

HONG LEONG INVESTMENT BANK BERHAD

Registration No. 197001000928 (10209-W)

(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES

FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

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BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

1. INTRODUCTION

The capital adequacy ratios of Hong Leong Investment Bank Berhad ("HLIBB" or "the Bank") and its subsidiaries ("the Group") are computed in accordance with the Bank Negara Malaysia's ("BNM") Risk-Weighted Capital Adequacy Framework ("RWCAF") - Basel II issued on 3 May 2019.

The Group places great importance to Basel II and view Basel II as a group-wide initiative that will ensure that the Group continues to meet international best practices for the credit, market and operational risk management practices. By adopting Basel II, the Group will be able to enhance and embed sound risk management practices within the Group and be equipped with the right risk management discipline, practices, processes and systems.

The following information concerning the Group's risk exposures, risk management practices and capital adequacy is disclosed as accompanying information to the annual report and does not form part of the audited accounts.

2. SCOPE OF APPLICATION

The capital adequacy ratios of the Group consist of capital base and risk-weighted assets derived from consolidated balances of the Bank and its subsidiary companies.

The capital adequacy ratios of the Bank and the Group are computed in accordance with BNM's RWCAF - Basel II. The Bank and the Group have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

The Group's capital requirements are generally based on the principles of consolidation adopted in the preparation of its annual financial statements, as discussed in Note 2A to the Financial Statements for financial year ended 30 June 2022 and differs from that used for regulatory capital purposes.

During the course of the year, the Bank and its subsidiaries did not experience any restrictions or other major impediments on transfer of funds or regulatory capital within the Group.

3. CAPITAL STRUCTURE AND ADEQUACY

The Group monitors the capital adequacy position of the Bank and its subsidiaries to ensure compliance with requirements of BNM and to take prompt actions to address projected capital deficiency. The capital position is reviewed on a monthly basis by undertaking stress tests and taking into account the levels and trend of material risks. The sufficiency of capital is assessed against the various risks in the balance sheet as well as future capital requirements based on the Group's expansion plans.

The Group has also formalised an overall capital management framework, which seeks to ensure that there is an adequate balance between Tier I and Tier II capital. The Group is also following very closely the global developments on capital management.

The following table sets forth details on the capital resources, capital adequacy ratios and risk-weighted assets for the Group and the Bank as at 31 December 2022. BNM's revised RWCAF - Basel II sets out the minimum capital adequacy ratios for the banking institutions and the methodology for calculating these ratios. As at 31 December 2022, the Group's and the Bank's Tier I and the total capital adequacy ratios were higher than BNM's minimum requirements.

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(a) The capital adequacy ratios of the Group and the Bank are as follows:

31 December 2022

	The Group	The Bank
Before deducting proposed dividends:		
Common equity tier 1 ("CET1") ratio	39.370%	39.346%
Tier I capital ratio	39.370%	39.346%
Total capital ratio	<u>51.119%</u>	<u>51.105%</u>
After deducting proposed dividends:		
CET I capital ratio	39.370%	39.346%
Tier I capital ratio	39.370%	39.346%
Total capital ratio	<u>51.119%</u>	<u>51.105%</u>

The components of CET1, Tier 1 and total capital of the Bank are as follows:

	The Group	The Bank
	RM'000	RM'000
CET1 capital		
Paid-up ordinary share capital	252,950	252,950
Retained profits	249,231	248,941
Other reserves	(14,484)	(14,484)
Less: goodwill and intangible assets	(34,565)	(34,565)
Less: deferred tax assets	(103,083)	(103,083)
Less: Investment in subsidiaries	-	(200)
Less: 55% of cumulative gains of financial investments at FVOCI	-	-
Total CET1 capital	<u>350,049</u>	<u>349,559</u>
Tier 1 capital	350,049	349,559
Tier-2 capital		
General Provisions ⁽¹⁾	4,462	4,461
Subordinated Notes	<u>100,000</u>	<u>100,000</u>
Total Tier 2 capital	<u>104,462</u>	<u>104,461</u>
Total capital	<u>454,511</u>	<u>454,020</u>

Note:

- ⁽¹⁾ Pursuant to BNM's policy document on Financial Reporting, general provision refers to loss allowance, measured at an amount equal to 12-month and lifetime expected credit losses and regulatory reserve, to the extent they are ascribed to non-credit impaired exposures, determined under standardised approach for credit risk.

Breakdown of risk-weighted assets in the various risk weights:

	The Group	The Bank
	RM'000	RM'000
Credit risk	356,924	356,875
Market risk	185,557	185,155
Operational risk	<u>346,644</u>	<u>346,384</u>
	<u>889,125</u>	<u>888,414</u>

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(a) The capital adequacy ratios of the Group and the Bank are as follows (continued):

30 June 2022

	The Group	The Bank
Before deducting proposed dividends:		
Common equity tier 1 ("CET1") ratio	39.464%	39.445%
Tier I capital ratio	39.464%	39.445%
Total capital ratio	<u>50.447%</u>	<u>50.437%</u>
After deducting proposed dividends:		
CET I capital ratio	35.389%	35.367%
Tier I capital ratio	35.389%	35.367%
Total capital ratio	<u>46.372%</u>	<u>46.359%</u>

The components of CET1, Tier 1 and total capital of the Bank are as follows:

	The Group RM'000	The Bank RM'000
CET1 capital		
Paid-up ordinary share capital	252,950	252,950
Share premium	-	-
Retained profits	288,171	287,881
Other reserves	(19,792)	(19,792)
Less: goodwill and intangible assets	(33,638)	(33,638)
Less: deferred tax assets	(110,559)	(110,559)
Less: Investment in subsidiaries	-	(200)
Less: 55% of cumulative gains of financial investments at FVOCI	-	-
Total CET1 capital	<u>377,132</u>	<u>376,642</u>
Tier 1 capital	377,132	376,642
Tier-2 capital		
General Provisions ⁽¹⁾	4,952	4,952
Subordinated Notes	100,000	100,000
Total Tier 2 capital	<u>104,952</u>	<u>104,952</u>
Total capital	<u>482,084</u>	<u>481,594</u>

Note:

⁽¹⁾ Excludes collective assessment allowance attributable to loans and advances classified as impaired.

Breakdown of risk-weighted assets in the various risk weights:

	The Group RM'000	The Bank RM'000
Credit risk	396,174	396,120
Market risk	217,522	217,123
Operational risk	341,935	341,603
	<u>955,631</u>	<u>954,846</u>

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows:

The Group 31 December 2022 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns & Central Banks	1,529,083	1,529,083	-	-
Public Sector Entities	388,530	388,530	24,821	1,986
Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDBs")	206,317	206,317	50,769	4,062
Corporates	720,642	675,128	208,982	16,719
Regulatory Retail	315,594	52,803	206	16
Other Assets	146,452	146,452	36,137	2,891
Total On-Balance Sheet Exposures	3,306,618	2,998,313	320,915	25,674
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	1,500	1,500	1,500	120
Derivative Financial Instruments	133,211	133,211	34,509	2,760
Total Off-Balance Sheet Exposures	134,711	134,711	36,009	2,880
Total On and Off-Balance Sheet Exposures	3,441,329	3,133,024	356,924	28,554
(ii) Market Risk				
	Long Position	Short Position		
Interest Rate Risk	6,080,898	5,846,550	151,297	12,104
Equity Risk	3,743	-	26,942	2,155
Foreign Exchange Risk	7,261	1,102	7,261	581
Options Risk	200	-	57	5
	6,092,102	5,847,652	185,557	14,845
(iii) Operational Risk			346,644	27,732
Total RWA and Capital Requirements			889,125	71,131

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows (continued):

The Group 30 June 2022 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns & Central Banks	1,575,029	1,575,029	-	-
Public Sector Entities	362,874	362,874	24,049	1,924
Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDBs")	437,324	437,324	99,458	7,957
Corporates	617,219	573,742	189,448	15,155
Regulatory Retail	346,958	61,063	213	17
Other Assets	73,874	73,874	48,701	3,896
Total On-Balance Sheet Exposures	3,413,278	3,083,906	361,869	28,949
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	4,570	4,570	4,570	366
Derivative Financial Instruments	110,905	110,905	29,735	2,379
Total Off-Balance Sheet Exposures	115,475	115,475	34,305	2,745
Total On and Off-Balance Sheet Exposures	3,528,753	3,199,381	396,174	31,694
(ii) Market Risk				
	Long Position	Short Position		
Interest Rate Risk	5,194,789	5,161,527	196,204	15,696
Equity Risk	3,606	-	7,803	624
Foreign Exchange Risk	3,631	3,123	3,631	290
Options Risk	200	-	9,884	791
	5,202,226	5,164,650	217,522	17,403
(iii) Operational Risk			341,935	27,355
Total RWA and Capital Requirements			955,631	76,452

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows (continued):

The Bank 31 December 2022 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns & Central Banks	1,529,083	1,529,083	-	-
Public Sector Entities	388,524	388,524	24,820	1,986
Banks, DFI & MDBs	206,094	206,094	50,724	4,058
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-
Corporates	720,642	675,128	208,982	16,719
Regulatory Retail	315,594	52,803	206	16
Other Assets	146,449	146,449	36,134	2,891
Total On-Balance Sheet Exposures	3,306,386	2,998,081	320,866	25,670
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	1,500	1,500	1,500	120
Derivative Financial Instruments	133,211	133,211	34,509	2,760
Total Off-Balance Sheet Exposures	134,711	134,711	36,009	2,880
Total On and Off-Balance Sheet Exposures	3,441,097	3,132,792	356,875	28,550
(ii) Market Risk				
	Long Position	Short Position		
Interest Rate Risk	6,080,898	5,846,550	151,297	12,104
Equity Risk	3,542	-	26,540	2,123
Foreign Exchange Risk	7,261	1,102	7,261	581
Options Risk	200	-	57	5
	6,091,901	5,847,652	185,155	14,813
(iii) Operational Risk			346,384	27,711
Total RWA and Capital Requirements			888,414	71,074

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows (continued):

The Bank 30 June 2022 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns & Central Banks	1,575,029	1,575,029	-	-
Public Sector Entities	362,860	362,860	24,046	1,924
Banks, DFI & MDBs	437,136	437,136	99,420	7,954
Corporates	617,219	573,742	189,448	15,155
Regulatory Retail	346,958	61,063	213	17
Other Assets	73,861	73,861	48,688	3,895
Total On-Balance Sheet Exposures	3,413,063	3,083,691	361,815	28,945
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	4,570	4,570	4,570	366
Derivative Financial Instruments	110,905	110,905	29,735	2,379
Total Off-Balance Sheet Exposures	115,475	115,475	34,305	2,745
Total On and Off-Balance Sheet Exposures	3,528,538	3,199,166	396,120	31,690
(ii) Market Risk				
	Long Position	Short Position		
Interest Rate Risk	5,194,789	5,161,527	196,204	15,696
Equity Risk	3,407	-	7,404	592
Foreign Exchange Risk	3,631	3,123	3,631	290
Options Risk	200	-	9,884	791
	5,202,027	5,164,650	217,123	17,370
(iii) Operational Risk				
			341,603	27,328
Total RWA and Capital Requirements			954,846	76,388

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4. RISK MANAGEMENT

Overview

The Group believes that an integrated risk management framework is key to ensuring the overall financial soundness and stability of the Group's business operations. Key components of our enterprise wide risk management framework include:

- (i) A structured risk governance model, incorporating strong Board and senior management oversight.
- (ii) Sound capital management processes.
- (iii) Comprehensive assessment of material risks.
- (iv) A rigorous system of check and balance reviews.
- (v) Regular monitoring and reporting.
- (vi) Independent reviews by the internal and external auditors.

Risk governance structure

The Board has overall responsibility for providing leadership, overseeing risk appetite and ensuring that a robust risk and compliance culture prevails. The Board is assisted by the following Board and management committees:

- (i) Board, Audit and Risk Management Committee ("BARMC").
- (ii) Assets and Liabilities Management Committee ("ALMCO").
- (iii) Management Credit and Underwriting Committee ("MCUC").

The BARMC is responsible for the following:

- (i) Reviewing and recommending risk management strategies, policies and risk tolerance for the Board's approval.
- (ii) Reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
- (iii) Ensuring infrastructure, resources and systems are in place for risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of risk taking activities.
- (iv) Reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

The Risk Management Department is responsible for assisting the BARMC, ALMCO, MCUC and the Board in ensuring that the risk management activities are carried out as per their directives. Amongst others, Risk Management Department is responsible for setting the risk management framework and developing tools and methodologies for the identification, measurement, monitoring, control and valuation of risks. The Risk Management Department consists of three main units namely Market and Liquidity Risk, Operational Risk and Credit Risk Management.

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4. RISK MANAGEMENT (continued)

Risk governance structure (continued)

The Group Internal Audit function complements the Risk Management Department in the management of risk by:

- (i) Ensuring that the risk policies prepared by the Risk Management Department are enforced through its regular audit cycle.
- (ii) Performing independent reviews to assess the risk control environment developed by the Risk Management Department.
- (iii) Performing independent reviews to assess the risk grading system and the credit process.
- (iv) Forming independent opinions on risk controls being formulated by the Risk Management Department.

Eight broad principles of risk management

- (i) Align risk appetite and strategy

Risk appetite is the degree of risk that the Group is willing to accept in pursuit of its goals. Risk appetite is set first in evaluating strategic alternatives, then in setting objectives aligned with the selected strategy and in developing mechanisms to manage the related risks.

- (ii) Link growth, risk and return

Framework provides an enhanced ability to identify and assess risks and establish acceptable levels of risk relative to growth and return objectives.

- (iii) Enhance risk response decisions

The Group strives to identify and select among alternative risk responses - risk avoidance, reduction, sharing and acceptance based on generally accepted practices and methodologies.

- (iv) Minimise operational surprises and losses

The Group continually enhances its capability to identify potential events, assess risk and establish responses, thereby reducing the occurrence of surprises and related costs or losses.

- (v) Identify and manage cross-risks

Every product faces a myriad of risks. The Group not only manages the individual risks, but also manages interrelated impacts.

- (vi) Provide integrated responses to multiple risks

Business processes carry many inherent risks and the Group continually finds solutions for managing the risks.

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4. RISK MANAGEMENT (continued)

Eight broad principles of risk management (continued)

(vii) Seize opportunities

The Group considers potential events, using risk management as offensive initiatives rather than just risks (defensive), and by considering a full range of events, the Group gains an understanding of how certain events represent opportunities.

(viii) Rationalise capital

More robust information on total risk allows the Group to more effectively assess overall capital needs and improve capital allocation.

Risk management framework

The Group's risk management framework outlines the overall structure, aspirations, values and risk management strategies, and is a structured approach in balancing risks and returns.

Appropriate methodologies and measures have been developed in our risk management approaches to manage uncertainties such that the deviations from the intended strategic objectives are monitored and kept within tolerable levels.

Risk management culture

The risk management culture of the Group encompasses the following:

(i) Developing strategies

Documentation that is approved by the Board which expresses the Group's risk management strategies and appetite.

(ii) Adopting skills

The capabilities and resources required for implementing the risk management function.

(iii) Cultivating shared values

The universal risk management culture that the Group expects and promotes throughout the business units.

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4. RISK MANAGEMENT (continued)

Risk management approach

The risk management approach is summarised as follows:

(i) Strategy

Risk management policies are integrated with business and strategies, in line with Board approved risk appetite.

(ii) Policy

Risks are addressed using specific risk policies.

(iii) Tools

Risks are measured and assessed using clearly defined models, methodologies and benchmarking.

(iv) Communication

Risks are adequately communicated across the Group in a timely manner.

(v) Implementation

Risks and returns are identified and managed by respective accountable business, support and operating units.

(vi) Maintenance

Risk management policies are clearly and formally documented, with a review in place to respond to changes in operating environment.

Risk management process

The risk management approaches are based on four simple processes:

(i) Identify what, why and how risks can arise:

- Nature of risk.
- Circumstances.
- Causes.
- Potential contributing factors.

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4. RISK MANAGEMENT (continued)

Risk management process (continued)

(ii) Analyse and evaluate risks:

- Analyse and measure risk exposures using impact and probability analysis.
- Establish priorities using risk matrix.
- Compare risk exposures with Group's risk appetite.

(iii) Measures to control or mitigate the identified risks:

- Measures to mitigate the identified risks or risk controls.
- Action plans to either prevent or mitigate the risks.

(iv) Monitor and review the performance of the risk management process:

- Review effectiveness of mitigating measures or controls.
- Tracking of incidences and losses.
- Review feedback from internal reports and take appropriate action.

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4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk

Credit risk arises as a result of customers or counterparties not being able to or willing to fulfill their financial and contractual obligations as and when they fall due. These obligations arise from lending, trade finance and other activities undertaken by the Group.

The primary objective of the credit risk management framework is to ensure that exposure to credit risk is kept within the Group's financial capacity to withstand potential future losses. Lending activities are guided by internal credit policies and guidelines that are approved by the Board. These policies were reviewed and further enhanced during the year.

Credit portfolio management strategies and significant exposures are reviewed by the Board. These portfolio management strategies are designed to achieve a desired ideal portfolio risk tolerance level and sector distribution. This includes minimum credit rating targets for new credit facilities.

The Group's credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. While the business units are responsible for credit origination, the credit approving function rests mainly with the MCUC.

Credit risk is also identified as part of the new product sign-off process to ensure that new products prior to marketing are acceptable from a credit risk management perspective.

The Group also believes that authority limits for credit approvals should be directly related to the risk levels of the borrower and the transaction. In this respect, a Delegated Authority Limit structure had been implemented.

Credit Risk Management Process

(i) Identification

- Risk assessment on the potential impact of internal and external factors on transactions and positions.

(ii) Assessment/Measurement

- Internal credit rating systems to evaluate customer's credit worthiness.

(iii) Control/Mitigation

- Credit risk management policies and guidelines on credit rating, collateral and loan recovery.
- Exposure limits based on credit worthiness level for corporate groups, and prudent thresholds by economic sectors.
- Monitoring the benchmark return to consider the risk taken.

(iv) Monitoring/Review

- Analysis/review on loan exposures, asset quality evaluation, and movement of impaired loans and advances.
- Reporting on exposures against approved credit limits.

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit quality of loans and advances

A loan is defined as "past due" when the counterparty has failed to make a principal or interest payment when contractually due. Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans advances and financing less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary.

A loan or a group of loans is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For description of approaches adopted by the Group and the Bank for the determination of expected credit losses (Stage 1, 2, 3), refer to Note 44(d) to the audited financial statements for financial year ended 30 June 2022.

Gross credit exposure

(i) The table below sets out the breakdown of gross credit exposures by geographical distribution as follows:

The Group and the Bank	Malaysia RM'000	Other countries RM'000	Total RM'000
31 December 2022			
On-Balance Sheet Exposures			
Financial assets at fair value through profit or loss *	213,092	-	213,092
Financial investments at fair value through other comprehensive income *	1,444,113	45,667	1,489,780
Financial investments at amortised cost	1,073,392	-	1,073,392
Derivatives financial assets	44,470	-	44,470
Loans and advances	370,662	-	370,662
Clients' and brokers' balances	189,403	-	189,403
Total On-Balance Sheet Exposures	3,335,132	45,667	3,380,799
Off-Balance Sheet Exposures			
Credit-related exposures	1,500	-	1,500
Derivative financial instruments	133,211	-	133,211
	134,711	-	134,711
Total On and Off-Balance Sheet Exposures	3,469,843	45,667	3,515,510

* Excludes equity securities

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

(i) The table below sets out the breakdown of gross credit exposures by geographical distribution as follows (continued):

The Group and the Bank	Malaysia RM'000	Other countries RM'000	Total RM'000
30 June 2022			
On-Balance Sheet Exposures			
Financial assets at fair value through profit or loss *	19,743	-	19,743
Financial investments at fair value through other comprehensive income *	1,209,695	46,945	1,256,640
Financial investments at amortised cost	1,250,442	-	1,250,442
Derivatives financial assets	38,393	-	38,393
Loans and advances	393,720	-	393,720
Clients' and brokers' balances	103,077	-	103,077
Total On-Balance Sheet Exposures	3,015,070	46,945	3,062,015
Off-Balance Sheet Exposures			
Credit-related exposures	4,570	-	4,570
Derivative financial instruments	110,905	-	110,905
	115,475	-	115,475
Total On and Off-Balance Sheet Exposures	3,130,545	46,945	3,177,490

* Excludes equity securities

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4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

(ii) The table below sets out the breakdown of gross credit exposures by sector as follows:

The Group and the Bank 31 December 2022	Financial assets at fair value through profit or loss RM'000	Financial investments at fair value through other comprehensive income RM'000	Financial investments at amortised cost RM'000	Derivative financial assets RM'000	Loans and advances RM'000	Clients' and brokers' balances RM'000	Total on- balance sheet risk exposures RM'000	Credit- related Exposures RM'000	Derivative Financial Instruments RM'000	Total off- balance sheet credit risk exposures RM'000	Total on and off-balance sheet credit risk exposures RM'000
Agriculture	-	-	-	-	22,998	-	22,998	-	-	-	22,998
Mining and quarrying	-	-	-	-	5,227	-	5,227	-	-	-	5,227
Electricity, gas and water	-	164,470	-	-	-	-	164,470	-	-	-	164,470
Construction	-	41,559	-	-	-	-	41,559	1,000	-	1,000	42,559
Transport, storage and communications	-	157,910	-	-	-	-	157,910	-	-	-	157,910
Finance, insurance, real estate and business services	10,087	587,784	39,269	44,166	34,174	-	715,481	500	133,211	133,711	849,192
Government and government agencies	203,005	485,452	1,034,123	-	-	-	1,722,580	-	-	-	1,722,580
Household	-	-	-	-	150	-	150	-	-	-	150
Purchase of securities	-	-	-	-	308,114	189,402	497,515	-	-	-	497,515
Others	-	52,605	-	305	-	-	52,910	-	-	-	52,910
	213,092	1,489,780	1,073,392	44,471	370,662	189,402	3,380,799	1,500	133,211	134,711	3,515,510

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

(ii) The table below sets out the breakdown of gross credit exposures by sector as follows:

The Group and the Bank 30 June 2022	Financial assets at fair value through profit or loss RM'000	Financial investments at fair value through other comprehensive income RM'000	Financial investments at amortised cost RM'000	Derivative financial assets RM'000	Loans and advances RM'000	Clients' and brokers' balances RM'000	Total on- balance sheet risk exposures RM'000	Credit- related Exposures RM'000	Derivative Financial Instruments RM'000	Total off- balance sheet credit risk exposures RM'000	Total on and off-balance sheet credit risk exposures RM'000
Agriculture	-	-	-	-	22,963	-	22,963	-	-	-	22,963
Mining and quarrying	-	-	-	-	5,242	-	5,242	-	-	-	5,242
Electricity, gas and water	-	153,646	-	-	-	-	153,646	-	-	-	153,646
Construction	-	36,485	-	-	-	-	36,485	1,000	-	1,000	37,485
Transport, storage and communications	-	143,522	-	-	-	-	143,522	-	-	-	143,522
Finance, insurance, real estate and business services	19,743	456,213	39,033	38,393	36,186	-	589,568	-	110,905	110,905	700,473
Government and government agencies	-	394,164	1,211,409	-	-	-	1,605,574	-	-	-	1,605,574
Household	-	-	-	-	157	-	157	-	-	-	157
Purchase of securities	-	-	-	-	329,172	103,077	432,249	-	-	-	432,249
Others	-	72,610	-	-	-	-	72,610	3,570	-	3,570	76,180
	19,743	1,256,640	1,250,442	38,393	393,720	103,077	3,062,015	4,570	110,905	115,475	3,177,490

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure

(iii) The table below sets out the breakdown of gross credit exposures by residual contractual maturity as follows:

The Group and the Bank 31 December 2022	Up to 1 Year RM'000	1 to 5 Years RM'000	Over 5 Years RM'000	Total RM'000
On-Balance Sheet Exposures				
Financial assets at fair value through profit or loss	4,984	-	208,108	213,092
Financial investments at fair value through other comprehensive income	225,082	1,028,553	236,145	1,489,780
Financial investments at amortised cost	207,505	865,887	-	1,073,392
Derivatives financial assets	17,985	26,485	-	44,470
Loans and advances	331,250	39,114	298	370,662
Clients and brokers balances	189,403	-	-	189,403
Total On-Balance Sheet Exposures	976,209	1,960,039	444,551	3,380,799
Off-Balance Sheet Exposures				
Credit-related Exposures	1,000	500	-	1,500
Derivative Financial Instruments	33,595	99,616	-	133,211
Total Off-Balance Sheet Exposures	34,595	100,116	-	134,711
Total On and Off-Balance Sheet Exposures	1,010,804	2,060,155	444,551	3,515,510

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure

(iii) The table below sets out the breakdown of gross credit exposures by residual contractual maturity as follows:

The Group and the Bank 30 June 2022	Up to 1 Year RM'000	1 to 5 Years RM'000	Over 5 Years RM'000	Total RM'000
On-Balance Sheet Exposures				
Financial assets at fair value through profit or loss	19,743	-	-	19,743
Financial investments at fair value through other comprehensive income	113,016	908,672	234,952	1,256,640
Financial investments at amortised cost	370,844	879,598	-	1,250,442
Derivatives financial assets	9,125	29,268	-	38,393
Loans and advances	352,307	36,047	5,366	393,720
Clients and brokers balances	103,077	-	-	103,077
Total On-Balance Sheet Exposures	968,112	1,853,585	240,318	3,062,015
Off-Balance Sheet Exposures				
Credit-related Exposures	4,570	-	-	4,570
Derivative Financial Instruments	29,164	81,741	-	110,905
Total Off-Balance Sheet Exposures	33,734	81,741	-	115,475
Total On and Off-Balance Sheet Exposures	1,001,846	1,935,326	240,318	3,177,490

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BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans and advances

(i) The table below sets out the breakdown by sector the amount of past due loans and advances, credit impaired loans and advances, expected credit losses (Stage 1, 2 and 3), expected credit losses charges/(write back) and write-offs for Stage 3 during the period as follows:

The Group and the Bank 31 December 2022	Past due loans and advances RM'000	Credit impaired loans and advances RM'000	12-month expected credit losses (Stage 1) RM'000	Lifetime expected credit losses-not credit impaired (Stage 2) RM'000	Lifetime expected credit losses- credit impaired (Stage 3) RM'000	Charges/(write- back) lifetime expected credit losses-credit impaired during the year RM'000	Write offs during the year RM'000
Agriculture	-	-	(10)	-	-	-	-
Electricity, gas and water	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	(24)	-	-	-
Manufacturing	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Finance, insurance, real estate and business services	-	-	(68)	-	-	-	-
Household	-	-	-	-	-	-	-
Purchase of securities	-	-	(192)	-	-	-	-
Transport, storage and communications	-	-	-	-	-	-	-
Wholesale and retail	-	-	-	-	-	-	-
Others	-	125	-	-	-	-	-
Total	-	125	(270)	(24)	-	-	-

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans and advances

- (i) The table below sets out the breakdown by sector the amount of past due loans and advances, impaired loans and advances, individual assessment allowance, collective assessment allowance, charges for individual assessment allowance during the financial year and write-offs during the financial year as follows (continued):

The Group and the Bank 30 June 2022	Past due loans and advances	Credit impaired loans and advances RM'000	12-month expected credit losses (Stage 1) RM'000	Lifetime expected credit losses-not credit impaired (Stage 2) RM'000	Lifetime expected credit losses- credit impaired (Stage 3) RM'000	Charges/(write- back) lifetime expected credit losses-credit impaired during the year RM'000	Write offs during the year RM'000
Agriculture	-	-	(40)	-	-	-	-
Electricity, gas and water	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	(32)	-	-	-
Manufacturing	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Finance, insurance, real estate and business services	-	-	(74)	-	-	-	-
Household	-	-	-	-	-	-	-
Purchase of securities	-	-	(196)	(5)	-	-	-
Transport, storage and communications	-	-	-	-	-	-	-
Wholesale and retail	-	-	-	-	-	-	-
Others	-	128	-	-	-	-	-
Total	-	128	(310)	(37)	-	-	-

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans and advances (continued)

- (ii) The table below sets out the breakdown by sector the amount of past due loans and advances, credit impaired loans and advances, expected credit losses (Stage 1, 2 and 3) during the period as follows:

	Past due loans and advances RM'000	Credit impaired loans and advances RM'000	12-month expected credit losses (Stage 1) RM'000	Lifetime expected credit losses-not credit impaired (Stage 2) RM'000	Lifetime expected credit losses-credit impaired (Stage 3) RM'000
The Group and the Bank 31 December 2022					
Malaysia	-	125	(270)	(24)	-

The table below sets out the breakdown by geographical areas the amount of past due loans and advances, impaired loans and advances, individual assessment allowance and collective assessment allowance as follows:

	Past due loans and advances RM'000	Credit impaired loans and advances RM'000	12-month expected credit losses (Stage 1) RM'000	Lifetime expected credit losses-not credit impaired (Stage 2) RM'000	Lifetime expected credit losses-credit impaired (Stage 3) RM'000
The Group and the Bank 30 June 2022					
Malaysia	-	128	(310)	(37)	-

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BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs")

Under Basel II, credit risk for the Group is computed using the Standardised Approach.

External credit assessments (or external ratings) on the customer (the issuer) or specific securities issued by the issuer (the issue) form as a basis for the determination of risk weights under the Standardised Approach for exposures to sovereigns, central banks, public sector entities, banking institutions, corporates as well as certain other specific portfolios.

The approved External Credit Assessment Institutions ("ECAI") ratings and the prescribed risk weights on the above stated asset classes are used in the computation of regulatory capital. An exposure would be deemed to have an external rating if the issuer or the issue has a rating provided by an ECAI. In cases where an exposure does not have an issuer or issue rating, the exposure shall be deemed unrated and shall be accorded a risk weight appropriate for unrated exposures in their respective exposure category.

The ECAI used by the Group are Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's"), Standard & Poor's ("S&P"), Malaysia Rating Corporation Berhad ("MARC") and Rating Agency Malaysia ("RAM"). ECAI ratings are mapped to a common credit quality grade as prescribed by BNM.

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight

The breakdown of credit risk exposures by risk weight is as follows:

Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Other Assets RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
The Group									
31 December 2022									
0%	1,529,083	297,295	30,167	-	24,740	52,653	105,687	2,039,625	-
20%	-	83,018	232,099	-	546,534	-	5,785	867,436	173,487
50%	-	-	76,807	-	8,357	-	-	85,164	42,582
75%	-	-	-	-	-	26	-	26	20
100%	-	8,217	-	389	97,063	-	34,980	140,649	140,649
150%	-	-	-	-	-	124	-	124	186
Total	1,529,083	388,530	339,073	389	676,694	52,803	146,452	3,133,024	356,924
Risk-Weighted Assets by Exposures	-	24,821	84,824	389	210,547	206	36,137	356,924	
Average Risk Weights	0.0%	6.4%	25.0%	100.0%	31.1%	0.4%	24.7%	11.4%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight (continued)

The breakdown of credit risk exposures by risk weight is as follows:

Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Other Assets RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
The Group 30 June 2022									
0%	1,575,029	276,723	19,559	-	24,574	60,907	20,988	1,977,780	-
20%	-	77,628	456,378	-	444,218	-	5,231	983,455	196,691
50%	-	-	68,750	-	8,689	-	-	77,439	38,720
75%	-	-	-	-	-	30	-	30	23
100%	-	8,523	-	3,470	100,902	-	47,655	160,550	160,550
150%	-	-	-	-	-	127	-	127	191
Total	1,575,029	362,874	544,687	3,470	578,383	61,064	73,874	3,199,381	396,174
Risk-Weighted Assets by Exposures	-	24,049	125,651	3,470	194,089	214	48,701	396,174	
Average Risk Weights	0.0%	6.6%	23.1%	100.0%	33.6%	0.4%	65.9%	12.4%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight

The breakdown of credit risk exposures by risk weight is as follows:

Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Other Assets RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
The Bank									
31 December 2022									
0%	1,529,083	297,295	30,167	-	24,740	52,653	105,687	2,039,625	-
20%	-	83,012	231,876	-	546,534	-	5,785	867,207	173,441
50%	-	-	76,807	-	8,357	-	-	85,164	42,582
75%	-	-	-	-	-	26	-	26	20
100%	-	8,217	-	389	97,063	-	34,977	140,646	140,646
150%	-	-	-	-	-	124	-	124	186
Total	1,529,083	388,524	338,850	389	676,694	52,803	146,449	3,132,792	356,875
Risk-Weighted Assets by Exposures	-	24,819	84,779	389	210,547	206	36,134	356,874	
Average Risk Weights	0.0%	6.4%	25.0%	100.0%	31.1%	0.4%	24.7%	11.4%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight

The breakdown of credit risk exposures by risk weight is as follows:

Risk Weights	Sovereigns/ Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Other Assets RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk- Weighted Assets RM'000
The Bank									
30 June 2022									
0%	1,575,029	276,723	19,559	-	24,574	60,906	20,988	1,977,779	-
20%	-	77,614	456,190	-	444,219	-	5,231	983,254	196,651
50%	-	-	68,750	-	8,689	-	-	77,439	38,720
75%	-	-	-	-	-	30	-	30	23
100%	-	8,523	-	3,470	100,902	-	47,642	160,537	160,537
150%	-	-	-	-	-	127	-	127	191
Total	1,575,029	362,860	544,499	3,470	578,384	61,063	73,861	3,199,166	396,120
Risk-Weighted Assets by Exposures	-	24,046	125,613	3,470	194,089	214	48,688	396,120	
Average Risk Weights	0.0%	6.6%	23.1%	100.0%	33.6%	0.4%	65.9%	12.4%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs")

The following tables summarise the rated exposures according to ratings ECAIs as follows:

(i) Ratings of Public Sector Entities, Insurance Cos, Securities Firms & Fund Managers and Corporate by Approved ECAIs

	Moodys S&P Fitch RAM MARC Rating & Investment Inc	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A+ to A- A1 to A3 A+ to A-	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 BBB+ to BB-	B1 to C B+ to D B+ to D B to D B+ to D	Unrated Unrated Unrated Unrated Unrated
The Group and the Bank		AAA to AA- RM'000	A+ to A- RM'000	BBB+ to BB- RM'000	B+ to D RM'000	Unrated RM'000
31 December 2022						
On and Off-Balance Sheet Exposures						
Public Sector Entities		83,012	-	8,217	-	297,300
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	389
Corporates		546,534	8,357	-	-	117,767
		<u>629,546</u>	<u>8,357</u>	<u>8,217</u>	<u>-</u>	<u>415,456</u>
30 June 2022						
On and Off-Balance Sheet Exposures						
Public Sector Entities		77,614	-	8,523	-	276,738
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	3,470
Corporates		444,219	8,689	-	-	122,329
		<u>521,833</u>	<u>8,689</u>	<u>8,523</u>	<u>-</u>	<u>402,537</u>

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs") (continued)

(ii) Short term Ratings of Banking Institutions and Corporate by Approved ECAIs

	Moodys S&P Fitch RAM MARC Rating & Investment Inc	P-1 A-1 F1+, F1 P-1 MARC-1	P-2 A-2 F2 P-2 MARC-2	P-3 A-3 F3 P-3 MARC-3	Others Others B to D NP MARC-4	Unrated Unrated Unrated Unrated
The Group and the Bank		a-1+, a-1 RM'000	a-2 RM'000	a-3 RM'000	b, c RM'000	Unrated RM'000
31 December 2022						
On and Off-Balance Sheet Exposures						
Banks, MDBs and FDIs		95,036	-	-	-	30,167
Corporates		-	-	-	-	49,551
		<u>95,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,718</u>
30 June 2022						
On and Off-Balance Sheet Exposures						
Banks, MDBs and FDIs		125,664	-	-	-	19,559
Corporates		-	-	-	-	46,625
		<u>125,664</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,184</u>

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs") (continued)

(iii) 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
	Rating &						
The Group and the Bank	Investment Inc	AAA to AA- RM'000	A+ to A- RM'000	BBB+ to BBB- RM'000	BB+ to B- RM'000	CCC+ to C RM'000	Unrated RM'000
31 December 2022							
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks		-	-	-	-	-	1,529,083
30 June 2022							
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks		-	-	-	-	-	1,575,029

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs") (continued)

(iv) 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	BBB+ 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
	Rating &						
The Group and the Bank	Investment Inc	AAA to AA- RM'000	A+ to A- RM'000	BBB+ to BBB- RM'000	BB+ to B- RM'000	CCC+ to C RM'000	Unrated RM'000
31 December 2022							
On and Off-Balance Sheet Exposures							
Banks, MDBs and FDIs		134,753	42,355	14,487	-	-	22,275
30 June 2022							
On and Off-Balance Sheet Exposures							
Banks, MDBs and FDIs		328,916	43,437	14,759	-	-	12,352

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit Risk Mitigation ("CRM")

The Group's and the Bank's credit principle is principally granting credit facilities on the basis of the borrower's credit standing, repayment and debt servicing ability. Where possible, collateral is taken to mitigate and reduce any credit risk for the particular credit facility extended. The value of the collateral is monitored periodically and where applicable, a revised valuation may be requested from the borrower. The main types of collateral accepted are cash, marketable securities and securities from listed exchange. There are policies and processes in place to monitor collateral concentration. For credit risk mitigation ("CRM") purposes, only collateral or guarantees that are legally enforceable are taken into account. The credit exposures are computed on a net basis only when there is a legally enforceable netting arrangements for loans and deposits. The Group and the Bank use the Comprehensive Approach for computation of the adjusted exposures.

The following tables present the credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach for the Group. Eligible financial collateral consists primarily of securities from listed exchange. The Group does not have any credit exposure which is reduced through the application of other eligible collateral.

	31 December 2022		30 June 2022	
	Exposures before CRM RM'000	Exposures covered by eligible financial collateral RM'000	Exposures before CRM RM'000	Exposures covered by eligible financial collateral RM'000
The Group				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,529,083	-	1,575,029	-
Public Sector Entities	388,530	-	362,874	-
Banks, DFIs and MDBs	206,317	-	437,324	-
Corporates	720,642	45,514	617,219	43,477
Regulatory Retail	315,594	262,791	346,958	285,895
Other Assets	146,452	-	73,874	-
Total On-Balance Sheet Exposures	3,306,618	308,305	3,413,278	329,372
Off-Balance Sheet Exposures				
Credit-related Exposures	1,500	-	4,570	-
Derivative Financial Instruments	133,211	-	110,905	-
Total Off-Balance Sheet Exposures	134,711	-	115,475	-
Total On and Off-Balance Sheet Exposures	3,441,329	308,305	3,528,753	329,372

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit Risk Mitigation (continued)

The following tables present the credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach for the Group. Eligible financial collateral consists primarily of securities from listed exchange. The Group does not have any credit exposure which is reduced through the application of other eligible collateral.

	31 December 2022		30 June 2022	
	Exposures before CRM RM'000	Exposures covered by eligible financial collateral RM'000	Exposures before CRM RM'000	Exposures covered by eligible financial collateral RM'000
The Bank				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	1,529,083	-	1,575,029	-
Public Sector Entities	388,524	-	362,860	-
Banks, DFIs and MDBs	206,094	-	437,136	-
Corporates	720,642	45,514	617,219	43,477
Regulatory Retail	315,594	262,791	346,958	285,895
Other Assets	146,449	-	73,861	-
Total On-Balance Sheet Exposures	3,306,386	308,305	3,413,063	329,372
Off-Balance Sheet Exposures				
Credit-related Exposures	1,500	-	4,570	-
Derivative Financial Instruments	133,211	-	110,905	-
Total Off-Balance Sheet Exposures	134,711	-	115,475	-
Total On and Off-Balance Sheet Exposures	3,441,097	308,305	3,528,538	329,372

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Off-Balance Sheet exposures and counterparty credit risk

Credit limits are established to ensure that the Group and the Bank are not duly exposed to unnecessary credit risk with parties who are unable to meet or honour their financial obligations with the Group and the Bank.

The counterparty limits for the Group and the Bank are established by taking into consideration the tenor of the obligation, rating assignment of the counterparty, counterparty's shareholder's funds, the Group's and the Bank's shareholder's funds.

The credit exposure limit for derivative transactions is calculated based on the standardised approach by applying a specific percentage of risk factor i.e. the potential loss of the contract value to the counterparty limit for the Group and the Bank, which in general is a fraction of the derivative contract or notional amount used to express the volume of instruments.

Nature of commitments and contingencies

Obligations under underwriting agreements arise from underwriting agreements relating to the issuance of equity and debts securities, where the Group and the Bank are obliged to subscribe for or purchase the securities in the event the securities are not taken up when issued.

Irrevocable commitments to extend credit include all obligations on the part of the Group and the Bank to provide funding facilities or the undrawn portion of an approved credit facilities to customers.

Forward foreign exchange contracts are agreements to buy or sell fixed amounts of currency at agreed rates of exchange on a specified future date.

Interest rate swaps involve the exchange of interest obligations with a counterparty for a specified period without the exchange of the underlying principal.

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Off-Balance Sheet exposures and counterparty credit risk (continued)

The off-balance sheet exposures and their related counterparty credit risk of the Group and the Bank are as follows:

The Group and the Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
31 December 2022				
Derivative financial instruments				
Interest rate related contracts:				
- One year or less	1,110,030	4,073	5,636	1,151
- Over one year to five years	2,894,000	26,439	99,550	27,191
Foreign exchange related contracts				
- One year or less	1,580,926	13,607	27,959	6,101
Equity related contracts:				
- One year or less	37,978	305	-	-
- Over one year to five years	200	46	66	66
	5,623,134	44,470	133,211	34,509
Commitments				
Direct Credit Substitutes	1,000	-	1,000	1,000
Obligations under underwriting agreement	-	-	-	-
Other commitments, such as formal standby facilities and credit lines				
- maturity less than one year	-	-	-	-
- maturity more than one year	1,000	-	500	500
Any commitment that are unconditionally cancelled at any time by the Bank without prior notice				
- maturity less than one year	909,547	-	-	-
Lending of banking institutions' securities or the posting of securities as collateral by bank				
	-	-	-	-
	911,547	-	1,500	1,500
Total Off-Balance Sheet Exposures	6,534,681	44,470	134,711	36,009

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Off-Balance Sheet exposures and counterparty credit risk (continued)

The off-balance sheet exposures and their related counterparty credit risk of the Group and the Bank are as follows (continued):

The Group and the Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
30 June 2022				
Derivative financial instruments				
Interest rate related contracts:				
- One year or less	1,019,897	2,946	4,404	1,062
- Over one year to five years	2,433,000	29,217	81,670	20,477
Foreign exchange related contracts				
- One year or less	1,516,655	6,180	24,759	8,124
Equity related contracts:				
- One year or less	-	-	-	-
- Over one year to five years	200	50	72	72
	<u>4,969,752</u>	<u>38,393</u>	<u>110,905</u>	<u>29,735</u>
Commitments				
Direct Credit Substitutes	1,000	-	1,000	1,000
Obligations under underwriting agreement	7,140	-	3,570	3,570
Other commitments, such as formal standby facilities and credit lines				
- maturity less than one year	-	-	-	-
- maturity more than one year	-	-	-	-
Any commitment that are unconditionally cancelled at any time by the Bank without prior notice				
- maturity less than one year	919,747	-	-	-
Lending of banking institutions' securities or the posting of securities as collateral by bank				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>927,887</u>	<u>-</u>	<u>4,570</u>	<u>4,570</u>
Total Off-Balance Sheet Exposures	<u>5,897,639</u>	<u>38,393</u>	<u>115,475</u>	<u>34,305</u>

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(B) Market risk

Market risk is defined as the risk of potential losses in earnings arising from changes in interest rates, foreign exchange rates, credit spreads, equity prices and commodity prices. This change can affect the value of financial instruments and may also affect proprietary trading revenues.

The main objectives of Market Risk Management is to ensure that losses from market risk can be promptly addressed without incurring a potential loss that is beyond the Group's and the Bank risk appetite.

Management of market risk

The ALMCO is the management level committee which supports the BARMC in the oversight of market and liquidity risk. The ALMCO is chaired by the Chief Executive Officer ("CEO") and includes senior representatives from both business and support units. It is primarily responsible for the development, implementation and review of frameworks, broad strategies and policies for managing the Group's and the Bank's balance sheet, funding management, market risk and liquidity risk.

The Risk Management Department is responsible for the development, implementation and maintenance of consistent policies and methodologies to identify, measure, monitor, control and report market risk and liquidity risk.

Market risk is inherent in the ordinary course of the Group's and the Bank's business and is prevalent especially in treasury activities of the Group and the Bank. The Group and the Bank broadly classify their financial assets at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments at amortised cost. The major differences between the classifications are the accounting treatment and intention of acquiring the financial instruments.

Market Risk Management Process

(i) Identification

- Identify market risks within existing and new products.
- Review market-related information e.g. market trends, economic data.

(ii) Assessment/Measurement

- Sensitivity.
- Value-at-Risk.
- Stress test.

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(B) Market risk (continued)

Market Risk Management Process (continued)

(iii) Control/Mitigation

- Establish market risk limits.
- Limits are set with reference to business profitability, budgets and aligned with the risk appetite approved by the Board.

(iv) Monitoring/Review

- Monitoring of limits.
- Periodical review and reporting.

Regulatory Capital Requirements

The following tables present the minimum regulatory capital requirement on market risk.

The Group	Long Position RM'000	Short Position RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
31 December 2022				
Interest Rate Risk	6,080,898	5,846,550	151,297	12,104
Equity Risk	3,743	-	26,942	2,155
Foreign Currency Risk	7,261	1,102	7,261	581
Option Risk	200	-	57	5
	6,092,102	5,847,652	185,557	14,845
30 June 2022				
Interest Rate Risk	5,194,789	5,161,527	196,204	15,696
Equity Risk	3,606	-	7,803	624
Foreign Currency Risk	3,631	3,123	3,631	290
Option Risk	200	-	9,884	791
	5,202,226	5,164,650	217,522	17,403

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(B) Market risk (continued)

Regulatory Capital Requirements (continued)

The Bank	Long Position RM'000	Short Position RM'000	Risk- Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
31 December 2022				
Interest Rate Risk	6,080,898	5,846,550	151,297	12,104
Equity Risk	3,542	-	26,540	2,123
Foreign Currency Risk	7,261	1,102	7,261	581
Option Risk	200	-	57	5
	6,091,901	5,847,652	185,155	14,813
30 June 2022				
Interest Rate Risk	5,194,789	5,161,527	196,204	15,696
Equity Risk	3,407	-	7,404	592
Foreign Currency Risk	3,631	3,123	3,631	290
Option Risk	200	-	9,884	791
	5,202,027	5,164,650	217,123	17,370

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

4. RISK MANAGEMENT (CONTINUED)

(C) Operational risk

Operational risk is 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 risks.

An Operational Risk Management Framework, approved by the HLIBB's Board, has been implemented across the Group to all business and support units. The Framework consists of operational risk's tools including loss event data reporting, control self-assessment and key risk indicators, to assist these units to identify, assess, monitor and control their operational risks. The information is channeled to the Risk Management Department to facilitate risk analysis, monitoring and reporting.

Related policies and procedures are in place to provide guidance to risk taking units in the areas of developing new products and services and outsourcing of operational functions.

A Business Continuity Framework has been developed to ensure business sustainability in event of business disruptions.

The Risk Management Department oversees the Group's operational risk management infrastructure, including the Framework, policies, processes, information, methodologies and systems. The Risk Management Department performs regular reviews of the operational risk profiles of the Group, and recommends related operational risk policies to be endorsed and approved at management and Board level.

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

5. EQUITY EXPOSURES IN BANKING BOOK

The Group's and the Bank's banking book's equity investments consist of equity holdings in organisations which are set up for specific socio-economic reasons (i.e. equity interest in Cagamas, MEPS, RAM, IBBM and CGC) and equity holdings and equity instruments received as a result of loan/financing restructuring or loan/financing conversion.

The Group's and the Bank's banking book's equity investments are classified and measured in accordance with MFRS 9 and are categorised as financial investments at fair value through other comprehensive income. Refer to Note 2D to the Audited Financial Statements for financial year ended 30 June 2022 for the accounting policies of the Group and the Bank.

The following table summarises the Group and the Bank's equity exposures in the banking book.

	31 December 2022	
The Group and the Bank	Exposures subject to risk- weighting RM'000	Risk weights %
<u>Financial investments at fair value through other comprehensive income</u>		
Unquoted equity securities	-	100
	<hr/>	
	30 June 2022	
The Group and the Bank	Exposures subject to risk- weighting RM'000	Risk weights %
<u>Financial investments at fair value through other comprehensive income</u>		
Unquoted equity securities	-	100
	<hr/>	

Gain and Loss on Equity Exposures in Banking Book

The tables below present the gains and losses on equity exposure in the banking book.

	31 December 2022	30 June 2022
	RM'000	RM'000
Realised gains/losses recognised in the income statements	-	-
	<hr/>	
Unrealised gain recognised in revaluation reserve - Unquoted equity securities	-	-
	<hr/>	

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022

6. INTEREST RATE RISK/RATE OF RETURN RISK IN BANKING BOOK

To evaluate the potential impact of interest/profit rate risk in the Banking Book, the Group and the Bank consider the effect on their underlying economic value.

The economic perspective provides a measurement of the underlying value of the Group's and the Bank's current position and seeks to evaluate the sensitivity of that value to changes in interest/profit rates. This perspective will allow the Group and the Bank to evaluate the changes in economic value of assets, liabilities, and off-balance sheet instruments against the movement in interest/profit rate. The economic values of these instruments are equivalent to the instruments' present value of future cash flows.

By analyzing the impact of interest/profit rate changes on the value of all future cash flows, the economic perspective can provide a more comprehensive measurement of interest/profit rate risk. The future cash flow projections used to estimate the economic exposure provides a pro forma estimate of the future income generated by its current position. In general, the measurement of present value of the instrument will be able to give an overview of the Group's and the Bank's economic value of equity ("EVE") over a longer time period.

The increase or decline in economic value for upward and downward rate shocks which are consistent with shocks applied in the Group's and the Bank's stress test for measuring IRR/RORBB in the banking book are as follows:

The following tables present the projected Group's sensitivity to a 100 basis point parallel shock to interest rates across all maturities applied on the Group's interest sensitivity gap as at reporting date.

Type of currency	Impact on Position as at 31 December 2022		Impact on Position as at 30 June 2022	
	- 100 bps Increase/(Decrease) in Economic Value RM'000	+ 100 bps Increase/(Decrease) in Economic Value RM'000	- 100 bps Increase/(Decrease) in Economic Value RM'000	+ 100 bps Increase/(Decrease) in Economic Value RM'000
Ringgit Malaysia	56,998	(56,998)	59,677	(59,677)
US Dollar	1,217	(1,217)	1,766	(1,766)
Others	-	-	(4)	4
	58,215	(58,215)	61,439	(61,439)