

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 2023

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

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 MANAGEMENT

Internal Capital Adequacy Assessment Process (“ICAAP”)

The ICAAP is designed to ensure the Bank maintains adequate capital on an ongoing basis to support its business operations beyond minimum regulatory capital requirements under Pillar I, addressing the risks not fully captured under Pillar I and risk types not covered by Pillar I. An ICAAP should assess the overall capital adequacy of the Bank in relation to its risk profile and encompass a strategy for maintaining appropriate capital levels.

The ICAAP is submitted to Board for approval on annual basis, which outline the Board and senior management oversight, comprehensive risk assessment, sound capital management, risk management, capital planning, capital monitoring and strategic forecasting.

Board and Senior Management Oversight

There are various committees which are set up to manage the overall risk framework of the Bank, at the Board and management level. These include the Board of Directors (“BOD”), Board Risk Management Committee (“BRMC”), Location Management Committee (“LMC”), Risk/Asset & Liability Committee (“RALCO”), Location Operating Committee (“LOC”) and Location Outsourcing Governance Committee (“LOGC”). In addition, each risk is managed by the regional / local delegates, within the firm-wide risk management framework, who also addresses local regulatory requirements. The risk champions have been appointed to “own” the relevant risks, and their responsibilities are to complete the risk assessment templates which will support the overall ICAAP for the Bank. These risk assessment templates will document the rationale for the conclusion whether the Bank is well-capitalized for that risk.

Registration No.

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J.P. MORGAN CHASE BANK BERHAD
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BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

3 CAPITAL MANAGEMENT (CONTINUED)

Internal Capital Adequacy Assessment Process (“ICAAP”) (continued)

Comprehensive risk assessment

Material risk identification is an ongoing process to capture existing and emerging risks from the activities of the Firm and the Bank. These risks include core risks (e.g. credit risk, market risk, operational risk, etc.) as well as illiquid trading risk and other low-probability but plausible and material, idiosyncratic risks. The Bank adheres to the Firm’s Risk Identification Governance Policy, which establishes the Material Risk Identification governance and oversight, standards and controls over the risk identification process. Thresholds were established for core risks. Tolerance is reviewed as part of annual ICAAP process and the risk parameters are monitored in local governance meetings. When the local management deems that the Bank’s risk profile has changed significantly, the ICAAP will be updated accordingly.

Capital Management

The Firm has a Capital Risk Management function whose primary objective is to provide independent oversight of capital risk across the Firm.

Capital Risk Management’s responsibilities include:

- Defining, monitoring and reporting capital risk metrics;
- Establishing, calibrating and monitoring capital risk limits and indicators, including capital risk appetite;
- Developing a process to classify, monitor and report capital limit breaches; and
- Performing an assessment of the Firm’s capital management activities, including changes made to the Contingency Capital Plan; and
- Conducting assessments of the Firm’s regulatory capital framework intended to ensure compliance with applicable regulatory capital rules

The primary objectives of the Firm’s effective capital management are to:

- Maintain sufficient capital in order to continue to build and invest in the Firm’s businesses through the cycle and in stressed environments;
- Retain flexibility to take advantage of future investment opportunities;
- Promote the Firm’s ability to serve as a source of strength to subsidiaries;
- Ensure the Firm operates above the minimum regulatory capital ratios as well as maintain “well-capitalized” status for the Firm and its insured depository institution (“IDI”) subsidiaries at all times under applicable regulatory capital requirements;
- Meet capital distribution objectives; and
- Maintain sufficient capital resources to operate throughout a resolution period in accordance with the Firm’s preferred resolution strategy

The Firm addresses these objectives through:

- Establishing internal minimum capital requirements and maintaining a strong capital management governance framework. The internal minimum capital levels consider the Firm’s regulatory capital requirements as well as an internal assessment of capital adequacy, in normal economic cycles and in stress events.
- Regular monitoring of the Firm’s capital position and following prescribed escalation protocols, both at the Firm and material legal entity levels.

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 2023 (CONTINUED)

3 CAPITAL MANAGEMENT (CONTINUED)

Internal Capital Adequacy Assessment Process (“ICAAP”) (continued)

Capital Planning

The Capital planning exercise covers the below elements to execute the future growth plans:

- Review current financial statements
- Review macro-economic indicators and challenges
- Identify the Bank’s overall business plans for the next 3 years
- Forecast revenues and key assets and liabilities for next 3 years
- Review of sufficiency of capital funds
- Documents assumptions made in forecasting revenues and balance sheet

Capital Monitoring

Effective capital monitoring is fundamental to the sustainability of the Bank. As such, the Bank proactively monitor’s its capital position to ensure that the regulatory requirements and risk appetite are met. This includes establishing Internal Capital Target (“ICT”) and review the appropriateness of ICT as a sound trigger.

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 bi-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 2023 and 31 December 2022 respectively.

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 2023 (CONTINUED)

3 CAPITAL MANAGEMENT (CONTINUED)

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>31.12.2023</u> RM'000	<u>31.12.2022</u> RM'000
<u>Common Equity Tier 1/ Tier 1 capital</u>		
Paid-up share capital	437,500	437,500
Retained earnings	1,778,922	1,490,242
Fair value reserve through other comprehensive income	62	(256)
Option reserve	11,953	11,953
	<u>2,228,437</u>	<u>1,939,439</u>
Deferred tax assets	(8,178)	(7,440)
Financial Assets at fair value through other comprehensive income	(34)	-
Total Common Equity Tier 1/ Tier 1 capital	<u>2,220,225</u>	<u>1,931,999</u>
<u>Tier-2 capital</u>		
Regulatory reserve	-	6,096
ECL not credit impaired	16,949	15,264
Total Tier 2 capital	<u>16,949</u>	<u>21,360</u>
Total capital	<u>2,237,174</u>	<u>1,953,359</u>
Common Equity Tier 1 capital ratio	27.283%	21.111%
Tier 1 capital ratio	27.283%	21.111%
Total capital ratio	<u>27.492%</u>	<u>21.345%</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 2023 (CONTINUED)

3 CAPITAL MANAGEMENT (CONTINUED)

Capital Structure and Adequacy (continued)

Total risk weighted assets and capital requirements as at 31 December 2023:

<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>				
<i>On-balance sheet exposures</i>				
Sovereigns/central banks	15,552,877	15,397,723	458,945	36,716
Banks	11,273,943	678,905	135,799	10,864
Insurance companies, securities firms and fund managers	1,238,633	1,132,648	375,810	30,065
Corporates	577,513	577,513	575,084	46,007
Regulatory retail	331	331	331	26
Residential mortgages	302	302	127	10
Other assets	32,328	32,328	25,853	2,068
Defaulted exposures	169	169	101	8
Total on-balance sheet exposures	<u>28,676,096</u>	<u>17,819,919</u>	<u>1,572,050</u>	<u>125,764</u>
<i>Off-balance sheet exposures</i>				
Over-the-counter ('OTC') derivatives	3,635,362	3,635,362	1,460,493	116,840
Off balance sheet exposures other than OTC derivatives	282,410	282,410	273,355	21,868
Total off-balance sheet exposures	<u>3,917,772</u>	<u>3,917,772</u>	<u>1,733,848</u>	<u>138,708</u>
Total on and off-balance sheet exposures	<u>32,593,868</u>	<u>21,737,691</u>	<u>3,305,898</u>	<u>264,472</u>
		<u>Long position</u>	<u>Short position</u>	
(b) <u>Market risk</u>				
Interest rate risk	152,937,639	149,022,369	3,687,568	295,006
Foreign currency risk	114,824	2	114,825	9,186
Option risk			213,931	17,114
(c) <u>Operational risk</u>			815,400	65,232
Total risk weighted assets and capital requirements			<u>8,137,622</u>	<u>651,010</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 2023 (CONTINUED)

3 CAPITAL MANAGEMENT (CONTINUED)

Capital Structure and Adequacy (continued)

Total risk weighted assets and capital requirements as at 31 December 2022:

<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>				
<i>On-balance sheet exposures</i>				
Sovereigns/central banks	13,938,923	13,756,334	1,409,121	112,730
Banks	6,544,196	1,565,019	320,624	25,649
Insurance companies, securities firms and fund managers	793,067	740,856	166,163	13,293
Corporates	442,410	442,410	442,410	35,393
Regulatory retail	361	361	361	29
Residential mortgages	397	397	167	13
Higher risk assets	4	4	6	-
Other assets	97,326	97,326	97,995	7,840
Defaulted exposures	142	142	71	6
Total on-balance sheet exposures	21,816,826	16,602,849	2,436,918	194,953
<i>Off-balance sheet exposures</i>				
Over-the-counter ('OTC')	3,605,300	3,605,300	1,416,495	113,320
derivatives				
Off balance sheet exposures other than OTC derivatives	312,399	312,399	305,653	24,452
Total off-balance sheet exposures	3,917,699	3,917,699	1,722,148	137,772
Total on and off-balance sheet exposures	25,734,525	20,520,548	4,159,066	332,725
	<u>Long position</u>	<u>Short position</u>		
(b) <u>Market risk</u>				
Interest rate risk	133,954,699	131,314,216	3,970,356	317,628
Foreign currency risk	930	43,129	43,129	3,450
Option risk			272,910	21,833
(c) <u>Operational risk</u>			705,970	56,478
Total risk weighted assets and capital requirements			9,151,431	732,114

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 2023 (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.

The Firm believes that effective risk management requires, among other things:

- Acceptance of responsibility, including identification and escalation of risk issues, by all individuals within the Firm;
- Ownership of risk identification, assessment, data and management within each of the lines of business (“LOBs”) and corporate functions; and
- Firmwide structures for risk governance.

The Firm follows a disciplined and balanced compensation framework with strong internal governance and independent Board oversight. The impact of risk and control issues is carefully considered in the Firm’s performance evaluation and incentive compensation processes.

Risk Governance

The Bank’s 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 Management Committee (“BRMC”) is responsible for oversight of the Bank’s CEO’s and senior officers responsibility to assess and manage the Bank’s compliance, credit risk, market risk (interest rate, foreign exchange and equity), investment risk, liquidity risk, operational risk, technology risk and reputational risk.

At management level, the Location Management Committee (“LMC”) is the governing management body for Malaysia operations, which comprises of SCO as the chairman of the committee as well as the heads of lines of business and control functions as its members. LMC provides holistic oversight for any business conducted in Malaysia or booked into local entities and branches. The LMC compliments the existing global, regional and legal entity governance framework in place for relevant local legal entities and businesses.

The Risk/Asset & Liability Committee (“RALCO”) is delegated by the BOD to be responsible for the overall risk management for the Bank. The RALCO is co-chaired by the CRO of the Bank, together with the SCO. The members comprise of senior members from finance, compliance, risk, legal, CIO/Treasury and other relevant functions and businesses in Malaysia. RALCO provides oversight of the risks inherent in the firm’s business in Malaysia at the legal entity level, including market risk, credit risk, liquidity risk, operational risk, model risk, country risk and interest rate risk in banking book. It also provides oversight of the risk governance frameworks for reputation risk, compliance risk including fiduciary risk as appropriate at the legal entity level, complemented by regional risk committees that provide regional oversight over all such risks. The Committee provides asset and liability oversight (ALCO) including funding, capital, liquidity management, financial statements and interest rate risk in banking book.

Registration No.

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

BASEL 2 PILLAR 3 DISCLOSURES

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023 (CONTINUED)

4 RISK MANAGEMENT (CONTINUED)

Risk Governance (continued)

The Malaysia LOC is chaired by the Senior Country Business Manager (SCBM). It is comprised of senior members from operating governance, risk, country governance and other relevant functions in Malaysia. The Malaysia LOC is directly accountable to the Malaysia LMC for executing JPMorgan's country operational strategy and is the primary oversight and escalation point for key functional initiatives in the country across all lines of business. The Malaysia LOC provides oversight to ensure operational risk policies are adhered to, appropriate controls to manage and mitigate operational and compliance risks are in place across the country, and timely and appropriate escalation of related issues to the Malaysia LMC and Asia Pacific Operating Committee (APOC). Malaysia LOC is also served as mandatory forum for crisis escalation and final resolution.

Internal Audit is an independent function that provides objective assessment on the adequacy and effectiveness of Firmwide and Bank's processes, controls, governance and risk management as the "third line of defense." The Internal Audit Function is headed by the Head of Auditor, who reports to the Board Audit Committee and administratively to the CEO.

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 BRMC.

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 2023 (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 evidence-based 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 (including intercompany and affiliated entities); 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 (such as cash and deposits).

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 2023 (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. 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).

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 assesses SICR based on a combination of qualitative and quantitative assessments, as described in more detail below:

- 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 of a financial instrument. If the change in PD exceeds certain 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 (relative to the credit rating on initial recognition) 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.

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 2023 (CONTINUED)

5 CREDIT RISK (CONTINUED)

Expected credit loss measurement (continued)

Impact of staging on measuring expected credit losses (continued)

Stage 2 - Significant increase in credit risk (continued)

- Qualitative criteria (continued)

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. Non-TCP intercompany assets with material legal entities that are covered by the Firm's resolution and recovery plans are considered to be investment grade and therefore there are included in Stage 1 with no SICR. 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.

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 income is calculated on the net carrying amount (that is, net of the allowance for expected 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 has 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 has 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 reorganisation;
- (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.

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 2023 (CONTINUED)

5 CREDIT RISK (CONTINUED)

Expected credit loss measurement (continued)

Impact of staging on measuring expected credit losses (continued)

Stage 3 - Default and credit-impairment (continued)

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. However, for assets that were considered to be Stage 3 as a result of a restructuring where the borrower experiencing difficulty was granted a financial concession, there is no cure period and the asset will remain in Stage 3.

ECL measurement for TCP Portfolios

Key Inputs

ECL for stage 1 and stage 2 assets is determined using a collective assessment model that estimates losses expected on the portfolio from possible defaults in the next 12 months or lifetime depending on whether the instrument is included in stage 1 or 2. The 12-month ECL are calculated by multiplying the 12-month Probability of Default, Exposure at Default and Loss Given Default. Lifetime ECL are calculated using the lifetime PD instead. These inputs are collectively known as the modeled estimate and are described in further detail below:

Probability of Default (“PD”): The PD model estimates the probability of a borrower defaulting given certain macroeconomic scenarios and the probability of a borrower moving from one risk rating to another during the reasonable and supportable period. 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.

Exposure at Default (“EAD”): Exposure at Default represents the gross exposure of the Bank upon the Obligor’s default and is characterized, as follows:

- Term Loans - EAD is 100% of exposure, net of amortization.
- Revolving commitments - EAD is a model-based estimate that considers the expectation of future utilization at the facility level in the case of a default under a given macroeconomic environment. After the reasonableness and supportable (“R&S”) forecast period, a long run EAD is determined based on the facility’s risk characteristics.
- All other unfunded committed facilities - EAD is determined judgmentally and where appropriate, empirically, based on the type of credit facility, line of business, underlying risk characteristics, and utilization.

Loss Given Default (“LGD”): LGD, also known as loss severity, represents the amount of loss, expressed as a percentage, in the event the facility defaults under a given forecasted macroeconomic environment during the reasonable and supportable period. Beyond the reasonable and supportable period long run historical average LGD is used based on the Loan’s risk characteristics (e.g., secured type, region, line of business). The modeled estimate is subsequently adjusted for Large Loan Uncertainty (LLU).

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 2023 (CONTINUED)

5 CREDIT RISK (CONTINUED)

ECL measurement for TCP Portfolios (continued)

Forward-looking information

ECL estimates are derived from Bank's historical experience and future forecasted economic conditions. To incorporate forward-looking information into the ECL calculation, the Bank develops five forecasted economics scenarios (base, relative upside, extreme upside, relative downside and extreme downside) during the year. Each of these scenarios contains a set of Macroeconomic Variables ("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 (group of countries that have similar economic circumstances). 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.

On a quarterly basis, the five 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 five 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 2023 (CONTINUED)

5 CREDIT RISK (CONTINUED)

ECL measurement for TCP Portfolios (continued)

Stage 3 portfolio estimation techniques

In estimating ECL for Stage 3 Loans using an individual discounted cash flow assessment, broad economic conditions affecting a borrower are less relevant as they may not have a direct impact on the specific borrower and its ability to service its debts. Consequently, the Bank believes that borrower specific scenarios are the most relevant in estimating expected credit losses in an individual discounted cash flow assessment. When applying the discounted cash flow methodology, the Bank projects cash flows under three borrower-specific forecast scenarios that are reviewed, adjusted and ultimately blended into one-probability weighted calculation of ECL.

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 is 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 2023 (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 2023 (CONTINUED)

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(i) Geographical Distribution (continued)

	31.12.2023									
	Short-term funds and placements	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	15,385,226	10,810,789	1,189,065	648,068	137,604	560,974	8,140	156,971	28,896,837	2,748,103
United Kingdom	-	-	-	166,885	-	-	244,176	107	411,168	609,613
USA	-	-	-	66,014	-	4,858	37,772	-	108,644	213,840
Hong Kong	-	-	-	44,106	-	-	8,956	-	53,062	109,210
Singapore	5,917	-	-	75,482	-	252	594	186,428	268,673	202,447
Others	123,461	-	-	9,290	-	5,129	53,985	9	191,874	34,559
	<u>15,514,604</u>	<u>10,810,789</u>	<u>1,189,065</u>	<u>1,009,845</u>	<u>137,604</u>	<u>571,213</u>	<u>353,623</u>	<u>343,515</u>	<u>29,930,258</u>	<u>3,917,772</u>
Assets not subject to credit risk	397	-	7,600	-	-	(15,438)	-	23,509	16,068	-
	<u>15,515,001</u>	<u>10,810,789</u>	<u>1,196,665</u>	<u>1,009,845</u>	<u>137,604</u>	<u>555,775</u>	<u>353,623</u>	<u>367,024</u>	<u>29,946,326</u>	<u>3,917,772</u>

*Other assets include statutory deposits with Bank Negara Malaysia, 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 2023 (CONTINUED)

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(i) Geographical Distribution (continued)

	31.12.2022									
	Short-term funds and placements	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	13,453,862	5,200,208	1,425,623	994,243	374,354	421,776	5,578	46,448	21,922,092	3,148,150
United Kingdom	-	-	-	64,059	-	-	80,444	-	144,503	244,899
USA	-	-	-	47,985	-	13,199	1,299,625	-	1,360,809	181,555
Hong Kong	-	-	-	56,871	-	-	3,432	-	60,303	140,090
Singapore	4,785	-	-	65,264	-	937	2,160	50,503	123,649	167,433
Others	26,288	-	-	13,932	-	7,445	31,858	3	79,526	35,572
	<u>13,484,935</u>	<u>5,200,208</u>	<u>1,425,623</u>	<u>1,242,354</u>	<u>374,354</u>	<u>443,357</u>	<u>1,423,097</u>	<u>96,954</u>	<u>23,690,882</u>	<u>3,917,699</u>
Assets not subject to credit risk	406	-	7,048	-	-	(15,310)	-	86,638	78,782	-
	<u>13,485,341</u>	<u>5,200,208</u>	<u>1,432,671</u>	<u>1,242,354</u>	<u>374,354</u>	<u>428,047</u>	<u>1,423,097</u>	<u>183,592</u>	<u>23,769,664</u>	<u>3,917,699</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 2023 (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 2023 (CONTINUED)

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(ii) Industry Distribution (continued)

	31.12.2023									
	<u>Short-term funds and placements</u>	<u>Securities purchased under resale agreement</u>	<u>Financial assets held at fair value through profit and loss</u>	<u>Derivative financial instruments</u>	<u>Financial assets held at other comprehensive income</u>	<u>Loans and advances</u>	<u>Amount due from related parties</u>	<u>Other assets**</u>	<u>On balance sheet total</u>	<u>Commitments and contingencies</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Manufacturing	-	-	-	37,391	-	424,560	-	654	462,605	287,213
Wholesale and retail	7,107	-	-	13,963	-	65,286	-	2	86,358	50,029
Finance, insurance and business services	266,267	10,655,241	100,809	915,470	-	45,796	353,623	340,789	12,677,995	3,285,278
Government and Government Agencies	15,241,230	155,548	1,088,256	29,721	137,604	-	-	-	16,652,359	114,569
Electricity, gas and water	-	-	-	1,568	-	-	-	206	1,774	102,373
Mining and Quarrying	-	-	-	6,063	-	2,299	-	-	8,362	43,647
Information and Communication	-	-	-	-	-	4,859	-	-	4,859	-
Accommodation and food service activities	-	-	-	-	-	27,556	-	-	27,556	-

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 2023 (CONTINUED)

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(ii) Industry Distribution (continued)

	31.12.2023									
	Short-term funds and placements	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
Individual/Purchase of landed property - residential	-	-	-	-	-	854	-	-	854	21
Others	-	-	-	5,669	-	3	-	1,864	7,536	34,642
	<u>15,514,604</u>	<u>10,810,789</u>	<u>1,189,065</u>	<u>1,009,845</u>	<u>137,604</u>	<u>571,213</u>	<u>353,623</u>	<u>343,515</u>	<u>29,930,258</u>	<u>3,917,772</u>
Assets not subject to credit risk	397	-	7,600	-	-	(15,438)	-	23,509	16,068	-
	<u><u>15,515,001</u></u>	<u><u>10,810,789</u></u>	<u><u>1,196,665</u></u>	<u><u>1,009,845</u></u>	<u><u>137,604</u></u>	<u><u>555,775</u></u>	<u><u>353,623</u></u>	<u><u>367,024</u></u>	<u><u>29,946,326</u></u>	<u><u>3,917,772</u></u>

** Other assets include 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 2023 (CONTINUED)

5 CREDIT RISK (CONTINUED)

(ii) Industry Distribution (continued)

	31.12.2022									
	Short-term funds and placements	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	-	-	-	28,846	-	369,966	-	197	399,009	279,099
Wholesale and retail	-	-	-	14,124	-	4,238	-	-	18,362	33,203
Finance, insurance and business services	224,217	4,943,483	-	1,171,801	-	46,213	1,423,097	87,170	7,895,981	3,274,531
Government and Government Agencies	13,260,718	256,725	1,425,623	4,723	374,354	-	-	6,942	15,329,085	106,238
Electricity, gas and water	-	-	-	1,326	-	14	-	133	1,473	100,357
Mining and Quarrying	-	-	-	3,748	-	8,664	-	-	12,412	-
Information and Communication	-	-	-	-	-	13,199	-	-	13,199	-

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 2023 (CONTINUED)

5 CREDIT RISK (CONTINUED)

5.1 Distribution of Credit Exposures (continued)

(ii) Industry Distribution (continued)

	31.12.2022									
	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
Individual/Purchase of landed property - residential	-	-	-	-	-	1,063	-	-	1,063	21
Others	-	-	-	17,786	-	-	-	2,512	20,298	124,250
	<u>13,484,935</u>	<u>5,200,208</u>	<u>1,425,623</u>	<u>1,242,354</u>	<u>374,354</u>	<u>443,357</u>	<u>1,423,097</u>	<u>96,954</u>	<u>23,690,882</u>	<u>3,917,699</u>
Assets not subject to credit risk	406	-	7,048	-	-	(15,310)	-	86,638	78,782	-
	<u>13,485,341</u>	<u>5,200,208</u>	<u>1,432,671</u>	<u>1,242,354</u>	<u>374,354</u>	<u>428,047</u>	<u>1,423,097</u>	<u>183,592</u>	<u>23,769,664</u>	<u>3,917,699</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 2023 (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.

	<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>31.12.2023</u>				
<i>On-balance sheet exposures</i>				
Cash and short-term funds	15,515,001	-	-	15,515,001
Securities purchased under resale agreement	10,810,789	-	-	10,810,789
Financial assets held at fair value through profit and loss ("FVTPL")	200,593	439,300	556,772	1,196,665
Derivative financial instruments	447,767	497,163	64,915	1,009,845
Financial assets held at fair value through other comprehensive income ("FVOCI")	137,604	-	-	137,604
Loans and advances	555,225	135	415	555,775
Amount due from related parties	353,623	-	-	353,623
Other Assets	367,024	-	-	367,024
Total on-balance sheet exposures	<u>28,387,626</u>	<u>936,598</u>	<u>622,102</u>	<u>29,946,326</u>
<i>Off-balance sheet exposures</i>				
Over-the-counter ('OTC') derivatives	1,248,035	2,005,193	382,134	3,635,362
Off balance sheet exposures other than OTC derivatives	214,967	67,443	-	282,410
Total off-balance sheet exposures	<u>1,463,002</u>	<u>2,072,636</u>	<u>382,134</u>	<u>3,917,772</u>
Total on and off-balance sheet exposures	<u>29,850,628</u>	<u>3,009,234</u>	<u>1,004,236</u>	<u>33,864,098</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 2023 (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>31.12.2022</u>				
<i>On-balance sheet exposures</i>				
Cash and short-term funds	13,485,341	-	-	13,485,341
Securities purchased under resale agreement	5,200,208	-	-	5,200,208
Financial assets held at fair value through profit and loss ("FVTPL")	575,880	636,490	220,301	1,432,671
Derivative financial instruments	584,519	606,517	51,318	1,242,354
Financial assets held at fair value through other comprehensive income ("FVOCI")	374,354	-	-	374,354
Loans and advances	426,995	559	493	428,047
Amount due from related parties	1,423,097	-	-	1,423,097
Other Assets	183,592	-	-	183,592
Total on-balance sheet exposures	<u>22,253,986</u>	<u>1,243,566</u>	<u>272,112</u>	<u>23,769,664</u>
<i>Off-balance sheet exposures</i>				
Over-the-counter ('OTC') derivatives	1,427,677	2,014,161	163,462	3,605,300
Off balance sheet exposures other than OTC derivatives	236,108	76,291	-	312,399
Total off-balance sheet exposures	<u>1,663,785</u>	<u>2,090,452</u>	<u>163,462</u>	<u>3,917,699</u>
Total on and off-balance sheet exposures	<u>23,917,771</u>	<u>3,334,018</u>	<u>435,574</u>	<u>27,687,363</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 2023 (CONTINUED)

5 CREDIT RISK (CONTINUED)

5.2 Past Due and Impaired Loans and Advances

(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
<u>31 Dec 2023</u>						
Individual/Purchase of landed property - residential	-	222	54	-	8	-
	-	222	54	-	8	-
<u>31 Dec 2022</u>						
Individual/Purchase of landed property - residential	-	186	46	-	-	-
	-	186	46	-	-	-

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 2023 (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 2023</u>				
Malaysia	-	222	54	-
	<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 2022</u>				
Malaysia	-	186	46	-
	<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 2023 (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 2023	8,074	7,190	46	15,310
Loans derecognised or repaid	(1,651)	(35)	-	(1,686)
New originated	568	-	-	568
Changes due to change in credit risk	3,663	(2,413)	(4)	1,246
Transfers:				
Transfers from Stage 2 to Stage 3	-	(17)	17	-
Transfers from Stage 3 to Stage 2	-	5	(5)	-
As at 31 December 2023	<u>10,654</u>	<u>4,730</u>	<u>54</u>	<u>15,438</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 2022	1,171	5,668	46	6,885
Loans derecognised or repaid	(855)	-	(1)	(856)
New originated	4,440	8	-	4,448
Changes due to change in credit risk	3,318	1,499	16	4,833
Transfers:				
Transfer from Stage 3 to Stage 2	-	15	(15)	-
As at 31 December 2022	<u>8,074</u>	<u>7,190</u>	<u>46</u>	<u>15,310</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 2023 (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 2023 for credit risk exposures:

<u>Weighted</u>	<u>Sovereigns & Central bank</u>	<u>PSE</u>	<u>Banks</u>	<u>Insurance companies, securities firms and funds managers</u>	<u>Corporates</u>	<u>Regulatory Retail</u>	<u>Residential mortgages</u>	<u>Higher risk assets</u>	<u>Other assets</u>	<u>Total exposures after netting and credit risk</u>	<u>Total risk weighted assets</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	13,102,998	-	-	-	-	-	-	-	399	13,103,397	-
20%	2,294,725	117,505	2,116,673	1,031,720	-	-	-	-	7,596	5,568,219	1,113,644
35%	-	-	-	-	-	-	157	-	-	157	55
50%	-	-	1,734,192	423	12,543	-	280	-	-	1,747,438	873,719
100%	-	-	-	222,385	1,071,397	331	34	-	24,333	1,318,480	1,318,480
Total	15,397,723	117,505	3,850,865	1,254,528	1,083,940	331	471	-	32,328	21,737,691	3,305,898

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 2023 (CONTINUED)

5 CREDIT RISK (CONTINUED)

5.3 Credit Risk Exposures under Standardised Approach (continued)

Risk weight as at 31 December 2022 for credit risk exposures:

<u>Weighted</u>	<u>Sovereigns & 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>Regulatory Retail</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%	6,710,729	-	-	-	-	-	-	-	406	6,711,135	-
20%	7,079,416	72,427	3,181,452	685,809	-	-	-	-	7,022	11,026,126	2,205,225
35%	-	-	-	-	-	-	209	-	-	209	74
50%	-	-	1,480,235	83,966	107,480	-	330	-	-	1,672,011	836,005
100%	-	-	-	50,275	970,529	361	-	-	89,316	1,110,481	1,110,481
150%	-	-	-	-	-	-	-	4	-	4	6
1250%	-	-	-	-	-	-	-	-	582	582	7,275
Total	13,790,145	72,427	4,661,687	820,050	1,078,009	361	539	4	97,326	20,520,548	4,159,066

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 2023 (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

<u>Exposure class</u>	<u>Moody</u>	<u>Aaa to Aa3</u>	<u>A1 to A3</u>	<u>Baa1 to Ba3</u>	<u>B1 to C</u>	<u>Unrated</u>
	<u>S & P</u>	<u>AAA to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BB-</u>	<u>B+ to D</u>	<u>Unrated</u>
	<u>Fitch</u>	<u>AAA to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BB-</u>	<u>B+ to D</u>	<u>Unrated</u>
	<u>RAM</u>	<u>AAA to AA3</u>	<u>A1 to A-</u>	<u>BBB1 to BB3</u>	<u>B to D</u>	<u>Unrated</u>
	<u>MARC</u>	<u>AAA to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BB-</u>	<u>B+ to D</u>	<u>Unrated</u>
		<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>31.12.2023</u>						
On and Off:						
Balance Sheet						
Exposures						
Public Sector Entities		-	-	117,505	-	-
Insurance companies, securities firms and fund managers		1,107,772	111,106	34,673	-	976
Corporates		3,801	222,142	705,884	152,109	4
		<u>1,111,573</u>	<u>333,248</u>	<u>858,062</u>	<u>152,109</u>	<u>980</u>
<u>31.12.2022</u>						
On and Off:						
Balance Sheet						
Exposures						
Public Sector Entities		-	-	72,427	-	-
Insurance companies, securities firms and fund managers		778,405	4,583	37,062	-	-
Corporates		95,890	183,703	350,249	448,167	-
		<u>874,295</u>	<u>188,286</u>	<u>459,738</u>	<u>448,167</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 2023 (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>	<u>Moody</u>	<u>Aaa to Aa3</u>	<u>A1 to A3</u>	<u>Baa1 to Ba3</u>	<u>B1 to C</u>	<u>Unrated</u>
	<u>S & P</u>	<u>AAA to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BB-</u>	<u>B+ to D</u>	<u>Unrated</u>
	<u>Fitch</u>	<u>AAA to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BB-</u>	<u>B+ to D</u>	<u>Unrated</u>
	<u>RAM</u>	<u>AAA to AA3</u>	<u>A1 to A-</u>	<u>BBB1 to BB3</u>	<u>B to D</u>	<u>Unrated</u>
	<u>MARC</u>	<u>AAA to AA-</u>	<u>A+ to A-</u>	<u>BBB+ to BB-</u>	<u>B+ to D</u>	<u>Unrated</u>
		<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>

31.12.2023

On and Off:

Balance Sheet

Exposures

Sovereigns/Central

Banks

Banks

	-	15,397,723	-	-	-
	1,354,487	2,220,385	275,932	61	-
	<u>1,354,487</u>	<u>17,618,108</u>	<u>275,932</u>	<u>61</u>	<u>-</u>

31.12.2022

On and Off:

Balance Sheet

Exposures

Sovereigns/Central

Banks

Banks

	-	13,790,145	-	-	-
	1,401,837	2,572,002	687,826	22	-
	<u>1,401,837</u>	<u>16,362,147</u>	<u>687,826</u>	<u>22</u>	<u>-</u>

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 2023 (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>31.12.2023</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>Exposures covered by other eligible collateral</u> RM'000
<u>Exposure Class</u>				
<i>On-balance sheet exposures</i>				
Sovereigns/central banks	15,552,877	-	155,162	-
Banks	11,273,943	-	10,593,199	-
Insurance companies, securities firms and fund managers	1,238,633	-	105,991	-
Corporates	577,513	-	-	-
Regulatory retail	331	-	-	331
Residential mortgages	302	-	-	302
High Risk Assets	-	-	-	-
Other assets	32,328	-	-	-
Defaulted exposures	169	-	-	-
Total on-balance sheet exposures	28,676,096	-	10,854,352	633
<i>Off-balance sheet exposures</i>				
Over-the-counter ('OTC') derivatives	3,635,362	60,705	275,190	-
Off balance sheet exposures other than OTC derivatives	282,410	-	-	-
Total off-balance sheet exposures	3,917,772	60,705	275,190	-
Total on and off-balance sheet exposures	32,593,868	60,705	11,129,542	633

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 2023 (CONTINUED)

5 CREDIT RISK (CONTINUED)

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

<u>31.12.2022</u>	<u>Exposures before CRM RM'000</u>	<u>Exposures covered by guarantees/ credit derivatives RM'000</u>	<u>Exposures covered by eligible financial collateral RM'000</u>	<u>Exposures covered by other eligible collateral RM'000</u>
<u>Exposure Class</u>				
<i>On-balance sheet exposures</i>				
Sovereigns/central banks	13,938,923	-	186,636	-
Banks	6,544,196	-	5,525,437	-
Insurance companies, securities firms and fund managers	793,067	-	305,247	-
Corporates	442,410	-	-	-
Regulatory retail	361	-	-	361
Residential mortgages	397	-	-	397
High Risk Assets	4	-	-	-
Other assets	97,326	-	-	-
Defaulted exposures	142	-	-	-
Total on-balance sheet exposures	21,816,826	-	6,017,320	758
<i>Off-balance sheet exposures</i>				
Over-the-counter ('OTC') derivatives	3,605,300	88,393	413,975	-
Off balance sheet exposures other than OTC derivatives	312,399	-	-	-
Total off-balance sheet exposures	3,917,699	88,393	413,975	-
Total on and off-balance sheet exposures	25,734,525	88,393	6,431,295	758

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 2023 (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 2023 (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 amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
<u>31.12.2023</u>				
Direct credit substitutes	223,888	-	223,888	219,108
Transaction-related contingent items	50,353	-	25,176	20,901
Foreign exchange related contracts:				
- less than one year	63,714,605	332,597	1,007,983	404,323
- one year to less than five years	1,744,021	37,834	174,987	111,513
- more than five years	193,155	7,722	39,365	18,031
Interest rate related contracts:				
- less than one year	25,488,551	47,048	84,093	36,622
- one year to less than five years	55,087,764	450,363	1,765,216	657,328
- more than five years	3,449,158	57,193	342,769	166,181
Equity related contracts				
- less than one year	1,126,918	68,117	153,293	43,922
- one year to less than five years	54,059	743	6,951	2,299
Credit related contracts				
- less than one year	22,938	5	2,666	1,333
- one year to less than five years	348,239	8,223	58,039	18,941
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year				
	66,692	-	33,346	33,346
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				
	1,634,787	-	-	-
	<u>153,205,128</u>	<u>1,009,845</u>	<u>3,917,772</u>	<u>1,733,848</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 2023 (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>31.12.2022</u>				
Direct credit substitutes	255,826	-	255,826	251,109
Transaction-related contingent items	33,858	-	16,929	14,900
Foreign exchange related contracts:				
- less than one year	50,843,001	474,043	1,213,204	495,286
- one year to less than five years	1,791,304	21,535	175,510	91,983
- more than five years	185,366	14,598	47,391	21,899
Interest rate related contracts:				
- less than one year	24,382,683	55,526	95,118	35,344
- one year to less than five years	47,225,165	559,405	1,753,163	634,473
- more than five years	1,189,875	36,720	116,071	51,504
Equity related contracts				
- less than one year	644,289	54,901	101,699	47,251
- one year to less than five years	67,803	6,957	14,751	7,375
Credit related contracts				
- less than one year	151,784	49	17,656	8,828
- one year to less than five years	336,823	18,620	70,737	22,552
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year				
	79,287	-	39,644	39,644
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				
	1,732,157	-	-	-
	<u>128,919,221</u>	<u>1,242,354</u>	<u>3,917,699</u>	<u>1,722,148</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 2023 (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>31.12.2023</u>			
Credit related contracts			
Credit default swap			
- Protection bought	235,237	34,025	6,934
- Protection sold	135,940	26,680	13,340
	<u>371,177</u>	<u>60,705</u>	<u>20,274</u>
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
<u>31.12.2022</u>			
Credit related contracts			
Credit default swap			
- Protection bought	244,293	46,830	10,598
- Protection sold	244,314	41,563	20,782
	<u>488,607</u>	<u>88,393</u>	<u>31,380</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 2023 (CONTINUED)

6 MARKET RISK

Interbank Offered Rate (“IBOR”) Transition

The Financial Stability Board (“FSB”) and the Financial Stability Oversight Council (“FSOC”) have observed that the secular decline in interbank short-term funding poses structural risks for unsecured benchmark interest rates such as Interbank Offered Rates (“IBORs”), and therefore regulators and market participants in various jurisdictions identified alternative reference rates that are compliant with the International Organization of Securities Commission’s standards for transaction-based benchmarks.

The publication of the remaining principal tenors of U.S. dollar LIBOR (i.e., overnight, one-month, three-month, six-month and 12-month LIBOR) ceased on June 2023 (“LIBOR Cessation”). The one-month, three-month and six month tenors of U.S. dollar LIBOR, will continue to be published on a “synthetic” basis, which will allow market participants to use such rates for certain legacy LIBOR-linked contracts through September 30, 2024.

As part of the Firm’s overall transition efforts which culminated in the second quarter of 2023, the Firm successfully completed the conversion of predominantly all of its remaining cleared derivatives contracts linked to U.S. dollar LIBOR to the Secured Overnight Financing Rate (“SOFR”) as part of initiatives by the principal central counterparties (“CCPs”) to convert cleared derivatives prior to LIBOR Cessation. Nearly all of the Firm’s other U.S. dollar LIBOR-linked products that remained outstanding at LIBOR Cessation have been remediated through contractual fallback provisions or through the framework provided by the Adjustable Interest Rate (LIBOR) Act (“LIBOR Act”). The Firm expects the limited contracts remaining that reference “synthetic” U.S. dollar LIBOR will be remediated by September 30, 2024.

The Firm continues to track cessation of other (non-LIBOR) IBORs and will continue to remediate outstanding contracts proactively ahead of cessation or through contractual fallback provisions. Exposure to other IBORs across the Firm is limited with remediation overseen by impacted businesses within the relevant jurisdictions. Given the non-material exposures the Firm has to other IBORs, quantitative reporting of exposures will cease in 2024.

On 27 August 2020, the International Accounting Standards Board (“IASB”) issued guidance that provides practical expedients to contracts and hedge accounting relationships affected by the reference rate reform. These practical expedients are intended to simplify the operational impact of applying existing IFRS requirements to transactions impacted by the reference rate reform, and the Bank applied the practical expedients from 1 January 2021.

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 2023 (CONTINUED)

6 MARKET RISK (CONTINUED)

Interbank Offered Rate (“IBOR”) Transition (continued)

The table below shows the outstanding principal amounts of non-derivative financial instruments, the gross notional values of derivative financial instruments and the contractual amounts of off-balance sheet exposures held by the Bank as at 31 December 2023 and 31 December 2022 respectively, that are subject to IBOR reform that have yet to transition. The table includes financial instruments with a contractual maturity date later than the relevant agreed IBOR cessation date and includes contracts that have been changed to incorporate the new alternative reference rates but which have yet to become effective as at 31 December 2023 and 31 December 2022.

<u>2023</u>	<u>MYR KLIBOR</u>	<u>USD LIBOR</u>	<u>Multiple basis</u>
	RM'000	RM'000	RM'000
<i>Non-derivative financial assets (outstanding Principal amount):</i>			
Loan	94,689	-	-
<i>Derivative financial instruments (outstanding Principal amount):</i>			
Interest rate derivative - OTC	54,264	-	-
<i>Off-balance sheet exposure (contractual amount):</i>			
Loan commitments	-	-	-
<u>2022</u>	<u>MYR KLIBOR</u>	<u>USD LIBOR</u>	<u>Multiple basis</u>
	RM'000	RM'000	RM'000
<i>Non-derivative financial assets (outstanding Principal amount):</i>			
Loan	24,142	-	-
<i>Derivative financial instruments (outstanding Principal amount):</i>			
Interest rate derivative - OTC	55,379	2,543,436	1,207,069
<i>Off-balance sheet exposure (contractual amount):</i>			
Loan commitments	-	-	79,245

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 2023 (CONTINUED)

6 MARKET RISK (CONTINUED)

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 mirrors the Firmwide approach and is outlined in the Bank's Market Risk Management Framework ('Framework'), which includes the following:

- Responsibilities of the CRO and Market Risk Officer ("MRO")
- Market Risk measures utilised such as Value-at-Risk ("VaR"), Stress and non-statistical measures
- Controls such as the Bank's market risk limit framework (limit levels, limit signatories, limit reviews and escalation)

The Bank's Board of Directors approves substantive changes to the Framework and approves this Framework 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.

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

	<u>2023</u> RM'000	<u>2022</u> RM'000
99% VaR	2,794	5,851

The Bank's market risk profile is driven by Credit, Equities, Foreign Exchange, interest rate market related exposures.

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 2023 (CONTINUED)

6 MARKET RISK (CONTINUED)

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 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, but not limited to, credit spread sensitivities, option sensitivities, net open positions, basis point values are utilized within specific market context and aggregated across businesses.

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 Bank's market risk, Market Risk must review market risk limits for the Bank 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.

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 2023 (CONTINUED)

6 MARKET RISK (CONTINUED)

Risk Reporting

The Firm and the Bank have their own set of regular market risk reports, which include daily notifications of limit utilisations and limit breaches and where applicable, granular market risk metrics which provide transparency into potential risk concentrations.

Models used to measure market risk are inherently imprecise and may be limited in their ability to measure certain risks or to predict losses. This imprecision may be heightened when sudden or severe shifts in market conditions occur.

Market Risk Management periodically reviews the Bank's existing market risk measures to identify opportunities for enhancement, and to the extent appropriate, will calibrate those measures accordingly over time. This is increasingly important in periods of sustained, heightened market volatility.

<u>31.12.2023</u>			Risk weighted assets RM'000	Capital requirements RM'000
	<u>Long position</u>	<u>Short position</u>		
Interest rate risk	152,937,639	149,022,369	3,687,568	295,006
Foreign currency risk	114,824	2	114,825	9,186
Option risk			213,931	17,114
			<u>4,016,324</u>	<u>321,306</u>
<u>31.12.2022</u>				
Interest rate risk	133,954,699	131,314,216	3,970,356	317,628
Foreign currency risk	930	43,129	43,129	3,450
Option risk			272,910	21,833
			<u>4,286,395</u>	<u>342,911</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 2023 (CONTINUED)

7 EQUITY EXPOSURES

The following tables present the equity exposures, stated at fair value, in the banking book and the gains and losses on equity exposures in the banking book of the Bank. There is no exposure to quoted equity as at 31 December 2023 and 31 December 2022.

(a) Equity Exposures in the Banking Book

	<u>Gross Credit Exposure</u> RM'000	<u>Risk Weighted Assets</u> RM'000
2023		
<u>Privately Held</u>		
For socio-economic purpose	7,600	1,523
	<u> </u>	<u> </u>
2022		
<u>Privately Held</u>		
For socio-economic purpose	7,048	1,431
	<u> </u>	<u> </u>

(b) Gains and Losses on Equity Exposures in the Banking Book

	<u>2023</u> RM'000	<u>2022</u> RM'000
Unrealised gain recognised in profit or loss	552	493
	<u> </u>	<u> </u>

8 OPERATIONAL RISK

Operational risk is the risk of an adverse outcome resulting from inadequate or failed internal processes or systems; human factors; or external events impacting the Firm's and 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 disruptions (including those caused by extraordinary events beyond the Firm's and the Bank's control), cybersecurity attacks, inappropriate employee behavior, failure to comply with applicable laws, rules 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 Firm's and 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.

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 2023 (CONTINUED)

8 OPERATIONAL RISK (CONTINUED)

Operational Risk Governance

The Lines of Business (LOB) and Corporate are responsible for the management of operational risk. The Firmwide Control Management Organization, which consists of control managers within each LOB and Corporate functions, is responsible for the day-to-day execution of the CCOR Management Framework.

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, law, corporate policies and internal guidelines.

Operational Risk Identification

The Firm, including the Bank, utilizes a structured risk and control self-assessment process that is executed by the LOBs and Corporate functions. As part of this process, the LOBs and Corporate functions evaluate the effectiveness of their respective control environment to assess where controls have failed, and to determine where remediation efforts may be required. The Firm's Operational Risk and Compliance organization ("Operational Risk and Compliance") provides oversight of and challenge to these evaluations activities and may also perform independent assessments of significant operational risk events and area of concentrated or emerging risk.

Operational Risk Measurement

Operational Risk and Compliance performs an independent assessment of the operational risks inherent within the LOBs and Corporate, which includes evaluating the effectiveness of the control environment and reporting the results to senior management.

In addition, Operational Risk and Compliance assesses operational risks through quantitative means, including operational risk-based capital and estimation of operational risk losses under both baseline and stressed conditions.

Operational Risk Monitoring and Testing

The results of risk assessments performed by Operational Risk and Compliance are used in connection with their independent monitoring and testing compliance of the LOBs and Corporate with laws, rules and regulations. Through monitoring and testing, Operational Risk and Compliance independently identify areas of heightened operational risk and tests the effectiveness of controls within the LOBs and Corporate.

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 2023 (CONTINUED)

8 OPERATIONAL RISK (CONTINUED)

Management of Operational Risk

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

Operational Risk Reporting

All employees are expected to escalate risks appropriately. Escalation of risks is a fundamental expectation for employees at the Firm. Risks identified by Operational Risk and Compliance are escalated to the appropriate LOB and Corporate Control Committees, as needed. Operational Risk and Compliance has established standards designed to ensure that consistent operational risk reporting and operational risk reports are produced on a Firmwide basis as well as by the LOBs and Corporate Reporting includes the evaluation of key risk and 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.

9 INTEREST RATE RISK

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 2023 (CONTINUED)

9 INTEREST RATE RISK (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:

31.12.2023	BCBS Parallel*	
	Up	Down
	RM'000	RM'000
<u>Impact in Earnings</u>		
MYR	65,568	(65,568)
USD	10,898	(12,854)
Other	2,137	(3,867)
	<u>78,603</u>	<u>(82,289)</u>

31.12.2022	BCBS Parallel*	
	Up	Down
	RM'000	RM'000
<u>Impact in Earnings</u>		
MYR	71,760	(71,759)
USD	27,583	(28,913)
Other	(21,560)	21,044
	<u>77,783</u>	<u>(79,628)</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 2023 (CONTINUED)

9 INTEREST RATE RISK (CONTINUED)

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

<u>31.12.2023</u>	<u>BCBS Parallel*</u>	
	<u>Up</u>	<u>Down</u>
	RM'000	RM'000
<u>Impact in Economic Value</u>		
MYR	125,681	(154,618)
USD	63,386	(105,550)
Other	18,151	(34,926)
	<u>207,218</u>	<u>(295,094)</u>

<u>31.12.2022</u>	<u>BCBS Parallel*</u>	
	<u>Up</u>	<u>Down</u>
	RM'000	RM'000
<u>Impact in Economic Value</u>		
MYR	101,973	(126,364)
USD	34,035	(50,390)
Other	9,592	(16,633)
	<u>145,600</u>	<u>(193,387)</u>

* Under BCBS Parallel Up and Down scenario, the Bank is applying 200 bps shock for both USD and MYR under Earning at Risk (EaR), while 200 bps shock for USD and 300 bps shock for MYR under Economic Value Sensitivity (EVS).