at 30 June 2023												
Sovereigns/Central Banks	637,042	-	-	-	-	-	-	-	-	-	-	637,042
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	-	703,557	-	-	703,557
Corporates	-	1,615	224,383	756,856	26,751	566,182	377,763	432,003	1,035,748	97,886	53,308	3,572,495
Regulatory Retail	-	1,858		-	-	1,269	1,779	779	20	15	-	5,720
Residential Mortgages	-	531	-	-	-	-	-	-	-	-	-	531
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	1,771	-	157,310	159,081
Equity Exposures	-	-	-	-	-	-	-	-	29,180	-	-	29,180
Defaulted Exposures	-	-	-	20,065	-	-	6,611	-	-	-	-	26,676
Total Credit Exposures	**637,042**	**4,004**	**224,383**	**776,921**	**26,751**	**567,451**	**386,153**	**432,782**	**1,770,276**	**97,901**	**210,618**	**5,134,282**

Exposure Class	Government	Individuals	Primary Agriculture	Manufacturing	Electricity, Gas and Water Supply	Construction	Wholesale & Retails	Real Estate	Finance, Insurance & Business Services	Transport , Storage & Telecomm	Others	Total RM’000
As at 31 December 2022												
Sovereigns/Central Banks	642,422	-	-	-	-	-	-	-	-	-	-	642,422
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	-	282,596	-	-	282,596
Corporates	-	8,990	240,132	864,992	28,543	579,693	380,201	575,092	864,384	82,589	73,514	3,698,130
Regulatory Retail	-	591		-	-	-	1,177	877	20	15	-	2,680
Residential Mortgages	-	623	-	-	-	-	-	-	-	-	-	623
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	2,181	-	159,223	161,404
Equity Exposures	-	-	-	-	-	-	-	-	13,964	-	-	13,964
Defaulted Exposures	-	232	-	20,088	-	-	442	-	-	-	-	20,762
Total Credit Exposures	**642,422**	**10,436**	**240,132**	**885,080**	**28,543**	**579,693**	**381,820**	**575,969**	**1,163,145**	**82,604**	**232,737**	**4,822,581**

Table 5: Residual Contractual Maturity of Gross Credit Exposures

Exposure Class	One year or less	One to five years	More than five years	Total
				RM'000
30 June 2023				
Sovereigns/Central Banks	322,120	294,134	20,788	637,042
Banks, Development Financial Institutions & MDBs	703,557	-	-	703,557
Corporates	2,559,246	754,349	258,900	3,572,495
Regulatory Retail	3,123	2,597	-	5,720
Residential Mortgages	-	79	452	531
Higher Risk Assets	-	-	-	-
Other Assets	1,771	-	157,310	159,081
Equity Exposures	29,180	-	-	29,180
Defaulted Exposures	23,249	3,427	-	26,676
Total Credit Exposures	**3,642,246**	**1,054,586**	**437,450**	**5,134,282**

Exposure Class	One year or less	One to five years	More than five years	Total
				RM'000
31 December 2022				
Sovereigns/Central Banks	320,244	252,194	69,984	642,422
Banks, Development Financial Institutions & MDBs	282,596	-	-	282,596
Corporates	2,713,651	767,751	216,728	3,698,130
Regulatory Retail	2,606	74	-	2,680
Residential Mortgages	-	94	529	623
Higher Risk Assets	-	-	-	-
Other Assets	2,181	-	159,223	161,404
Equity Exposures	13,964	-	-	13,964
Defaulted Exposures	16,744	3,814	204	20,762
Total Credit Exposures	**3,351,986**	**1,023,927**	**446,668**	**4,822,581**

Table 6: Impaired Loans, Expected Credit Losses and Bad Debt Written off Classified by Economic Purpose.

				RM'000
	30 June 2023			
Economic Purpose	**Impaired Loans**	**Stage 1 & 2 ECL**	**Stage 3 ECL**	**Bad debt Written off**
- Purchase of Securities	-	15	-	-
- Purchase of Transport Vehicles	-	2	-	-
- Purchase of Residential Properties	520	44	523	-
- Purchase of Non-Residential Properties	3,828	3,158	4,093	-
- Purchased of Fixed Assets Other Than Land and Building	747	729	747	-
- Personal Use	-	271	-	-
- Construction	-	5,690	-	-
- Working Capital	92,540	24,896	69,704	-
- Others	-	860	-	-
- **Total**	**97,635**	**35,665**	**75,067**	**-**

				RM'000
	31 December 2022			
Economic Purpose	**Impaired Loans**	**Stage 1 & 2 ECL**	**Stage 3 ECL**	**Bad debt Written off**
- Purchase of Securities	-	65	-	-
- Purchase of Transport Vehicles	-	3	-	-
- Purchase of Residential Properties	516	48	285	-
- Purchase of Non-Residential Properties	3,871	2,945	4,093	-
- Purchased of Fixed Assets Other Than Land and Building	747	852	747	-
- Personal Use	-	123	-	-
- Construction	-	3,757	-	-
- Working Capital	79,562	26,555	62,878	-
- Others	-	286	-	-
- **Total**	**84,696**	**34,634**	**68,003**	**-**

Table 7: Reconciliation of Changes in the Expected Credit Losses

				RM'000
Item	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance as at 1 January 2023	**26,302**	**8,332**	**68,003**	**102,637**
New loans, advances and financing originated	751	-	-	751
Loans, advances and financing derecognized (other than write-off)	(703)	-	-	(703)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(55)	55	-	-
Transfer to Stage 3	(3,555)	-	6,036	2,481
Net measurement due to changes in credit risk	5,243	(705)	1,028	5,566
Amount written off	-	-	-	-
Management Overlay	-	-	-	83,778
Balance as at 30 June 2023	**27,983**	**7,682**	**75,067**	**194,510**

All impaired loans, expected credit losses and bad debt written off of the Bank are attributable to customers in Malaysia and other countries.

4.1.2 Credit Rating

Where available, the Bank uses external ratings issued by recognized external credit assessment institutions (ECAIs) such as Standard & Poor, Moody's, Fitch, RAM and MARC to determine the risk weights of its credit exposure as per the SA.

Bangkok Bank

BANGKOK BANK BERHAD 199401014060 (299740-W)

Table 8: Disclosure on Credit Risk: Disclosure on Risk Weights under Standardised Approach

	Exposures after Netting and Credit Risk Mitigation								RM'000
Risk Weights	Sovereign / Central Bank	Banks, MDBs and FDIs	Corporates	Regulatory Retail	Residential Mortgages	Other Assets	Equity	Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
As at 30 June 2023									
0%	637,042	-	-	-	-	3,043	-	640,085	-
20%	-	619,308	226,452	-	-	-	-	845,760	169,152
35%	-	-	-	-	531	-	-	531	186
50%	-	84,249	62,615	-	-	-	-	146,864	73,432
75%	-	-	-	3,412	-	-	-	3,412	2,559
100%	-	-	3,278,144	1,270	-	156,038	29,180	3,464,632	3,464,632
150%	-	-	79	-	-	-	-	79	119
Average Risk Weight								**5,101,363**	**3,710,080**
Deduction from Capital Base	-	-	-	-	-	-	-	-	

Risk Weights	Exposures after Netting and Credit Risk Mitigation							Total Exposures after Netting & Credit Risk Mitigation	RM'000
	Sovereign / Central Bank	Banks, MDBs and FDIs	Corporates	Regulatory Retail	Residential Mortgages	Other Assets	Equity		Total Risk Weighted Assets
As at 31 December 2022									
0%	642,422	-	-	-	-	5,179	-	647,601	-
20%	-	212,810	225,478	-	-	-	-	438,288	87,658
35%	-	-	-	-	623	-	-	623	218
50%	-	69,787	83,050	-	232	-	-	153,069	76,534
75%	-	-	-	1,548	-	-	-	1,548	1,161
100%	-	-	3,373,441	-	-	156,225	13,964	3,543,630	3,543,630
150%	-	-	59	-	-	-	-	59	89
Average Risk Weight								**4,784,818**	**3,709,290**
Deduction from Capital Base	-	-	-	-	-	-	-	-	

Table 9: Disclosure on Rated and Unrated Exposures according to Ratings by ECAIs

Position as at **30 June 2023**

Exposure Class	Ratings of Corporate by Approved ECAIs (RM'000)					
	Moodys	Aaa to Aa3	A1 to A3	Baa1to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance Sheet Exposures						
Credit Exposure (using Corporate Risk Weights)						
Corporate		226,452	45,034	-	-	3,327,685
Equity		-	22,109	-	-	7,071
Total		226,452	67,143	-	-	3,334,756

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs (RM'000)						
	Moodys	Aaa to Aa3	A1 to A3	Baa1to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
On and Off Balance Sheet Exposures							
Sovereigns / Central Banks		-	637,042	-	-	-	-
Total		-	637,042	-	-	-	-

Exposure Class	Ratings of Banking Institutions by Approved ECAIs (RM'000)						
	Moodys	Aaa to Aa3	A1 to A3	Baa1to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs		21,126	504,054	176,085	-	-	2,292
Total		21,126	504,054	176,085	-	-	2,292

Position as at **31 December 2022**

Exposure Class	Ratings of Corporate by Approved ECAIs (RM'000)					
	Moodys	Aaa to Aa3	A1 to A3	Baa1to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance Sheet Exposures						
Credit Exposure (using Corporate Risk Weights)						
Corporate		225,478	65,070	-	-	3,428,112
Equity		-	11,150	-	-	2,814
Total		225,478	76,220	-	-	3,430,926

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs (RM'000)						
	Moodys	Aaa to Aa3	A1 to A3	Baa1to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
On and Off Balance Sheet Exposures							
Sovereigns / Central Banks		-	642,422	-	-	-	-
Total		-	642,422	-	-	-	-

Exposure Class	Ratings of Banking Institutions by Approved ECAIs (RM'000)						
	Moodys	Aaa to Aa3	A1 to A3	Baa1to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs		66,903	52,931	162,706	-	-	56
Total		66,903	52,931	162,706	-	-	56

4.1.3 Credit Risk Mitigation (Disclosures under the Comprehensive Approach)

The Bank's policy aims to mitigate credit risk which may arise when borrowers are unable or unwilling to repay loans. Prior to granting credits, the Bank shall request legally enforceable collateral and/or Guarantee to mitigate against potential losses. A legally enforceable collateral and/or Guarantee also serves as a tool to obtain a strong position for negotiation with the customer to enforce the credit contract.

The main types of collateral obtained by the Bank to mitigate against potential losses include:

a) for residential mortgages – charges over residential properties
b) for corporate loans – charges over business assets such as premises, inventories, trade receivables, deposits or pledges over listed securities.
c) for other loans – charges over business assets such as premises, inventories, trade receivables or deposits.

The Bank also accepts guarantees from individuals and corporate customers to mitigate losses, subject to internal guidelines on eligibility.

Accordingly, policies and procedures are in place to govern the protection of the Bank's position from the onset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed upon documentation to ensure legal enforceability of the Credit Risk Mitigation. In addition, the Bank has set up units to verify the correctness and completeness of collateral before drawdown as well as to monitor that the conditions of the agreement are strictly complied with. The specific units have to ensure that all documentation used in collateralized transactions are binding on all parties and legally enforceable in all relevant jurisdictions.

In order to protect the Bank against depreciation or devaluation of collateral value, processes and procedures on periodic valuation reviews and updates on collateral are in place. The value of pledged property is updated from time to time during the review of borrower's credit facilities to reflect the current market value. The market value of pledged shares is monitored on daily basis.

As for financial collaterals such as cash, deposits, and equity securities, the Bank currently adopts the Comprehensive Approach for credit risk mitigation as specified by BNM.

Table 10: Disclosure on Credit Risk Mitigation under Standardised Approach

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposure Covered by Eligible Financial Collateral	Exposure Covered by Other Eligible Collateral
				RM'000
30 June 2023				
Credit Risk				
On-Balance Sheet Exposures				
- Sovereigns/Central Banks	637,042	-	-	-
- Banks, Development Financial Institutions & MDBs	702,840	-	-	-
- Corporates	2,929,215	2,303	23,141	-
- Regulatory Retail	4,551	-	978	-
- Residential Mortgages	531	-	-	-
- Higher Risk Assets	-	-	-	-
- Other Assets	159,081	-	-	-
- Equity Exposures	29,180	-	-	-
- Defaulted Exposures	22,810	-	2,000	-
Total for On-Balance Sheet Exposures	4,485,250	2,303	26,119	-
Off-Balance Sheet Exposures				
- OTC Derivatives	1,922	-	-	-
- Credit Derivatives	-	-	-	-
- Off-Balance Sheet Exposures other than OTC or Credit Derivatives	643,244	300	6,800	-
- Defaulted Exposures	3,866	-	-	-
Total for Off-Balance Sheet Exposures	649,032	300	6,800	-
Total for On & Off-Balance Sheet Exposures	**5,134,282**	**2,603**	**32,919**	**-**

RM'000

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposure Covered by Eligible Financial Collateral	Exposure Covered by Other Eligible Collateral
31 December 2022				
Credit Risk				
On-Balance Sheet Exposures				
- Sovereigns/Central Banks	642,422	-	-	-
- Banks, Development Financial Institutions & MDBs	281,241	-	-	-
- Corporates	3,174,166	2,802	30,379	-
- Regulatory Retail	1,356	-	1,095	-
- Residential Mortgages	623	-	-	-
- Higher Risk Assets	-	-	-	-
- Other Assets	161,404	-	-	-
- Equity Exposures	13,964	-	-	-
- Defaulted Exposures	16,916	-	-	-
Total for On-Balance Sheet Exposures	4,292,092	2,802	31,474	-
Off-Balance Sheet Exposures				
- OTC Derivatives	3,786	-	-	-
- Credit Derivatives	-	-	-	-
- Off-Balance Sheet Exposures other than OTC or Credit Derivatives	522,857	200	6,289	-
- Defaulted Exposures	3,846	-	-	-
Total for Off-Balance Sheet Exposures	530,489	200	6,289	-
Total for On & Off-Balance Sheet Exposures	**4,822,581**	**3,002**	**37,763**	**-**

4.1.4 Off-Balance Sheet Exposures and Counterparty Credit Risk (CCR)

The Bank has put in place credit limits for counterparties in relation to derivative transactions entered into. However, the Bank does not impose collateral on counterparties or establish credit reserves for off-balance sheet transactions.

Table 11: Disclosure on Off-Balance Sheet and Counterparty Credit Risk

				RM'000
Description	**Principal Amount**	**Positive Fair Value of Derivative Contracts**	**Credit Equivalent**	**Risk Weighted Assets**
30 June 2023				
Direct credit substitutes	76,562		76,562	74,247
Transaction-related contingent items	221,226		106,520	104,511
Short-term self-liquidating trade-related contingencies	21,521		4,304	4,238
Forward foreign exchange				
- less than one year	216,688	303	1,922	1,512
Interest/Profit Rate Contracts				
- less than one year	-	-	-	-
- One to five years	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with original				
- maturity more than one year	36,897		18,449	18,449
- maturity less than one year	2,206,376		441,275	438,376
Any commitment that are unconditionally cancelled at any time without prior notice	3,567		-	-
Total	**2,782,837**	**303**	**649,032**	**641,333**

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent	Risk Weighted Assets
				RM'000
31 December 2022				
Direct credit substitutes	29,561		29,561	27,246
Transaction-related contingent items	236,013		107,563	105,596
Short-term self-liquidating trade-related contingencies	10,896		2,179	2,179
Forward foreign exchange				
- less than one year	350,607	2,005	3,786	2,883
Interest/Profit Rate Contracts				
- less than one year	-	-	-	-
- One to five years	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with original				
- maturity more than one year	6,488		3,244	3,244
- maturity less than one year	1,920,778		384,156	381,658
Any commitment that are unconditionally cancelled at any time without prior notice	2,382		-	-
Total	**2,556,725**	**2,005**	**530,489**	**522,806**

4.1.5 Securitisation Disclosures under Standardised Approach

Currently, the Bank does not have any securitisation transaction.

4.2 Market Risk

Market risk is the risk of loss arising from the movement in the level of market prices or rates. The two key components are foreign currency exchange risk and interest rate risk.

4.2.1 Market Risk Management

The Bank aims to manage market risk to be in line with the overall risk management policy of the Bank. In general, the Bank's policy is to manage assets and liabilities denominated in both Ringgit Malaysia and foreign currencies through the use of risk measurement and limits to optimize interest rate risk and foreign exchange risk. If the risk increases significantly, the Bank may take steps to reduce the mismatches of assets and liabilities besides restructuring its assets and liabilities profile**,** to mitigate the risk. Currently, the Bank does not undertake any hedging activities. The Asset and Liability Management Committee ("ALCO"), Treasury Department and Market Risk Unit are responsible for managing and monitoring the risk, as well as proposing any enhancement to the risk management policy and/or the appropriate risk measurement and limits for the prevailing market conditions.

ALCO is also responsible for establishing guidelines to manage assets and liabilities, monitor and manage interest rate risk and liquidity risk to an acceptable level with minimal fluctuations and in compliance with the policies set by the Risk Management Committee and the Board of Directors. ALCO is mainly supported by the Market Risk Unit (which is responsible for identifying, assessing, monitoring, reporting and controlling the Bank's market risk).

Meanwhile, Treasury Department manages and controls day-to-day trading of foreign currencies and manages the Bank's liquidity risk for compliance with the policy and regulatory requirements. Treasury Department's activities are monitored by the Market Risk Unit to ensure that the risks taken are in line with the relevant monitoring references.

4.2.2 Traded Market Risk

Traded market risk arises mainly from proprietary trading and client servicing. The Bank's traded market risk mainly comprises of interest rate and foreign exchange risk.

Risk Assessment and Monitoring for Traded Market Risk

The Bank uses a set of tools/measurements to assess market risk exposures in the trading book, i.e.:

1. Present Value of a Basis Point ("PV01")
   PV01 measures the change in value of interest rate sensitive exposures resulting from one basis point increase in interest rate.

2. Marked-to-Market ("MTM")
   Apart from the PV01 measurement, the Bank also conducts daily portfolio mark-to-market profit and loss, and monitors the portfolio size with approved limits to assess market risk exposures in the trading book.

Risk Control for Traded Market Risk

Traded market risk is controlled primarily through a series of limits, e.g. PV01 Limit, Cut-Loss Limits and Portfolio Limits, which are regularly reviewed by ALCO.

The Board of Directors approves the limits at least once a year or as and when appropriate.

Capital Treatment for Traded Market Risk

The Bank currently adopts the Standardized Approach ("SA") approach for the calculation of regulatory market risk capital and internally uses PV01 method to measure, monitor and control traded market risks.

4.2.3 Equity Exposure in the Banking Book

The Bank does not undertake proprietary position in equity. The equity positions that the Bank has are related to equity holdings held in organizations which are set up for specific socio-economic reasons (e.g. Cagamas) and received as a result of loan restructuring or loan conversion. These non-listed equity securities are fair valued using the discounted cash flow approach or the net asset value approach, as appropriate.

Table 12: Equity Exposures in the Banking Book

		RM'000
Equity exposures	**30 June 2023**	**31 December 2022**
Equity exposures		
• Equity securities - unquoted		
- Cost value *	29,180	13,964
- Market value	-	-
Realised gains (losses) on sales of equity securities for the period/ year	-	-
Unrealized gains (losses) on revaluation from FVOCI equity securities	-	-
Minimum capital for equity exposures under SA approach	**2,334**	**1,117**

* Net of the impairment charges for the investment in equity securities, if any

4.2.4 Interest Rate Risk in the Banking Book ("IRRBB")

Interest rate risk in the banking business normally arises when the repricing and/or maturity schedule of assets, liabilities, and off-balance sheet positions are not matched, and negatively affects the Bank's net interest income ("NII" which is also known as Earnings at Risk "EaR") and/or economic value of equity ("EVE").

Sources of Interest Rate Risk can be classified as follows:

- Re-pricing Risk arises from timing differences in the maturity (for fixed rate) and re-pricing period (for floating rate) of the Bank's assets, liabilities, and off-balance sheet positions. Re-pricing Risk is the primary and most material form of interest rate risk.
- Yield Curve Risk arises from changes in the shape and slope of the yield curves. In other words, it arises from the unparallel shift of the yield curves, including yield curve twist.
- Basis Risk arises from imperfect correlation of the reference interest rates applicable to the Bank's assets, liabilities and off-balance sheet positions.
- Embedded Option Risk arises from changes in interest rate, causing uncertainty of cash flows due to the options embedded in assets, liabilities and off-balance sheet positions, such as non-maturity deposits and prepayment of loans without penalty.

Risk Assessment and Monitoring for IRRBB

The Bank measures interest rate risk in the banking book by assessing the potential impact of interest rate change on NII. The NII impact is used to determine alternative balance sheet strategies that the Bank may undertake to achieve its business return targets. The Bank also assesses the potential impact on EVE which reflects the change in present value of its asset, liabilities and off-balance sheet positions when interest rates change.

The Bank employs static analysis tools to assess interest rate risk in banking book, including:

1. **Re-pricing Gap Analysis and Sensitivity Analysis**

   Re-pricing Gap Analysis is a method widely used to assess the interest rate risk of current balance sheet positions. It captures re-pricing risk which is a primary form of interest rate risk, but does not capture yield curve risk, basis risk and embedded option risk.

   The Bank uses re-pricing gap analysis to assess NII impact in the year ahead assuming assets, liabilities and off-balance sheet positions are static and interest rates change immediately across the curves. The re-pricing of loan is based on earliest repricing date or contractual maturity date, whichever is earlier. Non-maturity deposits such as savings and demand deposits are assumed to re-price in "1 week to 1 month" and ">1 to 2 years" buckets at 33% and 67% respectively as per BNM methodology on IRRBB. Re-pricing gap analysis is also used in conjunction with duration-based weights to estimate the potential impact of interest rate change on EVE.

   The Bank assesses and monitors interest rate risk in its banking book through NII impact and EVE impact on daily basis.

2. **Stress Testing**

   The Bank performs stress testing for interest rate risk in the banking book on half yearly basis and annual ICAAP reporting using static NII and EVE simulation, which takes into account only the current position, to reflect the potential impact to NII and EVE under various stress scenarios. The results of stress testing are analyzed and used by ALCO to improve the Bank's asset and liability management in order to achieve the business return target and review the change in present value of its assets, liabilities and off-balance sheet positions under the acceptable level of risk.

As at 30 June 2023 and 31 December 2022, the impact of interest rate change to NII and EVE using re-pricing gap analysis is as follows:

Table 13: Interest Rate Risk Impact if the yield curves parallel move by 100 bps

RM'000

Interest Rate Risk Impact	**30 June 2023**	**31 December 2022**
Net Interest Income (NII)	+/-11,215	+/-9,646
Economic Value of Equity (EVE)	+/-11,656	+/-13,399

Note:-

A positive (+) sign followed by a negative (-) sign on the impact indicate gains if interest rate were to hike and loss if interest rate were to dip. A reversal order of such sign will indicate a loss if interest rate were to hike and gain if interest rate were to dip.

NII will impact the Profit and Loss Account whereas EVE will impact the reserves on Balance Sheet.

Risk Control for IRRBB

The Bank has established a limit on both NII and EVE. These annual limits are proposed by Treasury Department, reviewed by Risk Management Department and submitted to ALCO for concurrence, RMC's endorsement and Board's approval.

Treasury Department is responsible to manage these risks to be within the risk tolerance limits, based on Assets and Liabilities Management ("ALM") policy and guidelines.

4.3 Operational Risk

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

The Bank understands that good operational risk management is vital to sustainable business success, particularly in the current environment of uncertainties, both domestic and international. The Bank therefore places great importance on effective operational risk management with sufficient coverage of all aspects of operations and is well-prepared to deal promptly with any unpredictable event.

Operational Risk Management

The Bank has implemented the Operational Risk Management Policy which stipulates the operational risk management framework governing identification of risks, assessment of inherent risks, identification of controls, assessment of residual risk, mitigation of risks, monitor & review of risks and communication & consultation.

All business units in the Bank are directly responsible for managing their respective operational risks and establishing measures to mitigate and control risks to an acceptable level.

The Bank has a dedicated operational risk management unit, i.e. Operational Risk Management Unit ("ORU"), which is responsible for developing and managing the relevant tools and methodologies to manage operational risks in the Bank.

Operational Risk Assessment and Monitoring

A key underlying principle of the Bank's operational risk management is to inculcate a strong operational risk culture in the Bank by instilling a consistent understanding of operational risk methodology and practices, i.e. operational risks are identified, assessed and appropriate action plans formulated to mitigate these risks.

Business units are also required to report loss data / incidents to ORU based on the incident reporting procedure / criteria within the stipulated timelines outlined in the Operational Risk Management Policy.

The Bank's business units use operational risk tools i.e. Risk Control Self Assessment ("RCSA") to assess risk levels (impact and likelihood) and Key Risk Indicator ("KRI") to assess potential operational risks respectively, with the primary objective of ensuring risks identified are duly mitigated by relevant controls to an acceptable level while potential risks are identified and addressed at an early stage before it evolves into a significant operational risk issue that may lead to policy breaches (both internal and regulatory) / losses subsequently.

Operational Risk Control

Operational risk is managed via a sound internal control system which includes the following:

a) Implementation of policies, guidelines, processes and methodology to ensure that operational risk is appropriately identified and managed with effective controls.

b) The three lines of defense model defines the roles and responsibilities and ensures proper accountability of each line.

c) The individual business and functional lines' accountability for the management and control of their respective operational risks.

d) Separation of duties between key functions (e.g. "maker" and "checker" control).

In line with the implementation of BNM's Risk Management in Technology ("RMiT") policy on 1 January 2020, the Bank has set up an IT Risk Management function in ORU to oversee the development and management of technology risks at the 2nd line of defense.

In addition, the Bank also has a Business Continuity Management ("BCM") policy in place to minimize / address the impact of any unplanned operational risk loss events, with emphasis on critical functions, processes and systems. The policy has been approved by the Board of Directors and tested on regular basis.

The Calculation of Value Equivalent to Operational Risk-weighted Asset

The Bank currently uses the Basic Indicator Approach ("BIA") to calculate its value equivalent to operational risk-weighted assets. As prescribed by BNM, the Bank must hold capital for operational risk equal to the average over the previous three years of a fixed percentage (denoted as "α") of positive annual gross income.