# Bank of China (Malaysia) Berhad

Risk Weighted Capital Adequacy Framework (Basel II)
-Disclosure Requirements (Pillar 3)
31 December 2023

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## 1. Introduction

Pursuant to Bank Negara Malaysia's (BNM) Risk-Weighted Capital Adequacy Framework (RWCAF), banking institutions are to make available Pillar 3 disclosure for financial reporting beginning 1 January 2010.

RWCAF is based around three Pillars:

- Pillar 1 requires banking institutions to define rules for the computation of minimum capital requirement for credit risk, market risk and operational risk.
- Pillar 2 requires banking institutions to implement an Internal Capital Adequacy Assessment Process (ICAAP) for other risks not covered by Pillar 1.
- Pillar 3 requires expanded disclosures to allow market participants to understand the risk profiles of the bank.

The Bank adopts Standardised Approach (SA) in computing the capital requirements for credit risk and market risk and adopts Basic Indicator Approach (BIA) for operational risk under Pillar 1 of BNM's RWCAF.

Under SA, standard risk weights are used to assess the capital requirements for exposures in credit risk and market risk. The capital requirement for operational risk under BIA is computed based on an average of a fixed percentage of positive annual income over the three preceding years (equivalent to 12 quarters).

The Pillar 3 disclosure will be published in the Bank's website, www.bankofchina.com.my

## 2. Scope of Application

Bank of China (Malaysia) Berhad (Bank) is a limited liability company, incorporated and domiciled in Malaysia. The immediate holding company is Bank of China (Hong Kong) Limited, which was incorporated in Hong Kong whereas the penultimate holding company is Bank of China Limited and the ultimate holding company is Central Huijin Investment Ltd, both incorporated in China. The principal activities of the Bank are commercial banking and related financial services.

The Bank has a wholly owned subsidiary company where the principal activities are to provide Chinese visa application services. The investment in subsidiary has been deducted from the Bank's regulatory capital. As the subsidiary company's assets size is not significant in relation to the Bank's assets, there is no separate group consolidation for capital adequacy for regulatory capital reporting. For the purposes of this report, the disclosures presented herein will be representative of the Bank entity disclosures only.

The disclosures have been reviewed by internal auditors, endorsed by Senior Management and approved by Board.

## 3 Capital

### 3.1 Capital Management

The Bank's capital management is guided by the Bank's Capital Management Policy which sets out the key capital management objectives, principles, processes, governance and roles & responsibilities.

The objective of the Bank's capital management are summarized as follows:

- ensure the Bank has sufficient capital to support business development, safeguard the capability to withstand unexpected loss and achieve the required level of return on shareholders' investment
- maintain adequate capital ratio by considering the minimum statutory and regulatory requirements and as well as internal management requirements
- maintain current credit rating and enhance stakeholders' confidence
- outline the capital management measurement in the event of Capital Adequacy Ratio (CAR) levels fall below the targeted level
- continuously enhances financial effectiveness, improve capital value and ultimately maximize shareholders' value while controlling risk

The Board of Directors (BOD) undertake the ultimate responsibility in ensuring capital is adequate to cover material risks inherent in the Bank while meeting all relevant regulatory standards and guidelines and ensure an effective capital management infrastructure to facilitate the implementation of capital management strategies. The Senior Management is responsible for implementing capital management that is consistent with the Bank's business strategies and risk appetite, ensuring the level of capital commensurate with the trend of business development and risk profile, and that various controls are in place, remain relevant and effective.

The Bank's capital management includes various aspects such as capital planning, capital monitoring and reporting, dividend policy, capital management remedial actions and procedures, capital injection or reduction mechanism and etc. In developing the capital plan, the Bank considers regulatory requirements, makes reference to the business strategy of the Bank, takes into account both short-term and medium to long term capital demand, and ensures a long-term stable capital level is maintained. Annual capital plan starts with annual financial budget that includes, but not limited to, RWA forecast, capital base forecast, CAR forecast, as well as major parameters and assumptions. It is submitted to the Senior Management and approved by the BOD accordingly on the annual basis.

The Bank, through capital monitoring mechanism, regularly monitors the level and any variation in capital adequacy to ensure proper and timely execution of capital management measures. The Bank sets triggers and internal capital targets for the Common Equity Tier 1 Capital Ratio (CET1), Tier 1 Capital Adequacy Ratio (Tier 1) and Total Capital Adequacy Ratio. The control procedures include the monitoring of capital structure and its optimization, enhance the quality of capital, and improve shareholders' return by fully utilizing the leverage effect while fulfilling regulatory compliance. Capital adequacy and regulatory capital ratio are closely monitored by the Bank. The information is reported to Senior Management and BOD on a regular basis.

### 3.2 Capital Adequacy Ratio

The capital adequacy ratios of the Bank are computed in accordance with BNM's Capital Adequacy Framework (Capital Components) Policy dated 15 December 2023. The Bank has adopted SA for Credit Risk and Market Risk, and BIA for Operational Risk.

Pursuant to BNM's Capital Adequacy Framework (Capital Components), the Bank is required to comply with the capital buffers and minimum capital adequacy ratios.

The capital buffers shall comprise of the following:

a) Capital Conservation Buffer (CCB) of 2.5%
b) Countercyclical Capital Buffer (CCyB), determined as the weighted average of the prevailing CCyB rates applied in the jurisdictions in which the bank has credit exposures. (Intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive.) (Maximum is 2.50%)

The minimum capital adequacy and capital buffer requirement for year 2023:

| | |
|---|---|
| CET 1 Ratio (including CCB and CCyB) | 7.000% |
| Tier 1 Capital Ratio (including CCB and CCyB) | 8.500% |
| Total Capital Ratio (including CCB and CCyB) | 10.500% |

In addition, the Bank has adopted BNM's guidelines on transitional arrangements to add back a portion of the Stage 1 and Stage 2 provisions for Expected Credit Losses (ECL) to Common Equity Tier 1 Capital over a four-year period from financial year beginning 2020. The transitional arrangements are consistent with the guidance issued by the Basel Committee of Banking Supervision on "Regulatory treatment of accounting provisions – interim approach and transitional arrangement" (March 2017) and "Measures to reflect the impact of Covid-19" dated April 2020.

Total CET 1, Tier 1 and Total capital ratio are as follows:

| | Dec 2023 (after transitional) | Dec 2023 (before transitional) | Dec 2022 (after transitional) | Dec 2022 (before transitional) |
|---|---|---|---|---|
| Capital ratios | | | | |
| CET 1 capital ratio | 17.040% | 17.040% | 16.529% | 16.529% |
| Tier 1 capital ratio | 17.040% | 17.040% | 16.529% | 16.529% |
| Total capital ratio | 30.828% | 30.828% | 30.491% | 30.433% |

There was no dividend declared and payout in financial year 2023.

The breakdown of risk-weighted assets by exposure class are as follow:

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| | Gross Exposure | Net Exposure | Risk-Weighted Assets | Capital Requirement |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Credit Risk: | | | | |
| *On Balance Sheet Exposure* | | | | |
| Sovereigns & central banks | 3,928,963 | 3,928,963 | - | - |
| Banks, Development Financial Institutions (DFIs) & Multilateral Development Banks (MDBs) | 3,180,183 | 3,180,183 | 665,175 | 53,214 |
| Insurance Cos, Securities Firm & Fund Managers | 105,148 | 60,042 | 60,043 | 4,803 |
| Corporate | 8,159,130 | 7,951,843 | 7,766,960 | 621,357 |
| Regulatory Retail | 478,075 | 476,348 | 384,489 | 30,759 |
| Residential mortgages | 445,569 | 444,515 | 170,393 | 13,631 |
| Other assets | 131,126 | 131,126 | 105,770 | 8,462 |
| Total on-balance sheet | 16,428,194 | 16,173,020 | 9,152,830 | 732,226 |
| | | | | |
| *Off Balance Sheet Exposure* | | | | |
| Credit-related off-balance exposure | 2,181,665 | 2,113,712 | 1,440,434 | 115,235 |
| Total credit risk | 18,609,859 | 18,286,732 | 10,593,264 | 847,461 |
| | | | | |
| Market Risk: | | | | |
| Foreign exchange risk | 3,077 | | 3,077 | 246 |
| | | | | |
| Operational Risk: | | | | |
| Total risk weighted assets and capital requirement | | | 653,791 | 52,303 |
| | | | | |
| Total | | | 11,250,132 | 900,010 |

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| | Gross Exposure | Net Exposure | Risk-Weighted Assets | Capital Requirement |
|---|---|---|---|---|
| | RM’000 | RM’000 | RM’000 | RM’000 |
| Credit Risk: | | | | |
| *On Balance Sheet Exposure* | | | | |
| Sovereigns & central banks | 4,005,216 | 4,005,216 | - | - |
| Banks, Development Financial Institutions (DFIs) & Multilateral Development Banks (MDBs) | 2,304,961 | 2,304,961 | 533,589 | 42,687 |
| Insurance Cos, Securities Firm & Fund Managers | 30,052 | - | - | - |
| Corporate | 7,628,851 | 7,442,762 | 7,250,092 | 580,007 |
| Regulatory Retail | 364,528 | 362,286 | 304,308 | 24,345 |
| Residential mortgages | 444,217 | 443,092 | 170,241 | 13,619 |
| Other assets | 148,809 | 148,809 | 122,905 | 9,833 |
| Total on-balance sheet | 14,926,634 | 14,707,126 | 8,381,135 | 670,491 |
| | | | | |
| *Off Balance Sheet Exposure* | | | | |
| Credit-related off-balance exposure | 2,398,786 | 2,349,013 | 1,687,762 | 135,021 |
| Total credit risk | 17,325,420 | 17,056,139 | 10,068,897 | 805,512 |
| | | | | |
| Market Risk: | | | | |
| Foreign exchange risk | 1,730 | | 1,730 | 138 |
| | | | | |
| Operational Risk: | | | | |
| Total risk weighted assets and capital requirement | | | 564,227 | 45,138 |
| | | | | |
| Total | | | 10,634,854 | 850,789 |

## 3.3 Capital Structure

The Bank's regulatory capital is divided into CET 1 and Tier 2 capital.

CET 1 capital consists of share capital, capital reserves, reserves created by appropriations of retained earnings and regulatory adjustments. Tier 2 capital consists of loan loss provisions, subordinated loan, revaluation reserves and others. Goodwill, investment in subsidiaries, investments in entities engaged in banking and financial services which are not consolidated in the financial statement, investment properties and investments in commercial corporations are deducted from CET1 and Tier 2 capital to arrive at the regulatory capital.

| | Dec 2023 (after transitional) | Dec 2023 (before transitional) | Dec 2022 (after transitional) | Dec 2022 (before transitional) |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| CET 1 capital: | | | | |
| Paid-up ordinary share capital | 760,518 | 760,518 | 760,518 | 760,518 |
| Retained profits | 1,176,810 | 1,176,810 | 1,039,913 | 1,039,913 |
| Regulatory reserves | 55,000 | 55,000 | 38,000 | 38,000 |
| Fair value through other comprehensive reserve | 8,160 | 8,160 | (6,697) | (6,697) |
| Foreign exchange reserve | 11 | 11 | (4) | (4) |
| | 2,000,499 | 2,000,499 | 1,831,730 | 1,831,730 |
| Regulatory adjustments applied in CET1 capital: | | | | |
| Deferred tax assets | (31,202) | (31,202) | (33,018) | (33,018) |
| Intangible assets | (1,724) | (1,724) | (2,904) | (2,904) |
| 55% of cumulative gains of debt instruments at FVOCI | 4,488 | 4,488 | - | - |
| Regulatory reserve attributable to financial assets | (55,000) | (55,000) | (38,000) | (38,000) |
| Transitional Arrangement [1] | - | - | - | - |
| Total CET 1 capital/ Total Tier 1 capital | 1,917,061 | 1,917,061 | 1,757,808 | 1,757,808 |
| | | | | |
| Tier-2 capital: | | | | |
| General Provision [2] | 132,416 | 132,416 | 125,861 | 119,685 |
| Subordinated loan | 1,419,800 | 1,419,800 | 1,359,970 | 1,359,970 |
| Less: Investment in subsidiary | (1,000) | (1,000) | (1,000) | (1,000) |
| Total tier-2 capital | 1,551,216 | 1,551,216 | 1,484,831 | 1,478,655 |
| | | | | |
| Total capital base | 3,468,277 | 3,468,277 | 3,242,639 | 3,236,463 |

*Note:*
1. *Transitional Arrangement to add back a portion of Stage 1 and Stage 2 provisions for expected credit losses (ECL).*
2. *General provision is subject to a maximum of 1.25% of total credit risk-weighted assets determined under SA for credit risk.*

## 4. Risk Management
### 4.1 Risk Management Framework

The risk governance of the Group and the Bank are as follows:

| | |
|---|---|
| Approve the risk appetite and business plans, and oversee the effectiveness of enterprise-wide integrated risk management as well as the implementation of the Bank's governance framework and internal control policy. Ensure risk-taking activities remain within the risk appetite, and promote a sound risk culture and effective risk management and internal control system for the Bank. | Board of Directors (BOD)<br>Board Risk Management Committee (BRMC)<br>Board Audit Committee (BAC) |
| Monitor the formulation and implementation of enterprise-wide integrated risk management practices to ensure holistic risk management and oversee the risk strategy, frameworks and policies, and practices to identify, measure, monitor, manage and report the Bank's material risks to the BOD to facilitate deliberation and decision-making on risk taking and mitigation strategies. | Management Level Committee |
| Manage the Bank's various types of risks and ensure the day-to-day management of the Bank's activities is consistent with the comprehensive risk management strategy, including the risk appetite and policies approved by the BOD. In addition, promote enterprise-wide awareness of risk and ensure enterprise-wide integrated risk management is embedded into the Bank's business practices and decision-making. | Senior Management |
| Responsible for setting department's objectives, defining strategies, establishing governance structures/ processes to align with the Bank's objectives and shall take a leading role in promoting an effective risk management environment. | Head of Departments |
| Adopt three lines of defence model to improve the effectiveness of risk management system. Responsible for the effective management of various risks that is in line with the Bank's risk strategy and compliance with policies and procedures. | All Departments and Branches |

The BOD, representing the interest of shareholders, is the highest decision making authority of the Bank and has the ultimate responsibility for overseeing the risk management of the Group and the Bank. The BOD's roles in governing the Bank and its corporate objectives are supported by a sound risk strategy and an effective risk management framework. The BOD promotes a consistent risk management culture within the Bank and uphold the standards of conduct, organizational practices and corporate values that are consistent with the Bank's overall risk appetite. The BOD also oversees the embedding of sustainability principles encompassing environmental, social and governance (ESG) considerations in business strategy, risk management, decision making process and operations.

The BRMC, a risk committee of the BOD, assists the BOD to oversee:

- the establishment of a robust risk management system and an effective framework to identify, monitor, control and report risk.
- the Management Level Committee and Senior Management are responsible to manage material risks (including climate risk) and the contagion effects among the different risks to ensure that integrated risk management functions within the Bank are in place and effectively discharged.

BRMC shall refer any specific transaction to the BOD if BOD-level deliberation and approval is required.

The BAC assists the BOD in fulfilling its roles on overseeing internal control systems and compliance processes. BAC reviews and evaluates the appropriateness of the Bank's control culture, effectiveness of risk management and internal control system, which including financial, operational and compliance controls, and risk management matters that may have a significant impact to the Bank's financial standing and reputation. BAC also reviews the whistleblowing arrangements for the Bank's employees and other stakeholders who, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. In addition, BAC also reviews the reports submitted by external auditors to Management in connection with the annual audit as well as the recommendations made by regulatory bodies on risk management and internal control.

Management Level Committee assists the BRMC and BOD to:

- promote strong risk management culture, establish and implement effective risk management controls within the Bank and monitor risk-related matters proactively and timely.
- manage enterprise-wide integrated risk and implement the Bank's overall risk strategies and risk appetite set by the BOD and continuously monitor the implementation of the risk appetite through risk limits/ indicators management to ensure that the risk-taking activities remain consistent with the overall risk appetite approved by the BOD and, where necessary, recommend relevant changes for BOD's approval.
- ensure adequate measures are in place to manage the use of models for identifying and measuring risk by overseeing the model development and implementation

process, establishing guidance on model use and monitoring model performance including independent model validation.
- continuously monitor the adequacy of the Bank's internal controls function, ensure that robust internal systems and infrastructure, resources, risk measurement systems and methodologies are in place for effective risk management activities.
- ensure adequate and effective information technology policies and procedures, and proper risk management framework to identify, measure, monitor and control technology risks. To provide BOD with management reports pertinent to information technology performance indicators and, where necessary, recommend actions to respond to key technology risk incidents.
- review and recommend specific actions/ correspondence with regard to regulatory assessment, significant issues arising from internal and/ or external audit matters (including the remediation plans).
- oversee the Bank's climate risk management and its implementation to promote sustainability and ensure that material climate-related risks are well managed.
- ensure the Bank's activities are in compliance with relevant laws and regulations as well as to promote sound risk and compliance culture.

The Bank has established and implemented an enterprise-wide integrated risk management framework through the Three Lines of Defence model which outlines the roles and responsibilities of risk-taking units, risk control units and internal audit. The risk-taking units undertake the day-to-day management of risks inherent in their business activities and ensure proper implementation and execution of its policy. Risk control units are responsible for the identification, measurement, monitoring and escalation of risk matters to Senior Management and BOD. Internal audit provides independent assurance of the effectiveness of the risk management framework and conduct independent review to ensure risk management policies are adequate, effective and robust. The key internal controls are summarized as follows:

(i) Establish a rational organisational structure with appropriate personnel whose responsibility, authority and accountability are clearly defined. The Bank has formulated policies and procedures to embed reasonable checks and balances in all operating units, safeguard the Bank's assets and ensure adherence to relevant laws and regulations and risk management practices.

(ii) The Management formulates and continuously monitors the implementation of the Bank's overall strategies, business plans and financial budgets. Accounting and management systems are in place to evaluate financial and operational performance.

(iii) The Bank has set up mechanisms to identify, evaluate and manage all major risks and has established corresponding internal control procedures and processes. The policies and procedures cover major aspects of risks including Credit, Operational, Market, Legal and Compliance, Liquidity, Interest Rate, Reputational, Strategic, Technology, Anti-Bribery and Corruption and Climate and ESG related risk. There are also procedures for handling and dissemination of information.

(iv) The Bank has established robust information technology infrastructure to generate relevant risk information accurately and timely. Such information facilitates the

Management, business units and the regulatory bodies to assess and monitor the Bank's risk position and performance. Proper communication channels and reporting mechanisms are in place to facilitate management of information.

(v) The Bank's internal audit, as 3rd line of defence, conducts independent review on the Bank's Risk Management Framework and assess the soundness, adequacy and compliance of internal controls including policies, structures and processes of the Bank. They follow-up closely on the items that require attention and reports implementation status to the Management and the BOD through BAC in a timely manner.

The Bank's ICAAP is guided by the ICAAP Policy which details the responsibilities, approaches and methodologies for identifying and measuring risks, stress testing, reporting and review process, capital planning for a 3 year-plan, independent review, and etc. The Bank has undertaken self-assessment to evaluate its existing capital and risk management practices against the expectations set forth by various stakeholders (e.g. BNM, shareholders and etc.) as well as business strategies and risk appetite in a forward-looking approach.

The internal capital adequacy assessment is regularly stress-tested using specific stress scenarios e.g. Covid-19 pandemic impact, Ukraine-Russia war, severe climate risks, inflationary pressure and etc. The stress testing approach mainly applies quantitative technique, covering key risks across the business lines and taking into consideration macroeconomics changes and other relevant factors to assess their impacts on Bank's capital adequacy.

The Bank continuously monitors emerging risks and put in place measurements and controls to mitigate those risks. The Bank employs regular risk assessment and stress testing to ensure capital remains adequate to cover the risks captured under Pillar 1, as well as risk types that are not fully captured or covered under Pillar 1, such as liquidity risk, interest rate risk in the banking book (IRRBB) and concentration risks. Such information allows Senior Management to identify adverse trend, take preventive and corrective measures and formulate business strategies accordingly.

## 5 Credit Risk

Credit risk is the risk of financial loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. It arises principally from lending, trade finance and treasury businesses. Credit risk also exists in the trading book and banking book, as well as from on- and off-balance sheet transactions.

The Bank structures the levels of credit risk by placing appropriate thresholds on the amount of risk acceptable in relation to, but not limited to, single borrower, group of borrowers, industry segments, country, product in addition to limits set for regulatory compliance purpose. Such risks and compliance are monitored on a regular basis and are subject to annual or more frequent review. Limits set by regulator and Parent Bank are adopted by the Bank in managing credit risks.

**Monitoring and Mitigation of Material Risk**

- Business unit, as the 1st line of defence, is responsible for prudent customer selection. The Bank manages credit risk through well-defined risk appetite, risk threshold limit, underwriting standards for various type of lending, post-loan monitoring and continuous enhancement to credit rating. Weaker credits are mitigated by credit risk mitigation, such as tangible collaterals and guarantees.

- For both Corporate and Retail loans, the Bank applies independent credit due diligence process on credit applications. Credit proposals are validated, analysed, assessed and proposed by Business Unit. The credit proposals shall then be independently assessed and/ or approved by Credit Approval Department (CAD) based on the delegated credit authorities. Should any credit proposal exceed the highest delegated credit authority of the approvers, upon completing due diligence, the CAD will recommend the credit proposal to Credit Evaluation Panel (CEP) for deliberation, after which the credit proposal shall be submitted to CEO (or delegate) for final decision. Experienced and competent key personnel are appointed to the CEP to assist in assessing the credit applications and to provide recommendation for final decision. CEO (or delegate) has the discretion to reject or modify terms and conditions of the loans passed by CEP.

- The Bank reviews, analyses and monitors its credit exposure portfolio and reports to Management through Risk Management and Internal Control Committee (RMICC) and to the BRMC and BOD on a regular basis.

## 5.1 Past Due and Impaired Loan

A loan is considered past due when the borrower/ counterparty has failed to make the principal or interest repayment when contractually due. Loans with more than 90 days past due or considered impaired as a result of significant credit events are to be classified as impaired according to the Bank's policies.

The classification of impaired loans and the relevant provision is consistent with the standard under Malaysian Financial Reporting Standards 9 (MFRS9) and BNM Guidelines on Financial Reporting.

The loans of the Bank are classified as impaired when they meet the following criteria:

i. Where the principal or interest or both of the loan is past due for more than 90 days or 3 months. 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 or 3 months; or

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 loan exhibits weaknesses; or

iii. Where repayments are scheduled on intervals of 3 months or longer, the loan is classified as impaired as soon as a default occurs; or

iv. When the loan is classified as rescheduled and restructured; or

v. Occurrence of a material adverse events/ circumstances such as significant financial difficulties including concession granted, breach of contract (default or delinquency in principal or interest payment), high possibilities of being wound up/ adjourned bankrupt or decreasing cash flow in near future.

In addition to the above mentioned criteria, the Bank would perform assessment immediately and propose appropriate account classification and rating when the following material adverse events/circumstances occurred.

i. Borrower Responsiveness
   - Borrowers are not contactable/not responsive/not cooperative after the Bank has exhausted all modes of communication to contact them.

ii. Conditions with Other Bank
   - There are legal proceedings by other financial institutions that have material negative impact on the borrower's repayment prospect.

iii. Business Operation
   - Borrower has ceased operation or business operation is currently suspended and unlikely to resume in the next 12 months; and
   - Parents/shareholders are unable/or unwilling to support the business operation.

iv. Significant Adverse Market News
   - Classified under the Practice Note 17 (PN17) and Guidance Note 3 (GN3) by Bursa Malaysia Securities Berhad.

v. Receiver & manager or liquidator appointed or under judicial management/corporate voluntary arrangement

vi. Material fraud with investigation report duly confirmed

vii. Bankruptcy or 3rd party petition for winding up is presented and is not withdrawn or discharge.

With effect from 1 January 2018, the Bank has adopted MFRS9 which introduces a forward-looking expected credit loss (ECL) model for loan loss provisioning. The Bank applies a 3-stage approach to measure ECL as follows:

Stage 1 - 12 months ECL
- For non-impaired credit exposures where there have not been any significant increase in credit risk since initial recognition and the exposures are not credit

impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.

Stage 2 - Lifetime ECL

- For non-impaired credit exposures where there have been a significant increase in credit risk since initial recognition but not credit impaired, the ECL associated with the probability of default events occurring within the lifetime of the credit exposures will be recognised.

Stage 3 - Lifetime ECL

- Financial assets are assessed as credit impaired when one or more objective evidences of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred.

The MFRS9 ECL Methodology has been independently validated by external validator.

The Bank continues to apply overlay adjustment in the forward-looking factor of ECL estimation as disclosed in the Financial Statement dated 31 December 2023 to ensure sufficient level of provisioning.

## 5.2 Geographical Analysis

Geographic distribution of credit exposures, broken down in geographical location where the credit risk resides by major types of gross credit exposures

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| Credit exposure | Geography | | | | |
|---|---|---|---|---|---|
| Asset Class | Malaysia | China | Hong Kong | Other | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Sovereigns & central banks | 3,928,963 | - | - | - | 3,928,963 |
| Banks, DFIs & MDBs | 1,850,586 | 909,374 | 723,295 | 259,587 | 3,742,842 |
| Insurance Cos, Securities Firm & Fund Managers | 135,338 | - | - | - | 135,338 |
| Corporates | 6,813,688 | 312,573 | 682,360 | 1,892,932 | 9,701,553 |
| Regulatory retails | 247,713 | 153,264 | 83,655 | 36,535 | 521,167 |
| Residential mortgages | 324,432 | 83,745 | 18,325 | 22,367 | 448,869 |
| Other assets | 131,126 | - | - | - | 131,126 |
| Total | 13,431,846 | 1,458,956 | 1,507,635 | 2,211,421 | 18,609,858 |

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| Credit exposure | Geography | | | | |
|---|---|---|---|---|---|
| Asset Class | Malaysia | China | Hong Kong | Other | Total |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Sovereigns & central banks | 4,005,216 | - | - | - | 4,005,216 |
| Banks, DFIs & MDBs | 1,222,637 | 1,014,513 | 494,806 | 131,450 | 2,863,406 |
| Insurance Cos, Securities Firm & Fund Managers | 60,681 | - | - | - | 60,681 |
| Corporates | 6,153,689 | 365,056 | 754,497 | 2,119,630 | 9,392,872 |
| Regulatory retails | 195,087 | 137,956 | 44,943 | 20,603 | 398,589 |
| Residential mortgages | 316,943 | 98,288 | 18,867 | 21,749 | 455,847 |
| Other assets | 148,809 | - | - | - | 148,809 |
| Total | 12,103,062 | 1,615,813 | 1,313,113 | 2,293,432 | 17,325,420 |

## 5.3 Industry Analysis

Distribution of exposures by sector, broken down by major types of gross credit exposures

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| Credit exposure | Category | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|
| Sector | Sovereigns & central | Banks, DFIs & MDBs | Insurance Cos, Securities Firm | Corporates | Regulatory Retails | Residential mortgages | Other assets | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Accommodation and Food Service Activities | - | - | - | 60,027 | 584 | - | - | 60,611 |
| Administrative and Support Service Activities | - | - | - | 193,979 | - | - | - | 193,979 |
| Agriculture, Forestry & Fishing | - | - | - | 233,221 | 1,491 | - | - | 234,712 |
| Arts, Entertainment and Recreation | - | - | - | 71,686 | - | - | - | 71,686 |
| Construction | - | - | - | 1,285,799 | 1,339 | - | - | 1,287,138 |
| Education | - | - | - | 222,309 | - | - | - | 222,309 |
| Electricity, Gas, Steam and Air Conditioning Supply | - | - | - | 1,170,210 | - | - | - | 1,170,210 |
| Financial and Insurance/Takaful Activities | 3,928,963 | 3,742,842 | 135,338 | 994,382 | - | - | - | 8,801,525 |
| Household | - | - | - | 226,405 | 499,408 | 448,869 | - | 1,174,682 |
| Information and Communication | - | - | - | 335,266 | 5 | - | - | 335,271 |
| Manufacturing | - | - | - | 2,583,964 | 5,790 | - | - | 2,589,754 |
| Mining & Quarrying | - | - | - | 135,089 | - | - | - | 135,089 |
| Professional, Scientific and Technical Activities | - | - | - | 125,021 | 698 | - | - | 125,719 |
| Public Administration and Defence; Compulsory Social Security | - | - | - | 14,536 | - | - | - | 14,536 |
| Real Estate Activities | - | - | - | 1,512,980 | 9,274 | - | - | 1,522,254 |
| Transportation and Storage | - | - | - | 126,045 | - | - | - | 126,045 |
| Water Supply; Sewerage, Waste Management and Remediation Activities | - | - | - | 7,623 | 12 | - | - | 7,635 |
| Wholesale and Retail Trade; Repair of Motor Vehicles and Motocycles | - | - | - | 399,421 | 2,447 | - | - | 401,868 |
| Others* | - | - | - | 3,590 | 119 | - | 131,126 | 134,835 |
| Total | 3,928,963 | 3,742,842 | 135,338 | 9,701,553 | 521,167 | 448,869 | 131,126 | 18,609,858 |

**Others are exposures which are not elsewhere classified.*

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| **Credit exposure** | **Category** | | | | | | | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Sector** | **Sovereigns & central banks** | **Banks, DFIs & MDBs** | **Insurance Cos, Securities Firm & Fund** | **Corporates** | **Regulatory Retails** | **Residential mortgages** | **Other assets** | **Total** |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Accommodation and Food Service Activities | - | - | - | 43,850 | - | - | - | 43,850 |
| Administrative and Support Service Activities | - | - | - | 348,426 | - | - | - | 348,426 |
| Agriculture, Forestry & Fishing | - | - | - | 272,401 | 1,862 | - | - | 274,263 |
| Arts, Entertainment and Recreation | - | - | - | 75,712 | - | - | - | 75,712 |
| Construction | - | - | - | 1,045,365 | 1,821 | - | - | 1,047,186 |
| Education | - | - | - | 226,137 | - | - | - | 226,137 |
| Electricity, Gas, Steam and Air Conditioning Supply | - | - | - | 1,112,694 | - | - | - | 1,112,694 |
| Financial and Insurance/Takaful Activities | 4,005,216 | 2,863,406 | 30,629 | 384,333 | 451 | - | - | 7,284,035 |
| Household | - | - | - | 261,087 | 375,134 | 455,847 | - | 1,092,068 |
| Information and Communication | - | - | - | 98,428 | 502 | - | - | 98,930 |
| Manufacturing | - | - | - | 2,489,132 | 4,676 | - | - | 2,493,808 |
| Mining & Quarrying | - | - | - | 172,203 | - | - | - | 172,203 |
| Professional, Scientific and Technical Activities | - | - | 30,052 | 270,419 | 740 | - | - | 301,211 |
| Public Administration and Defence; Compulsory Social Security | - | - | - | 20,618 | - | - | - | 20,618 |
| Real Estate Activities | - | - | - | 1,873,385 | 9,405 | - | - | 1,882,790 |
| Transportation and Storage | - | - | - | 83,562 | - | - | - | 83,562 |
| Water Supply; Sewerage, Waste Management and Remediation Activities | - | - | - | 8,070 | - | - | - | 8,070 |
| Wholesale and Retail Trade; Repair of Motor Vehicles and Motocycles | - | - | - | 607,050 | 3,977 | - | - | 611,027 |
| Others* | - | - | - | - | 21 | - | 148,809 | 148,830 |
| Total | 4,005,216 | 2,863,406 | 60,681 | 9,392,872 | 398,589 | 455,847 | 148,809 | 17,325,420 |

**Others are exposures which are not elsewhere classified.*

## 5.4 Maturity Analysis

Original contractual maturity breakdown by major types of gross credit exposures

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| Credit exposure | Maturity | | | Total |
|---|---|---|---|---|
| Category | Up to one year | 1-5 year | >5years | |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Sovereigns & central banks | 939,152 | 441,820 | 2,547,991 | 3,928,963 |
| Banks, DFIs & MDBs | 3,214,768 | 374,803 | 153,271 | 3,742,842 |
| Insurance Cos, Securities Firm & Fund Managers | 58,846 | 16,450 | 60,042 | 135,338 |
| Corporates | 3,193,618 | 3,493,606 | 3,014,329 | 9,701,553 |
| Regulatory retails | 5,036 | 804 | 515,327 | 521,167 |
| Residential mortgages | 39 | - | 448,830 | 448,869 |
| Other assets | 14,521 | - | 116,605 | 131,126 |
| Total | 7,425,980 | 4,327,483 | 6,856,395 | 18,609,858 |

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| Credit exposure | Maturity | | | Total |
|---|---|---|---|---|
| Category | Up to one year | 1-5 year | >5years | |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Sovereigns & central banks | 2,320,191 | 190,328 | 1,494,697 | 4,005,216 |
| Banks, DFIs & MDBs | 2,318,811 | 380,714 | 163,881 | 2,863,406 |
| Insurance Cos, Securities Firm & Fund Managers | 60,681 | - | - | 60,681 |
| Corporates | 2,593,982 | 3,912,857 | 2,886,033 | 9,392,872 |
| Regulatory retails | 10,417 | 1,176 | 386,996 | 398,589 |
| Residential mortgages | 163 | - | 455,684 | 455,847 |
| Other assets | 19,313 | - | 129,496 | 148,809 |
| Total | 7,323,558 | 4,485,075 | 5,516,787 | 17,325,420 |

## 5.5 Loan and Advances and ECL by sector

(a) Loan and Advances -Impaired:

| | Dec 2023 | Dec 2022 |
|---|---|---|
| | RM’000 | RM’000 |
| Accommodation and Food Service Activities | 17,454 | 16,017 |
| Agriculture, Forestry & Fishing | 39,794 | 37,330 |
| Arts, Entertainment and Recreation | 71,686 | 75,712 |
| Construction | 671 | 765 |
| Electricity, Gas, Steam and Air Conditioning Supply | 15,865 | 22,325 |
| Financial and Insurance/Takaful Activities | 39,783 | 35,326 |
| Household | 101,356 | 90,112 |
| Manufacturing | 81,891 | 100,032 |
| Real Estate Activities | 6,976 | 3,213 |
| Total | 375,476 | 380,832 |

(b) Loan and Advances-Past due loans:

| | Dec 2023 | Dec 2022 |
|---|---|---|
| | RM’000 | RM’000 |
| Accommodation and Food Service Activities | - | 1,002 |
| Agriculture, Forestry & Fishing | - | - |
| Construction | 129,305 | 520 |
| Financial and Insurance/Takaful Activities | - | - |
| Household | 26,067 | 30,545 |
| Manufacturing | - | - |
| Real Estate Activities | - | 7,247 |
| Transportation and Storage | - | - |
| Wholesale and Retail Trade; Repair of Motor Vehicles and Motocycles | - | - |
| Education | 125,207 | - |
| Total | 280,579 | 39,314 |

(c) Loan and Advances –Neither Past Due nor Impaired:

| | Dec 2023 | Dec 2022 |
|---|---|---|
| | RM’000 | RM’000 |
| Accommodation and Food Service Activities | 38,845 | 31,270 |
| Administrative and Support Service Activities | 152,896 | 317,114 |
| Agriculture, Forestry & Fishing | 187,994 | 217,992 |
| Construction | 762,984 | 584,157 |
| Education | 84,046 | 212,445 |
| Electricity, Gas, Steam and Air Conditioning Supply | 925,698 | 855,943 |

| | Dec 2023 | Dec 2022 |
|---|---|---|
| | RM'000 | RM'000 |
| Financial and Insurance/Takaful Activities | 1,338,688 | 744,020 |
| Household | 1,027,245 | 937,521 |
| Information and Communication | 264,358 | 46,489 |
| Manufacturing | 2,087,287 | 2,026,931 |
| Mining & Quarrying | 133,293 | 166,092 |
| Professional, Scientific and Technical Activities | 100,613 | 176,912 |
| Public Administration and Defence; Compulsory Social Security | 14,536 | 20,618 |
| Real Estate Activities | 1,468,017 | 1,746,503 |
| Transportation and Storage | 1,111,911 | 61,132 |
| Water Supply; Sewerage, Waste Management and Remediation Activities | 3,531 | 3,933 |
| Wholesale and Retail Trade; Repair of Motor Vehicles and Motocycles | 319,291 | 537,294 |
| Total | 10,021,233 | 8,686,366 |

(d) Lifetime ECL (Credit Impaired) Stage 3 by sector:

| | Dec 2023 | Dec 2022 |
|---|---|---|
| | RM'000 | RM'000 |
| Accommodation and Food Service Activities | 2,021 | 4,489 |
| Agriculture, Forestry & Fishing | 27,338 | 20,414 |
| Construction | - | - |
| Electricity, Gas, Steam and Air Conditioning Supply | 15,865 | 22,325 |
| Financial and Insurance/Takaful Activities | 27,408 | 21,293 |
| Household | 38,221 | 26,298 |
| Manufacturing | 65,905 | 82,771 |
| Real Estate Activities | 1,936 | 1,007 |
| Total | 178,694 | 178,597 |

(e) 12 months ECL (Stage 1) & Lifetime ECL (Non-Credit Impaired) Stage 2 by sector:

| | Dec 2023 | Dec 2022 |
|---|---|---|
| | RM'000 | RM'000 |
| Accommodation and Food Service Activities | 54 | 389 |
| Administrative and Support Service Activities | 80 | 512 |
| Agriculture, Forestry & Fishing | 271 | 2,294 |
| Construction | 28,809 | 5,395 |
| Education | 2,600 | 3,788 |
| Electricity, Gas, Steam and Air Conditioning Supply | 3,737 | 3,651 |
| Financial and Insurance/Takaful Activities | 2,852 | 1,124 |
| Household | 5,541 | 6,781 |
| Information and Communication | 3,787 | 405 |
| Manufacturing | 7,595 | 10,781 |

| | Dec 2023 | Dec 2022 |
|---|---|---|
| | RM’000 | RM’000 |
| Mining & Quarrying | 1,588 | 2,852 |
| Professional, Scientific and Technical Activities | 4,292 | 2,051 |
| Public Administration and Defence; Compulsory Social Security | 111 | 177 |
| Real Estate Activities | 13,008 | 26,715 |
| Transportation and Storage | 584 | 211 |
| Water Supply; Sewerage, Waste Management and Remediation Activities | 48 | 26 |
| Wholesale and Retail Trade; Repair of Motor Vehicles and Motocycles | 1,199 | 2,620 |
| Total | 76,156 | 69,772 |

### 5.6 Loan and Advances and ECL by Geographical Location

(a) Loan and Advances -Impaired:

| | Dec 2023 | Dec 2022 |
|---|---|---|
| | RM’000 | RM’000 |
| Malaysia | 327,498 | 334,512 |
| China | 23,677 | 16,076 |
| Hong Kong | - | - |
| Other | 24,301 | 30,604 |
| Total | 375,476 | 380,832 |

(b) Loan and Advances-Past due loans:

| | Dec 2023 | Dec 2022 |
|---|---|---|
| | RM’000 | RM’000 |
| Malaysia | 165,954 | 19,589 |
| China | 8,481 | 13,465 |
| Hong Kong | 874 | - |
| Other | 105,270 | 6,260 |
| Total | 280,579 | 39,314 |

(c) Loan and Advances –Neither Past Due nor Impaired:

| | Dec 2023 | Dec 2022 |
|---|---|---|
| | RM’000 | RM’000 |
| Malaysia | 6,775,225 | 5,004,034 |
| China | 629,324 | 741,923 |
| Hong Kong | 752,911 | 793,802 |
| Other | 1,863,773 | 2,146,607 |
| Total | 10,021,233 | 8,686,366 |

(d) Lifetime ECL (Credit Impaired) Stage 3 by geographical:

| | Dec 2023 | Dec 2022 |
|---|---|---|
| | RM’000 | RM’000 |
| Malaysia | 151,274 | 147,166 |
| China | 8,020 | 6,017 |
| Hong Kong | - | - |
| Other | 19,400 | 25,414 |
| Total | 178,694 | 178,597 |

(e) 12 months ECL (Stage 1) & Lifetime ECL (Non-Credit Impaired) Stage 2 by geographical:

| | Dec 2023 | Dec 2022 |
|---|---|---|
| | RM’000 | RM’000 |
| Malaysia | 47,817 | 52,916 |
| China | 1,206 | 1,386 |
| Hong Kong | 3,172 | 3,180 |
| Other | 23,961 | 12,290 |
| Total | 76,156 | 69,772 |

## 5.7 Movement in credit impaired loans and advances

| | Dec 2023 | Dec 2022 |
|---|---|---|
| | RM'000 | RM'000 |
| As at 1 Jan | 380,832 | 197,991 |
| Classified as credit impaired during the year | 38,832 | 230,317 |
| Reclassified as non-credit impaired/performing during the year | (5,156) | (10,044) |
| Amount recovered | (18,359) | (1,302) |
| Amount written-off/ write-down | (20,673) | (36,130) |
| Gross Impaired Loan and advances | 375,476 | 380,832 |
| Minus: Lifetime ECL (credit impaired) (Stage 3) | (178,694) | (178,597) |
| Net Impaired Loan and advances | 196,782 | 202,235 |

## 5.8 Movement in allowance for impairment on loan and advances

| | 12 months ECL | Lifetime ECL (not credit impaired) | Lifetime ECL (credit impaired) | Total |
|---|---|---|---|---|
| | (Stage 1) | (Stage 2) | (Stage 3) | |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Beginning 1 Jan 2023 | 41,064 | 28,707 | 178,597 | 248,368 |
| Transferred to 12 months ECL | 5,234 | (5,234) | - | - |

| | 12 months ECL | Lifetime ECL (not credit impaired) | Lifetime ECL (credit impaired) | Total |
|---|---|---|---|---|
| | (Stage 1) | (Stage 2) | (Stage 3) | |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Transferred to lifetime ECL not credit impaired | (2,659) | 2,771 | (112) | - |
| Transferred to lifetime ECL credit impaired | (245) | (4,680) | 4,925 | - |
| New loans ECL | 2,875 | 1,355 | - | 4,230 |
| ECL (write-back)/made during the financial period | (5,572) | 25,453 | 36,202 | 56,083 |
| Full settlement | (3,937) | (8,976) | (19,084) | (31,997) |
| Amounts written off | - | - | (20,673) | (20,673) |
| Other movement | - | - | (1,161) | (1,161) |
| Total ECL amount as at 31 Dec 2023 | 36,760 | 39,396 | 178,694 | 254,850 |

## 6. Credit Rating

Under the standardized comprehensive approach, the Bank applies credit rating assigned by External Credit Assessment Institutions (ECAIs) that are recognized by BNM in the calculation of credit risk weighted assets for capital adequacy purposes.

The following are the eligible ECAIs:
a) Standard & Poor’s (S&P)
b) Moody’s Investor Service (Moody’s)
c) Fitch Rating (Fitch)
d) RAM Rating Services Berhad (RAM)
e) Malaysian Rating Corporation Berhad (MARC)

Disclosures on Rated Exposures according to Ratings by ECAIs.

## 6.1 Disclosure on Credit Risk: Disclosure on Risk Weights under SA

31 Dec 2023

| Risk Weights | Exposures after Netting and CRM | | | | | | | Total exposures after Netting & CRM | Total Risk Weighted Assets |
|---|---|---|---|---|---|---|---|---|---|
| | Sovereigns & Central Banks | Banks, DFIs & MDBs | Insurance Cos, Securities Firm & Fund Managers | Corporate | Regulatory Retails | Residential Mortgages | Other Assets | | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 0% | 3,928,963 | - | - | - | - | - | 25,356 | 3,954,319 | - |
| 20% | - | 3,169,794 | - | 491,616 | - | - | - | 3,661,410 | 732,282 |
| 35% | - | - | - | - | - | 351,303 | - | 351,303 | 122,956 |
| 50% | - | 507,564 | - | 445,475 | 2,918 | 95,838 | - | 1,051,795 | 525,898 |
| 75% | - | - | - | - | 410,407 | - | - | 410,407 | 307,806 |
| 100% | - | 65,485 | 90,232 | 8,399,964 | 101,724 | 673 | 105,770 | 8,763,848 | 8,763,847 |
| 150% | - | - | - | 90,211 | 3,439 | - | - | 93,650 | 140,475 |
| | Grand Total | | | | | | | 18,286,732 | 10,593,264 |

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| Risk Weights | Exposures after Netting and CRM | | | | | | | Total exposures after Netting & CRM | Total Risk Weighted Assets |
|---|---|---|---|---|---|---|---|---|---|
| | Sovereigns & Central Banks | Banks, DFIs & MDBs | Insurance Cos, Securities Firm & Fund Managers | Corporate | Regulatory Retails | Residential Mortgages | Other Assets | | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| 0% | 4,005,216 | - | - | - | - | - | 25,904 | 4,031,120 | - |
| 20% | - | 2,096,503 | - | 513,255 | - | - | - | 2,609,758 | 521,951 |
| 35% | - | - | - | - | - | 356,063 | - | 356,063 | 124,622 |
| 50% | - | 658,456 | - | 465,826 | 1,775 | 97,938 | - | 1,223,995 | 611,997 |
| 75% | - | - | - | - | 273,368 | - | - | 273,368 | 205,026 |
| 100% | - | 108,447 | 30,629 | 8,098,069 | 114,134 | 721 | 122,905 | 8,474,905 | 8,474,905 |
| 150% | - | - | - | 80,855 | 6,075 | - | - | 86,930 | 130,396 |
| | Grand Total | | | | | | | 17,056,139 | 10,068,897 |

## 6.2 Rated Exposures according to Ratings by ECAIs

31 Dec 2023

| 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 |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>On and Off Balance Sheet Exposures</u> | | | | | | | |
| Sovereigns/Central Banks | | - | 3,928,963 | - | - | - | - |
| Total | | - | 3,928,963 | - | - | - | - |

| 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 | A to A3 | BBB+ to BBB- | BB1 to B3 | C1 to D | Unrated |
| | MARC | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | C+ to D | Unrated |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>On and Off Balance Sheet Exposures</u> | | | | | | | |
| Banks, MDBs and FDIs | | 653,284 | 2,832,296 | 135,517 | 121,667 | - | 78 |
| Total | | 653,284 | 2,832,296 | 135,517 | 121,667 | - | 78 |

| Exposure Class | Ratings of Corporate by Approved ECAIs | | | | | |
|---|---|---|---|---|---|---|
| | Moody's | Aaa to Aa3 | A1 to A3 | Baa1 to Ba3 | B1 to C | Unrated |
| | S&P | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| | Fitch | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| | RAM | AAA to AA3 | A to A3 | BBB1 to BB3 | B to D | Unrated |
| | MARC | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| On and Off Balance Sheet Exposures | | | | | | |
| Corporate | | 470,907 | 100,183 | 509,194 | - | 8,621,269 |
| Total | | 470,907 | 100,183 | 509,194 | - | 8,621,269 |

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| 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 |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| On and Off Balance Sheet Exposures | | | | | | | |
| Sovereigns/Central Banks | | - | 4,005,216 | - | - | - | - |
| Total | | - | 4,005,216 | - | - | - | - |

| **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 | A to A3 | BBB+ to BBB- | BB1 to B3 | C1 to D | Unrated |
| | MARC | AAA to AA- | A+ to A- | BBB+ to BBB- | BB+ to B- | C+ to D | Unrated |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| On and Off Balance Sheet Exposures | | | | | | | |
| Banks, MDBs and FDIs | | 260,541 | 2,174,530 | 270,795 | 157,508 | - | 32 |
| Total | | 260,541 | 2,174,530 | 270,795 | 157,508 | - | 32 |

| **Exposure Class** | **Ratings of Corporate by Approved ECAIs** | | | | | |
|---|---|---|---|---|---|---|
| | Moody's | Aaa to Aa3 | A1 to A3 | Baa1 to Ba3 | B1 to C | Unrated |
| | S&P | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| | Fitch | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| | RAM | AAA to AA3 | A to A3 | BBB1 to BB3 | B to D | Unrated |
| | MARC | AAA to AA- | A+ to A- | BBB+ to BB- | B+ to D | Unrated |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| On and Off Balance Sheet Exposures | | | | | | |
| Corporate | | 536,704 | 89,159 | 628,202 | - | 8,138,807 |
| Total | | 536,704 | 89,159 | 628,202 | - | 8,138,807 |

## 7. Credit Risk Mitigation (CRM)

The Bank grants credit facilities based on the credit worthiness of the customer, legitimate loan purpose, source of repayment, debt servicing ability and collateral(s)/ guarantees/ etc as CRM. Credit facilities may be granted unsecured premised on the merit of the customer's creditworthiness.

The main types of tangible collateral recognized by the Bank as CRM are as follows:

| No | Types of Collaterals |
|---|---|
| 1 | Fixed Deposit, Cash Margin |
| 2 | Property / Land |
| 3 | Quoted Share |
| 4 | Bond |
| 5 | Standby Letter of Credit by Financial Institution |
| 6 | Others (e.g. Machinery, Vessels, Assignment of proceeds, etc.) |

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

Property valuation report of by panel valuer is required by the Bank to ensure the value is fair unless it is exempted by internal guidelines. Generally, the value of the property charged is updated during the periodic credit review to reflect the current market value.

For the computation of capital adequacy requirements for collateralized transactions, the Bank has since in August 2013 applied **comprehensive approach**, which allows greater offset of CRM against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral. This is guided by the minimum conditions for the eligible collaterals set out in the "Risk-Weighted Capital Adequacy Framework (Basel II – Risk-Weighted Assets Computation) issued by BNM.

## 7.1 Disclosure on CRM

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| Exposure Class | Exposures before CRM | Exposures Covered by Guarantees/ Credit Derivatives | Exposures Covered by Eligible Financial Collateral | Exposures Covered by Other Eligible Collateral |
|---|---|---|---|---|
| | RM’000 | RM’000 | RM’000 | RM’000 |
| **Credit Risk** | | | | |
| On-Balance Sheet Exposure: | | | | |
| Sovereigns/Central Bank | 3,928,963 | - | - | - |
| Banks, DFIs & MDBs | 3,180,183 | - | - | - |
| Insurance Cos, Securities Firm & Fund Managers | 105,148 | - | 45,106 | - |
| Corporates | 7,989,132 | 345,727 | 272,525 | - |
| Regulatory Retail | 460,367 | - | 2,678 | - |
| Residential Mortgages | 435,359 | - | 1,055 | - |
| Other Assets | 131,126 | - | - | - |
| Defaulted Exposures | 197,916 | - | 1,762 | - |
| Total for On-Balance Sheet Exposure | 16,428,194 | 345,727 | 323,126 | - |
| | | | | |
| Off-Balance Sheet Exposure: | | | | |
| Off-balance sheet exposures included OTC derivatives or credit derivatives | 2,181,665 | - | - | - |
| Total for Off-Balance Sheet Exposure | 2,181,665 | - | - | - |
| | | | | |
| Total On and Off Balance Sheet Exposure | 18,609,859 | 345,727 | 323,126 | - |

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| Exposure Class | Exposures before CRM | Exposures Covered by Guarantees/ Credit Derivatives | Exposures Covered by Eligible Financial Collateral | Exposures Covered by Other Eligible Collateral |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **Credit Risk** | | | | |
| On-Balance Sheet Exposure: | | | | |
| Sovereigns/Central Bank | 4,005,216 | - | - | - |
| Banks, DFIs & MDBs | 2,304,961 | - | - | - |
| Insurance Cos, Securities Firm & Fund Managers | 30,052 | - | 30,052 | - |
| Corporates | 7,449,514 | 358,071 | 233,780 | - |
| Regulatory Retail | 348,515 | - | 3,238 | - |
| Residential Mortgages | 436,145 | - | 1,125 | - |
| Other Assets | 148,809 | - | - | - |
| Defaulted Exposures | 203,422 | - | 1,086 | - |
| Total for On-Balance Sheet Exposure | 14,926,634 | 358,071 | 269,281 | - |
| | | | | |
| Off-Balance Sheet Exposure: | | | | |
| Off-balance sheet exposures included OTC derivatives or credit derivatives | 2,398,786 | - | - | - |
| Total for Off-Balance Sheet Exposure | 2,398,786 | - | - | - |
| | | | | |
| Total On and Off Balance Sheet Exposure | 17,325,420 | 358,071 | 269,281 | - |

## 8. Off-Balance Sheet Exposure

Off-Balance Sheet exposures of the Bank are mainly composed of the following:

- Bank Guarantee and Standby Letter of Credit, which represent undertakings that the Bank will make payment in the event that a customer cannot meet its obligations to third parties.
- Documentary Letter of Credit, which are undertaking that the Bank on behalf of the customer for payment of goods purchased.
- Commitments to extend credit including the unutilized or undrawn portion of credit facilities.

Off-Balance Sheet and Counterparty Credit Risk – 31 Dec 2023

| Description | Principal Amount | Credit Equivalent Amount | Risk Weighted Assets |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| Direct Credit Substitutes | 3,187 | 3,187 | 3,187 |
| Transaction related contingent items | 2,553,642 | 1,276,821 | 647,176 |
| Short Term Self Liquidating trade related contingencies | 70,903 | 14,181 | 12,646 |
| Foreign exchange related contracts | | | |
| -One year or less | 1,731,010 | 27,578 | 12,010 |
| Interest/Profit rate related contracts | | | |
| -One year or less | 517,526 | 3,360 | 2,686 |
| -Over one year to five year | 64,197 | 4,536 | 2,750 |
| -Over five year | - | - | - |
| Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year | 3,212,332 | 642,467 | 570,359 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year | 419,070 | 209,535 | 189,620 |
| Unutilised credit card lines | - | - | - |
| Total | 8,571,867 | 2,181,665 | 1,440,434 |

Off-Balance Sheet and Counterparty Credit Risk – 31 Dec 2022

| Description | Principal Amount | Credit Equivalent Amount | Risk Weighted Assets |
|---|---|---|---|
| | RM'000 | RM'000 | RM'000 |
| Direct Credit Substitutes | 2,687 | 2,687 | 2,687 |
| Transaction related contingent items | 2,607,586 | 1,303,793 | 726,525 |
| Short Term Self Liquidating trade related contingencies | 81,260 | 16,251 | 13,820 |
| Foreign exchange related contracts | | | |
| -One year or less | 3,544,028 | 57,856 | 26,077 |
| Interest/Profit rate related contracts | | | |
| -One year or less | 346,940 | 7,245 | 4,943 |
| -Over one year to five year | 237,915 | 12,761 | 7,948 |
| - Over five year | - | - | - |
| Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year | 2,523,412 | 504,682 | 434,940 |
| Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year | 987,021 | 493,511 | 470,822 |
| Unutilised credit card lines | - | - | - |
| Total | 10,330,849 | 2,398,786 | 1,687,762 |

## 9. Market Risk

Market risk is the risk of potential losses resulting from the adverse movement in the value of assets and liabilities (including off-balance sheet assets and liabilities) due to fluctuations in the risk factors such as foreign exchange rates, interest rates, credit spreads, equity prices, commodities prices and their associated volatility.

The Bank's Management Level Committee is responsible for the oversight of market risk management of the Bank and executing the BRMC and BOD mandate on market risk management strategies, risk appetite and tolerance level. The Bank has established the Market Risk Management Policy to govern the Bank's market risk governance structure, risk identification, measurement, monitoring and reporting processes. The Bank's market risk is managed by Business Unit and monitored by RMD. RMD measures and monitors its FX Net Open Position (FX NOP), Value-at-Risk (VaR), Price Value of Basis Point (PVBP) and stop loss limits (Daily, Monthly and Yearly) on daily basis. RMD also reports to Management Level Committee and BOD on a regular basis on the Bank's market risk exposures and its compliance to the limits approved for each market risk indicators.

For capital requirement, the Bank adopts SA. The current market risk capital charge is mainly from the Bank's exposures in the foreign exchange risk.

Risk weighted assets and capital requirement for market risk

| Capital Charge Requirement for : | 31 Dec 2023<br>Standardised Approach | 31 Dec 2022<br>Standardised Approach |
|---|---|---|
| | RM'000 | RM'000 |
| Interest Rate risk | - | - |
| Equity Position Risk | - | - |
| Foreign Exchange Risk | 246 | 138 |
| Commodity Risk | - | - |
| Others | - | - |
| Total Risk Weighted Assets Equivalent for Market Risk | 3,077 | 1,730 |

## 10. Operational Risk

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is inherent in all activities, products and services of financial institutions and can transverse multiple activities and business lines within the bank. It includes a wide spectrum of heterogeneous risk such as fraud, physical damage, business disruption, transaction failures, legal and regulatory breaches as well as employee health and safety hazards. Operational risk may result in direct financial losses as well as indirect financial losses (e.g. loss of business and market share) due to reputational damage.

To manage operational risk, the Bank has established "Three lines of defence" model to manage operational risk events, where:-

1. First line of defence – Business and functional lines are primarily responsible in managing operational risk of their respective businesses and functions.
2. Second line of defence – Provide advisory to the business and functional lines on the established operational risk management policies/ procedures and perform review on the operational risk management process (on risk based basis)

undertaken by the business and functional lines to evaluate the effectiveness of the risk mitigation activities at the business and functional lines.

3. Third line of defence – provide regular independent reviews and assessments of the operational risk management framework, processes and systems.

Management Level Committee and BRMC are the Bank's key risk governance committees accountable for overseeing the enterprise wide operational risk function. These committees are responsible to monitor and deliberate on operational risk issues specific to the business or functional lines, and promote risk ownership and management by the business and functional lines.

For capital requirement, the Bank adopts BIA approach. The approach is in line with BNM Guidelines where the calculation is based on an average of a fixed percentage of positive annual gross income over the three preceding years.

| | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| | RM'000 | RM'000 |
| Minimum Capital required for Operational Risk | 52,303 | 45,138 |
| Total Risk Weighted Assets Equivalent for Operational Risk | 653,791 | 564,226 |

## 11. Interest Rate Risk in Banking Book (IRRBB)

IRRBB is defined as the potential risk to the Bank's earnings i.e. the net interest income (NII) and economic value of equity (EVE) arising from the adverse movement of interest rates.

The Bank's Management Level Committee is responsible for the oversight of the Bank's IRRBB and executing the BRMC and BOD mandate on interest rate risk management strategies, risk appetite and tolerance level. IRRBB Policy and limits are established to measure and manage the risk. RMD monitors the bank's NII and EVE limits and reports to Management Level Committee and BRMC on a regular basis.

The table below illustrates the Bank's IRRBB under a 200 basis point parallel interest rate shock from earning and economic value perspective.

As at 31 Dec 2023:

| Currency | Earnings (NII) | Economic Value (EVE) |
|---|---|---|
| | RM'000 | RM'000 |
| All Currencies (in MYR) | +/- 71,153 | +/- 4,468 |
| USD | +/- 5,658 | +/- 9,317 |
| CNY/CNH | +/- 3,802 | +/- 5,168 |

As at 31 Dec 2022:

| Currency | Earnings (NII) | Economic Value (EVE) |
|---|---|---|
| | RM’000 | RM’000 |
| All Currencies (in MYR) | +/- 58,655 | +/- 14,982 |
| USD | +/- 7,307 | +/- 12,638 |
| CNY/CNH | +/- 2,803 | +/- 10,788 |

------------------------- The end of Report ------------------------