RHB Bank Berhad

Brunei Darussalam Branch

Pillar 3 Disclosures

31st December 2023

RHB BANK BERHAD
BRUNEI DARUSSALAM BRANCH
PILLAR 3 DISCLOSURES AS AT 31ST DECEMBER 2023

Contents **Page(s)**

1.0 Disclosure A: Scope of Application

This document covers the quantitative information as at 31st December 2023. The annual disclosure prepared in compliance with the requirements set forth in Brunei Darussalam Central Bank (BDCB) Notification No. BU/N-3/2021/68 dated 2nd April 2021.

RHB Bank Berhad Brunei Darussalam branch ("the Bank") is a branch office of RHB Bank Berhad and is part of RHB Banking Group with its Head Office in Malaysia. In operating the business, RHB Bank Berhad Brunei Darussalam branch is guided by the Group Policies, Bank Negara Malaysia's Guidelines and BDCB's Guidelines, whichever is more stringent.

2.0 Overview of key prudential metrics and RWA

2.1 Key Metrics

		December 2023	September 2023	June 2023	March 2023	December 2022
	Available Capital (BND'000)					
1	Tier 1	46,459.00	44,844.00	44,844.00	44,844.00	44,845.00
2	Total Capital	46,713.00	45,099.00	45,115.00	45,139.00	45,078.00
	Risk-weighted assets (BND'000)					
3	Total risk-weighted assets (RWA)	97,301.27	100,213.01	101,034.23	98,268.61	100,808.06
	Risked-based capital ratios as a percentage of RWA					
4	Tier 1 ratio (%)	47.75	44.75	44.38	45.63	44.49
5	Total capital ratio (%)	48.01	45.00	45.65	45.93	44.72

Total Risk-Weighted Assets (RWA) decreased quarter-on-quarter for December 2023, mainly driven by lower Credit RWA from lower interbank placement offset slightly by higher gross loan and advances. The higher Tier 1 Capital and Total Capital in December 2023 were mainly driven by retained earnings for 2023. Thus, the quarter-on-quarter increase for Tier 1 ratio and Total Capital Ratio (TCR) respectively. Both ratios remained healthy and the TCR is above the minimum regulatory requirement of 10%.

2.2 Overview of Risk-Weighted Assets (RWA)

		RWA (BND'000)		Minimum capital requirements
		December 2023	September 2023	December 2023
1	Credit risk (Standardised)	88,537.70	92,263.28	8,853.77
2	Market risk (Standardised)	369.19	335.98	36.92
3	Operational risk (Basic Indicator Approach)	8,394.38	7,613.75	839.44
4	**Total**	**97,301.27**	**100,213.01**	**9,730.13**

Total Risk-Weighted Assets (RWA) decreased quarter-on-quarter for December 2023, mainly driven by lower Credit RWA from lower interbank placement offset slightly by higher gross loan and advances. Market Risk increased marginally quarter-on-quarter due to higher Foreign Exchange Net Open Position (FX NOP) arising from higher Nostro balances in December 2023. Operational Risk increased due to higher average gross income for the past 3 years for December 2023.

3.0 Composition of Capital

3.1 Composition of regulatory capital

December 2023

		Amounts (BND'000)
	Tier 1 capital: instruments and reserves	
1	Paid-up Ordinary Shares/Assigned Capital (after deduction of holdings of own capital)	30,000.00
2	Non-Cumulative, Non-Redeemable Preference Shares	-
3	Share Premium	-
4	Statutory Reserve Fund	8,090.00
5	Published Retained Profits/(Accumulated Losses)	8,369.00
6	General Reserves	-
7	Fair Values Reserves	-
8	**Tier 1 capital before regulatory adjustments**	46,459.00
	Tier 1 capital: regulatory adjustments	
9	Reciprocal cross-holdings of ordinary shares (as required by BDCB)	-
10	Goodwill	-
11	Other intangible assets	-
12	Advances/financing granted to employees of the bank for the purchase of shares of the bank under a share ownership plan	-
13	Minority interests held by 3rd parties in Financial Subsidiary	-
14	Total Regulatory adjustments to Tier1 Capital	-
15	Tier 1 capital	46,459.00
	Tier 2 capital: instruments and provision	
16	General Credit Loss Reserves (Capped at 1.25% of Credit Risk)	254.00
17	*Hybrid (debt/equity) Capital Instruments*	-
18	Approved Subordinated Term Debt (Capped at 50% of Core Capital Element)	-
19	**Tier 2 Capital before regulatory adjustments**	254.00
	Tier 2 capital: regulatory adjustments	
20	Reciprocal Crossholdings of Tier 2 Capital Instruments	-
21	Minority Interests Arising From Holdings of Tier 2 Instruments in Financial Subsidiaries by Third Parties	-
22	**Total regulatory adjustments to Tier 2 capital**	-
23	**Tier 2 capital (T2)**	254.00
24	**Allowable Supplementary Capital (Tier 2 Capital)**	-
25	**Sub-Total of Tier 1 AND Tier 2 Capital**	46,713.00
26	**Deductions/Adjustments 3 to total Amount of Tier 1 and Tier 2 capital**	-
27	**Significant Investments in Banking, Securities and Other Financial Entities**	-

		Amounts (BND'000)
28	**Significant Investments in Insurance Entities & Subsidiary**	-
29	**Significant Investments in Commercial Entities**	-
30	**Securitisation Exposures (Rated B+ or Below and Unrated)**	-
31	**Resecuritisation Exposures (Rated B+ or Below and Unrated)**	-
32	**Total regulatory capital (TC = T1 + T2)**	46,713.00
33	**Total risk-weighted assets**	97,301.27
	Capital ratios	
34	**Tier 1 (as a percentage of risk-weighted assets)**	47.75
35	**Total capital (as a percentage of risk-weighted assets)**	48.01

Tier 1 Capital and Total Capital increased in December 2023 against September 2023 due to higher Statutory Fund Reserve and Published Retained Profits for 2023. Both Tier 1 Capital Ratio and Total Capital Ratio increased in December 2023 compared to September 2023 due to lower Total RWA for December 2023.

4.0 Linkages between financial statements and regulatory exposures

4.1 Explanations of differences between accounting and regulatory exposure amounts

For the financial year ending 2023, there are no differences reported in published financial statement and regulatory consolidation.

4.2 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

BND'000	Carrying values as reported in published financial statements and regulatory consolidation	Carrying values of items				
		Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets						
Cash and short-term funds	**74,328**	**74,328**	**-**	**-**	**369**	**-**
Balances with Brunei Darussalam Central Bank (BDCB)	**8,115**	**8,115**	**-**	**-**	**-**	**-**
Group balances receivable	**3,018**	**-**	**-**	**-**	**-**	**3,018**
Government bonds	**15,520**	**15,520**	**-**	**-**	**-**	**-**
Loan and advances to customer	**62,129**	**62.129**	**-**	**-**	**-**	**-**
Right-of-use asset	**379**	**379**	**-**	**-**	**-**	**-**
Property and equipment	**1,719**	**1,719**	**-**	**-**	**-**	**-**
Other assets	**2,970**	**2,970**	**-**	**-**	**-**	**-**
Total assets	**168,178**	**164,781**			**369**	**3,018**
Liabilities						
Deposits from customers	**113,702**	**-**	**-**	**-**	**-**	**113,702**
Deposits from banks and other financial institutions	**740**	**-**	**-**	**-**	**-**	**2,516**
Group balance payable	**3,055**	**-**	**-**	**-**	**-**	**3,055**
Other liabilities	**5,585**	**-**	**-**	**-**	**-**	**3,585**
Provision for taxation	**243**	**-**	**-**	**-**	**-**	
Lease liability	**394**	**-**	**-**	**-**	**-**	**394**
Total liabilities	**121,719**	**-**	**-**	**-**	**-**	**121,719**

4.3 Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation**	168,178	164,781	-	-	369
2	Liabilities carrying value amount under regulatory scope of consolidation	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	168,178	164,781	-	-	-
4	Off-balance sheet amounts	13,348	3,216	-	-	-
5	*Differences in valuations*	-	-	-	-	-
6	*Differences due to different netting rules, other than those already included in row 2*	-	-	-	-	-
7	*Differences due to consideration of provisions*	-	-	-	-	-
8	*Differences due to prudential filters*	-	-	-	-	-
9	**Exposure amounts considered for regulatory purposes**	181,526	167,997	-	-	369

5.0 Risk Management Approach

Risk is inherent in the Bank's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, reputational, strategic and cross-border, as well as other forms of inherent to its strategy, product range and geographical coverage.

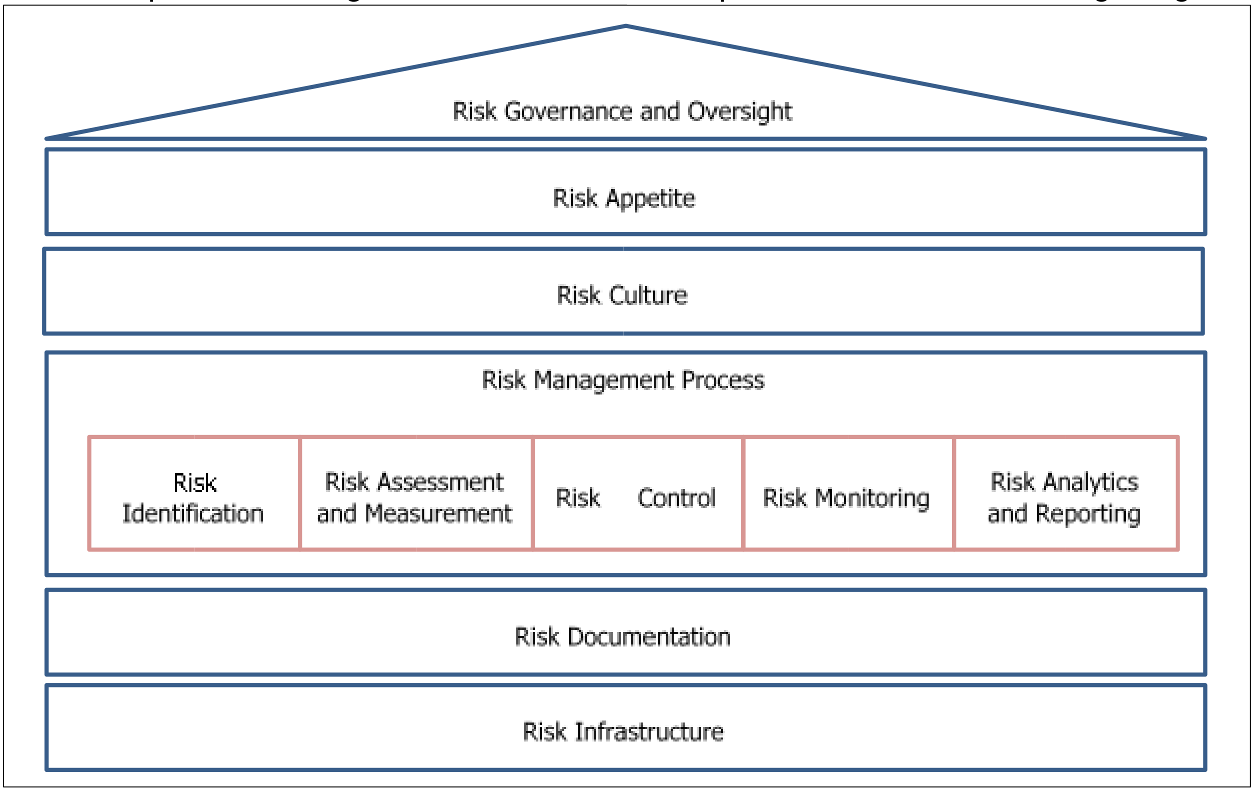
Effective risk management is fundamental to drive sustainable growth and shareholder value, while sustaining competitive advantage, and is thus part of the proactive risk management of the Bank.

The Group Risk Management Framework governs the management of risks in the RHB Banking Group (the Group) inclusive of RHB Bank Berhad Brunei Darussalam Branch as follow:

- It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and controls in the organisation.
- It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The Bank adopts and is guided by the Group Risk Management Framework in administration and implementation of its risk management activities.

The Group Risk Management Framework is represented in the following diagram:



Key features of the framework are:

Risk Governance and Oversight

The Board of Directors sits at the apex of the risk governance structure and is ultimately responsible for the Group's/respective entities' risk management strategy, appetite, framework and oversight of risk management activities.

The Board of Directors (Board), through the respective risk committees, Group Capital and Risk Committee (GCRC) and the Group Risk and Credit Management function, establishes the risk appetite and risk principles for the Group and relevant entities. The Board Risk Committee (BRC) is the principal Board Committee that provides oversight over the risk management activities for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models.

The responsibility for the supervision and the day-to-day management of enterprise risk and capital matters is delegated to the GCRC comprising senior management of the Group and which reports to the relevant board committees and the Group Management Committee. The Group Asset and Liability Committee (Group ALCO) oversees market risk, liquidity risk and balance sheet management.

Roles and Responsibilities for the risk management function:

The Group Chief Risk Officer (GCRO) of the Group is responsible for the risk management function. The incumbent is independent from the business units and does not have any management or financial responsibility in respect of any business lines or revenue-generating functions.

GCRO reports directly to the Group Managing Director and has unimpeded access to the Board of Directors and the Board Level Risk Committees. The main roles and responsibilities of GCRO are as follows:

- Facilitating the setting of the strategic direction and overall policy on management and control of risks of the Group;
- Ensuring industry best practices in risk management are adopted across the Group, including the setting of risk management parameters and risk models;
- Developing proactive, balanced and risk attuned culture within the Group; and
- Advising senior management, management level committees, board level risk committees and Board of Directors of the Group's entities on risk issues and their possible impact on the Group in the achievement of its objectives and strategies.

Risk Management Department of RHB Bank Brunei Operation's main function is to assess and manage the enterprise risk and liaise with regulators in Brunei. The team is supported by the risk management function from the Group, who specialise in the respective risks and oversight of Group-wide risk management function, such as Group Credit Risk Management, Group Market Risk Management, Group Asset and Liability Management, Group Operational Risk Management, Group Technology and Cyber Risk Management, Group Shariah Risk Management, Risk Strategy & Transformation and Enterprise Risk Analytics, Enterprise Risk Management, Group Credit Management, Investment Banking & Regional Risk, and Insurance Risk Management.

Risk Appetite

The Board of Directors sets the risk appetite and tolerance level that are consistent with the Group and each entity's overall business objectives and desired risk profile. It describes the types and level of risks the Group is prepared to accept in delivering its business strategies, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

The alignment of the Group's business strategy with its risk strategy, and vice-versa is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

Risk Culture

The Group including RHB Bank Berhad Brunei Darussalam branch subscribes to the principle of ‘Risk and Compliance is Everyone’s Responsibility’ and hence, risk management is one of the core responsibilities of the respective businesses and operating units.

The approach is based on the ‘three lines of defence’ model as depicted below:

FIRST LINE Business/Functional Level	• Responsible for managing day-to-day risks and compliance issues • Business Risk and Compliance Officer /Business Risk Officer / Business Compliance Officer / equivalent is to assist business/functional unit in day-to-day risks and compliance
SECOND LINE Group Risk Management & Group Compliance	• Responsible for oversight, establishing governance and providing support to business/functional unit on risk and compliance matters
THIRD LINE Group Internal Audit	• Provide independent assurance to the Board that risk and compliance management functions effectively as designed

Risk Management Process

The risk management process identifies, assesses and measures, controls, monitors and reports/analyses risk. This ensures that risk exposures are adequately managed and that the expected return compensates for the risk taken.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and proactive and timely identification of risk within the Group's business operations, including emerging risks. This ensures that risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.
- Assessment and Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.
- Controlling: Risks identified during the risk identification process must be adequately managed and mitigated to control the risk of loss. This is also to ensure risk exposures are managed within the Group's or entity's risk appetite.
- Monitoring: Effective monitoring process ensures that the Group is aware of the condition of its exposures vis-à-vis its approved appetite and to facilitate early identification of potential problem on a timely basis by using continuous and on-going monitoring of risk exposures and risk control/mitigation measures.
- Analytics and Reporting: Risk analysis and reports are prepared by the respective entities and at a consolidated level as well as business level and are regularly escalated to the senior management and relevant Boards of the Group's entities to ensure that the risks identified remain within the established appetite and to support an informed decision making process. Reporting and analytics are also being continuously enhanced to provide the necessary information to relevant stakeholders within the Group to facilitate more effective decision making.

In addition, risk management seeks to ensure that risk decisions are consistent with strategic business objectives and within the risk appetite.

Risk Documentation

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are effected consistently across the Group. Documents are subject to a robust review process to ensure they remain current.

Risk Infrastructure

The Group has organised its resources and talents into specific functions, and invested in the technology, including data management to support the Group's risk management activities. Staff have clear roles and responsibilities, given access to relevant and up-to-date risk information, and the latitude to continuously enhance competency through learning and development programs.

Risk systems and tools are designed to provide accessibility of risk information that complement the risk management process. The availability of data for analytics and monitoring, and dashboards and reporting assists in continuously enhancing risk management capabilities.

Effective risk management requires the Group to continuously review its risk management capabilities to effectively manage risk and to improve risk management practices across the Group. Therefore, the Group has embarked on transformation journeys striving for improvements for better efficiency and effectiveness.

6.0 Liquidity Risk Management

Liquidity risk is the risk of the Bank being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost. Liquidity risk also arises from the inability to manage unplanned decreases or changes in funding sources.

Periodic reports are presented to the Bank's Management Committee (MANCO) and Group Asset Liability Committee (ALCO). The Group ALCO supports the BRC by performing the critical role in oversight of balance sheet risk. The Group ALCO meets regularly to review and assess potential risk arising from interest rate/rate of return risk in banking book, liquidity and market risk, deliberate business strategies and risk mitigation plans on the back of prevailing market condition and business landscape.

The Group's Liquidity Policy Statement sets out the framework for liquidity risk management and control, whereas the Group Liquidity Incident Management Plan Guideline stipulates guidance on managing liquidity crisis. covers contingency plans to address its liquidity incidents. Liquidity is managed both quantitatively and qualitatively, involving monitoring of large depositors, economic conditions, financial markets and competitive environments.

The following table shows cash flow analysis of the Branch's financial assets and liabilities by remaining contractual maturities on an undiscounted basis. Actual maturity dates may differ from contractual maturity dates due to behavioural patterns such as early withdrawal of deposits or loans.

31 December 2023	**Less than 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Assets					
Cash and short-term funds	25,692	27,600	21,036	-	74,328
Balances with BDCB	8,115	-	-	-	8,115
Group balances receivables	3,018	-	-	-	3,018
Government sukuk	11,500	-	4,020	-	15,520
Loans and advances to customers	4,870	5,818	395	51,046	62,129
Other assets	1,822	666	192	-	2,680
Total assets	55,017	34,084	25,643	51,046	165,790
Liabilities					
Deposits from customers	29,887	25,211	43,117	15,487	113,702
Deposits from banks and other financial institutions	2,516	-	-	-	2,516
Group balances payable	3,055	-	-	-	3,055
Other liabilities	2,948	399	238	-	3,585
Lease liability	37	37	75	245	394
Total liabilities	36,667	25,647	43,430	15,732	121,476

7.0 Credit Risk

7.1 General qualitative information about credit risk

Credit risk is the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contracture obligations in accordance with the agreed terms. It stems primarily from the Bank's lending/financing, trade finance, placement, investment, hedging and trading activities from both on- and off-balance sheet transactions.

Credit Risk Management Approach

Credit Risk management is conducted in a holistic manner. Credit underwriting standards are articulated in an approved Group credit policy and guidelines which are developed for the assurance of asset quality that is in line with the Group's risk appetite. Industry best practices are instilled in the continual updating of the Group credit policy and guidelines including independent assessment of credit proposals, assignment of rating and adoption of multi-tiered delegated lending authorities spanning from individuals to credit approving committees.

Group Credit Committee ("GCC") is responsible for ensuring adherence to the Board approved credit risk appetite as well as the effectiveness of credit risk management. GCC is the senior management committee empowered to approve or reject all financial investments, counterparty credit and lending/financing up to the defined threshold limits. The Board Credit Committee's (BCC) main functions are (i) affirming, vetoing or imposing more stringent conditions on credits of the Group which are duly approved by the GCC (ii) overseeing the management of impaired and high risk accounts and (iii) approving credit transactions to connected parties up to the defined threshold limits, (iv) approving Policy Loans/Financing.

The Bank also ensure that internal processes and credit underwriting standards are adhered to before credit proposals are approved. All credit proposals are firstly assessed for its credit worthiness by the originating business units before being evaluated by an independent credit evaluator in Head Office and decided upon by the delegated lending/financing authority/relevant committees. For proper checks and controls, joint approval is required for all discretionary lending between business and independent credit underwriters. Loans/financing which are beyond the delegated lending authority limits will be escalated to the relevant committees for approval.

The analysis of any single large exposure and group of exposures is conducted regularly. The Strategic Business Units (SBUs) undertake regular account updates, monitoring and management of these exposures.

Credit reviews and rating are conducted on the credit exposures at least annually. Specific loans/financing may be reviewed more frequently under appropriate circumstances. Such circumstances may arise if, for instance, the Bank believes that heightened risk exists in a particular industry, or the borrower/customer exhibits early warning signals such as default on obligations to suppliers or other financial institutions or is facing cash flow or other difficulties.

Regular risk reporting is made to the MANCO and Asset Management Committee (AMT). These reports include various credit risk aspects such as portfolio quality, and concentration risk exposures by industry and customer type. Such reporting allows senior management to identify adverse credit trends, take prompt corrective actions, and ensure appropriate risk-adjusted decision-making. The Group also conducts regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

7.2 Credit quality of assets

December 2023

(BND'000)		Gross carrying values of		Allowances/ impairments	Of which: ECL accounting provisions for credit losses on SA exposures		Net values
		Defaulted exposures	Non-defaulted exposures		Of which: Specific Allowances	Of which: General Allowances	
1	Loans	1,163	60,612	354	99	255	62,129
2	Debt Securities	-	15,520	-	-	-	15,520
3	Off-balance sheet exposures	-	13,328	-	-	-	13,328
4	**Total**	**1,163**	**89,460**	354	99	255	**90,977**

June 2023

(BND'000)		Gross carrying values of		Allowances/ impairments	Of which: ECL accounting provisions for credit losses on SA exposures		Net values
		Defaulted exposures	Non-defaulted exposures		Of which: Specific Allowances	Of which: General Allowances	
1	Loans	1,924	58,247	(646)	(375)	(271)	59,525

2	Debt Securities	-	14,856	-	-	-	14,856
3	Off-balance sheet exposures	-	12,883	-	-	-	12,883
4	**Total**	**1,924**	**85,986**	**(646)**	**(375)**	**(271)**	**87,264**

*Default is defined as account that are classified under Stage 3 (Impaired).

7.3 Changes in stock of defaulted loans and debt securities

December 2023

		BND'000
1	**Defaulted loans and debt securities at the end of the previous reporting period**	**1,924**
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-defaulted status	(83)
4	Amounts written off	(411)
5	Other changes	(267)
6	**Defaulted loans and debt securities at the end of reporting period**	**1,163**

June 2023

		BND'000
1	**Defaulted loans and debt securities at the end of the previous reporting period**	**1,819**
2	Loans and debt securities that have defaulted since the last reporting period	90
3	Returned to non-defaulted status	-
4	Amounts written off	-
5	Other changes	15
6	**Defaulted loans and debt securities at the end of reporting period**	**1,924**

From June 2023 to December 2023, there was no newly defaulted loans. BND82,898.74 of defaulted loan was reclassified to non-defaulted status during this period. Total amount written off during the period was BND410,624.72. There was recovery of BND318,808.70 during this period. Thus, this has resulted a lower defaulted loan of BND1,163,002.75 in December 2023.

7.4 Additional disclosure related to the credit quality of assets

Impairment

The Bank recognises loss allowances for all financial assets, except for financial assets classified or designated as Fair Value Through Profit & Loss (FVTPL) and equity securities classified under Fair Value Through Other Comprehensive Income (FVOCI), which are not subject to impairment assessment. Off-balance sheet items that are subject to expected credit losses (ECL) include financial guarantees and undrawn loan commitments.

The general approach is adopted by the Bank. ECL is assessed using an approach which classifies financial assets into three stages which reflects the change in credit quality of the financial assets since initial recognition:

(i) Stage 1: 12 months ECL – not credit impaired

For credit exposures where there has not been a significant increase in credit since initial recognition or which has low credit risk at reporting date and that are not credit impaired upon origination, the ECL associated with the probability of default even occurring within the next 12 months will be recognised.

(ii) Stage 2: Lifetime ECL – not credit impaired

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

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

(iii) Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised. Generally, all financial assets that are 90 days past due or more are classified under Stage 3.

The Bank consider the following as constituting an event of default:

(1) Quantitative criteria
- The borrower is past due more than 90 days on any material credit obligation to the Bank

(2) Qualitative criteria
- Legal action has been initiated by the Group and the Bank for recovery purposes:
- Borrower is bankrupt; and
- Borrower has been assigned to external collection agency.

Significant increase in credit risk ('SICR')

(1) The Bank considers the probability of default upon initial recognition of the asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

(2) Among the indicators incorporated in ascertaining SICR are:
- Internal credit rating;
- External credit rating (as far as available);
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- Actual or expected significant changes in the operating results of the borrower;
- Significant increase in credit risk on other financial instruments of the same borrower;
- Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements:
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrower in the group and changes in the operating results of the borrower.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The measurement of ECL is based on the discounted products of the Probability of Default model ('PD'), Loss Given Default model ('LGD') and Exposure at Default model ('EAD'). The changes in ECL between two-periods will be recognised in statement of total comprehensive income.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Bank's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the statement of total comprehensive income.

Other relevant historical information, loss experience or proxies will be utilised if deemed feasible.

In determining the ECL, management will evaluate a range of possible outcomes, taking into account past events, current conditions/trends and economic outlooks. Additional considerations that are assessed to have been adequately addressed by the ECL model estimates a structured management overlay, which is subject to robust review and governance process, will be applied consistently.

Generally, all financial assets are considered to have experienced a significant increase in credit risk if the exposures are more than 30 days past due on its contractual payments.

Quantitative disclosure

Credit exposure of the Bank as at 31 December that are subject to impairment:

	2023	2022
Credit risk exposure relating to on-balance sheet assets:		
Short term funds (exclude cash on hand)	70,523	111,685
Balances with BDCB	8,115	8,506
Group balances receivable	3,018	6,416
Government bonds	15,520	15,000
Loans and advances to customers	62,129	58,693
Other financial assets	2,680	1,444
	161,985	201,744
Credit risk exposure relating to off-balance sheet items:		
- Commitments and contingencies	14,963	12,202
Total maximum credit risk exposure that are subject to impairment	176,948	213,946

Loans and advances to customers analysed by stages as at 31 December 2023:

	12-month ECL (Stage 1)	Lifetime ECl not credit impaired (Stage 2)	Lifetime EC credit impaired (Stage 3)	Total
Balance as at 1 January 2023	57,152	354	1,819	59,325
Changes due to financial assets recognised in the opening balance that have been:				
Transferred to 12-month ECL (Stage 1)	276	(211)	(65)	-
Transferred to Lifetime ECL not credit impaired (Stage 2)	(1,978)	1,978	-	-
Transferred to Lifetime ECL credit impaired (Stage 3)	(148)	-	148	-
Origination	10,340	-	1	10,341
Derecognition	(6,250)	(193)	(329)	(6,772)
Amount written-off			(411)	(411)
Gross loans and advances	59,392	1,928	1,163	62,483
Allowance for credit losses	(207)	(47)	(100)	(354)
Balances as at 31 December 2023	59,185	1,881	1,063	62,129

Movement in allowance for credit losses included within loans and advances to customers is as follows:

	12-month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
Loans and advances to customers				
Balance as at 1 January 2023	210	23	399	632
Changes due to financial assets recognised in the opening balance that have been:				
Transferred to 12-month ECL (Stage 1)	15	(15)	-	-

Transferred to Lifetime ECL not credit impaired (Stage 2)	(4)	4	-	-
Transferred to Lifetime ECL credit impaired (Stage 3)	-	-	-	-
	221	12	399	632
Allowance made during the financial year	(14)	35	112	133
Bad debts written-off Derecognition	-	-	(411)	(411)
Balances as at 31 December 2023	207	47	100	354

Credit risk exposure is also analysed by industry in respect of the Bank's financial assets, including off-balance sheet financial instruments as set out below:

31 December 2023	Loans and advances	Letters of credit, guarantees, bonds and others	Undrawn credit lines
By industry sector:			
Agriculture	-	10	87
Manufacturing	841	3	56
Transportation	618	50	132
Traders	19,570	4,353	7,276
Services	3,747	2	362
Construction and property financing	32,033	-	1,566
Personal and consumption loans	3,279	-	257
Tourism	2,253	10	56
Telecommunication and IT	142	47	161
Financial	-	480	55
Gross loans and advances	62,483	4,955	10,008
Less: Allowance for credit losses	(354)	-	-
Balances as at 31 December 2023	62,129	4,955	10,008

7.5 Qualitative disclosure requirements related to credit risk mitigation techniques

The Bank generally does not grant credit facilities solely on the basis of collateral provided. All credit facilities are granted based on the credit standing of the borrower/customer, source of repayment and debt/financing servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Group's policies and guidelines that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation and counterparty risk of the guarantor.

Collateral is valued in accordance with the Group's policy and guidelines on collateral valuation, which prescribes the frequency of valuation for different collateral/securities types, based on liquidity and volatility of the collateral value and the underlying product or risk exposure. The value of collaterals/securities pledged is monitored periodically, analysed and updated concurrently with the annual/periodic renewal of facilities.

Recognised collaterals where relevant, include both financial and physical assets. Financial collaterals include cash deposits, while physical collateral includes land and buildings. Apart from financial collateral and physical collateral, the Group has defined standards on the acceptance of non-tangible securities as support, such as guarantees from individuals, corporates and institutions, debenture and assignment of contract proceeds, subject to internal guidelines on eligibility.

Currently, the Group does not employ the use of derivative credit instruments and On Balance sheet netting to mitigate its financing exposures.

Credit Concentration Risk

Risk concentration refers to an exposure with the potential to produce losses that are substantial enough to threaten the financial condition of a banking institution. Risk concentrations can materialise from excessive exposures to a single counterparty or group of connected counterparties, a particular instrument or a particular market segment.

In line with the Group, the Bank manages the diversification of its portfolio to avoid undue credit concentration risk. Credit concentration risk exists in lending/financing to single customer groups, borrower/customers engaged in similar activities, or diverse groups of borrower/customers that could be affected by similar economic or other factors. To manage concentration risk, amongst others, exposure limits and lending/financing guidelines are established including but not limited to single borrowing/financing groups and Bank and Non-Bank Financial Institutions (NBFI).

Periodic reviews of the said limits and related lending/financing guidelines are performed, whereupon any emerging concentration risks are addressed accordingly. Any exception to the limits and lending/financing guidelines would be subject to approvals from relevant higher approving authorities. Analysis of any single large exposure and group of exposures is regularly conducted and the lending/financing units undertake regular account updates, monitoring and management of these exposures. In addition, the Group also continuously updates lending or financing guidelines based on periodic reviews of sector risk factors and economic outlook.

7.6 Overview of credit risk mitigation (CRM) techniques

December 2023

	(BND'000)	Exposures unsecured	Exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Loans	15,832	46,651	46,651		-
2	Debt Securities	15,520	-	-		-
3	**Total**	**31,352**	**46,651**	**46,651**		**-**
4	Of which defaulted	75	1,088	1,088		-

June 2023

	(BND'000)	Exposures unsecured	Exposures secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Loans	10,886	49,286	49,286		-
2	Debt securities	14,856	-	-		-
3	**Total**	**25,742**	**49,286**	**49,286**		**-**
4	Of which defaulted	113	1,811	1,811		-

*Figures for exposure secured by collateral and financial guarantees are reported merged as some of the customers' loans are secured by multi-collateral including property, fixed deposit and guarantees.

7.7 Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

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

In accordance with the rules and principles laid down by the Basel Committee, the BDCB has identified the following international rating agencies as External Credit Assessment Institutions (ECAIs) for the purposes of risk weighting exposures for capital adequacy purposes:

1. Moody's
2. Standard and Poor's ("S&P")
3. Fitch Rating

External ratings for the counterparties are determined as soon as relationship is established and these ratings are tracked and kept updated. Only publicly available credit ratings are used for regulatory risk weighting purpose.

7.8 Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects

December 2023

Asset classes (BND'000)		Exposures before CCF and CRM		Exposures post-CCF and CFM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	31,243	-	31,243	-	0	0%
2	Non-central government public sector entities	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	66,569	-	66,569	-	28,436	42.72%
5	Securities firms	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	-
7	Regulatory retail portfolios	46,623	13,348	46,623	3,216	47,225	94.76%
8	Secured by residential property	14,698	-	14,698	-	9,290	63.20%
9	Secured by commercial real estate	-	-	-	-	-	-
10	Equity	-	-	-	-	-	-
11	Past-due loans	1,163	-	1,122	-	1,122	100%
12	Higher-risk categories	-	-	-	-	-	-

13	Other assets	6,805	-	6,805	-	2,465	36.22%
14	**Total**	**167,101**	**13,348**	**167,101**	**3,216**	**88,538**	**51.98%**

June 2023

Asset classes (BND'000)		**Exposures before CCF and CRM**		**Exposures post-CCF and CFM**		**RWA and RWA density**	
		On-balance sheet amount	Off-balance sheet amount	On-balance amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	37,996	-	37,996	-	0	0%
2	Non-central government public sector entities	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	82,156	-	82,156	-	35,079	42.70%
5	Securities firms	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	-
7	Regulatory retail portfolios	42,551	12,883	42,551	3,066	42,719	93.65%
8	Secured by residential property	15,697	-	15,697	-	10,112	64.42%
9	Secured by commercial real estate	-	-	-	-	-	-
10	Equity	-	-	-	-	-	-
11	Past-due loans	1,924	-	1,780	-	1,780	100%
12	Higher-risk categories	-	-	-	-	-	-
13	Other assets	9,419	-	9,419	-	2,940	31.21%
14	**Total**	**189,740**	**12,883**	**189,599**	**3,066**	**92,630**	**48.08%**

For December 2023, higher regulatory retail portfolio exposure due to higher gross loan and advances, however, this was offset by lower Banks exposure from lower interbank placement.

7.9 Standardised Approach – Exposures by asset classes and risk weights

December 2023

	Risk weight / Asset classes (BND'000)	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposure amount (post CCF and post CRM)
1	Sovereign and their central banks	31,243	-	-	-	-	-	-	-	-	31,243
2	Non-central government public sectors entities (PSEs)	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	16,770	-	49,435	-	364	-	-	66,569
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	-	-	-	-	-
7	Regulatory retail portfolios	-	-	-	-	-	10,455	39,384	-	-	49,839
8	Secured by residential property	-	-	-	4,333	-	10,365	-	-	-	14,698
9	Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
10	Equity	-	-	-	-	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	-	-	1,122	-	-	1,122
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other assets	3,805	-	669	-	-	-	2,331	-	-	6,805

	Risk weight / Asset classes (BND'000)	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposure amount (post CCF and post CRM)
14	**Total**	**35,048**	**-**	**17,439**	**4,333**	**49,435**	**20,820**	**43,201**	**-**	**-**	**170,276**

June 2023

	Risk weight / Asset classes (BND'000)	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposure amount (post CCF and post CRM)
1	Sovereign and their central banks	37,996	-	-	-	-	-	-	-	-	37,996
2	Non-central government public sectors entities (PSEs)	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	21,307	-	60,062	-	787	-	-	82,156
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	-	-	-	-	-
7	Regulatory retail portfolios	-	-	-	-	-	11,594	34,023	-	-	45,617
8	Secured by residential property	-	-	-	4,151	-	11,546	-	-	-	15,697
9	Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
10	Equity	-	-	-	-	-	-	-	-	-	-

	Risk weight / Asset classes (BND'000)	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposure amount (post CCF and post CRM)
11	Past-due loans	-	-	-	-	-	-	1,780	-	-	1,780
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other assets	5,215	-	1,580	-	-	-	2,624	-	-	9,419
14	**Total**	**43,211**	**-**	**22,887**	**4,151**	**60,062**	**23,140**	**39,214**	**-**	**-**	**192,665**

In December 2023, the major movement were under Regulatory retail portfolios mainly from higher loans and advances offset slightly by lower Bank's exposure from lower interbank placement when compared against June 2023.

These have resulted in higher Credit-Risk RWA for December 2023 when compared against June 2023.

8.0 Counterparty Credit Risk (CCR)

8.1 Qualitative disclosure related to CCR

Counterparty Credit Risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default. Unlike a firm's exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss. CCR creates a bilateral risk of loss; the market value of the transaction can be positive or negative to either counterparty to the transaction. The market value is uncertain and can vary over time with the movement of underlying market factors.

Counterparty risk is typically defined as arising from two broad classes of financial products:

- Over-the-counter derivatives such as interest rate/profit rate swaps, FX forwards and credit default swaps.
- Securities financing transactions such as repos and reverse repos; and securities borrowing and lending.

Derivative financial instruments are entered into for hedging or proprietary trading purposes governed by Board approved limits and internal controls.

Any financial loss is calculated based on the cost to replace the defaulted derivative financial instruments with another similar contract in the market. The cost of replacement is equivalent to the differences between the original value of the derivatives at the time of contract with the defaulted counterparty and the current fair value of a similar substitute at current market prices.

All outstanding financial derivative positions are marked-to-market on a daily basis. The Bank monitors counterparties' positions and promptly escalates any shortfall in the threshold levels to the relevant parties for next course of action.

9.0 Securitisation

9.1 Qualitative disclosure requirements related to securitisation exposures

The Bank does not carry any securitisation exposures over the reporting period.

10.0 Market Risk

10.1 Qualitative disclosure requirements related to market risk

Market risk is the risk of losses arising from adverse movements in market drivers, such as interest/profit rates, credit spreads, equity prices, currency exchange rates and commodity prices. Under this definition, market risk will constitute:

- The interest/profit rate and equity risks pertaining to financial instruments in the trading book; and
- Foreign exchange risk and commodities risk in the trading and banking books.

The Bank is not exposed to significant market risk.

Foreign exchange risk

Foreign exchange risk is the risk of holding or taking positions in foreign currencies, including gold and silver. The Bank's foreign exchange exposures comprise non-trading foreign exchange exposure principally derived from inter-branch nostro accounts. As most of the foreign exchange exposure is to Singapore Dollar (SGD), the Bank is not exposed to significant foreign exchange risk due to the currency interchanges Agreement between Singapore and Brunei which interchange the two currencies at par.

10.2 Market Risk under the Standardised Approach

		RWA (BND'000)
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	369.19
4	Commodity risk	-
5	**Total**	**369.19**

11.0 Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk in the banking book refers to the risk to Group's earnings and economic value of equity due to the adverse movements in interest rate. The risk may arise from the mismatches in the timing of repricing of assets and liabilities from both on and off-balance sheet positions in the banking book, changes in slope and shape of the yield curve, basis risk and optionality risk.

Earnings-at-Risk (EaR) and Economic Value of Equity (EVE) are used to assess interest rate risk in the banking book. RHB Bank Berhad – Brunei Darussalam Branch adopted Head Office's (The Group) methodology in measuring EaR and EVE. They are computed based on the repricing gap profile of the banking book using Bank Negara Malaysia's (BNM) standard template. Assets and liabilities are bucketed based on their remaining tenure to maturity or next re-price dates. The non-maturing fixed rate loans balances are slotted in more than 1 week to 1 month (5%) and in more than 1 to 2 years (95%) time buckets. 33% of the non-maturing deposits (NMD) are slotted in more 1 week to 1 month as non-core balance and 67% of the NMD balances are slotted in more than 1 to 2 years' time bucket as core balances. The measurement of EaR and EVE is conducted on a monthly basis. The Group ALCO supports the board committees by performing the critical role in oversight of balance sheet risk, liquidity risk and market risk. Group ALCO meets regularly to review and assess potential risk arising from interest rate/rate of return risk in banking book, liquidity and market risk, deliberate business strategies and risk mitigation plans on the back of prevailing market condition and business landscape. Guided by Group Interest Rate Risk/Rate of Return Risk in the Banking Book Policy, Group Asset and Liability Management (Group ALM) manages interest rate/rate of return risk in banking book in adherence to established governance structure and process. Monthly EaR and EVE are measured, controlled and monitored against risk limits set. These are supplemented with projections to assess potential risk arising from changes in balance sheet structure and market environment.

In order to achieve a balance between profitability from banking activities and minimising risk to earnings and capital from changes in interest rate, interest rate risk to earnings is controlled using Management Action Triggers (MATs) and identified escalation procedures. Stress testing is also performed to determine the adequacy of capital in meeting the impact of extreme interest movements on the balance sheet. Such tests are performed to provide early warnings of potential extreme losses, facilitating proactive management of interest rate risk in the banking book in an environment of rapid financial market changes.

Interest Rate Risk in the Banking Book as at 31 December 2023

	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase / (Decline) in Earnings		Increase/(Decline) in Economic Value	
Currency	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
	BND'000	BND'000	BND'000	BND'000
BND - Brunei Dollar	(295)	295	825	(825)
SGD - Singapore Dollar	408	(408)	286	(286)
Others	(1)	1	(0)	0
Total	112	(112)	1,111	(1,111)

Interest Rate Risk in the Banking Book as at 31 December 2022

	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase / (Decline) in Earnings		Increase/(Decline) in Economic Value	
Currency	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
	BND'000	BND'000	BND'000	BND'000
BND - Brunei Dollar	(512)	512	866	(866)
SGD - Singapore Dollar	625	(625)	398	(398)
Others	3	(3)	0	(0)
Total	**116**	**(116)**	**1,264**	**(1,264)**

12.0 Operational Risk

12.1 Qualitative disclosure requirements related to operational risk

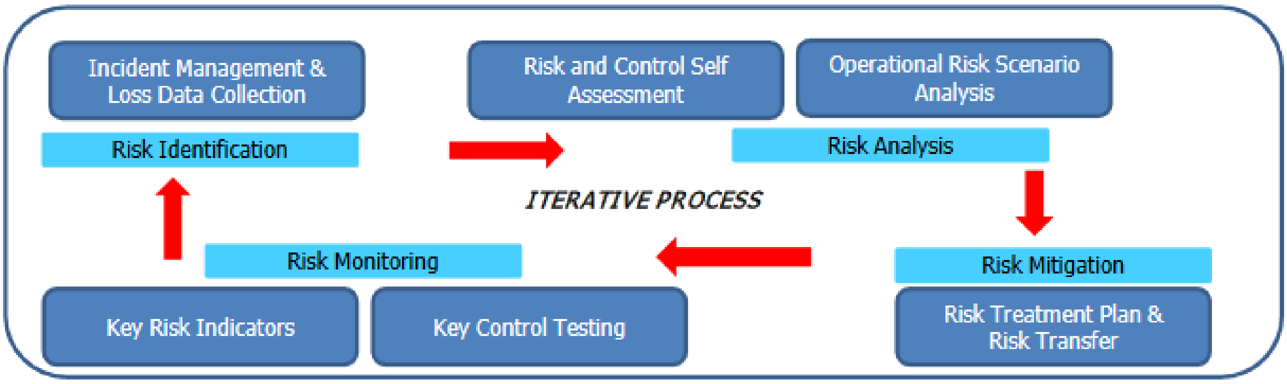
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, system and/or external events, which also includes IT, legal and Shariah non-compliance risk but excludes strategic and reputational risk. Operational risk may result in direct financial losses as well as indirect financial losses (e.g. loss of business and market share) due to reputational damage.

Operational Risk Management Processes and Tools

The Bank applies a defined operational risk management process in managing operational risk to enable an institutional and transparent operational risk management practice. The five (5) processes are as follows: -

1. Establish the context,
2. Risk identification,
3. Risk analysis,
4. Risk mitigating and
5. Risk monitoring

The Bank uses relevant operational risk tools and methodologies to support and ensure an effective operational risk management process. The following tools are being used:



Risk Mitigation and Controls

Risk mitigation strategies are used to minimise risk to an acceptable level and aim to decrease the likelihood of an undesirable event and the impact on the business, should it occur. The control tools and techniques, amongst others, are as follows:

- **Strengthening internal controls**

  Internal controls (i.e. control environment, risk assessment, control activities, information and communication, and monitoring) are designed to commensurate operational risk exposures faced by the Group. The Group monitors and regularly evaluates its internal control systems to ensure that they are operating effectively and to take account of changing internal and external conditions.

- **Business Resilience and Continuity**

  To mitigate the impact of unforeseen operational risk events, the Group has on-going and actively managed Business Continuity Management (BCM) programme for its major critical business operations and activities at the Head Office, data centre, and branches' locations. There are ongoing continuous improvement initiatives to build operational resilience to ensure sustainability of critical services. The BCM programme is subject to regular testing to validate the adequacy and preparedness of all resources to support critical and essential services in the event of disruption. BCM Programme is under the responsibility of the Group Business Continuity Management Department. The Board of Directors has an oversight function through the BRC and GCRC. The Group Business Continuity Committee, which reports to GCRC, is the committee that oversees the Group's business continuity framework, policies, budget and plans

- **Fraud Risk Management**

  Robust fraud risk management processes to manage threats from external sources and internally, are in place guided by the Group Fraud Risk Management Policy. The Group constantly assesses and monitors fraud risk to ensure consistent organizational behavior through the development, implementation, and regular review of fraud prevention, detection, and response strategies.

- **Outsourcing**

  Due to the need to outsource for cost and operational efficiency, policy and guidelines are put in place to ensure that the risks arising from outsourcing activities are adequately identified, assessed and managed prior to entering into any new arrangements and on an on-going basis.

- **Insurance**

  The Bank has a programme of insurance designed to reduce its exposure to liability and to protect its assets. The Bank purchases insurance from leading insurers in the market covering fixed assets, Group term life and Group personal accident for the bank's employee. These are provided by third-party insurers providers and will financially mitigate the economic consequences of risks. The insurance arrangement is used to complement the management of operational risk and not as a substitute for a sound internal control environment.

Monthly operational risk reporting is made to the MANCO and regional risk management. These reports include various operational risk aspects such as reporting of significant operational loss events. Such reporting enables the MANCO to identify adverse operational lapse, take prompt corrective actions, and ensure appropriate risk mitigation decision making and action plans.

Technology Risk

Technology Risk refers to the business risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the Group.

The Bank recognises the risk arising from the advancement and reliance upon information technology to support business operations through the deployment of advance technology and online systems to provide customers with convenient and reliable products and services. The Group's Technology and Cyber Risk Management Framework ensures that a governance structure is in place for the identification, assessment and management of technology risks within existing IT operations as well as prior to deployment of applications and systems for internal as well as external customers. To ensure that the residual risk is acceptable, the Group has established Technology and Cloud Risk Assessment processes to comprehensively identify and assess relevant risks and corresponding controls for IT and digitalisation initiatives.

Cyber Risk

Cyber Risk refers to threats or vulnerabilities emanating from the connectivity of internal infrastructure to external networks such as the internet.

This is an inherent risk associated with the industry moving towards the internet as a channel for the delivery of banking services. The Group recognises the risks associated to cyber and as part of the mitigation shall continuously identify suitable security devices to be deployed and ensure sufficient resources with the right skill sets were allocated to manage this risk. The Group also subscribes to various threat intelligence services to obtain latest information on cyber threat and incidence which can be used for risk mitigation. To further provide assurance that the internet facing application system are secured, the Group engages reputable IT security service providers to perform periodic /penetration testing where weakness detected shall be duly resolved with attestation from external consultants. To further strengthen the controls, Red Team and compromise assessment activities are performed regularly to test the effectiveness of the implemented safeguards. Phishing simulation exercises are also carried out periodically to maintain staff vigilance and increase awareness on such social engineering cyberattacks.

Legal Risk

Legal risk is part of operational risk. It can arise from unenforceable, unfavourable, defective or unintended contracts; lawsuits or claims; developments in laws and regulations, or non-compliance with applicable laws and regulations. Business units work together with the Group's legal counsel and external legal counsel to ensure that legal risk is effectively managed.

13.0 Reputational Risk

Reputational risk is defined as the risk that negative publicity regarding the conduct of the Bank or any of the entities within the Group, and its business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures. It also undermines public confidence in the Bank and the Group, affecting the share price.

Reputational risk in the Bank is managed and controlled through codes of conduct, governance practices and risk management practices, policies, procedures and training. The Group has developed and implemented the Group Reputational Risk Management Policy which outlines the core principles to manage reputational risk.