



BANGKOK BANK BERHAD

(Company No. 299740-W)

**Risk Weighted Capital Adequacy
Framework (BASEL II)
- Pillar 3 Disclosures
As at 30 June 2020**

CONTENTS

	Page
1. Introduction	1
2. Scope of Application	1
3. Capital	2
3.1 Capital Structure	2
3.2 Capital Adequacy	3
4. Information Related to the Bank's Risks	6
4.1 Credit Risk	7
4.1.1 Credit Risk (General Disclosure)	7
4.1.2 Credit Rating	16
4.1.3 Credit Risk Mitigation	21
4.1.4 Off-Balance Sheet Exposures and Counterparty Credit Risk (CCR)	24
4.1.5 Securitization Disclosures (Not Applicable to the Bank)	25
4.2 Market Risk	26
4.2.1 Market Risk Management	26
4.2.2 Traded Market Risk	27
4.2.3 Equity Exposure in the Banking Book	28
4.2.4 Interest Rate Risk in the Banking Book (IRRBB)	28
4.3 Operational Risk	30

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 except when 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 2020 and 31 December 2019, 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 2020	31 December 2019
Common Equity Tier-1 Capital		
Paid-up share capital	1,000,000	1,000,000
Unrealised gain on "available for sale" financial instruments	10,402	7,623
Retained profits	234,945	243,701
Less: Other intangibles	(577)	(706)
Deferred tax assets	(8,258)	(5,150)
Total Common Equity Tier-1 Capital	1,236,512	1,245,468
Tier 2 Capital		
Collective impairment (only those attributable to non-impaired loan, advances and financing)	50,767	55,936
Investment in subsidiary	(10)	(10)
Total Tier 2 Capital	50,757	55,926
Total Capital	1,287,269	1,301,394

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 2020 and 31 December 2019, 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

Exposure Class	Gross Exposures	Net Exposures	Risk Weighted Assets	RM'000
				Capital Requirement
30 June 2020				
Credit Risk				
On-Balance Sheet Exposures				
- Sovereigns/Central Banks	633,369	633,369	-	-
- Banks, Development Financial Institutions & MDBs	385,928	385,928	162,944	13,036
- Corporates	3,277,420	3,238,455	3,068,040	245,443
- Regulatory Retail	8,327	8,033	6,031	482
- Residential Mortgages	1,125	1,125	517	41
- Higher Risk Assets	-	-	-	-
- Other Assets	146,948	146,948	142,799	11,424
- Equity Exposures	12,770	12,770	12,770	1,022
- Defaulted Exposures	31,418	31,418	19,958	1,597
Total for On-Balance Sheet Exposures	4,497,305	4,458,046	3,413,059	273,045
- OTC Derivatives	2,866	2,866	1,569	126
- Credit Derivatives	-	-	-	-
- Off-Balance Sheet Exposures other than OTC or Credit Derivatives	650,522	646,473	644,894	51,591
- Defaulted Exposures	3,721	1,722	1,806	144
Total for Off-Balance Sheet Exposures	657,109	651,061	648,269	51,861
Total for On & Off-Balance Sheet Exposures	5,154,414	5,109,107	4,061,328	324,906
	Long Position	Short Position		
Market Risk				
Interest Rate Risk	202,800	204,549	(1,749)	257
Foreign Currency Risk	5,215	1,633	3,582	417
Operational Risk			190,786	15,263
Total Risk Weighted Assets			4,260,541	340,843

Exposure Class	Gross Exposures	Net Exposures	Risk Weighted Assets	RM'000
				Capital Requirement
31 December 2019				
Credit Risk				
On-Balance Sheet Exposures				
- Sovereigns/Central Banks	805,280	805,280	-	-
- Banks, Development Financial Institutions & MDBs	821,300	821,300	341,182	27,295
- Corporates	3,449,535	3,405,740	3,222,385	257,791
- Regulatory Retail	2,010	1,851	1,397	112
- Residential Mortgages	1,164	1,164	532	43
- Higher Risk Assets	-	-	-	-
- Other Assets	159,943	159,943	154,401	12,352
- Equity Exposures	11,613	11,613	11,613	929
- Defaulted Exposures	37,261	37,261	23,314	1,865
Total for On-Balance Sheet Exposures	5,288,106	5,244,152	3,754,824	300,386
- OTC Derivatives	4,294	4,294	3,755	300
- Credit Derivatives	-	-	-	-
- Off-Balance Sheet Exposures other than OTC or Credit Derivatives	728,073	717,695	716,065	57,285
- Defaulted Exposures	154	154	232	19
Total for Off-Balance Sheet Exposures	732,521	722,143	720,052	57,604
Total for On & Off-Balance Sheet Exposures	6,020,627	5,966,295	4,474,876	357,990
	Long Position	Short Position		
Market Risk				
Interest Rate Risk	223,121	222,235	886	265
Foreign Currency Risk	4,897	936	3,961	392
Operational Risk			187,891	15,031
Total Risk Weighted Assets			4,670,974	373,678

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

	BNM Minimum Requirement	30 June 2020	31 December 2019
Total Capital Ratio (TCR)	10.50%	30.21%	27.86%
Tier 1 Capital Ratio	8.50%	29.02%	26.66%
Common Equity Tier-1 (CET1) Capital Ratio	7.00%	29.02%	26.66%

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, is 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 delegation of authority for credit approval depending on the type of business and/or the size of the credit line. 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 among others, the applicant's operating cash flows, business feasibility, 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 policy, credit standards and credit processes, monitoring exceptional cases which are inconsistent with the credit policy; and gathering various inputs to enhance the credit policy.
- Credit Acceptance Unit oversees the quality of credit extensions to ensure they are in line with the credit policy and credit underwriting standards, reviews the appropriateness of loan structures and credit risk ratings, inculcates a good credit culture and maintains a systematic and reliable 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 ensuring compliance with the Bank's risk management policy. For example, Credit Acceptance Function/Unit would analyze credit applications and ensure that the proposals comply with the Bank's credit policies, e.g. credit underwriting standards, credit risk rating, and collateral evaluation. 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 various areas such as large borrower concentrations and country concentrations to ensure capital adequacy for continuity of business operations.

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.

The Bank complies with BNM Guidelines on Lending to the Broad Property Sector and Lending for the Purchase of Shares and Units of Unit Trust Fund which limits the Bank's exposure to the Broad Property Sector and for the Purchase of Shares and Unit Trust Funds to 20% of its total outstanding loans and advances in both cases. Although the requirements in BNM's Guidelines on Lending to the Broad Property Sector and Lending for the Purchase of Shares and Units of Unit Trust Fund (which limits the Bank's exposure to the Broad Property Sector and for the Purchase of Shares and Unit Trust Funds to 20% of its total outstanding loans and advances) have been uplifted on 24 March 2020, the Bank continues to monitor these internally to avoid over-exposure to the broad property sector and the purchase of shares or unit trust funds.

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 credit facility as credit-impaired:

- i. where the principal or interest/profit or both of the credit facility is past due for more than 90 days or 3 months. In the case of revolving credit facilities (e.g. overdraft facilities), the facility shall be classified as credit-impaired where the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months;
- ii. where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less, and the credit facility exhibits weaknesses that render a classification appropriate based on the Bank's policy subject to Loan Committee's decision; or
- iii. when the credit facility is classified as rescheduled or restructured following an increase in credit risk and approved by LCM as impaired.

Where repayments are scheduled on intervals of 3 months or longer, the credit facility is classified as credit-impaired as soon as a default occurs, unless it does not exhibit any weakness that would render it to be classified as impaired.

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

Table 3: Geographic Distribution of Gross Credit Exposures

Exposure Class	Malaysia	Thailand	USA	Others	RM'000
					Total
30 June 2020					
Sovereigns/Central Banks	633,380	-	-	-	633,380
Banks, Development Financial Institutions & MDBs	342,154	19,816	18,320	8,475	388,765
Corporates	3,925,586	-	-	-	3,925,586
Regulatory Retail	10,701	-	-	-	10,701
Residential Mortgages	1,125	-	-	-	1,125
Higher Risk Assets	-	-	-	-	-
Other Assets	146,948	-	-	-	146,948
Equity Exposures	12,770	-	-	-	12,770
Defaulted Exposures	35,139	-	-	-	35,139
Total Credit Exposures	5,107,803	19,816	18,320	8,475	5,154,414

Exposure Class	Malaysia	Thailand	USA	Others	RM'000
					Total
31 December 2019					
Sovereigns/Central Banks	805,291	-	-	-	805,291
Banks, Development Financial Institutions & MDBs	792,618	5,870	19,117	6,333	823,938
Corporates	4,178,278	-	-	-	4,178,278
Regulatory Retail	2,985	-	-	-	2,985
Residential Mortgages	1,164	-	-	-	1,164
Higher Risk Assets	-	-	-	-	-
Other Assets	159,943	-	-	-	159,943
Equity Exposures	11,613	-	-	-	11,613
Defaulted Exposures	37,415	-	-	-	37,415
Total Credit Exposures	5,989,307	5,870	19,117	6,333	6,020,627

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

Table 4: Distribution of Gross Credit Exposures by Sector

Exposure Class												RM'000
	Government	Individuals	Primary Agriculture	Manufacturing	Electricity, Gas and Water Supply	Construction	Wholesale & Retails	Real Estate	Finance, Insurance & Business Services	Transport , Storage & Telecomm	Others	Total
As at 30 June 2020												
Sovereigns/Central Banks	633,380	-	-	-	-	-	-	-	-	-	-	633,380
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	-	388,765	-	-	388,765
Corporates	-	62,036	410,077	1,016,711	31,185	562,169	373,333	507,270	862,414	78,682	21,709	3,925,586
Regulatory Retail	-	2,611	431	1,948	5	984	2,933	1,742	47	-	-	10,701
Residential Mortgages	-	1,125	-	-	-	-	-	-	-	-	-	1,125
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	1,227	-	145,721	146,948
Equity Exposures	-	-	-	-	-	-	-	-	12,770	-	-	12,770
Defaulted Exposures	-	235	5,123	25,111	-	3,553	1,117	-	-	-	-	35,139
Total Credit Exposures	633,380	66,007	415,631	1,043,770	31,190	566,706	377,383	509,012	1,265,223	78,682	167,430	5,154,414

Exposure Class												RM'000
	Government	Individuals	Primary Agriculture	Manufacturing	Electricity, Gas and Water Supply	Construction	Wholesale & Retails	Real Estate	Finance, Insurance & Business Services	Transport , Storage & Telecomm	Others	Total
As at 31 December 2019												
Sovereigns/Central Banks	805,291	-	-	-	-	-	-	-	-	-	-	805,291
Banks, Development Financial Institutions & MDBs	-	-	-	-	-	-	-	-	823,938	-	-	823,938
Corporates	-	71,470	416,687	1,071,182	15,009	616,892	429,964	530,469	934,492	80,028	12,085	4,178,278
Regulatory Retail	-	247	452	784	7	463	124	842	66	-	-	2,985
Residential Mortgages	-	1,164	-	-	-	-	-	-	-	-	-	1,164
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	4,898	-	155,045	159,943
Equity Exposures	-	-	-	-	-	-	-	-	11,613	-	-	11,613
Defaulted Exposures	-	245	5,657	29,503	-	-	2,010	-	-	-	-	37,415
Total Credit Exposures	805,291	73,126	422,796	1,101,469	15,016	617,355	432,098	531,311	1,775,007	80,028	167,130	6,020,627

Table 5: Residual Contractual Maturity of Gross Credit Exposures

Exposure Class				RM'000
	One year or less	One to five years	More than five years	Total
30 June 2020				
Sovereigns/Central Banks	633,380	-	-	633,380
Banks, Development Financial Institutions & MDBs	388,675	90	-	388,765
Corporates	2,919,657	760,754	245,175	3,925,586
Regulatory Retail	8,063	1,083	1,555	10,701
Residential Mortgages	-	24	1,101	1,125
Higher Risk Assets	-	-	-	-
Other Assets	1,227	-	145,721	146,948
Equity Exposures	12,770	-	-	12,770
Defaulted Exposures	32,679	2,277	183	35,139
Total Credit Exposures	3,996,451	764,228	393,735	5,154,414

Exposure Class				RM'000
	One year or less	One to five years	More than five years	Total
31 December 2019				
Sovereigns/Central Banks	805,291	-	-	805,291
Banks, Development Financial Institutions & MDBs	823,416	522	-	823,938
Corporates	3,106,558	802,829	268,891	4,178,278
Regulatory Retail	1,781	1,204	-	2,985
Residential Mortgages	6	26	1,132	1,164
Higher Risk Assets	-	-	-	-
Other Assets	4,898	-	155,045	159,943
Equity Exposures	11,613	-	-	11,613
Defaulted Exposures	35,454	1,767	194	37,415
Total Credit Exposures	4,789,017	806,348	425,262	6,020,627

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

Economic Purpose	Impaired Loans	30 June 2020		RM'000
		Stage 1 & 2 ECL	Stage 3 ECL	Bad debt Written off
- Purchase of Securities	-	1,476	-	-
- Purchase of Transport Vehicles	52	5	52	-
- Purchase of Residential Properties	1,527	279	1,294	-
- Purchase of Non-Residential Properties	1,142	5,780	1,142	-
- Purchased of Fixed Assets Other Than Land and Building	-	2,170	-	-
- Personal Use	-	570	-	-
- Construction	1,778	23,163	301	-
- Working Capital	132,531	75,378	102,828	5,026
- Others	3,066	222	3,066	-
- Total	140,096	109,043	108,683	5,026

Economic Purpose	Impaired Loans	31 December 2019		RM'000
		Stage 1 & 2 ECL	Stage 3 ECL	Bad debt Written off
- Purchase of Securities	-	484	-	-
- Purchase of Transport Vehicles	51	9	52	-
- Purchase of Residential Properties	1,556	255	1,312	6
- Purchase of Non-Residential Properties	1,138	6,138	1,092	-
- Purchased of Fixed Assets Other Than Land and Building	864	2,050	742	-
- Personal Use	-	309	-	-
- Construction	2,190	19,033	442	-
- Working Capital	140,463	49,508	105,329	1,126
- Others	3,066	389	3,112	-
- Total	149,328	78,175	112,081	1,132

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 2020	50,974	27,201	112,081	190,256
New loans, advances and financing originated	774	-	-	774
Loans, advances and financing derecognized (other than write-off)	(1,816)	(968)	-	(2,784)
Transfer to Stage 1	24	(24)	-	-
Transfer to Stage 2	(5,135)	5,135	-	-
Transfer to Stage 3	-	-	-	-
Net changes un loan loss allowances	25,084	7,794	1,628	34,506
Amount written off	-	-	(5,026)	(5,026)
Balance as at 30 June 2020	69,905	39,138	108,683	217,726

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.

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

Risk Weights	Exposures after Netting and Credit Risk Mitigation							Total Exposures after Netting & Credit Risk Mitigation	RM'000
	Sovereign / Central Bank	Banks, MDBs and FDI's	Corporates	Regulatory Retail	Residential Mortgages	Other Assets	Equity		Total Risk Weighted Assets
As at 30 June									
2020									
0%	633,369	-	-	-	-	4,149	-	637,518	-
20%	-	101,688	206,132	-	-	-	-	307,820	61,564
35%	-	-	-	-	789	-	-	789	276
50%	-	287,077	36,966	2	423	-	-	324,468	162,234
75%	-	-	-	10,221	-	-	-	10,221	7,666
100%	-	-	3,669,957	25	146	142,799	12,770	3,825,697	3,825,697
150%	-	-	2,594	-	-	-	-	2,594	3,891
Average Risk Weight								5,109,107	4,061,328
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 2019									
0%	805,280	-	-	-	-	5,543	-	810,823	-
20%	-	232,234	205,791	-	-	-	-	438,025	87,605
35%	-	-	-	-	822	-	-	822	288
50%	-	591,704	67,781	2	439	-	-	659,926	329,963
75%	-	-	-	2,733	-	-	-	2,733	2,050
100%	-	-	3,885,763	33	147	154,400	11,613	4,051,956	4,051,956
150%	-	-	1,909	101	-	-	-	2,010	3,015
Average Risk Weight								5,966,295	4,474,876
Deduction from Capital Base	-	-	-	-	-	-	-	-	

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

Position as at 30 June 2020

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	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
<u>On and Off Balance Sheet Exposures</u>						
Credit Exposure (using Corporate Risk Weights)						
Corporate		206,132	10,219	-	-	3,744,139
Equity		-	10,294	-	-	2,476
Total		206,132	20,513	-	-	3,746,615

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
<u>On and Off Balance Sheet Exposures</u>							
Sovereigns / Central Banks		-	633,369	11	-	-	-
Total		-	633,369	11	-	-	-

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	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
<u>On and Off Balance Sheet Exposures</u>							
Banks, MDBs and FDIs		4	69,324	319,428	-	-	9
Total		4	69,324	319,428	-	-	9

Position as at 31 December 2019

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	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
<u>On and Off Balance Sheet Exposures</u>						
Credit Exposure (using Corporate Risk Weights)						
Corporate		205,791	-	-	-	4,009,555
Equity		-	9,506	-	-	2,107
Total		205,791	9,506	-	-	4,011,662

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
<u>On and Off Balance Sheet Exposures</u>							
Sovereigns / Central Banks		-	805,280	11	-	-	-
Total		-	805,280	11	-	-	-

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	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
<u>On and Off Balance Sheet Exposures</u>							
Banks, MDBs and FDIs		1,498	558,095	264,345	-	-	-
Total		1,498	558,095	264,345	-	-	-

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 collateral to mitigate against potential losses.

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. Specific unit has 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 the 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	RM'000	
				Exposure Covered by Other Eligible Collateral	
30 June 2020					
<u>Credit Risk</u>					
On-Balance Sheet Exposures					
- Sovereigns/Central Banks	633,369	-	-	-	-
- Banks, Development Financial Institutions & MDBs	385,928	-	-	-	-
- Corporates	3,277,420	800	38,965	-	-
- Regulatory Retail	8,327	-	294	-	-
- Residential Mortgages	1,125	-	-	-	-
- Higher Risk Assets	-	-	-	-	-
- Other Assets	146,948	-	-	-	-
- Equity Exposures	12,770	-	-	-	-
- Defaulted Exposures	31,418	-	-	-	-
Total for On-Balance Sheet Exposures	4,497,305	800	39,259		-
Off-Balance Sheet Exposures					
- OTC Derivatives	2,866	-	-	-	-
- Credit Derivatives	-	-	-	-	-
- Off-Balance Sheet Exposures other than OTC or Credit Derivatives	650,522	836	4,049	-	-
- Defaulted Exposures	3,721	-	1,999	-	-
Total for Off-Balance Sheet Exposures	657,109	836	6,048		-
Total for On & Off-Balance Sheet Exposures	5,154,414	1,636	45,307		-

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposure Covered by Eligible Financial Collateral	RM'000
				Exposure Covered by Other Eligible Collateral
31 December 2019				
<u>Credit Risk</u>				
On-Balance Sheet Exposures				
- Sovereigns/Central Banks	805,280	-	-	-
- Banks, Development Financial Institutions & MDBs	821,300	-	-	-
- Corporates	3,449,535	37,442	43,796	-
- Regulatory Retail	2,010	-	158	-
- Residential Mortgages	1,164	-	-	-
- Higher Risk Assets	-	-	-	-
- Other Assets	159,943	-	-	-
- Equity Exposures	11,613	-	-	-
- Defaulted Exposures	37,261	-	-	-
Total for On-Balance Sheet Exposures	5,288,106	37,442	43,954	-
Off-Balance Sheet Exposures				
- OTC Derivatives	4,294	-	-	-
- Credit Derivatives	-	-	-	-
- Off-Balance Sheet Exposures other than OTC or Credit Derivatives	728,073	836	10,378	-
- Defaulted Exposures	154	-	-	-
Total for Off-Balance Sheet Exposures	732,521	836	10,378	-
Total for On & Off-Balance Sheet Exposures	6,020,627	38,278	54,332	-

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

The Bank has put in place credit limits for counterparty in relation to derivative transactions entered into. However, the Bank does not impose collateral from counterparty and establish credit reserve for off-balance sheet transactions.

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

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent	RM'000
				Risk Weighted Assets
30 June 2020				
Direct credit substitutes	31,886		31,886	31,886
Transaction-related contingent items	336,188		164,982	158,089
Short-term self-liquidating trade-related contingencies	37,838		7,568	7,568
Forward foreign exchange				
- less than one year	256,833	536	2,866	1,569
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	139,932		69,966	69,966
- maturity less than one year	1,899,203		379,841	379,191
Any commitment that are unconditionally cancelled at any time without prior notice	13,249		-	-
Total	2,715,129	536	657,109	648,269

	RM'000			
Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent	Risk Weighted Assets
31 December 2019				
Direct credit substitutes	36,084		36,084	36,084
Transaction-related contingent items	340,525		170,263	159,060
Short-term self-liquidating trade-related contingencies	42,978		8,595	8,259
Forward foreign exchange				
- less than one year	262,749	2,100	4,294	3,755
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	257,484		128,742	128,742
- maturity less than one year	1,922,715		384,543	384,152
Any commitment that are unconditionally cancelled at any time without prior notice	4,116		-	-
Total	2,866,651	2,100	732,521	720,052

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

Equity exposures	30 June 2020	31 December 2019
		RM'000
Equity exposures		
• Equity securities - unquoted		
- Cost value *	12,770	11,613
- Market value	-	-
Realised gains (losses) on sales of equity securities for the period/ year	-	-
Unrealized gains (losses) on revaluation from available-for-sale equity securities	-	-
Minimum capital for equity exposures under SA approach	1,022	929

* 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”) 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 a half yearly basis 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 2020 and 31 December 2019, 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 2020	31 December 2019
Net Interest Income (NII)	+/-10,450	+/-12,387
Economic Value of Equity (EVE)	+/-10,465	+/-8,094

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 series of gapping limits by re-pricing maturity tenors for each currency to control interest rate risk. These annual limits are proposed by Treasury Department 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 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.