

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

2582A0/nor

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

## **1 OVERVIEW**

The Pillar 3 Disclosures is governed under the Bank Negara Malaysia (“BNM”)’s revised Risk-Weighted Capital Adequacy Framework (“RWCAF”) – Pillar 3, which aims to enhance transparency of financial institution activities and risks by setting minimum disclosure standards on risk exposures, risk management practices and capital adequacy.

## **2 SCOPE OF APPLICATION**

The Pillar 3 Disclosures attached herewith relates to J.P. Morgan Chase Bank Berhad (“the Bank”) only.

The capital adequacy ratios of the Bank are computed in accordance with BNM’s revised RWCAF – Basel II. The Bank has adopted the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operational risk.

During the financial year, the Bank did not experience any restrictions or impediments in the transfer of funds or regulatory capital and did not report any capital deficiencies.

## **3 CAPITAL STRUCTURE AND ADEQUACY**

The Bank aims to maintain appropriate capital levels relative to regulatory minimum requirements and to maintain an adequate buffer to accommodate future business growth plans. The capital adequacy position, together with the results of the stress testing on material risks, are reviewed on a monthly basis and tabled to the Risk/Asset & Liability Committee for deliberation.

The Bank’s regulatory capital is determined under BNM’s revised RWCAF – Basel II and the capital adequacy ratios were higher than BNM’s minimum requirements.

The following table presents the capital adequacy ratio and risk-weighted assets as at 31 December 2019.

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)**

The capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework: Standardised Approach for Credit and Market Risk, and Basic Indicator Approach for Operational Risk (Basel II).

The capital adequacy ratios of the Bank are as follows:

	<u>31.12.2019</u> RM'000	<u>31.12.2018</u> RM'000
<u>Tier-I capital</u>		
Paid-up share capital	437,500	127,500
Retained earnings	1,089,820	959,653
Fair value reserve through other comprehensive income	101	133
Option reserve	11,953	11,953
	<u>1,539,374</u>	<u>1,099,239</u>
Deferred tax assets	(3,051)	(3,120)
Financial Assets at fair value through other comprehensive income	(56)	(73)
Total Tier I capital	<u>1,536,267</u>	<u>1,096,046</u>
<u>Tier-II capital</u>		
Regulatory reserve	5,105	14,206
ECL not credit impaired	780	181
Total Tier II capital	<u>5,885</u>	<u>14,387</u>
Total capital	<u>1,542,152</u>	<u>1,110,433</u>
Common Equity Tier 1 capital ratio	35.328%	23.174%
Tier 1 capital ratio	35.328%	23.174%
Total capital ratio	<u>35.464%</u>	<u>23.478%</u>

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)**

Total risk weighted assets and capital requirements as at 31 December 2019:

<u>Exposure Class</u>	<u>Gross exposures</u> RM'000	<u>Net exposures</u> RM'000	<u>Risk weighted assets</u> RM'000	<u>Capital requirements</u> RM'000
(a) <u>Credit Risk</u>				
On-balance sheet exposures				
Sovereigns/central banks	5,781,829	5,781,829	81,863	6,549
Banks	1,862,069	1,862,069	372,550	29,804
Insurance companies, securities firms and fund managers	259,050	259,050	129,829	10,386
Corporates	264,944	264,944	264,944	21,196
Residential mortgages	1,054	1,054	369	30
Higher risk assets	4	4	6	1
Other assets	32,520	32,520	32,009	2,561
Defaulted exposures	68	68	34	3
<b>Total on-balance sheet exposures</b>	<b>8,201,538</b>	<b>8,201,538</b>	<b>881,604</b>	<b>70,530</b>
Off-balance sheet exposures				
Over-the-counter ('OTC') derivatives	2,568,067	2,568,067	932,265	74,581
Off balance sheet exposures other than OTC derivatives	303,351	303,351	275,386	22,031
<b>Total off-balance sheet exposures</b>	<b>2,871,418</b>	<b>2,871,418</b>	<b>1,207,651</b>	<b>96,612</b>
<b>Total on and off-balance sheet exposures</b>	<b>11,072,956</b>	<b>11,072,956</b>	<b>2,089,255</b>	<b>167,142</b>
	<u>Long position</u>	<u>Short position</u>		
(b) <u>Market risk</u>				
Interest rate risk	112,328,805	111,562,393	1,468,018	117,442
Foreign currency risk	9,786	-	9,786	783
Options risk			263,112	21,049
(c) <u>Operational risk</u>			518,381	41,470
<b>Total risk weighted assets and capital requirements</b>			<b>4,348,552</b>	<b>347,886</b>

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**3 CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)**

Total risk weighted assets and capital requirements as at 31 December 2018:

<u>Exposure Class</u>	<u>Gross exposures</u> RM'000	<u>Net exposures</u> RM'000	<u>Risk weighted assets</u> RM'000	<u>Capital requirements</u> RM'000
(a) <u>Credit Risk</u>				
On-balance sheet exposures				
Sovereigns/central banks	6,054,980	6,054,980	248,235	19,859
Public Sector Entities	158	158	32	3
Banks	261,662	261,662	52,345	4,188
Insurance companies, securities firms and fund managers	298,911	298,911	149,870	11,990
Corporates	354,525	354,525	353,312	28,265
Residential mortgages	1,182	1,182	414	33
Higher risk assets	4	4	6	1
Other assets	24,748	24,748	24,594	1,967
Defaulted exposures	43	43	21	2
Total on-balance sheet exposures	<u>6,996,213</u>	<u>6,996,213</u>	<u>828,829</u>	<u>66,308</u>
Off-balance sheet exposures				
Over-the-counter ('OTC') derivatives	2,498,437	2,498,437	951,363	76,108
Off balance sheet exposures other than OTC derivatives	600,948	600,948	584,962	46,796
Total off-balance sheet exposures	<u>3,099,385</u>	<u>3,099,385</u>	<u>1,536,325</u>	<u>122,904</u>
Total on and off-balance sheet exposures	<u>10,095,598</u>	<u>10,095,598</u>	<u>2,365,154</u>	<u>189,212</u>
	<u>Long position</u>	<u>Short position</u>		
(b) <u>Market risk</u>				
Interest rate risk	92,387,526	90,369,435	1,446,957	115,756
Equity position risk	15,909	-	6,363	509
Foreign currency risk	1,533	90,754	90,750	7,260
Options risk			357,613	28,609
(c) <u>Operational risk</u>			<u>462,880</u>	<u>37,030</u>
Total risk weighted assets and capital requirements			<u>4,729,717</u>	<u>378,376</u>

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 4 RISK MANAGEMENT

### Risk Management Framework

Risk is an inherent part of JPMorgan Chase & Co. (“JPMC”)’s business activities and the overall risk tolerance is established in the context of the earnings power, capital, and diversified business model. JPMC and the Bank’s risk management framework and governance structure are intended to provide comprehensive controls and an ongoing management of the major risks inherent in its business activities. It is also intended to create a culture of risk awareness and personal responsibility throughout Bank. The Bank’s ability to properly identify, to measure, to monitor and to report risk is critical to both its soundness and profitability.

### Risk Governance

The Board of Directors (“BOD”) is ultimately responsible for the operations, conduct and the financial soundness of the Bank through competent management, reviewing and monitoring the objectives, strategies and business plans of the Bank, ensuring that proper controls are in place and that the business of the Bank is carried out with a high standard of integrity.

The Board Risk Committee (“BRC”) is responsible for oversight of the management’s responsibility to assess and manage the Bank’s credit risk, market risk, interest rate risk, liquidity risk, operational risk, strategic risk and reputation risk. The Risk/Asset & Liability Committee (“RALCO”) is delegated by the BOD to be responsible for the overall risk management for the Bank.

The RALCO’s responsibilities include establishing, reviewing, monitoring and implementing policies and procedures and limits with regard to market risk, liquidity risk, credit risk, and generally the management of risk relating to the Bank. The RALCO also ensures a consistent approach to risk management and ensures appropriate procedures exist for the identification of risks and that suitable mechanisms exist to ensure risks are controlled and reported to management, BRC and BOD on a timely basis.

At management level, the Location Management Committee (“LMC”) has primary responsibility for corporate governance as well as to provide management oversight for the various businesses, from a performance, operational as well as control perspective.

The Audit Committee, supported by the Internal Audit Department, is responsible for oversight of guidelines and policies that govern the process by which risk assessment and management is undertaken. In addition, the Audit Committee reviews with management the system of internal controls and financial reporting that is relied upon to provide reasonable assurance of compliance with the Bank’s operational risk management processes.

### Risk Measurement

The Bank measures risk using a variety of methodologies, including calculating probable loss, unexpected loss and value-at-risk, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely reviewed with the goal of ensuring that the Bank’s risk estimates are reasonable and reflect underlying positions.

### Risk Reporting and Monitoring

Risk reporting and monitoring is executed on both a line of business and a consolidated basis. This information is reported to management on a regular basis. RALCO reviews and monitors any significant risk issues and reports to the BRC.

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 5 CREDIT RISK

### Expected credit loss measurement

#### Approach to measuring expected credit losses

The Bank estimates credit impairment through an allowance for expected credit losses ("ECLs"). ECLs are recognised for financial assets that are measured at amortised cost or fair value through other comprehensive income (FVOCI) and for specified lending-related commitments, such as loan commitments and financial guarantee contracts. The measurement of ECLs must reflect:

- (a) An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes
- (b) The time value of money; and
- (c) Reasonable and supportable information about past events, current economic conditions, and forecasts of future economic conditions.

The measurement of ECL also reflects how the Bank manages the financial instruments it uses for credit risk purposes such as Traditional Credit Products ("TCP"), debt securities measured at FVOCI, and non-traditional credit products ("Non-TCP"). TCP are wholesale loans and lending-related commitments from extensions of credit to borrowers; debt securities which are debt instruments such as government bonds; whereas Non-TCP are all other debt financial assets measured at amortised cost which include, but are not limited to, reverse repurchase agreements, margin loans, fee receivables, and inter-company receivables or loans.

The Bank uses statistical models to estimate ECLs for TCP on a collective basis; however ECL for credit-impaired instruments is estimated on an individual borrower basis. When determining how exposures should be grouped for collective assessment, the Bank considers many factors including, but not limited to, internal credit risk ratings, tenor, borrower geography and industry. The Bank's internal risk ratings generally correspond to the ratings as defined by Standard & Poor's ("S&P") and Moody's Investors Service. For Non-TCPs, the Bank utilises a combination of an established provision matrix, as well as quantitative and qualitative considerations to estimate ECLs.

#### Impact of staging on measuring expected credit losses

ECLs are measured using a three stage model based on changes in credit quality of the financial instrument since it was initially recognised ("initial recognition"):

- Stage 1 – performing financial instruments that have not had a significant increase in credit risk since initial recognition;
- Stage 2 – performing financial instruments that have experienced a significant increase in credit risk; and
- Stage 3 – non-performing financial instruments that have been determined to be credit-impaired.

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 5 CREDIT RISK (CONTINUED)

### Expected credit loss measurement (continued)

#### ***Stage 1 - Unimpaired and without significant increase in credit risk***

Financial instruments that have not had a SICR since initial recognition are included in Stage 1 unless they are purchased or originated credit impaired (“POCI”). For Stage 1 instruments, ECL is calculated by considering the probability of default within 12 months after the reporting date on a collective basis and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for the credit loss allowance).

#### ECL measurement for TCP Portfolios

##### *Key Inputs*

In broad terms, ECLs for the Bank’s TCP portfolios are generally calculated based on the following key inputs:

- Probability of Default (“PD”): The PD model estimates the probability of downgrade and default each quarter. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The model considers input variables that are region-, industry- and borrower segment-specific and considers both scenario- and borrower-specific information. PDs are determined at a facility-level based on risk ratings and other characteristics.
- Exposure at Default (“EAD”): The EAD model predicts gross exposure upon a borrower’s default as a percentage of the total commitment at the reporting date under a given macroeconomic environment. The model estimates the probability of a change in the utilisation, and direction and magnitude of the change. Input variables include exposure and utilization at the reporting date, facility purpose, industry and macro-economic variables (“MEVs”).
- Loss Given Default (“LGD”): The LGD model estimates expected losses under given macroeconomic environments on the EAD given the event of default and, taking into account, among other attributes, the mitigating effect of collateral and the time value of money.

The 12-month ECL is calculated by multiplying the 12-month PD, EAD and LGD. Lifetime ECL is calculated using the lifetime PD instead.

##### *Forward-looking information*

ECL estimates are derived from historical experience and future forecasted economic conditions. To incorporate forward-looking information into the ECL calculation, three forecasted economic scenarios (base, upside and downside cases are developed). Each of these scenarios contain a set of MEVs that reflect forward-looking economic and financial conditions. MEVs include, but are not limited to FX rates, inflation and GDP per country or country block. MEVs for each scenario are projected over a reasonable and supportable forecast period of two years. After the forecast period, the losses revert to historical averages over a one-year transition period.



Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 5 CREDIT RISK (CONTINUED)

### Expected credit loss measurement (continued)

#### ***Stage 1 - Unimpaired and without significant increase in credit risk (continued)***

##### *Forward-looking information (continued)*

On a quarterly basis, the three economic scenarios are updated and probability weighted. Judgement is involved to develop the scenarios and assign probability weightings. The most likely economic scenario in management's view is the base case which would generally be expected to be weighted more heavily than the other two scenarios.

The PD, LGD and EAD models are designed to forecast the credit quality and performance of a TCP portfolio based on industry, geography, rating and size of obligors, among other attributes of the portfolio. PD, LGD and EAD models are calibrated based on historical MEVs and use forecasted macroeconomic scenarios for projecting PD, LGD and EAD values.

##### *ECL calculation*

ECL calculation is based on the forward-looking PD, LGD, and EAD values for each of the scenarios to produce the scenario credit losses ("SCLs"). The modelled ECL estimate is a probability-weighted calculation of the three SCLs discounted using the original effective interest rate or an approximation thereof.

The modelled ECL results are reviewed by management and adjustments ('management overlays') are considered to ensure final results reflect the Bank's best estimate of ECLs on its exposures. Management overlays are only applied if necessary to account for significant idiosyncratic risks which are not yet reflected in underlying risk ratings, LGD, exposure profile or scenario weights used and which are expected to have a high probability of occurrence.

The Bank follows the policies and practices established by JPMC's Credit Risk Policy Group and BNM's Best Practices for the Management of Credit Risk and the Assessment of the Allowance for Credit Losses, to preserve the independence and integrity of the approval and decision-making process.

For Multinational Corporations ('MNC') exposures which are not supported by legally enforceable guarantee, management makes judgement based of local standalone risk grading for ECL measurement.

There have not been any significant changes in estimation techniques or assumptions made during the reporting period.

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 5 CREDIT RISK (CONTINUED)

### Expected credit loss measurement (continued)

#### *Stage 2 - Significant increase in credit risk*

Financial instruments that have experienced a significant increase in credit risk ("SICR") since initial recognition for which there is no objective evidence of impairment are included in Stage 2. For Stage 2 instruments, ECL is calculated considering the probability of default over the remaining life of the instrument on a collective basis and interest revenue is calculated on the gross carrying amount of the asset (that is, without deduction for the credit loss allowance).

The Bank assesses for evidence of a SICR by considering whether there has been a change in the risk of a default occurring since the financial instrument was initially recognised.

For TCP, the Bank considers a financial instrument to have experienced a SICR when any of the following quantitative or qualitative criteria have been met:

- Quantitative criteria

The Bank determines whether the probability of a default ("PD") occurring has changed between a financial instruments initial recognition and the reporting date. If the change in PD exceeds certain relative and absolute thresholds, the instrument has experienced a SICR. The assessment of the PD takes into account reasonable and supportable information, including information about past events, current and future economic conditions.

- Qualitative criteria

The Bank monitors borrowers that may become impaired by including them on its watch list. Obligors that are on the watch list are considered to have experienced a SICR. The Bank also monitors changes in internal credit risk ratings and delinquency triggers to determine if a borrower has experienced a SICR.

The Bank's TCP portfolio is mostly comprised of large, international, wholesale borrowers. For these borrowers, short-term delinquencies alone are not considered to be a meaningful credit quality indicator as the Bank's experience has shown that other internal credit quality indicators generally identifies increases in credit risk well before delinquency. As such, the Bank has determined that using the quantitative and qualitative criteria described above are most appropriate for capturing SICR for TCP.

Financial instruments that are in Stage 2 are moved to Stage 1 as described below in the period that the quantitative and qualitative criteria for a SICR no longer exist.

The approach for determining whether there has been a SICR for Non-TCP portfolios depends on the type of instrument. The Bank presumes non-TCP financial assets that are 30 days past due have experienced a SICR and are included in Stage 2 except for certain fee receivables that are classified in Stage 2 at 90 days past due. Finally, the remainder of the Bank's Non-TCP are mostly short-term and generally no SICR has arisen prior to the maturity of that instrument.

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 5 CREDIT RISK (CONTINUED)

### Expected credit loss measurement (continued)

#### Stage 3 portfolio estimation techniques

The Bank also uses three scenarios to estimate ECL for Stage 3 loans. However, these scenarios focus on the microeconomic conditions applicable to a specific borrower as those considered the most relevant in predicting losses for that borrower are applied. The borrower may be experiencing a variety of specific difficulties, and no one macroeconomic theme can be applied to the total impaired loan portfolio.

#### ECL measurement for Non-TCP portfolio

The Bank's approach to measuring ECLs for Non-TCP portfolios depends on the type of instrument.

##### *Fee receivables*

For fee receivables arising from contracts with customers (e.g. brokerage fee receivables), the Bank applies a provision matrix as a practical expedient for calculating expected credit losses. The matrix provides that in the case of institutional customers, a receivable is considered to have had a SICR (i.e. Stage 2) if it is 90 days past due and credit-impaired (i.e. Stage 3) if it is 180 days past due at which point an ECL for 100% of the amount owned is recognised. In the case of non-institutional customers, a receivable is considered to have had a SICR (i.e. Stage 2) if it is 30 days past due and credit-impaired (i.e. Stage 3) if it is 90 days past due at which point an ECL for 100% of the amount owned is recognised. The Bank has not had significant losses on its fee receivable portfolios and are considered to be immaterial.

##### *Other non-TCP*

The Bank has determined that ECLs on all other non-TCP portfolios are immaterial due to: the existence of credit risk mitigants such as the existence of the collateral; the credit quality of the borrower (e.g. investment-grade); and/or the short-term nature of the instrument. Similarly the Bank has determined that these non-TCP portfolios are without SICR (i.e. Stage 1) due to the credit quality of the borrower and/or the short-term nature of the instrument.

For inter-company loans and receivables, the Bank evaluates the counterparty based on the consolidated Firm's resolution and recovery plan, tenor of the loan/receivable, and any collateral received. The Bank has not experienced any losses on inter-company loans and receivables.

The Bank continues to monitor its Non-TCP portfolios to ensure the described framework is appropriate and its exposure to credit risk and ECLs on these portfolios is adequately reflected in the allowance for credit losses.

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.1 Distribution of Credit Exposures**

(i) Geographical Distribution

Credit risk exposure analysed by country in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table.

The country exposure analysis is based on the residency of the borrowers and counterparties. In respect of derivatives financial instruments, the amount subject to, and hence disclosed as, credit risk is limited to the current fair value of the instruments that are favourable to the Bank (i.e. assets).

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.1 Distribution of Credit Exposures (continued)**

(i) Geographical Distribution (continued)

31.12.2019

	Short-term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held at fair value through profit and loss	Derivative financial instruments	Financial assets held at other comprehensive income	Loans and advances	Amount due from related parties	Other assets*	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	4,785,906	1,814,557	408,409	477,329	843,453	261,615	95,590	734	8,687,593	2,311,285
United Kingdom	-	-	-	48,569	-	-	1,739	-	50,308	292,093
USA	-	-	-	34,878	-	-	49,814	35	84,727	133,613
Hong Kong	-	-	-	3,303	-	-	4,888	2	8,193	24,950
Singapore	4,213	-	-	20,611	-	365	322	258,443	283,954	98,637
Others	8,541	-	-	2,672	-	4,115	796	-	16,124	10,840
	<u>4,798,660</u>	<u>1,814,557</u>	<u>408,409</u>	<u>587,362</u>	<u>843,453</u>	<u>266,095</u>	<u>153,149</u>	<u>259,214</u>	<u>9,130,899</u>	<u>2,871,418</u>
Assets not subject to credit risk	512	-	-	-	-	(804)	-	59,208	58,916	-
	<u>4,799,172</u>	<u>1,814,557</u>	<u>408,409</u>	<u>587,362</u>	<u>843,453</u>	<u>265,291</u>	<u>153,149</u>	<u>318,422</u>	<u>9,189,815</u>	<u>2,871,418</u>

\*Other assets include statutory deposits with Bank Negara Malaysia, tax recoverable, deferred tax assets, right-of-use assets, fixed assets and other assets.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.1 Distribution of Credit Exposures (continued)**

(i) Geographical Distribution (continued)

31.12.2018

	Short-term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held at fair value through profit and loss	Derivative financial instruments	Financial assets held at other comprehensive income	Loans and advances	Amount due from related parties	Other assets*	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Malaysia	4,654,069	39,166	2,024,152	503,745	1,356,469	333,825	95,191	39,599	9,046,216	2,643,754
United Kingdom	-	-	-	24,297	-	-	254,706	-	279,003	272,369
USA	-	-	-	20,295	-	-	101,416	19	121,730	101,298
Hong Kong	-	-	-	334	-	-	4,361	-	4,695	5,106
Singapore	3,055	-	-	7,179	-	-	123	47,236	57,593	56,485
Others	7,823	-	-	12,357	-	19,528	870	-	40,578	20,373
	<u>4,664,947</u>	<u>39,166</u>	<u>2,024,152</u>	<u>568,207</u>	<u>1,356,469</u>	<u>353,353</u>	<u>456,667</u>	<u>86,854</u>	<u>9,549,815</u>	<u>3,099,385</u>
Assets not subject to credit risk	154	-	-	-	-	(204)	-	21,852	21,802	-
	<u>4,665,101</u>	<u>39,166</u>	<u>2,024,152</u>	<u>568,207</u>	<u>1,356,469</u>	<u>353,149</u>	<u>456,667</u>	<u>108,706</u>	<u>9,571,617</u>	<u>3,099,385</u>

\*Other assets include statutory deposits with Bank Negara Malaysia, tax recoverable, deferred tax assets, right-of-use assets, fixed assets and other assets.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.1 Distribution of Credit Exposures (continued)**

(ii) Industry Distribution

Credit risk exposure analysed by industry sectors in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table.

The industry sector exposure analysis is based on the industry sector of the borrowers and counterparties. In respect of derivatives financial instruments, the amount subject to, and hence disclosed as, credit risk is limited to the current fair value of the instruments that are favourable to the Bank (i.e. assets).

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.1 Distribution of Credit Exposures (continued)**

(ii) Industry Distribution (continued)

	31.12.2019									
	Short-term funds and placements with financial institutions	Securities purchased under resale agreement	Financial assets held at fair value through profit and loss	Derivative financial instruments	Financial assets held at other comprehensive income	Loans and advances	Amount due from related parties	Other assets**	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Manufacturing	-	-	-	30,796	-	183,365	-	140	214,301	245,216
Wholesale and retail	-	-	-	5,347	-	-	-	4	5,351	16,885
Finance, insurance and business services	68,780	1,640,748	6,302	541,443	-	39,907	153,149	258,471	2,708,800	2,425,383
Government and Government Agencies	4,729,880	173,809	402,107	6,556	843,453	-	-	94	6,155,899	35,203
Electricity, gas and water	-	-	-	1,129	-	-	-	64	1,193	2,247
Transport, storage and communication	-	-	-	4	-	4,105	-	49	4,158	82,477



Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.1 Distribution of Credit Exposures (continued)**

(ii) Industry Distribution (continued)

31.12.2019

	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Financial assets held at fair value through profit and loss RM'000	Derivative financial instruments RM'000	Financial assets held at other comprehensive income RM'000	Loans and advances RM'000	Amount due from related parties RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Individual/Purchase of landed property - residential	-	-	-	-	-	1,151	-	-	1,151	155
Others	-	-	-	2,087	-	37,567	-	392	40,046	63,852
	<u>4,798,660</u>	<u>1,814,557</u>	<u>408,409</u>	<u>587,362</u>	<u>843,453</u>	<u>266,095</u>	<u>153,149</u>	<u>259,214</u>	<u>9,130,899</u>	<u>2,871,418</u>
Assets not subject to credit risk	512	-	-	-	-	(804)	-	59,208	58,916	-
	<u>4,799,172</u>	<u>1,814,557</u>	<u>408,409</u>	<u>587,362</u>	<u>843,453</u>	<u>265,291</u>	<u>153,149</u>	<u>318,422</u>	<u>9,189,815</u>	<u>2,871,418</u>

\*\* Other assets include tax recoverable, deferred tax assets, fixed assets, right-of-use assets, statutory deposits with Bank Negara Malaysia and other assets.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

(ii) Industry Distribution (continued)

31.12.2018

	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Financial assets held at fair value through profit and loss RM'000	Derivative financial instruments RM'000	Financial assets held at other comprehensive income RM'000	Loans and advances RM'000	Amount due from related parties RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Manufacturing	-	-	-	24,771	-	208,776	-	-	233,547	420,446
Wholesale and retail	-	-	-	1,285	-	4,606	-	-	5,891	5,690
Finance, insurance and business services	29,294	-	204,946	526,385	-	60,045	453,435	79,559	1,353,664	2,377,584
Government and Government Agencies	4,635,653	39,166	1,819,206	12,165	1,356,469	-	-	60	7,862,719	44,489
Electricity, gas and water	-	-	-	1,673	-	75,208	-	3	76,884	147,197
Transport, storage and communication	-	-	-	12	-	3,466	-	-	3,478	88,750

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.1 Distribution of Credit Exposures (continued)**

(ii) Industry Distribution (continued)

31.12.2018

	Short-term funds and placements with financial institutions RM'000	Securities purchased under resale agreement RM'000	Financial assets held at fair value through profit and loss RM'000	Derivative financial instruments RM'000	Financial assets held at other comprehensive income RM'000	Loans and advances RM'000	Amount due from related parties RM'000	Other assets** RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Individual/Purchase of landed property - residential	-	-	-	-	-	1,252	-	-	1,252	182
Others	-	-	-	1,916	-	-	3,232	7,232	12,380	15,047
	<u>4,664,947</u>	<u>39,166</u>	<u>2,024,152</u>	<u>568,207</u>	<u>1,356,469</u>	<u>353,353</u>	<u>456,667</u>	<u>86,854</u>	<u>9,549,815</u>	<u>3,099,385</u>
Assets not subject to credit risk	154	-	-	-	-	(204)	-	21,852	21,802	-
	<u>4,665,101</u>	<u>39,166</u>	<u>2,024,152</u>	<u>568,207</u>	<u>1,356,469</u>	<u>353,149</u>	<u>456,667</u>	<u>108,706</u>	<u>9,571,617</u>	<u>3,099,385</u>

\*\*Other assets include tax recoverable, deferred tax assets, fixed assets, right-of-use assets, statutory deposits with Bank Negara Malaysia and other assets.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances.

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.1 Distribution of Credit Exposures (continued)**

(iii) Residual Contractual Maturity

Credit risk exposure analysed by residual contractual maturity in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out in the following table.

	Less than <u>1 year</u> RM'000	1 – 5 <u>years</u> RM'000	Over 5 <u>years</u> RM'000	<u>Total</u> RM'000
<u>31.12.2019</u>				
<i>On-balance sheet exposures</i>				
Cash and short-term funds	4,799,172	-	-	4,799,172
Securities purchased under resale agreement	1,814,557	-	-	1,814,557
Financial assets held at fair value through profit and loss ("FVTPL")	42,229	218,234	147,946	408,409
Derivative financial instruments	281,557	271,449	34,356	587,362
Financial assets held at fair value through other comprehensive income ("FVOCI")	843,453	-	-	843,453
Loans and advances	264,303	313	675	265,291
Amount due from related parties	153,149	-	-	153,149
<b>Total on-balance sheet exposures</b>	<b>8,198,420</b>	<b>489,996</b>	<b>182,977</b>	<b>8,871,393</b>
<i>Off-balance sheet exposures</i>				
Over-the-counter ("OTC") derivatives	885,444	1,472,860	209,763	2,568,067
Off balance sheet exposures other than OTC derivatives	169,225	134,126	-	303,351
<b>Total off-balance sheet exposures</b>	<b>1,054,669</b>	<b>1,606,986</b>	<b>209,763</b>	<b>2,871,418</b>
<b>Total on and off-balance sheet exposures</b>	<b>9,253,089</b>	<b>2,096,982</b>	<b>392,740</b>	<b>11,742,811</b>

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.1 Distribution of Credit Exposures (continued)**

(iii) Residual Contractual Maturity (continued)

	<u>Less than 1 year</u> RM'000	<u>1 – 5 years</u> RM'000	<u>Over 5 years</u> RM'000	<u>Total</u> RM'000
<u>31.12.2018</u>				
<i>On-balance sheet exposures</i>				
Cash and short-term funds	4,665,101	-	-	4,665,101
Securities purchased under resale agreement	39,166	-	-	39,166
Financial assets held at fair value through profit and loss ("FVTPL")	1,313,369	303,909	406,874	2,024,152
Derivative financial instruments	415,579	141,189	11,439	568,207
Financial assets held at fair value through other comprehensive income ("FVOCI")	1,356,469	-	-	1,356,469
Loans and advances	352,051	216	882	353,149
Amount due from related parties	456,667	-	-	456,667
<b>Total on-balance sheet exposures</b>	<u>8,598,402</u>	<u>445,314</u>	<u>419,195</u>	<u>9,462,911</u>
<i>Off-balance sheet exposures</i>				
Over-the-counter ('OTC') derivatives	1,034,047	1,360,367	104,023	2,498,437
Off balance sheet exposures other than OTC derivatives	467,356	130,604	2,988	600,948
<b>Total off-balance sheet exposures</b>	<u>1,501,403</u>	<u>1,490,971</u>	<u>107,011</u>	<u>3,099,385</u>
<b>Total on and off-balance sheet exposures</b>	<u>10,099,805</u>	<u>1,936,285</u>	<u>526,206</u>	<u>12,562,296</u>

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.2 Past Due and Impaired Loans and Advances**

***Stage 3 - Default and credit-impairment***

Financial instruments are included in Stage 3 when there is objective evidence of impairment at the reporting date. For Stage 3 instruments, ECL is calculated considering the probability of default over the remaining life of each instrument ("Lifetime ECL") on an individual asset basis and interest revenue is calculated on the net carrying amount (that is, net of the allowance for credit losses). All financial assets, regardless of their category as TCP, Non-TCP or debt security, are considered to be credit-impaired and included in Stage 3 when one or more of the following events that have a detrimental impact on the estimated future cash flows of that financial asset has occurred:

- a) Significant financial difficulty of the issuer or the borrower;
- b) A default or past due event;
- c) The Bank have granted a concession to the borrower for economic or contractual reasons relating to the borrower's financial difficulty;
- d) It has become probable the borrower will enter bankruptcy or other financial reorganization;
- e) An active market for that financial asset no longer exists because of the borrower's financial difficulties; or
- f) A financial asset is purchased or originated at a deep discount that reflects a credit loss has been incurred.

The criteria above are consistent with how the Bank defines 'default' for internal credit risk management purposes.

A financial asset is considered to no longer be in default (i.e. the default has been cured) when the borrower has made payments for a minimum of six months and there is other objective evidence of credit improvement.

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.2 Past Due and Impaired Loans and Advances (continued)**

(i) Industry Distribution

The sectoral analysis of past due and impaired loans and advances and the ECL allowance by sectors are set out in the following table:

	Stage 2 credit not impaired loans and advances RM'000	Stage 3 credit impaired loans and advances RM'000	ECL credit impaired allowance RM'000	ECL not credit impaired allowance RM'000	ECL credit impaired allowance during the year RM'000	Write offs during the year RM'000
<b>31 Dec 2019</b>						
Individual/Purchase of landed property - residential	-	92	24	-	1	-
	-	92	24	-	1	-
<b>31 Dec 2018</b>						
Individual/Purchase of landed property - residential	-	66	23	-	(18)	-
	-	66	23	-	(18)	-

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.2 Past Due and Impaired Loans and Advances (continued)**

(ii) Geographical Distribution

The geographical analysis of past due and impaired loans and advances and the ECL allowance are set out in the following table:

	Stage 2 credit not impaired loans and advances RM'000	Stage 3 credit impaired loans and advances RM'000	ECL credit impaired allowance RM'000	ECL not credit impaired allowance RM'000
<u>31 Dec 2019</u>				
Malaysia	-	92	24	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	Stage 2 credit not impaired loans and advances RM'000	Stage 3 credit impaired loans and advances RM'000	ECL credit impaired allowance RM'000	ECL not credit impaired allowance RM'000
<u>31 Dec 2018</u>				
Malaysia	-	66	23	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>



Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.2 Past Due and Impaired Loans and Advances (continued)**

(iii) Movement in expected credit losses for loans and advances

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u> Lifetime ECL	<u>Total</u>
	12 months ECL	Lifetime ECL not credit impaired	credit impaired	RM'000
	RM'000	RM'000	RM'000	RM'000
As at 1 January 2019	138	43	23	204
Loans derecognised or repaid	(13)	(3)	-	(16)
New originated or purchased	13	-	-	13
Changes due to change in credit risk	(33)	635	1	603
As at 31 December 2019	<u>105</u>	<u>675</u>	<u>24</u>	<u>804</u>

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u> Lifetime ECL	<u>Total</u>
	12 months ECL	Lifetime ECL not credit impaired	credit impaired	RM'000
	RM'000	RM'000	RM'000	RM'000
As at 1 January 2018	85	-	39	124
Loans derecognised or repaid	(7)	-	(3)	(10)
New originated or purchased	40	16	-	56
Changes due to change in credit risk	37	-	(13)	24
Changes in models/risk parameters	3	-	-	3
Transfers:				
Transfer from Stage 1 to Stage 2	(20)	27	-	7
As at 31 December 2018	<u>138</u>	<u>43</u>	<u>23</u>	<u>204</u>

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.3 Credit Risk Exposures under Standardised Approach**

The Bank applies external ratings assigned by recognised External Credit Assessment Institutions (“ECAIs”) in determining risk weight for credit exposure classes and are recognised by BNM in RWCAF. The Bank uses ratings assigned by Standard & Poor’s (“S&P”), Moody’s Investors Service (“Moody’s”) and Fitch Ratings (“Fitch”).

The following tables set out the credit exposures by risk weights and after credit risk mitigation:

Risk weight as at 31 December 2019 for credit risk exposures:

<u>Weighted</u>	<u>Sovereigns &amp; Central bank</u> RM'000	<u>PSE</u> RM'000	<u>Banks</u> RM'000	<u>Insurance companies, securities firms and funds managers</u> RM'000	<u>Corporates</u> RM'000	<u>Residential mortgages</u> RM'000	<u>Higher risk assets</u> RM'000	<u>Other assets</u> RM'000	<u>Total exposures after netting and credit risk</u> RM'000	<u>Total risk weighted assets</u> RM'000
0%	5,372,512	-	-	-	-	-	-	512	5,373,024	-
20%	409,317	35,203	3,433,294	-	-	-	-	-	3,877,814	775,563
35%	-	-	-	-	-	1,054	-	-	1,054	369
50%	-	-	606,921	408,498	-	68	-	-	1,015,487	507,744
100%	-	-	-	91,194	682,372	-	-	32,007	805,573	805,573
150%	-	-	-	-	-	-	4	-	4	6
<b>Total</b>	<b>5,781,829</b>	<b>35,203</b>	<b>4,040,215</b>	<b>499,692</b>	<b>682,372</b>	<b>1,122</b>	<b>4</b>	<b>32,519</b>	<b>11,072,956</b>	<b>2,089,255</b>

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**

(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.3 Credit Risk Exposures under Standardised Approach (continued)**

Risk weight as at 31 December 2018 for credit risk exposures:

<u>Weighted</u>	<u>Sovereigns &amp; Central bank</u> RM'000	<u>PSE</u> RM'000	<u>Banks</u> RM'000	<u>Insurance companies, securities firms and funds managers</u> RM'000	<u>Corporates</u> RM'000	<u>Residential mortgages</u> RM'000	<u>Higher risk assets</u> RM'000	<u>Other assets</u> RM'000	<u>Total exposures after netting and credit risk</u> RM'000	<u>Total risk weighted assets</u> RM'000
0%	4,813,802	-	-	-	-	-	-	154	4,813,956	-
20%	1,241,436	44,389	1,567,748	-	-	-	-	-	2,853,573	570,715
35%	-	-	-	-	-	1,182	-	-	1,182	414
50%	-	-	773,084	488,650	3,950	43	-	-	1,265,727	632,864
100%	-	-	-	104,838	1,031,724	-	-	24,594	1,161,156	1,161,155
150%	-	-	-	-	-	-	4	-	4	6
<b>Total</b>	<b>6,055,238</b>	<b>44,389</b>	<b>2,340,832</b>	<b>593,488</b>	<b>1,035,674</b>	<b>1,225</b>	<b>4</b>	<b>24,748</b>	<b>10,095,598</b>	<b>2,365,154</b>

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.3 Credit Risk Exposures under Standardised Approach (continued)**

The following tables set out the rated exposures according to rating by ECAIs:

(i) Ratings of corporate by approved ECAIs

Exposure class	Moody S & P Fitch RAM <u>MARC</u>	Aaa to Aa3 AAA to AA- AAA to AA3 <u>AAA to AA-</u> RM'000	A1 to A3 A+ to A- A+ to A- <u>A+ to A-</u> RM'000	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 <u>BBB+ to BB-</u> RM'000	B1 to C B+ to D B+ to D B to D <u>B+ to D</u> RM'000	Unrated Unrated Unrated Unrated <u>Unrated</u> RM'000
<u>31.12.2019</u>						
<b>On and Off:</b>						
<b>Balance Sheet</b>						
<b>Exposures</b>						
Public Sector Entities		-	35,203	-	-	-
Insurance companies, securities firms and fund managers		-	430,036	69,657	-	-
Corporates		-	98,709	289,115	294,547	-
			<u>-</u>	<u>358,772</u>	<u>294,547</u>	<u>-</u>
			<u><u>563,948</u></u>	<u><u>358,772</u></u>	<u><u>294,547</u></u>	<u><u>-</u></u>
<u>31.12.2018</u>						
<b>On and Off:</b>						
<b>Balance Sheet</b>						
<b>Exposures</b>						
Public Sector Entities		-	44,389	-	-	158
Insurance companies, securities firms and fund managers		-	514,730	78,758	-	-
Corporates		-	95,494	502,782	437,398	182
			<u>-</u>	<u>581,540</u>	<u>437,398</u>	<u>340</u>
			<u><u>654,613</u></u>	<u><u>581,540</u></u>	<u><u>437,398</u></u>	<u><u>340</u></u>

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.3 Credit Risk Exposures under Standardised Approach (continued)**

(ii) Ratings of Sovereigns/Central Banks and Banking Institutions by approved ECAIs

<u>Exposure class</u>	Moody S & P Fitch RAM MARC	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 A- 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
		RM'000	RM'000	RM'000	RM'000	RM'000

31.12.2019

**On and Off:**

**Balance Sheet**

**Exposures**

Sovereigns/Central

Banks

Banks

-	5,729,362	-	-	-
-	3,921,543	118,439	92	-
-	9,650,905	118,439	92	-

31.12.2018

**On and Off:**

**Balance Sheet**

**Exposures**

Sovereigns/Central

Banks

Banks

-	6,055,238	-	-	-
-	1,984,129	356,662	41	-
-	8,039,367	356,662	41	-

**5.4 Credit Risk Mitigation ("CRM")**

Management of the Bank's exposure is accomplished through a number of means including: loan syndication and participations, loan sales, use of master netting agreements and collaterals.

(a) Collateral

The Bank takes collateral as a secondary recourse to the borrower. Collaterals include cash, securities and guarantees. The Bank may also take fixed and floating charges on assets of borrowers. It has put in place policies which governs the determination of eligibility of various collaterals to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigants. The collateral is revalued periodically depending on the type of collateral. The Bank generally considers the collateral assets to be diversified.

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.4 Credit Risk Mitigation (“CRM”) (continued)**

(b) Master netting arrangements

Master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract. It does not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. The Bank’s overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short year, as it is affected by each transaction subject to the arrangement.

The Bank participates in the Derivative Credit Risk Master Insurance Policy where it pays a credit charge to its Head Office as a credit insurance protection for its derivative transactions. The head office credit portfolio management process includes entering into hedges using Credit Default Swaps (“CDS”), CDS Indices, Foreign Exchange, Interest Rate Swaps and through loan sales.

The following tables set out the credit exposures that are covered by eligible guarantees and collaterals as allowed under the RWCAF.

<u>31.12.2019</u>	<u>Exposures before CRM</u> RM'000	<u>Exposures covered by guarantees/ credit derivatives</u> RM'000	<u>Exposures covered by eligible financial collateral</u> RM'000
<u>Exposure Class</u>			
<i>On-balance sheet exposures</i>			
Sovereigns/central banks	5,781,829	-	-
Banks	1,862,069	-	-
Insurance companies, securities firms and fund managers	259,050	-	-
Corporates	264,944	-	-
Residential mortgages	1,054	-	-
Higher risk assets	4	-	-
Other assets	32,520	-	-
Defaulted exposures	68	-	-
<b>Total on-balance sheet exposures</b>	<b>8,201,538</b>	<b>-</b>	<b>-</b>
<i>Off-balance sheet exposures</i>			
Over-the-counter ('OTC') derivatives	2,568,067	65,723	111,895
Off balance sheet exposures other than OTC derivatives	303,351	-	-
<b>Total off-balance sheet exposures</b>	<b>2,871,418</b>	<b>65,723</b>	<b>111,895</b>
<b>Total on and off-balance sheet exposures</b>	<b>11,072,956</b>	<b>65,723</b>	<b>111,895</b>

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.4 Credit Risk Mitigation ("CRM") (continued)**

<u>31.12.2018</u>	<u>Exposures before CRM</u> RM'000	<u>Exposures covered by guarantees/ credit derivatives</u> RM'000	<u>Exposures covered by eligible financial collateral</u> RM'000
<u>Exposure Class</u>			
<i>On-balance sheet exposures</i>			
Sovereigns/central banks	6,054,980	-	-
Public Sector Entities	158	-	-
Banks	261,662	-	-
Insurance companies, securities firms and fund managers	298,911	-	-
Corporates	354,525	-	-
Residential mortgages	1,182	-	-
Higher risk assets	4	-	-
Other assets	24,748	-	-
Defaulted exposures	43	-	-
Total on-balance sheet exposures	<u>6,996,213</u>	<u>-</u>	<u>-</u>
<i>Off-balance sheet exposures</i>			
Over-the-counter ('OTC') derivatives	2,498,437	83,572	350,990
Off balance sheet exposures other than OTC derivatives	600,948	-	-
Total off-balance sheet exposures	<u>3,099,385</u>	<u>83,572</u>	<u>350,990</u>
Total on and off-balance sheet exposures	<u><u>10,095,598</u></u>	<u><u>83,572</u></u>	<u><u>350,990</u></u>

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## **5 CREDIT RISK (CONTINUED)**

### **5.5 Off-Balance Sheet Exposures and Counterparty Credit Risk**

Counterparty Credit Risk (“CCR”) is the risk that the counterparty to a transaction involving financial instruments such as foreign exchange and derivatives, could default before the final settlement of the transaction’s cash flows.

For derivatives, the Bank is not exposed to credit risk for the full face value of the contracts. The CCR is limited to the potential cost of replacing the cash-flow if the counterparty defaults. As such, the credit equivalent amount will depend on the maturity of the contract and on the volatility of the rates underlying that type of instrument.

Counterparty limits for the Bank are established at the individual counterparty level and are set based on the counterparty’s credit rating, tenor and size.

To mitigate the counterparty risk for derivative transactions, the Bank participates in the Derivative Credit Risk Master Insurance Policy where it pays a credit charge to its Head Office as a credit insurance protection for its derivative transactions. The head office credit portfolio management process includes entering into hedges using CDS, CDS Indices, Foreign Exchange, Interest Rate Swaps and through loan sales.

The counterparty risk is further mitigated via master netting agreements. Master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract. It does not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. The Bank’s overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short year, as it is affected by each transaction subject to the arrangement.



Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.5 Off-Balance Sheet Exposures and Counterparty Credit Risk (continued)**

The following tables set out the off-balance sheet exposures and counterparty credit risk.

	Principal <u>amount</u> RM'000	Positive fair value of derivative <u>contracts</u> RM'000	Credit equivalent <u>amount*</u> RM'000	Risk weighted <u>amount</u> RM'000
<u>31.12.2019</u>				
Direct credit substitutes	177,275	-	177,275	153,588
Transaction-related contingent items	74,006	-	37,003	32,724
Short-term self-liquidating trade related contingencies	14,826	-	2,965	2,965
Foreign exchange related contracts:				
- less than one year	31,745,761	238,707	699,788	297,717
- one year to less than five years	3,558,501	60,006	350,243	119,476
- more than five years	122,790	1,785	22,660	6,619
Interest rate related contracts:				
- less than one year	9,624,026	18,029	36,969	11,494
- one year to less than five years	34,587,526	177,570	927,672	271,892
- more than five years	2,325,772	32,571	187,103	50,925
Equity related contracts				
- less than one year	1,556,590	24,821	145,572	76,804
- one year to less than five years	799,146	26,733	132,337	71,732
Credit related contracts				
- less than one year	31,150	7,140	3,115	623
- one year to less than five years	321,429	-	62,608	24,984
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year				
	172,217	-	86,108	86,108
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in borrower's creditworthiness				
	1,615,098	-	-	-
	<u>86,726,113</u>	<u>587,362</u>	<u>2,871,418</u>	<u>1,207,651</u>

\* The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.5 Off-Balance Sheet Exposures and Counterparty Credit Risk (continued)**

	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
<u>31.12.2018</u>				
Direct credit substitutes	479,113	-	479,113	467,360
Transaction-related contingent items	69,002	-	34,500	30,267
Short-term self-liquidating trade related contingencies	1,382	-	276	276
Foreign exchange related contracts:				
- less than one year	33,639,324	145,076	579,311	259,452
- one year to less than five years	3,461,257	37,847	349,180	123,066
- more than five years	206,850	7,485	42,236	11,798
Interest rate related contracts:				
- less than one year	5,588,611	3,782	15,280	4,995
- one year to less than five years	27,887,921	72,487	763,008	262,044
- more than five years	1,049,595	3,954	61,787	19,758
Equity related contracts				
- less than one year	2,346,030	266,721	439,456	136,257
- one year to less than five years	1,121,817	12,803	164,607	106,245
Credit related contracts				
- one year to less than five years	374,346	18,052	83,572	27,748
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	174,117	-	87,059	87,059
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in borrower's creditworthiness	1,117,244	-	-	-
	<u>77,516,609</u>	<u>568,207</u>	<u>3,099,385</u>	<u>1,536,325</u>

\* The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**5 CREDIT RISK (CONTINUED)**

**5.5 Off-Balance Sheet Exposures and Counterparty Credit Risk (continued)**

The table below shows the credit derivative contracts for client intermediation activities:

	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
<u>31.12.2019</u>			
Credit related contracts			
Credit default swap			
- Protection bought	151,600	24,180	4,836
- Protection sold	200,979	41,543	20,771
	<u>352,579</u>	<u>65,723</u>	<u>25,607</u>
<u>31.12.2018</u>			
Credit related contracts			
Credit default swap			
- Protection bought	203,821	46,792	9,358
- Protection sold	170,525	36,780	18,390
	<u>374,346</u>	<u>83,572</u>	<u>27,748</u>

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 6 MARKET RISK

Market risk is the risk associated with the effect of changes in market factors such as interest and foreign exchange rates, equity and commodity prices, credit spreads or implied volatilities, on the value of assets and liabilities held for both the short and long term.

Market Risk Management monitors market risks throughout the Bank and defines market risk policies, procedures and frameworks. The Market Risk Management function seeks to manage risk, facilitate risk/return decisions, reduce volatility in operating performance and provide transparency into the Bank's market risk profile.

### *Risk Governance & Policy Framework*

The Bank's approach to market risk governance is outlined in the Bank's Market Risk Management Framework ('Framework'), which includes the following:

The Legal Entity Risk Manager (LERM) and Regional Legal Entity (LE) Market Risk are responsible for considering the firmwide market risk processes with respect to each Legal Entity, accounting for both firmwide and local market risk management requirements. Oversight, review and approval of these Legal Entity policies/procedures/frameworks is conducted by the respective JPMCB Berhad Risk/Asset & Liability Committee to approve, at least annually.

### *Risk Measurement*

There is no single measure to capture market risk and therefore the Bank uses various metrics both statistical and non-statistical to assess risk. The appropriate set of risk measures utilized for a given business activity is tailored based on business mandate, risk horizon, materiality, market volatility and other factors.

### *VaR*

The Bank utilises value at risk ("VaR"), a statistical risk measure, to estimate the potential loss from adverse market moves in the current market environment.

The VaR framework is employed across the Firm using historical simulation based on data for the previous 12 months.

VaR is calculated assuming a one-day holding period and an expected tail-loss methodology which approximates a 99% confidence level.

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 6 MARKET RISK (CONTINUED)

*VaR (continued)*

The table below shows the result of the Bank's VaR

	<u>2019</u> RM'000	<u>2018</u> RM'000
99% VaR	1,056	3,338

### *Stress Testing*

Along with VaR, stress testing is an important tool to assess risk. While VaR reflects the risk of loss due to adverse changes in markets using recent historical market behavior, stress testing reflects the risk of loss from hypothetical changes in the value of market risk sensitive positions applied simultaneously. The Bank runs weekly stress tests on market-related risks across the lines of business using multiple scenarios that assume significant changes in risk factors such as credit spreads, equity prices, interest rates, currency rates or commodity prices.

The Bank uses a number of standard scenarios that capture different risk factors across asset classes including geographical factors, specific idiosyncratic factors and extreme tail events. The stress testing framework calculates multiple magnitudes of potential stress for both market rallies and market sell-offs for each risk factor and combines them in multiple ways to capture different market scenarios. The flexibility of the stress testing framework allows risk managers to construct new, specific scenarios that can be used to form decisions about future possible stress events.

Stress testing complements VaR by allowing risk managers to shock current market prices to more extreme levels relative to those historically realized, and to stress test the relationships between market prices under extreme scenarios.

Stress-test results, trends and qualitative explanations based on current market risk positions are reported to the Bank's Risk, Asset and Liability Committee ("RALCO") to allow them to better understand the sensitivity of positions to certain defined events and to enable them to manage their risks with more transparency. In addition, results are reported to the Board of Directors.

Stress scenarios are defined and reviewed by Market Risk, and significant changes are reviewed by the relevant line of business's risk committees and may be redefined on a periodic basis to reflect current market conditions.

### *Non-Statistical Risk Measures*

Measures such as net open positions, basis point values are utilized within specific market context and aggregated across businesses.

Registration No.

199401030666 (316347-D)

**J.P. MORGAN CHASE BANK BERHAD**  
(Incorporated in Malaysia)

**BASEL 2 PILLAR 3 DISCLOSURES**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**6 MARKET RISK (CONTINUED)**

**Risk Monitoring and Control**

*Limits*

Market risk limits are employed as the primary control to align the Bank's market risk with certain quantitative parameters within the Bank's Risk Appetite framework.

Market Risk sets market risk limits and these are subject to the RALCO approval who confirms compliance with local regulatory requirements.

As part of its holistic analysis of the JPMCB Berhad market risk, Market Risk must review market risk limits for JPMCB Berhad at least semi-annually. Limit reviews must consider the underlying trading, investing and hedging strategies of the business as well as capital or regulatory requirements where applicable.

Business units should not exceed their market risk limits unless expressly authorized by a Temporary Limit Approval ("TLA"). A market risk valid limit breach requires that the business take immediate steps to reduce exposure so as to be within limit, unless a temporary limit approval is granted. Market risk limits may be kept at levels close to full utilizations which may cause brief periods of market risk limit breaches among a small proportion of the total number of limits.

Limit utilizations and notifications of valid market risk limit breaches are sent to appropriate JPMCB Berhad limit signatories, the RALCO, the business and Global LE MR Head daily.

Aged or significant market risk limit breaches are escalated by Market Risk and LERM if not already included as a signatory, Global LE MR Head, Firmwide Risk Executive – Market Risk (FRE MR) and APAC Risk Committee.

<u>31.12.2019</u>	<u>Long position</u>	<u>Short position</u>	<u>Risk weighted assets RM'000</u>	<u>Capital requirements RM'000</u>
Interest rate risk	112,328,805	111,562,393	1,468,018	117,442
Foreign currency risk	9,786	-	9,786	783
Options risk			263,112	21,049
			<u>1,740,916</u>	<u>139,274</u>
<u>31.12.2018</u>				
Interest rate risk	92,387,526	90,369,435	1,446,957	115,756
Equity position risk	15,909	-	6,363	509
Foreign currency risk	1,533	90,754	90,750	7,260
Options risk			357,613	28,609
			<u>1,901,683</u>	<u>152,134</u>

Registration No.

199401030666 (316347-D)

## J.P. MORGAN CHASE BANK BERHAD

(Incorporated in Malaysia)

### BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 7 OPERATIONAL RISK

Operational risk is the risk associated with an adverse outcome resulting from inadequate or failed internal processes or systems; human factors; or external events impacting the Bank's processes or systems; it includes compliance, conduct, legal, and estimations and model risk. Operational risk is inherent in the Bank's activities and can manifest itself in various ways, including fraudulent acts, business interruptions, cybersecurity attacks, inappropriate employee behavior, failure to comply with applicable laws and regulations or failure of vendors to perform in accordance with their agreements. Operational Risk Management attempts to manage operational risk at appropriate levels in light of the Bank's financial position, the characteristics of its businesses, and the markets and regulatory environment in which it operates.

The Firm's Compliance, Conduct, and Operational Risk ("CCOR") Management Framework is designed to enable the Firm and the Bank to govern, identify, measure, monitor and test, manage and report on the Firm's and the Bank's operational risk.

### Operational Risk Governance

The lines of business (LOB) hold ownership, responsibility and accountability for the management of operational risk. The Firmwide Control Management Organization, which consists of control managers within each LOB, is responsible for the day-to-day execution of the CCOR Framework. LOBs and Location control committees are responsible for reviewing data that indicates the quality and stability of processes, addressing key operational risk issues, focusing on processes with control concerns, and overseeing control remediation.

The Bank maintains a system of comprehensive policies and control framework designed to provide a sound and well-controlled operational environment. Primary responsibility for managing operating risk rests with the business managers. These individuals, with the support of their staff, are responsible for establishing and maintaining internal control procedures that are appropriate for their operating environments. To this end, the objectives of each business activities are identified and the risks associated with those objectives are assessed. The business managers institute a series of standards and procedures to manage these risks and to comply with the Bank's operational risk related policies, considering their nature and magnitude.

Internal Audit conducts annual audits and reviews on key operation areas. The focus of the audit is to provide assurance to management on the compliance with statutory requirements, laws, corporate policies and internal guidelines.

### Operational Risk Identification

The Firm utilizes a structured risk and control self-assessment process that is executed by the LOBs. As part of this process, the LOBs evaluate the effectiveness of their control environment to assess where controls have failed, and to determine where remediation efforts may be required. The Firmwide CCOR Management provides oversight of these activities and may also perform independent assessments of significant operational risk events and area of concentrated or emerging risk.

### Measurement

In addition to the level of actual operational risk losses, operational risk measurement includes operational risk based capital which is aligned with Basel requirements. The Bank's operational risk capital requirements continues to be calculated based on the Basic Indicator Approach (BIA).

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## **7 OPERATIONAL RISK (CONTINUE)**

### **Operational Risk Monitoring and testing**

The results of risk assessments performed by CCOR Management are leveraged as one of the key criteria in the independent monitoring and testing of the LOBs' compliance with laws and regulation. Through monitoring and testing, CCOR Management independently identifies areas of operational risk and tests the effectiveness of controls within the LOBs.

### **Management of Operational Risk**

The operational risk areas or issues identified through monitoring and testing are escalated to the LOBs to be remediated through action plans, as needed, to mitigate operational risk. CCOR Management may advise the LOBs in the development and implementation of action plans.

### **Reporting**

Each Line of Business should report and escalate the operational risk topics to their respective control committees, including losses, risk assessment, control breaches and respective action plans. CCOR Management has established standards to ensure that consistent operational risk reporting and operational risk reports are produced on a Firmwide basis as well as by LOBs. Reporting includes the evaluation of key risk indicators and key performance indicators against established thresholds as well as the assessment of different types of operational risk against stated risk appetite. The standards reinforce escalation protocols to senior management and to the Board of Directors.

## **8 INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK**

Interest Rate Risk in the Banking Book (IRRBB) is defined as interest rate risk resulting from the Bank's traditional banking activities as a result of movements in interest rates. IRRBB can occur due to a variety of factors, including but not limited to:

- Differences between the timing of rate changes and the timing of cash flows (repricing risk);
- Changing rate relationships among yield curves that affect bank activities (basis risk);
- Changing rate relationships across the spectrum of maturities (yield curve risk); and
- Interest-rate-related options embedded in banking products (option risk).

Treasury and Chief Investment Office (T/CIO) manages IRRBB exposure on behalf of the Bank by identifying, measuring, modelling, and monitoring IRR across the Bank's balance sheet. T/CIO works with the Lines of Businesses in defining methodologies for measuring IRRBB. T/CIO identifies and understands material balance sheet impact of new initiatives and products, and executes market transactions to manage IRRBB.



Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

## 8 INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK (CONTINUED)

The Bank's IRRBB exposure originates from the traditional banking activities that include the extension of loans, taking client deposits. T/CIO is managing the exposure through placements/takings, and the purchase of securities under T/CIO investment portfolio. The majority of the Bank's deposits are Non-Maturity Deposits (NMD) that is modelled as longer dated liabilities by considering deposits run-off profile and analyzing deposits' sensitivity to rate changes. Loans, Placements, Term Deposits, Placements, and Investment Securities under T/CIO investment portfolio are assumed to have contractual maturity with fixed or adjustable rate.

IRRBB is evaluated using two primary metrics, impact to the Bank's earnings through Earnings at Risk (EaR) metric, and impact to the Bank's equity through Economic Value Sensitivity (EVS) metric:

- EaR measures the extent to which changes in interest rates will affect the bank's net interest income (NII) over the following 12 months period under four parallel shift scenarios in interest rate curve.
- EVS determines changes in Economic Value of Equity (EVE) due to changes in interest rates under two parallel and four non-parallel shift scenarios in interest rate curve.

The IRRBB metrics are regularly monitored, reported on a regular basis and presented in the Bank's RALCO meeting.

The sensitivity of the Bank's positions in banking book to interest rate changes are set out in the following table:

<u>31.12.2019</u>	<u>BCBS Parallel</u>	
	<u>Up</u>	<u>Down</u>
	RM'000	RM'000
<u>Impact in Earnings</u>		
MYR	61,655	(61,419)
USD	4,941	(13,730)
Other	1,362	(1,163)
	<u>67,958</u>	<u>(76,312)</u>
	<u><u>67,958</u></u>	<u><u>(76,312)</u></u>
<u>31.12.2018</u>	<u>BCBS Parallel</u>	
	<u>Up</u>	<u>Down</u>
	RM'000	RM'000
<u>Impact in Earnings</u>		
MYR	60,686	(60,953)
USD	(16,164)	6,084
Other	(147)	233
	<u>44,375</u>	<u>(54,636)</u>
	<u><u>44,375</u></u>	<u><u>(54,636)</u></u>

Registration No.

199401030666 (316347-D)

J.P. MORGAN CHASE BANK BERHAD  
(Incorporated in Malaysia)

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

**8 INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK (CONTINUED)**

The sensitivity of the Bank's positions in banking book to interest rate changes are set out in the following table (continued):

31.12.2019	BCBS Parallel	
	Up	Down
	RM'000	RM'000
<u>Impact in Economic Value</u>		
MYR	106,530	(131,617)
USD	34,526	(65,027)
Other	1,873	(1,242)
	<u>142,929</u>	<u>(197,886)</u>
	<u><u>142,929</u></u>	<u><u>(197,886)</u></u>

  

31.12.2018	BCBS Parallel	
	Up	Down
	RM'000	RM'000
<u>Impact in Economic Value</u>		
MYR	132,156	(132,097)
USD	27,455	(62,997)
Other	1,924	(90)
	<u>161,535</u>	<u>(195,184)</u>
	<u><u>161,535</u></u>	<u><u>(195,184)</u></u>

\* Under BCBS Parallel Up and Down scenario, the Bank is applying 200 bps shock for USD and 300 bps shock for MYR as prescribed in BCBS Standards