



*Jessica Chew Cheng Lian*  
Deputy Governor

DFE/ASB/18/200  
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Chief Executive Officer/ Managing Director,  
Chairman and Chairman of Risk Committee  
Development Financial Institutions

YBhg. Tan Sri/ Dato' Sri/ Datuk/ Dato'/ Tuan/ Puan,

**Credit Risk -  
Best Practices for Development Financial Institutions (DFIs)**

DFIs play a crucial role in the development of strategic sectors of the economy. Given the development mandates of DFIs, credit risk continues to remain a critical source of risk. Therefore, comprehensive and robust credit risk management are particularly important in ensuring that credit activities are conducted in a prudent and effective manner to enable DFIs to pursue its mandates sustainably. In line with the requirements of the Development Financial Institutions Act 2002 (DFIA), the Board must set and oversee the implementation of business and risk objectives and strategies, including that relating to the management of credit risk.

2. In this regard, DFIs are encouraged to adopt relevant standards and practices set out in the Credit Risk policy document issued to financial institutions on 22 January 2018 (copy attached). The policy document is aimed at providing a holistic approach in managing credit risk including strengthening the credit risk governance and measurement. In particular, emphasis should be given to establishing systems and controls for managing exceptional credits, including conditions for approval, limits and continuous monitoring of exposures. In ensuring the institutions are able to perform their roles more effectively, DFIs may identify relevant adaptations of the Credit Risk policy requirements that suit their business and mandate needs. These should be adequately deliberated by the Board Risk Committee and the Board. DFIs should be able to demonstrate well-reasoned decisions for material deviations, supported by relevant data and justifications.

3. As part of the implementation of the Role-based Regulatory and Supervisory Framework for DFIs, the Bank will also engage further with DFIs in establishing more tailored prudential standards on credit risk management that appropriately reflect the role and mandates of DFIs.

4. Should you have any queries or clarification, please contact Asfarina Baharuddin or Aida Baizura Ismail at 03-2698 8044 ext. 8671 or 7501 respectively.

Sekian, terima kasih.

Yang benar,

(Jessica Chew Cheng Lian)  
Timbalan Gabenor