



ALLIANCE BANK

Alliance Bank Malaysia Berhad (88103-W)

**BASEL II PILLAR 3 REPORT
FOR THE FINANCIAL YEAR ENDED
31 MARCH 2016**



PILLAR 3 REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016

Overview

Bank Negara Malaysia's ("BNM") guidelines on capital adequacy require Alliance Bank Malaysia Berhad and its subsidiaries ("the Group") to maintain an adequate level of capital to withstand potential losses arising from its operations. BNM's capital adequacy guidelines cover 3 main aspects:

- (a) Pillar 1 - covers the calculation of risk-weighted assets for credit risk, market risk and operational risk.
- (b) Pillar 2 - involves assessment of other risks (e.g. interest rate risk in the banking book, liquidity risk and concentration risk) not covered under Pillar 1. This promotes adoption of forward-looking approaches to capital management and stress testing/risk simulation techniques.
- (c) Pillar 3 - covers disclosure and external communication of risk and capital information by banks.

The Group maintains a strong capital base to support its current activities and future growth, to meet regulatory capital requirements at all times and to buffer against potential losses.

To ensure that risks and returns are appropriately balanced, the Group has implemented a Group-wide Integrated Risk Management Framework, with guidelines for identifying, measuring, and managing risks. This process includes quantifying and aggregating various risks in order to ensure the Group and each entity has sufficient capital to cushion unexpected losses and remain solvent.

In summary, the capital management process involves the following:

- (i) Monitoring of regulatory capital and ensuring that the minimum regulatory requirements and approved internal ratios are adhered to.
- (ii) Estimation of capital requirements based on ongoing forecasting and budgeting process.
- (iii) Regular reporting of regulatory and internal capital ratios to management.

In addition, the Group's capital adequacy under extreme but plausible stress scenarios are periodically assessed via a Group-wide stress test exercise. The results of the stress tests are reported to senior management, to provide them with an assessment of the financial impact of such events on the Group's earnings and capital.

The Group's Pillar 3 Disclosure is governed by the Bank Disclosure Policy on Basel II Risk-Weighted Capital Adequacy Framework - Pillar 3 which sets out the minimum disclosure standards, the approach for determining the appropriateness of information disclosed and the internal controls over the disclosure process which covers the verification and review of the accuracy of information disclosed.

ALLIANCE BANK MALAYSIA BERHAD
(88103-W)

CONTENTS	PAGE
1.0 Scope of Application	3
2.0 Capital	3 - 10
2.1 Capital Adequacy Ratios	4 - 5
2.2 Capital Structure	6
2.3 Risk-Weighted Assets and Capital Requirements	7 - 10
3.0 Credit Risk	11 - 39
3.1 Distribution of Credit Exposures	12 - 17
3.2 Past due Loans, Advances and Financing Analysis	18
3.3 Impaired Loans, Advances and Financing Analysis	19 - 22
3.4 Assignment of Risk Weights for Portfolios	
Under the Standardised Approach	23 - 30
3.5 Credit Risk Mitigation	31 - 34
3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk	35 - 39
4.0 Market Risk	40 - 41
5.0 Operational Risk	42
6.0 Equity Exposures in Banking Book	43
7.0 Interest Rate Risk/Rate of Return Risk in the Banking Book	44 - 45
8.0 Shariah Governance Disclosures and Profit Sharing Investment Account ("PSIA")	45

1.0 Scope of Application

The Pillar 3 Disclosure was prepared on a consolidated basis and comprises information on Alliance Bank Malaysia Berhad ("the Bank"), its subsidiaries and associate companies. The Group offers Conventional and Islamic banking services. The latter includes the acceptance of deposits and granting of financing under the Shariah principles via the Bank's wholly-owned subsidiary, Alliance Islamic Bank Berhad. Information on subsidiary and associate companies are available in Note 13 and 14 of the audited financial statements.

The basis of consolidation for the use of regulatory capital purposes is similar to that for financial accounting purposes as prescribed in Note 2(b) of the audited financial statements, except for investments in subsidiaries engaged in nominees activities and sales distribution which are excluded from the regulatory consolidation and are deducted from regulatory capital.

There were no significant restrictions or other major impediments on transfer of funds or regulatory capital within the Group.

There were no capital deficiencies in any of the subsidiaries of the Group that were not included in the consolidation for regulatory purposes as at the financial year end.

The capital adequacy information was computed in accordance with BNM's Capital Adequacy Framework. The Group has adopted the Standardised Approach for credit risk and market risk, and Basic Indicator Approach for operational risk.

2.0 Capital

In managing its capital, the Group's objectives are:

- (i) To maintain sufficient capital resources to meet the regulatory capital requirements as set forth by BNM;
- (ii) To maintain sufficient capital resources to support the Group's risk appetite and to enable future business growth; and
- (iii) To meet the expectations of key stakeholders, including shareholders, investors, regulators and rating agencies.

In line with this, the Group aims to maintain capital adequacy ratios that are above the regulatory requirements, while balancing shareholders' desire for sustainable returns and high standards of prudence.

The Group carries out stress testing to estimate the potential impact of extreme but plausible events on the Group's earnings, balance sheet and capital. The results of the stress tests are to facilitate the formulation of action plan(s) in advance if the stress tests reveal that the Group's capital will be adversely affected. The results of the stress tests are tabled to the Group Risk Management Committee for approval.

The Group's and the Bank's regulatory capital are determined under BNM's Capital Adequacy Framework and their capital ratios comply with the prescribed capital adequacy ratios.

2.0 Capital (contd.)

2.1 Capital Adequacy Ratios

The capital adequacy ratios of the Bank and the Group are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework. The Framework sets out the approach for computing regulatory capital adequacy ratios, as well as the levels of those ratios at which banking institutions are required to operate. The framework is to strengthen capital adequacy standards, in line with the requirements set forth under Basel III. The risk-weighted assets of the Bank and the Group are computed using the Standardised Approach for credit risk and market risk, and the Basic Indicator Approach for operational risk.

The minimum regulatory capital adequacy ratios, as required under BNM's Capital Adequacy Framework (Capital Components) which includes transitional arrangements for year 2015, are set out as follows:

Calender Year	CET I Capital Ratio	Tier I Capital Ratio	Total Capital Ratio
	%	%	%
2015 onwards*	4.5	6.0	8.0

** Before including capital conservation buffer of 2.5% and countercyclical capital buffer*

Banking institutions are also required to maintain a capital conservation buffer of up to 2.5% and a countercyclical capital buffer above. Under the transition arrangements, capital conservation buffer will be phased-in as follows:

Calender Year	Capital Conservation Buffer
2016	0.625%
2017	1.250%
2018	1.875%
2019 onwards	2.500%

On 13 October 2015, BNM issued the revised Capital Adequacy Framework (Capital Components and Basel II - Risk-weighted Assets) ("Revised Framework") which is effective from 1 January 2016. Under the Revised Framework, a countercyclical capital buffer is required to be maintained if this buffer is applied by regulators in countries which the Group has exposures to, determined based on the weighted average of prevailing countercyclical capital buffer rates applied in that jurisdictions. The countercyclical buffer which is in a range of between 0% and 2.5% is not a requirement for exposures in Malaysia but may be applied by regulators in the future.

2.0 Capital (contd.)

2.1 Capital Adequacy Ratios

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

	<u>BANK</u>		<u>GROUP</u>	
	2016	2015	2016	2015
<u>Before deducting proposed dividends</u>				
CET I capital ratio	11.237%	11.291%	12.070%	11.301%
Tier I capital ratio	11.237%	11.291%	12.070%	11.301%
Total capital ratio	16.528%	11.751%	17.657%	13.160%
<u>After deducting proposed dividends</u>				
CET I capital ratio	10.880%	11.058%	11.775%	11.108%
Tier I capital ratio	10.880%	11.058%	11.775%	11.108%
Total capital ratio	16.170%	11.518%	17.362%	12.967%

(b) The capital adequacy ratios of the banking subsidiaries are as follows:

	Alliance Islamic Bank Berhad	Alliance Investment Bank Berhad
2016		
<u>Before deducting proposed dividends</u>		
CET I capital ratio	13.375%	103.287%
Tier I capital ratio	13.375%	103.287%
Total capital ratio	14.399%	103.641%
<u>After deducting proposed dividends</u>		
CET I capital ratio	13.044%	101.292%
Tier I capital ratio	13.044%	101.292%
Total capital ratio	14.068%	101.646%
2015		
<u>Before deducting proposed dividends</u>		
CET I capital ratio	11.013%	94.504%
Tier I capital ratio	11.013%	94.504%
Total capital ratio	11.731%	94.504%
<u>After deducting proposed dividends</u>		
CET I capital ratio	11.013%	93.448%
Tier I capital ratio	11.013%	93.448%
Total capital ratio	11.731%	93.448%

2.0 Capital (contd.)

2.2 Capital Structure

The following tables present the components of Common Equity Tier I ("CET I"), Tier I and Tier II capital.

	<u>BANK</u>		<u>GROUP</u>	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
<u>CET I Capital</u>				
Paid-up share capital	796,517	796,517	796,517	796,517
Share premium	401,517	401,517	401,517	401,517
Retained profits	1,888,285	1,881,187	2,047,248	2,005,815
Statutory reserves	835,401	722,368	1,200,019	1,069,665
Revaluation reserves	73,152	43,838	114,786	78,232
Other reserves	-	-	10,018	10,018
	<u>3,994,872</u>	<u>3,845,427</u>	<u>4,570,105</u>	<u>4,361,764</u>
Less: Regulatory adjustment				
- Goodwill and other intangibles	(247,299)	(244,522)	(362,982)	(359,935)
- Deferred tax assets	-	-	(10,201)	(12,020)
- 55% of revaluation reserves	(40,234)	(24,111)	(63,132)	(43,028)
- Investment in subsidiaries and associates	<u>(535,830)</u>	<u>(317,220)</u>	<u>(2,824)</u>	<u>(1,816)</u>
Total CET I capital/Total Tier I capital	<u>3,171,509</u>	<u>3,259,574</u>	<u>4,130,966</u>	<u>3,944,965</u>
<u>Tier II Capital</u>				
Subordinated obligations	1,558,540	419,581	1,559,074	419,581
Collective assessment allowance	291,825	189,112	354,805	232,171
Less: Regulatory adjustment				
- Investment in subsidiaries and associates	<u>(357,220)</u>	<u>(475,830)</u>	<u>(1,882)</u>	<u>(2,725)</u>
Total Tier II Capital	<u>1,493,145</u>	<u>132,863</u>	<u>1,911,997</u>	<u>649,027</u>
Total Capital	<u>4,664,654</u>	<u>3,392,437</u>	<u>6,042,963</u>	<u>4,593,992</u>

2.0 Capital (contd.)

2.3 Risk-Weighted Assets ("RWA") and Capital Requirements

Regulatory Capital Requirements

The following tables present the minimum regulatory capital requirement of the Bank and the Group:

BANK 2016 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	6,172,862	6,172,862	-	-
Public sector entities	40,547	40,547	8,109	649
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	4,782,172	4,782,172	1,181,925	94,554
Insurance companies, securities firms and fund managers	27,540	27,540	27,540	2,203
Corporates	11,415,764	10,749,864	9,155,530	732,442
Regulatory retail	9,471,017	8,408,449	6,338,200	507,056
Residential mortgages	11,998,907	11,990,064	5,804,400	464,352
Higher risk assets	2,910	2,904	4,357	349
Other assets	538,790	538,790	236,581	18,926
Equity exposures	102,672	102,672	102,681	8,214
Defaulted exposures	243,444	241,410	291,138	23,291
Total on-balance sheet exposures	<u>44,796,625</u>	<u>43,057,274</u>	<u>23,150,461</u>	<u>1,852,036</u>
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	3,200,025	2,853,459	2,477,960	198,237
Derivative financial instruments	285,304	285,304	103,267	8,261
Defaulted exposures	8,205	8,187	12,246	980
Total off-balance sheet exposures	<u>3,493,534</u>	<u>3,146,950</u>	<u>2,593,473</u>	<u>207,478</u>
Total on and off-balance sheet exposures	<u>48,290,159</u>	<u>46,204,224</u>	<u>25,743,934</u>	<u>2,059,514</u>
(ii) Market Risk (Note 4.0)				
	Long Position	Short Position		
Interest rate risk	148,267	(13,312)	100,975	8,078
Foreign currency risk	17,038	(16,530)	17,038	1,363
Total	<u>165,305</u>	<u>(29,842)</u>	<u>118,013</u>	<u>9,441</u>
(iii) Operational Risk	-	-	2,361,359	188,909
Total	<u>48,290,159</u>	<u>46,204,224</u>	<u>28,223,306</u>	<u>2,257,864</u>

2.0 Capital (contd.)

2.3 RWA and Capital Requirements (contd.)

Regulatory Capital Requirements

The following tables present the minimum regulatory capital requirement of the Bank and the Group (contd.):

GROUP 2016 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) <u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	8,814,847	8,814,847	-	-
Public sector entities	71,126	71,126	14,225	1,138
Banks, DFIs and MDBs	3,838,402	3,838,402	771,314	61,705
Insurance companies, securities firms and fund managers	37,997	37,997	37,997	3,040
Corporates	14,035,293	13,199,772	10,831,852	866,548
Regulatory retail	12,382,876	11,231,008	8,567,997	685,440
Residential mortgages	14,472,085	14,462,098	6,988,970	559,118
Higher risk assets	2,910	2,904	4,357	349
Other assets	715,993	715,993	422,405	33,792
Equity exposures	152,355	152,355	152,364	12,189
Defaulted exposures	323,095	321,061	396,992	31,759
Total on-balance sheet exposures	<u>54,846,979</u>	<u>52,847,563</u>	<u>28,188,473</u>	<u>2,255,078</u>
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	3,786,783	3,384,969	2,911,993	232,959
Derivative financial instruments	285,304	285,304	103,267	8,261
Defaulted exposures	25,532	25,514	38,163	3,053
Total off-balance sheet exposures	<u>4,097,619</u>	<u>3,695,787</u>	<u>3,053,423</u>	<u>244,273</u>
Total on and off-balance sheet exposures	<u>58,944,598</u>	<u>56,543,350</u>	<u>31,241,896</u>	<u>2,499,351</u>
(ii) <u>Market Risk (Note 4.0)</u>				
	Long Position	Short Position		
Interest rate risk	148,267	(13,312)	100,975	8,078
Foreign currency risk	17,038	(16,530)	17,038	1,363
	165,305	(29,842)		
Option risk			5,830	466
Total			<u>123,843</u>	<u>9,907</u>
(iii) <u>Operational Risk</u>	-	-	2,858,987	228,719
Total	<u>58,944,598</u>	<u>56,543,350</u>	<u>34,224,726</u>	<u>2,737,977</u>

2.0 Capital (contd.)

2.3 RWA and Capital Requirements (contd.)

Regulatory Capital Requirements (contd.)

The following tables present the minimum regulatory capital requirement of the Bank and the Group (contd.):

BANK 2015 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	6,735,295	6,735,295	-	-
Public sector entities	40,618	40,618	8,124	650
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	3,253,470	3,253,470	965,979	77,278
Insurance companies, securities firms and fund managers	32,191	32,191	32,191	2,575
Corporates	11,652,264	10,681,988	8,874,352	709,948
Regulatory retail	12,653,987	11,510,873	8,810,642	704,851
Residential mortgages	7,345,901	7,339,140	3,411,504	272,920
Higher risk assets	2,232	2,222	3,333	267
Other assets	584,711	584,711	268,657	21,493
Equity exposures	94,386	94,386	94,394	7,552
Defaulted exposures	173,309	172,021	206,897	16,552
Total on-balance sheet exposures	42,568,364	40,446,915	22,676,073	1,814,086
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	4,184,882	4,177,060	3,645,885	291,671
Derivative financial instruments	242,448	242,448	134,745	10,780
Defaulted exposures	9,607	9,606	14,409	1,153
Total off-balance sheet exposures	4,436,937	4,429,114	3,795,039	303,604
Total on and off-balance sheet exposures	47,005,301	44,876,029	26,471,112	2,117,690
(ii) Market Risk (Note 4.0)				
	Long Position	Short Position		
Interest rate risk	14,082	(9,275)	4,328	346
Foreign currency risk	121,456	(885)	121,450	9,716
Total	135,538	(10,160)	125,778	10,062
(iii) Operational Risk	-	-	2,271,723	181,737
Total	47,005,301	44,876,029	28,868,613	2,309,489

2.0 Capital (contd.)

2.3 RWA and Capital Requirements (contd.)

Regulatory Capital Requirements (contd.)

The following tables present the minimum regulatory capital requirement of the Bank and the Group (contd.):

GROUP 2015 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	9,192,594	9,192,594	-	-
Public sector entities	40,618	40,618	8,124	650
Banks, DFIs and MDBs	3,168,773	3,168,773	727,157	58,173
Insurance companies, securities firms and fund managers	40,237	40,237	40,237	3,219
Corporates	13,908,413	12,779,484	10,473,451	837,879
Regulatory retail	16,061,231	14,861,847	11,346,500	907,720
Residential mortgages	8,952,218	8,945,015	4,205,255	336,420
Higher risk assets	2,250	2,240	3,360	269
Other assets	785,633	785,633	477,924	38,234
Equity exposures	140,222	140,222	140,230	11,218
Defaulted exposures	207,684	206,266	246,876	19,750
Total on-balance sheet exposures	<u>52,499,873</u>	<u>50,162,929</u>	<u>27,669,114</u>	<u>2,213,532</u>
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	4,846,211	4,836,099	4,184,252	334,740
Derivative financial instruments	242,448	242,448	134,745	10,780
Defaulted exposures	15,468	15,458	23,187	1,855
Total off-balance sheet exposures	<u>5,104,127</u>	<u>5,094,005</u>	<u>4,342,184</u>	<u>347,375</u>
Total on and off-balance sheet exposures	<u>57,604,000</u>	<u>55,256,934</u>	<u>32,011,298</u>	<u>2,560,907</u>
(ii) Market Risk (Note 4.0)				
	Long Position	Short Position		
Interest rate risk	14,082	(9,275)	4,328	346
Foreign currency risk	121,456	(885)	121,450	9,716
Total	<u>135,538</u>	<u>(10,160)</u>	<u>125,778</u>	<u>10,062</u>
(iii) Operational Risk	-	-	2,770,484	221,639
Total	<u>57,604,000</u>	<u>55,256,934</u>	<u>34,907,560</u>	<u>2,792,608</u>

Note:

Under Islamic banking, the Group does not use Profit-sharing Investment Account ("PSIA") as a risk absorbent mechanism.

The Bank and the Group do not have exposure to any Large Exposure Risk for equity holdings as specified under BNM's Guidelines on Investment in Shares, Interest-in-Shares and Collective Investment Schemes.

3.0 Credit Risk

Credit risk is the risk of financial loss resulting from the failure of the Bank's borrowers or counterparties to fulfil their contractual obligations to repay their loans or to settle financial commitments. Credit risk may arise from slack lending standards, inadequate portfolio risk management, and failures to identify changes in the environment.

Credit Risk Management

The Board, via the Group Risk Management Committee ("GRMC"), established a Credit Risk Management Framework ("CRMF") which outlines the broad principles for managing credit risk of the Group.

Credit approval is under the purview of the Executive Committee, Group Management Credit Committee and Underwriters, depending on the size and complexity of the loans.

Retail loans are subject to portfolio reviews and corporate loans are subject to periodic individual borrower or group reviews. Portfolio Review Committee for the respective lines of business, assisted by embedded business risk units, manage the portfolio quality. The process also ensures alignment of business strategy with the Bank's risk appetite.

Potential problematic loans will be identified and managed under the Early Warning Framework. Recovery of impaired loans are carried out internally or through authorised third party.

Group Risk Management department is responsible to assess adequacy and effectiveness of the risk management framework, policies and guidelines. Business risk units are responsible for monitoring business activities and ensuring that they are carried out within the approved policies and business models.

Stress testing is used to identify potential vulnerable risk areas of the Bank's portfolios to stress events and the impact to bottom lines and capital. Stress tests are performed using a variety of market and economic assumptions to assess possible vulnerability and effective mitigating actions when required.

The Credit Review Unit under Group Internal Audit reviews the credit processes regularly and recommends corrective measures or enhancements. These reviews provide senior management with assurance that the policies, processes, guidelines and limits are adhered to.

Impaired Loans and Provisions

Past due accounts are loan accounts with any payment of principal and/or interest due and not paid, but are not classified as impaired. Loans are classified as impaired if the judgmental or mandatory triggers are activated.

Individual assessments are performed on impaired accounts with principal outstanding exceeding RM1 million. The discounted cashflow method will be used to determine the recoverable amounts. The remaining loan portfolios are then collectively assessed for impairment allowance provision.

Please refer to Note 2(i)(i) of the audited financial statements for accounting policies on impaired loans, advances and financing.

ALLIANCE BANK MALAYSIA BERHAD
(88103-W)

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures

(a) Geographical Distribution (contd.)

The following tables represent the Bank's and the Group's major types of gross credit exposure by geographical distribution. Exposures are allocated to the region in which the customer is located and are disclosed before taking into account of any collateral held or other credit enhancements and after allowance for impairment, where appropriate.

BANK 2016	Geographical region					Total RM'000
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000	
Cash and short-term funds	-	3,907,289	-	-	-	3,907,289
Deposits and placements with banks and other financial institutions	-	195,865	-	-	-	195,865
Financial assets held-for-trading	-	132,229	-	-	-	132,229
Financial investments available-for-sale	-	7,150,250	-	-	-	7,150,250
Financial investments held-to-maturity	-	719,324	-	-	-	719,324
Derivative financial assets	-	133,651	-	-	-	133,651
Loans, advances and financing	2,088,220	22,799,375	3,467,860	2,085,342	920,797	31,361,594
Statutory deposits with Bank Negara Malaysia	-	1,117,640	-	-	-	1,117,640
Total on-balance sheet	2,088,220	36,155,623	3,467,860	2,085,342	920,797	44,717,842
Financial guarantees	68,162	307,616	37,388	28,030	12,142	453,338
Credit related commitments and contingencies	899,550	6,642,606	808,085	640,581	255,919	9,246,741
Total off-balance sheet	967,712	6,950,222	845,473	668,611	268,061	9,700,079
Total credit exposure	3,055,932	43,105,845	4,313,333	2,753,953	1,188,858	54,417,921

GROUP 2016	Geographical region					Total RM'000
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000	
Cash and short-term funds	-	4,640,610	-	-	-	4,640,610
Deposits and placements with banks and other financial institutions	-	195,865	-	-	-	195,865
Balances due from clients and brokers	14,459	86,236	3,964	-	-	104,659
Financial assets held-for-trading	-	132,229	-	-	-	132,229
Financial investments available-for-sale	-	8,413,340	-	-	-	8,413,340
Financial investments held-to-maturity	-	1,129,307	-	-	-	1,129,307
Derivative financial assets	-	133,651	-	-	-	133,651
Loans, advances and financing	2,546,034	27,787,466	4,566,723	2,578,472	1,091,296	38,569,991
Statutory deposits with Bank Negara Malaysia	-	1,410,828	-	-	-	1,410,828
Total on-balance sheet	2,560,493	43,929,532	4,570,687	2,578,472	1,091,296	54,730,480
Financial guarantees	82,372	395,582	48,602	29,893	12,195	568,644
Credit related commitments and contingencies	1,120,094	7,637,513	998,094	1,093,973	326,933	11,176,607
Total off-balance sheet	1,202,466	8,033,095	1,046,696	1,123,866	339,128	11,745,251
Total credit exposure	3,762,959	51,962,627	5,617,383	3,702,338	1,430,424	66,475,731

ALLIANCE BANK MALAYSIA BERHAD
(88103-W)

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(a) Geographical Distribution (contd.)

The following tables represent the Bank's and the Group's major types of gross credit exposure by geographical distribution. Exposures are allocated to the region in which the customer is located and are disclosed before taking into account of any collateral held or other credit enhancements and after allowance for impairment, where appropriate (contd.).

BANK 2015	Geographical region					Total RM'000
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000	
Cash and short-term funds	-	2,135,629	-	-	-	2,135,629
Deposits and placements with banks and other financial institutions	-	298,167	-	-	-	298,167
Financial assets held-for-trading	-	10,037	-	-	-	10,037
Financial investments available-for-sale	-	7,787,813	-	-	-	7,787,813
Financial investments held-to-maturity	-	714,915	-	-	-	714,915
Derivative financial assets	-	132,460	-	-	-	132,460
Loans, advances and financing	1,977,025	22,011,059	3,192,755	2,181,553	640,859	30,003,251
Statutory deposits with Bank Negara Malaysia	-	1,344,000	-	-	-	1,344,000
Total on-balance sheet	1,977,025	34,434,080	3,192,755	2,181,553	640,859	42,426,272
Financial guarantees	53,656	410,092	33,184	28,813	10,394	536,139
Credit related commitments and contingencies	782,540	8,778,288	890,309	665,452	181,593	11,298,182
Total off-balance sheet	836,196	9,188,380	923,493	694,265	191,987	11,834,321
Total credit exposure	2,813,221	43,622,460	4,116,248	2,875,818	832,846	54,260,593

GROUP 2015	Geographical region					Total RM'000
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000	
Cash and short-term funds	-	2,382,645	-	-	-	2,382,645
Deposits and placements with banks and other financial institutions	-	298,167	-	-	-	298,167
Balances due from clients and brokers	22,911	74,391	5,441	-	-	102,743
Financial assets held-for-trading	-	10,037	-	-	-	10,037
Financial investments available-for-sale	-	9,613,634	-	-	-	9,613,634
Financial investments held-to-maturity	-	1,319,035	-	-	-	1,319,035
Derivative financial assets	-	132,460	-	-	-	132,460
Loans, advances and financing	2,389,880	26,733,313	4,232,714	2,627,002	781,366	36,764,275
Statutory deposits with Bank Negara Malaysia	-	1,675,326	-	-	-	1,675,326
Total on-balance sheet	2,412,791	42,239,008	4,238,155	2,627,002	781,366	52,298,322
Financial guarantees	72,877	475,120	43,594	32,894	10,394	634,879
Credit related commitments and contingencies	928,200	9,882,642	1,076,947	1,112,765	252,974	13,253,528
Total off-balance sheet	1,001,077	10,357,762	1,120,541	1,145,659	263,368	13,888,407
Total credit exposure	3,413,868	52,596,770	5,358,696	3,772,661	1,044,734	66,186,729

Certain comparatives have been restated to conform to current period presentation.

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(b) Industry Distribution

The following tables represent the Bank's and the Group's major types of gross credit exposure by sector. The analysis is based on the sector in which the customers are engaged.

<u>BANK</u> 2016	Government and Central <u>bank</u> RM'000	Financial, insurance, business services and <u>real estate</u> RM'000	Transport, storage & <u>communication</u> RM'000	Agriculture, manufacturing, wholesale & <u>retail trade</u> RM'000	<u>Construction</u> RM'000	<u>Household</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
Cash and short-term funds	1,698,304	2,208,985	-	-	-	-	-	3,907,289
Deposits and placements with banks and other financial institutions	-	195,865	-	-	-	-	-	195,865
Financial assets held-for-trading	40,441	40,805	50,983	-	-	-	-	132,229
Financial investments available-for-sale	2,736,023	3,623,301	501,473	204,742	84,711	-	-	7,150,250
Financial investments held-to-maturity	578,740	140,584	-	-	-	-	-	719,324
Derivative financial assets	13,175	92,277	-	-	-	-	28,199	133,651
Loans, advances and financing	-	4,209,676	254,941	8,144,805	573,458	17,764,953	413,761	31,361,594
Statutory deposits with Bank Negara Malaysia	1,117,640	-	-	-	-	-	-	1,117,640
Total on-balance sheet	6,184,323	10,511,493	807,397	8,349,547	658,169	17,764,953	441,960	44,717,842
Financial guarantees	-	67,078	20,914	314,252	25,715	2,675	22,704	453,338
Credit related commitments and contingencies	-	726,807	81,692	3,136,796	1,058,712	4,157,877	84,857	9,246,741
Total off-balance sheet	-	793,885	102,606	3,451,048	1,084,427	4,160,552	107,561	9,700,079
Total credit risk	6,184,323	11,305,378	910,003	11,800,595	1,742,596	21,925,505	549,521	54,417,921
<u>GROUP</u> 2016								
Cash and short-term funds	2,712,615	1,927,995	-	-	-	-	-	4,640,610
Deposits and placements with banks and other financial institutions	-	195,865	-	-	-	-	-	195,865
Balances due from clients and brokers	-	7,816	-	-	-	-	96,843	104,659
Financial assets held-for-trading	40,441	40,805	50,983	-	-	-	-	132,229
Financial investments available-for-sale	3,717,205	3,529,144	780,619	226,243	160,129	-	-	8,413,340
Financial investments held-to-maturity	933,960	195,347	-	-	-	-	-	1,129,307
Derivative financial assets	13,175	92,277	-	-	-	-	28,199	133,651
Loans, advances and financing	-	4,831,141	296,740	10,204,495	703,636	22,064,081	469,898	38,569,991
Statutory deposits with Bank Negara Malaysia	1,410,828	-	-	-	-	-	-	1,410,828
Total on-balance sheet	8,828,224	10,820,390	1,128,342	10,430,738	863,765	22,064,081	594,940	54,730,480
Financial guarantees	-	69,812	20,954	392,415	59,909	2,675	22,879	568,644
Credit related commitments and contingencies	-	1,019,751	86,904	4,033,902	1,131,450	4,486,937	417,663	11,176,607
Total off-balance sheet	-	1,089,563	107,858	4,426,317	1,191,359	4,489,612	440,542	11,745,251
Total credit risk	8,828,224	11,909,953	1,236,200	14,857,055	2,055,124	26,553,693	1,035,482	66,475,731

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(b) Industry Distribution (contd.)

The following tables represent the Bank's and the Group's major types of gross credit exposure by sector. The analysis is based on the sector in which the customers are engaged (contd.).

<u>BANK</u> 2015	Government and Central bank RM'000	Financial, insurance, business services and real estate RM'000	Transport, storage & communication RM'000	Agriculture, manufacturing, wholesale & retail trade RM'000	Construction RM'000	Household RM'000	Others RM'000	Total RM'000
Cash and short-term funds	694,538	1,441,091	-	-	-	-	-	2,135,629
Deposits and placements with banks and other financial institutions	-	298,167	-	-	-	-	-	298,167
Financial assets held-for-trading	-	-	5,007	-	5,030	-	-	10,037
Financial investments available-for-sale	4,160,080	2,876,820	253,331	305,182	121,143	-	71,257	7,787,813
Financial investments held-to-maturity	714,578	337	-	-	-	-	-	714,915
Derivative financial assets	-	61,004	-	-	-	-	71,456	132,460
Loans, advances and financing	-	3,998,190	190,537	7,492,179	462,137	17,485,537	374,671	30,003,251
Statutory deposits with Bank Negara Malaysia	1,344,000	-	-	-	-	-	-	1,344,000
Total on-balance sheet	6,913,196	8,675,609	448,875	7,797,361	588,310	17,485,537	517,384	42,426,272
Financial guarantees	-	116,003	24,423	335,941	20,385	-	39,387	536,139
Credit related commitments and contingencies	-	1,214,737	76,195	2,936,046	1,259,578	5,766,339	45,287	11,298,182
Total off-balance sheet	-	1,330,740	100,618	3,271,987	1,279,963	5,766,339	84,674	11,834,321
Total credit risk	6,913,196	10,006,349	549,493	11,069,348	1,868,273	23,251,876	602,058	54,260,593
<u>GROUP</u> 2015								
Cash and short-term funds	978,808	1,403,837	-	-	-	-	-	2,382,645
Deposits and placements with banks and other financial institutions	-	298,167	-	-	-	-	-	298,167
Balances due from clients and brokers	-	43,293	-	-	-	-	59,450	102,743
Financial assets held-for-trading	-	-	5,007	-	5,030	-	-	10,037
Financial investments available-for-sale	5,431,621	3,195,943	370,689	362,298	166,556	-	86,527	9,613,634
Financial investments held-to-maturity	1,309,191	4,745	5,099	-	-	-	-	1,319,035
Derivative financial assets	-	61,004	-	-	-	-	71,456	132,460
Loans, advances and financing	-	4,641,687	227,062	9,244,849	576,997	21,675,804	397,876	36,764,275
Statutory deposits with Bank Negara Malaysia	1,675,326	-	-	-	-	-	-	1,675,326
Total on-balance sheet	9,394,946	9,648,676	607,857	9,607,147	748,583	21,675,804	615,309	52,298,322
Financial guarantees	-	118,636	24,434	409,048	42,940	-	39,821	634,879
Credit related commitments and contingencies	-	1,611,298	83,091	3,685,935	1,423,028	6,092,350	357,826	13,253,528
Total off-balance sheet	-	1,729,934	107,525	4,094,983	1,465,968	6,092,350	397,647	13,888,407
Total credit risk	9,394,946	11,378,610	715,382	13,702,130	2,214,551	27,768,154	1,012,956	66,186,729

Certain comparatives have been restated to conform to current period presentation.

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(c) Residual Contractual Maturity

The following tables represent the residual contractual maturity for major types of gross credit exposures for on-balance sheet exposures of financial assets of the Bank and the Group:

<u>BANK</u>	<u>Up to 1 month</u>	<u>>1-3 months</u>	<u>>3-6 months</u>	<u>>6-12 months</u>	<u>>1 year</u>	<u>Total</u>
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	3,907,289	-	-	-	-	3,907,289
Deposits and placements with banks and other financial institutions	-	195,865	-	-	-	195,865
Financial assets held-for-trading	911	213	226	-	130,879	132,229
Financial investments available-for-sale	829,986	829,141	46,357	607,061	4,837,705	7,150,250
Financial investments held-to-maturity	2,229	447	813	63,775	652,060	719,324
Loans, advances and financing	6,514,246	1,412,124	714,970	522,005	22,198,249	31,361,594
Statutory deposits with Bank Negara Malaysia	-	-	-	-	1,117,640	1,117,640
Derivative financial assets	77,729	13,523	15,131	11,486	15,782	133,651
Total on-balance sheet exposure	11,332,390	2,451,313	777,497	1,204,327	28,952,315	44,717,842

GROUP **2016**

Cash and short-term funds	4,640,610	-	-	-	-	4,640,610
Deposits and placements with banks and other financial institutions	-	195,865	-	-	-	195,865
Balances due from clients and brokers	88,511	-	-	-	16,148	104,659
Financial assets held-for-trading	911	213	226	-	130,879	132,229
Financial investments available-for-sale	837,870	923,432	58,646	346,312	6,247,080	8,413,340
Financial investments held-to-maturity	2,229	3,848	1,309	213,901	908,020	1,129,307
Loans, advances and financing	7,671,645	1,783,082	956,625	756,060	27,402,579	38,569,991
Statutory deposits with Bank Negara Malaysia	-	-	-	-	1,410,828	1,410,828
Derivative financial assets	77,729	13,523	15,131	11,486	15,782	133,651
Total on-balance sheet exposure	13,319,505	2,919,963	1,031,937	1,327,759	36,131,316	54,730,480

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(c) Residual Contractual Maturity (contd.)

The following tables represent the residual contractual maturity for major types of gross credit exposures for on-balance sheet exposures of financial assets of the Bank and the Group (contd.):

<u>BANK</u>	<u>Up to 1 month</u>	<u>>1-3 months</u>	<u>>3-6 months</u>	<u>>6-12 months</u>	<u>>1 year</u>	<u>Total</u>
2015	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	2,135,629	-	-	-	-	2,135,629
Deposits and placements with banks and other financial institutions	-	74,101	224,066	-	-	298,167
Financial assets held-for-trading	-	-	17	-	10,020	10,037
Financial investments available-for-sale	491,201	231,771	209,661	185,170	6,670,010	7,787,813
Financial investments held-to-maturity	2,226	628	808	-	711,253	714,915
Loans, advances and financing	4,665,869	1,087,894	647,632	88,284	23,513,572	30,003,251
Statutory deposits with Bank Negara Malaysia	-	-	-	-	1,344,000	1,344,000
Derivative financial assets	25,313	33,339	54,970	16,764	2,074	132,460
Total on-balance sheet exposure	7,320,238	1,427,733	1,137,154	290,218	32,250,929	42,426,272

<u>GROUP</u>						
2015						
Cash and short-term funds	2,382,645	-	-	-	-	2,382,645
Deposits and placements with banks and other financial institutions	-	74,101	224,066	-	-	298,167
Balances due from clients and brokers	87,181	-	-	-	15,562	102,743
Financial assets held-for-trading	-	-	17	-	10,020	10,037
Financial investments available-for-sale	761,576	745,439	240,855	337,740	7,528,024	9,613,634
Financial investments held-to-maturity	2,226	4,020	191,378	5,633	1,115,778	1,319,035
Loans, advances and financing	5,885,695	1,380,795	910,036	281,555	28,306,194	36,764,275
Statutory deposits with Bank Negara Malaysia	-	-	-	-	1,675,326	1,675,326
Derivative financial assets	25,313	33,339	54,970	16,764	2,074	132,460
Total on-balance sheet exposure	9,144,636	2,237,694	1,621,322	641,692	38,652,978	52,298,322

Certain comparatives have been restated to conform to current period presentation.

3.0 Credit Risk (contd.)

3.2 Past Due Loans, Advances and Financing Analysis

Past due but not impaired loans, advances and financing are loans where the customers have failed to make a principal and/or interest payment when contractually due, and include loans which are due one or more days after the contractual due date but less than 3 months.

Past due loans, advances and financing are analysed as follows:

	<u>BANK</u>		<u>GROUP</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Past due up to 1 month	762,974	711,650	1,008,966	935,615
Past due > 1 - 2 months	137,024	183,659	193,473	242,781
Past due > 2 - 3 months	16,145	15,763	27,808	26,018
	<u>916,143</u>	<u>911,072</u>	<u>1,230,247</u>	<u>1,204,414</u>

Past due loans, advances and financing analysed by sector:

	<u>BANK</u>		<u>GROUP</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Financial, insurance & business services	17,662	16,591	28,005	21,613
Transport, storage & communication	4,986	6,801	6,055	7,773
Agriculture, manufacturing, wholesale & retail trade	107,859	86,645	138,804	108,545
Construction	19,364	14,198	23,280	16,708
Household	761,291	785,616	1,026,723	1,047,995
Others	4,981	1,221	7,380	1,780
	<u>916,143</u>	<u>911,072</u>	<u>1,230,247</u>	<u>1,204,414</u>

Past due loans, advances and financing analysed by significant geographical areas:

	<u>BANK</u>		<u>GROUP</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Northern region	67,568	80,824	92,948	106,147
Central region	604,936	586,054	803,554	769,635
Southern region	149,468	156,976	210,949	217,718
Sabah region	81,210	72,174	103,421	92,297
Sarawak region	12,961	15,044	19,375	18,617
	<u>916,143</u>	<u>911,072</u>	<u>1,230,247</u>	<u>1,204,414</u>

3.0 Credit Risk (contd.)

3.3 Impaired Loans, Advances and Financing Analysis

Impaired loans, advances and financing analysed by sectors:

	<u>BANK</u>		<u>GROUP</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Financial, insurance & business services	30,035	5,766	32,104	5,931
Transport, storage & communication	11,167	9,692	11,191	10,238
Agriculture, manufacturing, wholesale & retail trade	87,922	52,773	152,619	60,960
Construction	13,593	13,136	13,806	16,265
Household	227,009	237,797	274,109	284,425
Others	3,473	2,333	4,039	2,893
	<u>373,199</u>	<u>321,497</u>	<u>487,868</u>	<u>380,712</u>

Impairment allowances on impaired loans, advances and financing analysed by sectors:

	<u>Individual</u>	<u>Collective</u>	<u>Individual</u>	<u>Individual</u>
	impairment	impairment	impairment	impairment
	allowance	allowance	net charge	write-off
	RM'000	RM'000	for the year	for the year
	RM'000	RM'000	RM'000	RM'000
<u>BANK</u>				
2016				
Financial, insurance & business services	720	25,375	267	(1,519)
Transport, storage & communication	10,146	3,119	(155)	-
Agriculture, manufacturing, wholesale & retail trade	29,605	111,555	18,692	(4,162)
Construction	7,158	6,577	(1,411)	(27)
Household	9,044	86,651	1,823	(2,884)
Others	1,388	3,224	(421)	(70)
	<u>58,061</u>	<u>236,501</u>	<u>18,795</u>	<u>(8,662)</u>
<u>GROUP</u>				
2016				
Financial, insurance & business services	2,751	29,401	2,298	(1,561)
Transport, storage & communication	10,146	3,501	(155)	-
Agriculture, manufacturing, wholesale & retail trade	36,264	137,728	21,408	(7,487)
Construction	7,158	8,035	(1,411)	(2,058)
Household	10,060	124,461	2,505	(2,884)
Others	1,952	3,852	(416)	(70)
	<u>68,331</u>	<u>306,978</u>	<u>24,229</u>	<u>(14,060)</u>

3.0 Credit Risk (contd.)

3.3 Impaired Loans, Advances and Financing Analysis (contd.)

Impairment allowances on impaired loans, advances and financing analysed by sectors (contd.):

<u>BANK</u> 2015	Individual impairment allowance RM'000	Collective impairment allowance RM'000	Individual impairment net (write-back)/ charge for the year RM'000	Individual impairment write-off for the year RM'000
Financial, insurance & business services	630	26,008	(792)	(65)
Transport, storage & communication	9,527	2,387	(8)	-
Agriculture, manufacturing, wholesale & retail trade	17,642	136,944	8,895	(26,791)
Construction	8,597	6,079	(1,898)	-
Household	8,674	104,613	2,843	(3,032)
Others	1,121	2,568	119	-
	<u>46,191</u>	<u>278,599</u>	<u>9,159</u>	<u>(29,888)</u>
<u>GROUP</u> 2015				
Financial, insurance & business services	672	30,763	(792)	(65)
Transport, storage & communication	9,527	2,867	(8)	-
Agriculture, manufacturing, wholesale & retail trade	24,911	155,179	3,866	(39,651)
Construction	10,628	7,129	(1,898)	-
Household	8,884	135,957	2,508	(4,157)
Others	1,681	2,809	(201)	-
	<u>56,303</u>	<u>334,704</u>	<u>3,475</u>	<u>(43,873)</u>

3.0 Credit Risk (contd.)

3.3 Impaired Loans, Advances and Financing Analysis (contd.)

Impaired loans, advances and financing and impairment allowances analysed by significant geographical areas:

<u>BANK</u> 2016	Impaired loans, advances and financing RM'000	Individual impairment allowance RM'000	Collective impairment allowance RM'000
Northern region	42,935	7,702	34,867
Central region	272,288	49,188	148,845
Southern region	33,365	923	27,021
Sabah region	21,662	248	19,822
Sarawak region	2,949	-	5,946
	373,199	58,061	236,501
<u>GROUP</u> 2016			
Northern region	46,072	7,702	41,079
Central region	372,422	59,052	198,203
Southern region	40,279	1,329	35,683
Sabah region	25,088	248	24,768
Sarawak region	4,007	-	7,245
	487,868	68,331	306,978
<u>BANK</u> 2015			
Northern region	42,274	10,237	34,237
Central region	221,285	34,394	190,895
Southern region	30,309	-	27,629
Sabah region	23,797	1,560	20,506
Sarawak region	3,832	-	5,332
	321,497	46,191	278,599
<u>GROUP</u> 2015			
Northern region	45,294	10,237	39,276
Central region	267,873	44,506	228,965
Southern region	37,759	-	36,115
Sabah region	25,501	1,560	24,103
Sarawak region	4,285	-	6,245
	380,712	56,303	334,704

3.0 Credit Risk (contd.)

3.3 Impaired Loans, Advances and Financing Analysis (contd.)

Movements in loan impairment allowances are analysed as follows:

	<u>BANK</u>		<u>GROUP</u>	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Individual assessment allowance:				
At beginning of year	46,191	67,281	56,303	97,159
Allowance made during the year (net)	18,795	9,159	24,229	3,475
Amount written-off	(8,662)	(29,888)	(14,060)	(43,873)
Transfers to collective assessment allowance	1,737	(361)	1,859	(458)
At end of year	<u>58,061</u>	<u>46,191</u>	<u>68,331</u>	<u>56,303</u>
Collective assessment allowance:				
At beginning of year	278,599	266,907	334,704	313,296
Allowance made during the year (net)	1,502	51,693	40,577	78,193
Amount written-off	(41,863)	(40,362)	(66,444)	(57,243)
Transfers from individual assessment allowance	(1,737)	361	(1,859)	458
At end of year	<u>236,501</u>	<u>278,599</u>	<u>306,978</u>	<u>334,704</u>

3.0 Credit Risk (contd.)

3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach

The following tables represent the credit exposures by risk-weights and after credit risk mitigation:

	Exposures after netting and credit risk mitigation											
BANK				Insurance companies, Securities firms and Fund managers				Higher risk assets	Other assets	Equity exposures	Total exposures after netting and credit risk mitigation	Total Risk-Weighted Assets
2016	Sovereigns /Central banks	Public sector entities	Banks, DFIs and MDBs		Corporates	Regulatory retail	Residential mortgages					
<u>Risk-Weights</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	6,172,862	-	-	-	425,119	-	-	-	293,588	-	6,891,569	-
20%	13,175	64,967	4,184,192	-	1,461,519	-	-	-	10,777	-	5,734,630	1,146,926
35%	-	-	-	-	-	-	6,428,212	-	-	-	6,428,212	2,249,874
50%	-	-	814,459	-	7,157	10,606	4,077,231	-	-	-	4,909,453	2,454,727
75%	-	-	-	-	-	9,621,824	36,269	-	-	-	9,658,093	7,243,570
100%	-	-	46	37,508	10,336,004	143,424	1,595,063	-	234,425	102,654	12,449,124	12,449,122
150%	-	-	-	-	49,840	77,624	-	5,661	-	18	133,143	199,715
Total exposures	6,186,037	64,967	4,998,697	37,508	12,279,639	9,853,478	12,136,775	5,661	538,790	102,672	46,204,224	25,743,934
Risk-weighted assets by exposures	2,635	12,993	1,244,114	37,508	10,706,646	7,481,531	5,910,754	8,492	236,580	102,681	25,743,934	
Average risk-weight	-	20%	25%	100%	87%	76%	49%	150%	44%	100%	56%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-	

3.0 Credit Risk (contd.)

3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (contd.)

The following tables represent the credit exposures by risk- weights and after credit risk mitigation (contd.):

<u>GROUP</u> 2016 <u>Risk-Weights</u>	Exposures after netting and credit risk mitigation										Total exposures after netting and credit risk mitigation RM'000	Total Risk-Weighted Assets RM'000
	Sovereigns /Central banks RM'000	Public sector entities RM'000	Banks, DFIs and MDBs RM'000	Insurance companies, Securities firms and Fund managers RM'000	Corporates RM'000	Regulatory retail RM'000	Residential mortgages RM'000	Higher risk assets RM'000	Other assets RM'000	Equity exposures RM'000		
0%	8,874,847	-	-	-	709,642	-	-	-	293,588	-	9,878,077	-
20%	13,174	95,547	3,979,944	-	2,072,848	-	-	-	-	-	6,161,513	1,232,303
35%	-	-	-	-	-	-	7,664,958	-	-	-	7,664,958	2,682,735
50%	-	-	74,807	-	7,157	12,715	5,053,298	-	-	-	5,147,977	2,573,988
75%	-	-	-	-	-	12,124,788	38,517	-	-	-	12,163,305	9,122,479
100%	-	-	46	48,156	12,222,260	598,248	1,878,328	-	422,405	152,337	15,321,780	15,321,780
150%	-	-	-	-	117,363	82,656	-	5,703	-	18	205,740	308,611
Total exposures	8,888,021	95,547	4,054,797	48,156	15,129,270	12,818,407	14,635,101	5,703	715,993	152,355	56,543,350	31,241,896
Risk-weighted assets by exposures	2,635	19,109	833,438	48,156	12,816,453	9,822,181	7,116,600	8,555	422,405	152,364	31,241,896	
Average risk-weight	-	20%	21%	100%	85%	77%	49%	150%	59%	100%	55%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-	

3.0 Credit Risk (contd.)

3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (contd.)

The following tables represent the credit exposures by risk- weights and after credit risk mitigation (contd.):

BANK 2015 Risk-Weights	Exposures after netting and credit risk mitigation										Total exposures after netting and credit risk mitigation RM'000	Total Risk- Weighted Assets RM'000
	Sovereigns /Central banks RM'000	Public sector entities RM'000	Banks, DFIs and MDBs RM'000	Insurance companies, Securities firms and Fund managers RM'000	Corporates RM'000	Regulatory retail RM'000	Residential mortgages RM'000	Higher risk assets RM'000	Other assets RM'000	Equity exposures RM'000		
0%	6,735,295	-	-	-	424,190	-	-	-	307,709	-	7,467,194	-
20%	-	40,618	2,303,651	-	1,752,367	-	-	-	10,432	-	4,107,068	821,414
35%	-	-	-	-	-	-	4,428,632	-	-	-	4,428,632	1,550,021
50%	-	-	1,105,840	-	45	8,821	2,100,856	-	-	-	3,215,562	1,607,781
75%	-	-	-	-	-	12,815,703	37,034	-	-	-	12,852,737	9,639,552
100%	-	-	-	32,203	10,705,634	766,332	844,711	-	266,570	94,372	12,709,822	12,709,823
150%	-	-	-	-	9,876	80,050	-	5,074	-	14	95,014	142,521
Total exposures	6,735,295	40,618	3,409,491	32,203	12,892,112	13,670,906	7,411,233	5,074	584,711	94,386	44,876,029	26,471,112
Risk-weighted assets by exposures	-	8,124	1,013,650	32,203	11,070,944	10,502,594	3,472,935	7,612	268,657	94,393	26,471,112	
Average risk-weight	-	20%	30%	100%	86%	77%	47%	150%	46%	100%	59%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-	

3.0 Credit Risk (contd.)

3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (contd.)

The following tables represent the credit exposures by risk- weights and after credit risk mitigation (contd.):

←----- Exposures after netting and credit risk mitigation -----→												
GROUP	Sovereigns	Public	Banks,	Insurance				Higher	Other	Equity	Total	Total
2015	/Central	sector	Banks,	companies,		Regulatory	Residential	risk	assets	exposures	exposures	Risk-
<u>Risk-Weights</u>	<u>banks</u>	<u>entities</u>	<u>DFIs and</u>	<u>Securities</u>	<u>Fund</u>	<u>retail</u>	<u>mortgages</u>	<u>assets</u>	<u>assets</u>		<u>mitigation</u>	<u>Weighted</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	Assets
0%	9,252,594	-	-	-	576,824	-	-	-	307,709	-	10,137,127	-
20%	-	40,618	2,958,563	-	2,198,757	-	-	-	-	-	5,197,938	1,039,588
35%	-	-	-	-	-	-	5,219,495	-	-	-	5,219,495	1,826,823
50%	-	-	366,231	-	45	10,413	2,695,375	-	-	-	3,072,064	1,536,033
75%	-	-	-	-	-	16,270,942	42,854	-	-	-	16,313,796	12,235,346
100%	-	-	-	51,583	12,595,922	860,670	1,076,220	-	477,924	140,208	15,202,527	15,202,528
150%	-	-	-	-	15,257	93,582	-	5,135	-	14	113,988	170,980
Total exposures	9,252,594	40,618	3,324,794	51,583	15,386,805	17,235,607	9,033,944	5,135	785,633	140,222	55,256,934	32,011,298
Risk-weighted assets by exposures	-	8,124	774,828	51,583	13,058,581	13,209,454	4,282,872	7,703	477,924	140,229	32,011,298	
Average risk-weight	-	20%	23%	100%	85%	77%	47%	150%	61%	100%	58%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-	

3.0 Credit Risk (contd.)

3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (contd.)

For the purpose of determining counterparty risk-weights, the Group uses external credit assessments from Rating Agency Malaysia ("RAM"), Malaysian Rating Corporation ("MARC"), Standard and Poor's ("S&P"), Moody's, and Fitch. In the context of the Group's portfolio, external credit assessments are mainly applicable to banks/financial institutions and rated corporations. The Group follows the process prescribed under BNM's Capital Adequacy Framework to map the ratings to the relevant risk-weights. The ratings are monitored and updated regularly to ensure that the latest and most appropriate risk-weights are applied in the capital computation.

The following tables show the rated credit exposures according to ratings by approved Eligible Credit Assessment Institutions ("ECAIs"):

BANK **2016**

Exposure Class	Ratings by Approved ECAIs						Total
	Moody's	Aaa to Aa3 / P-1	A1 to A3 / P-2	Baa1 to Ba3 / P-3	B1 to C / Others	Unrated	
	S&P	AAA to AA- / A-1	A+ to A- / A-2	BBB+ to BB- / A-3	B+ to D / Others	Unrated	
	Fitch	AAA to AA- / F1+, F1	A+ to A- / A-2	BBB+ to BB- / F3	B+ to D	Unrated	
	RAM	AAA to AA3 / P-1	A+ to A3 / P-2	BBB1+ to BB3 / P-3	B to D / NP	Unrated	
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures							
(i) Exposures risk weighted using Sovereigns and Central Banks rating							
Sovereigns and Central Banks (See Note 1)		-	6,186,036	-	-	-	6,186,036
Corporates		-	425,119	-	-	-	425,119
		-	6,611,155	-	-	-	6,611,155
(ii) Exposures risk weighted using Banking Institutions long term rating							
Banks, MDBs and FDIs		1,754,265	1,721,371	13,241	-	1,509,820	4,998,697
Exposures risk weighted using Banking Institutions short term rating							
Banks, MDBs and FDIs		-	-	-	-	-	-
		1,754,265	1,721,371	13,241	-	1,509,820	4,998,697
(iii) Exposures risk weighted using Corporate long term rating							
Public Sector Entities		40,547	-	-	-	24,420	64,967
Corporates		1,461,519	72	-	-	11,199,566	12,661,157
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	37,510	37,510
Exposures risk weighted using Corporate short term rating							
Public Sector Entities		-	-	-	-	-	-
Corporates		-	-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-	-
		1,502,066	72	-	-	11,261,496	12,763,634

3.0 Credit Risk (contd.)

3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (contd.)

The following tables show the rated credit exposures according to ratings by approved ECAs (contd.):

GROUP **2016**

Exposure Class	Ratings by Approved ECAs						Total
	Moody's	Aaa to Aa3 / P-1	A1 to A3 / P-2	Baa1 to Ba3 / P-3	B1 to C / Others	Unrated	
	S&P	AAA to AA- / A-1	A+ to A- / A-2	BBB+ to BB- / A-3	B+ to D / Others	Unrated	
	Fitch	AAA to AA- / F1+, F1	A+ to A- / A-2	BBB+ to BB- / F3	B+ to D	Unrated	
	RAM	AAA to AA3 / P-1	A+ to A3 / P-2	BBB1+ to BB3 / P-3	B to D / NP	Unrated	
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures							
(i) Exposures risk weighted using Sovereigns and Central Banks rating							
Sovereigns and Central Banks (See Note 1)		-	8,888,021	-	-	-	8,888,021
Corporates		-	709,642	-	-	-	709,642
		-	9,597,663	-	-	-	9,597,663
(ii) Exposures risk weighted using Banking Institutions long term rating							
Banks, MDBs and FDIs		1,934,797	1,721,597	13,241	-	385,162	4,054,797
Exposures risk weighted using Banking Institutions short term rating							
Banks, MDBs and FDIs		-	-	-	-	-	-
		1,934,797	1,721,597	13,241	-	385,162	4,054,797
(iii) Exposures risk weighted using Corporate long term rating							
Public Sector Entities		71,126	-	-	-	24,421	95,547
Corporates		2,072,848	72	-	-	13,357,317	15,430,237
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	48,158	48,158
Exposures risk weighted using Corporate short term rating							
Public Sector Entities		-	-	-	-	-	-
Corporates		-	-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-	-
		2,143,974	72	-	-	13,429,896	15,573,942

3.0 Credit Risk (contd.)

3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (contd.)

The following tables show the rated credit exposures according to ratings by approved ECAIs (contd.):

BANK **2015**

Exposure Class	Ratings by Approved ECAIs						Total
	Moody's	Aaa to Aa3 / P-1	A1 to A3 / P-2	Baa1 to Ba3 / P-3	B1 to C / Others	Unrated	
	S&P	AAA to AA- / A-1	A+ to A- / A-2	BBB+ to BB- / A-3	B+ to D / Others	Unrated	
	Fitch	AAA to AA- / F1+, F1	A+ to A- / A-2	BBB+ to BB- / F3	B+ to D	Unrated	
	RAM	AAA to AA3 / P-1	A+ to A3 / P-2	BBB1+ to BB3 / P-3	B to D / NP	Unrated	
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and Off Balance-Sheet Exposures</u>							
(i) Exposures risk weighted using Sovereigns and Central Banks rating							
Sovereigns and Central Banks (See Note 1)	-	6,735,295	-	-	-	-	6,735,295
Corporates	-	424,190	-	-	-	-	424,190
	-	7,159,485	-	-	-	-	7,159,485
(ii) Exposures risk weighted using Banking Institutions long term rating							
Banks, MDBs and FDIs	413,096	1,348,998	180,048	-	1,467,349	-	3,409,491
Exposures risk weighted using Banking Institutions short term rating							
Banks, MDBs and FDIs	-	-	-	-	-	-	-
	413,096	1,348,998	180,048	-	1,467,349	-	3,409,491
(iii) Exposures risk weighted using Corporate long term rating							
Public Sector Entities	40,618	-	-	-	-	-	40,618
Corporates	1,752,367	-	300	-	11,686,929	-	13,439,596
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	32,203	-	32,203
Exposures risk weighted using Corporate short term rating							
Public Sector Entities	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-
	1,792,985	-	300	-	11,719,132	-	13,512,417

3.0 Credit Risk (contd.)

3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (contd.)

The following tables show the rated credit exposures according to ratings by approved ECAIs (contd.):

GROUP **2015**

Exposure Class	Ratings by Approved ECAIs					Total
	Moody's	Aaa to Aa3 / P-1	A1 to A3 / P-2	Baa1 to Ba3 / P-3	B1 to C / Others	
	S&P	AAA to AA- / A-1	A+ to A- / A-2	BBB+ to BB- / A-3	B+ to D / Others	
	Fitch	AAA to AA- / F1+, F1	A+ to A- / A-2	BBB+ to BB- / F3	B+ to D	
	RAM	AAA to AA3 / P-1	A+ to A3 / P-2	BBB1+ to BB3 / P-3	B to D / NP	
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4	
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures						
(i) Exposures risk weighted using Sovereigns and Central Banks rating						
Sovereigns and Central Banks (See Note 1)	-	9,252,594	-	-	-	9,252,594
Corporates	-	576,824	-	-	-	576,824
	-	9,829,418	-	-	-	9,829,418
(ii) Exposures risk weighted using Banking Institutions long term rating						
Banks, MDBs and FDIs	1,100,314	1,655,621	180,048	-	388,810	3,324,794
Exposures risk weighted using Banking Institutions short term rating						
Banks, MDBs and FDIs	-	-	-	-	-	-
	1,100,314	1,655,621	180,048	-	388,810	3,324,794
(iii) Exposures risk weighted using Corporate long term rating						
Public Sector Entities	40,618	-	-	-	-	40,618
Corporates	2,198,757	-	300	-	13,742,112	15,941,170
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	51,583	51,583
Exposures risk weighted using Corporate short term rating						
Public Sector Entities	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-	-
	2,239,375	-	300	-	13,793,695	16,033,371

Note 1: The Federal Government and Central Bank of Malaysia are accorded 0% risk-weight as provided under the Capital Adequacy Framework.

*Upper Range = Long Term Rating, Lower Range = Short Term Rating

Note:

There is no outstanding securitisation contract at the Bank that required disclosure of ratings and short term rating of securitisation by approved ECAIs.

3.0 Credit Risk (contd.)

3.5 Credit Risk Mitigation ("CRM")

As a practical approach towards mitigating credit risk, the Group accepts a wide range of collaterals. Main types of collateral acceptable to the Group include cash, guarantees, commercial and residential real estate, and physical collateral/financial collateral, e.g. motor vehicles or shares. Guarantees are accepted only when the financial standing of the guarantors have been ascertained.

However, for capital computation purposes, Basel II adopts more restrictive rules on collaterals that qualify as credit mitigants. As a result, not all of the collaterals accepted by the Group can be used to reduce our capital adequacy requirement.

The following tables represent the Bank's/Group's credit exposure including off-balance sheet items under the standardised approach, the total exposure (after, where applicable, eligible netting benefits) that is covered by eligible guarantees and credit derivatives; and eligible collateral after haircuts, allowed under the Capital Adequacy Framework.

<u>BANK</u> 2016 Exposure Class	Exposure <u>before CRM</u> RM'000	Exposures covered by guarantees/ credit <u>derivatives</u> RM'000	Exposures covered by eligible financial <u>collateral</u> RM'000	Exposures covered by other eligible <u>collateral</u> RM'000
<u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	6,172,862	-	-	-
Public sector entities	40,547	-	-	-
Banks, DFIs and MDBs	4,782,172	-	-	-
Insurance companies, securities firms and fund managers	27,540	-	-	-
Corporates	11,415,764	-	665,900	-
Regulatory retail	9,471,017	-	1,062,568	-
Residential mortgages	11,998,907	-	8,843	-
Higher risk assets	2,910	-	5	-
Other assets	538,790	-	-	-
Equity exposure	102,672	-	-	-
Defaulted exposures	243,444	-	2,034	-
Total on-balance sheet exposures	<u>44,796,625</u>	<u>-</u>	<u>1,739,350</u>	<u>-</u>
Off-balance sheet exposures:				
Off-balance sheet exposures other than				
OTC derivatives or credit derivatives	3,485,329	-	346,567	-
Defaulted exposures	8,205	-	18	-
Total off-balance sheet exposures	<u>3,493,534</u>	<u>-</u>	<u>346,585</u>	<u>-</u>
Total on and off-balance sheet exposures	<u>48,290,159</u>	<u>-</u>	<u>2,085,935</u>	<u>-</u>

3.0 Credit Risk (contd.)

3.5 Credit Risk Mitigation ("CRM") (contd.)

<u>GROUP</u> 2016 Exposure Class	Exposure before CRM RM'000	Exposures covered by guarantees/ credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000	Exposures covered by other eligible collateral RM'000
<u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	8,814,847	-	-	-
Public sector entities	71,126	-	-	-
Banks, DFIs and MDBs	3,838,402	-	-	-
Insurance companies, securities firms and fund managers	37,997	-	-	-
Corporates	14,035,293	-	835,521	-
Regulatory retail	12,382,876	-	1,151,869	-
Residential mortgages	14,472,085	-	9,987	-
Higher risk assets	2,910	-	5	-
Other assets	715,993	-	-	-
Equity exposure	152,355	-	-	-
Defaulted exposures	323,095	-	2,034	-
Total on-balance sheet exposures	54,846,979	-	1,999,416	-
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	4,072,087	-	401,814	-
Defaulted exposures	25,532	-	18	-
Total off-balance sheet exposures	4,097,619	-	401,832	-
Total on and off-balance sheet exposures	58,944,598	-	2,401,248	-

3.0 Credit Risk (contd.)

3.5 Credit Risk Mitigation ("CRM") (contd.)

<u>BANK</u> 2015 Exposure Class	Exposure <u>before CRM</u> RM'000	Exposures covered by guarantees/ credit <u>derivatives</u> RM'000	Exposures covered by eligible financial <u>collateral</u> RM'000	Exposures covered by other eligible <u>collateral</u> RM'000
<u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	6,735,295	-	-	-
Public sector entities	40,618	-	-	-
Banks, DFIs and MDBs	3,253,470	-	-	-
Insurance companies, securities firms and fund managers	32,191	-	-	-
Corporates	11,652,264	-	970,276	-
Regulatory retail	12,653,987	-	1,143,115	-
Residential mortgages	7,345,901	-	6,761	-
Higher risk assets	2,232	-	10	-
Other assets	584,711	-	-	-
Equity exposure	94,386	-	-	-
Defaulted exposures	173,309	-	1,288	-
Total on-balance sheet exposures	<u>42,568,364</u>	<u>-</u>	<u>2,121,450</u>	<u>-</u>
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	4,427,330	-	7,823	-
Defaulted exposures	9,607	-	-	-
Total off-balance sheet exposures	<u>4,436,937</u>	<u>-</u>	<u>7,823</u>	<u>-</u>
Total on and off-balance sheet exposures	<u>47,005,301</u>	<u>-</u>	<u>2,129,273</u>	<u>-</u>

3.0 Credit Risk (contd.)

3.5 Credit Risk Mitigation ("CRM") (contd.)

GROUP				
2015				
Exposure Class	Exposure before CRM RM'000	Exposures covered by guarantees/ credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000	Exposures covered by other eligible collateral RM'000
<u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	9,192,594	-	-	-
Public sector entities	40,618	-	-	-
Banks, DFIs and MDBs	3,168,773	-	-	-
Insurance companies, securities firms and fund managers	40,237	-	-	-
Corporates	13,908,413	-	1,128,929	-
Regulatory retail	16,061,231	-	1,199,385	-
Residential mortgages	8,952,218	-	7,202	-
Higher risk assets	2,250	-	10	-
Other assets	785,633	-	-	-
Equity exposure	140,222	-	-	-
Defaulted exposures	207,684	-	1,418	-
Total on-balance sheet exposures	<u>52,499,873</u>	<u>-</u>	<u>2,336,944</u>	<u>-</u>
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	5,088,659	-	10,114	-
Defaulted exposures	15,468	-	10	-
Total off-balance sheet exposures	<u>5,104,127</u>	<u>-</u>	<u>10,124</u>	<u>-</u>
Total on and off-balance sheet exposures	<u>57,604,000</u>	<u>-</u>	<u>2,347,068</u>	<u>-</u>

3.0 Credit Risk (contd.)

3.6 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. Unlike a loan where the credit risk is unilateral i.e. only the lending bank faces the risk of loss, CCR on derivatives creates bilateral risk of loss. This means either party of the transaction can incur losses depending on the market value of the derivative, which can vary over time with the movement of underlying market factors.

For derivatives, the Group 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, inter alia, on the maturity of the contract and on the volatility of the rates underlying that type of instrument.

Derivatives are mainly utilised for hedging purposes with minimal trading exposures. CCR is managed via counterparty limits which is set based on the counterparty's size and credit rating. These limits are monitored daily by Group Risk Management.

CCR is further mitigated via netting agreements, e.g. under the International Swaps and Derivatives Association ("ISDA") master agreement. The ISDA agreement contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other predetermined events occur.

CCR is measured via the current exposure method whereby the credit equivalent exposure for derivatives is the sum of the mark-to-market exposure plus the potential future exposure (add-on factor multiplied by the notional amount). The add-on factors are as stipulated by BNM.

3.0 Credit Risk (contd.)

3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk (contd.)

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

<u>BANK</u> 2016	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
<u>Credit-related exposures</u>				
Direct credit substitutes	625,635	-	625,635	548,598
Transaction-related contingent items	618,043	-	309,021	226,748
Short-term self-liquidating trade- related contingencies	113,621	-	22,724	20,084
Irrevocable commitments to extent credit:				
- maturity exceeding one year	1,940,980	-	970,490	776,394
- maturity not exceeding one year	4,803,945	-	960,789	675,332
Unutilised credit card lines	1,597,855	-	319,571	243,050
	<u>9,700,079</u>	<u>-</u>	<u>3,208,230</u>	<u>2,490,206</u>
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
- one year or less	7,255,690	117,734	192,432	70,702
- over one year to three years	39,135	-	3,522	1,761
- over three years	-	-	-	-
Interest rate related contracts:				
- one year or less	380,000	136	741	291
- over one year to three years	809,755	1,813	13,009	3,199
- over three years	1,490,776	13,968	68,514	23,771
Equity related contracts:				
- one year or less	92,940	-	5,576	2,788
- over one year to three years	18,880	-	1,510	755
	<u>10,087,176</u>	<u>133,651</u>	<u>285,304</u>	<u>103,267</u>
	<u>19,787,255</u>	<u>133,651</u>	<u>3,493,534</u>	<u>2,593,473</u>

3.0 Credit Risk (contd.)

3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk (contd.)

GROUP	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
2016				
<u>Credit-related exposures</u>				
Direct credit substitutes	717,319	-	717,319	628,662
Transaction-related contingent items	677,126	-	338,563	244,244
Short-term self-liquidating trade- related contingencies	137,524	-	27,505	24,375
Irrevocable commitments to extent credit:				
- maturity exceeding one year	2,287,572	-	1,143,786	936,985
- maturity not exceeding one year	6,327,855	-	1,265,571	872,840
Unutilised credit card lines	1,597,855	-	319,571	243,050
	<u>11,745,251</u>	<u>-</u>	<u>3,812,315</u>	<u>2,950,156</u>
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
- one year or less	7,255,690	117,734	192,432	70,702
- over one year to three years	39,135	-	3,522	1,761
- over three years	-	-	-	-
Interest rate related contracts:				
- one year or less	380,000	136	741	291
- over one year to three years	809,755	1,813	13,009	3,199
- over three years	1,490,776	13,968	68,514	23,771
Equity related contracts:				
- one year or less	92,940	-	5,576	2,788
- over one year to three years	18,880	-	1,510	755
	<u>10,087,176</u>	<u>133,651</u>	<u>285,304</u>	<u>103,267</u>
	<u>21,832,427</u>	<u>133,651</u>	<u>4,097,619</u>	<u>3,053,423</u>

3.0 Credit Risk (contd.)

3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk (contd.)

<u>BANK</u> 2015	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
<u>Credit-related exposures</u>				
Direct credit substitutes	714,754	-	714,754	714,754
Transaction-related contingent items	596,203	-	298,101	298,101
Short-term self-liquidating trade- related contingencies	140,377	-	28,075	28,075
Irrevocable commitments to extent credit:				
- maturity exceeding one year	3,589,874	-	1,794,937	1,434,673
- maturity not exceeding one year	5,335,806	-	1,067,161	955,738
Unutilised credit card lines	1,457,307	-	291,461	228,952
	<u>11,834,321</u>	<u>-</u>	<u>4,194,489</u>	<u>3,660,293</u>
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
- one year or less	4,794,524	128,181	173,550	113,541
- over one year to three years	69,675	234	4,415	883
- over three years	31,515	-	3,467	1,733
Interest rate related contracts:				
- one year or less	2,085,000	2,205	4,890	1,655
- over one year to three years	828,153	1,030	14,593	3,957
- over three years	1,012,269	810	39,103	11,828
Equity related contracts:				
- one year or less	23,460	-	1,408	637
- over one year to three years	12,780	-	1,022	511
	<u>8,857,376</u>	<u>132,460</u>	<u>242,448</u>	<u>134,745</u>
	<u>20,691,697</u>	<u>132,460</u>	<u>4,436,937</u>	<u>3,795,038</u>

3.0 Credit Risk (contd.)

3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk (contd.)

GROUP 2015	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
<u>Credit-related exposures</u>				
Direct credit substitutes	789,038	-	789,038	789,038
Transaction-related contingent items	653,199	-	326,599	326,599
Short-term self-liquidating trade- related contingencies	164,832	-	32,966	32,966
Irrevocable commitments to extent credit:				
- maturity exceeding one year	4,189,365	-	2,094,682	1,698,086
- maturity not exceeding one year	6,634,666	-	1,326,933	1,131,797
Unutilised credit card lines	1,457,307	-	291,461	228,952
	<u>13,888,407</u>	<u>-</u>	<u>4,861,679</u>	<u>4,207,438</u>
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
- one year or less	4,794,524	128,181	173,550	113,541
- over one year to three years	69,675	234	4,415	883
- over three years	31,515	-	3,467	1,733
Interest rate related contracts:				
- one year or less	2,085,000	2,205	4,890	1,655
- over one year to three years	828,153	1,030	14,593	3,957
- over three years	1,012,269	810	39,103	11,828
Equity related contracts:				
- one year or less	23,460	-	1,408	637
- over one year to three years	12,780	-	1,022	511
	<u>8,857,376</u>	<u>132,460</u>	<u>242,448</u>	<u>134,745</u>
	<u>22,745,783</u>	<u>132,460</u>	<u>5,104,127</u>	<u>4,342,183</u>

4.0 Market Risk

Market Risk is the risk of loss of earnings arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and in their implied volatilities.

Market Risk Management

The governance structure for market risk management starts with the Board of Directors which has the overall oversight on market risk management and defines the risk philosophy, principles and core policies. The Board is in turn assisted by the Group Risk Management Committee ("GRMC") which is a Board committee principally responsible for providing oversight on the risk management activities. Its responsibilities include reviewing and approving risk management policies, risk exposures and limits whilst ensuring the necessary infrastructure and resources are in place. At Senior Management level, the Group Assets and Liabilities Management Committee ("GALCO") manages the Group's market risk by reviewing and recommending market risk frameworks and policies; ensuring that market risk limits and parameters are within the approved thresholds; and aligning market risk management with business strategy and planning.

Organisationally, market risks are managed collectively via the Three Lines of Defence concept. Group Financial Markets as the risk taking unit assumes ownership of the risk and manages the risk within the approved policies, risk limits and parameters as set by the GRMC or GALCO. The risk control function is undertaken by Group Risk Management which provides independent monitoring, valuation and reporting of the market exposures. This is supplemented by periodic review by Group Internal Audit.

For the Group, market risk is managed on an integrated approach which involves the following processes:

- (i) Identification of market risk in new products and changes in risk profiles of existing exposures.
- (ii) Assessment of the type and magnitude of market risks which takes into account the activity and market role undertaken.
- (iii) Adoption of various market risk measurement tools and techniques to quantify market risk exposures.
- (iv) Adoption of the Three Lines of Defence concept for monitoring of market risk; Business Units forming the 1st Line, Group Market Risk Management as the 2nd Line and Group Internal Audit functioning as the 3rd Line.
- (v) Scheduled and exception reporting on market risk exposures.

Market risk exists in the Group's activities in bonds, foreign exchange and interest rate swaps, which are transacted primarily by Group Financial Markets (treasury) department. Trading positions are held intentionally for short-term resale and with the intent of benefiting from actual or expected short-term price movements while banking book positions are held until maturity or as available-for-sale. Hence, these positions are susceptible to market movements.

These exposures are governed by approved policies, risk limits and parameters which are set vis-a-vis the Group's risk appetite and strategy. Besides that, treasury activities are monitored and reported independently by Group Market Risk on a daily basis. Any limit breaches or exceptions are reported to GALCO and GRMC.

4.0 Market Risk (contd.)

Hedging Policies and Strategies

The Group had established a hedging policy which outlines the broad principles and policies governing hedging activities by the Group. Generally, the Group enters into hedges to manage or reduce risk exposures. All hedging strategies are approved by the GALCO and monitored independently by Group Market Risk. Further, all hedging strategies are designated upfront and recorded separately under the hedging portfolios. Hedging positions and effectiveness are monitored and reported monthly to management.

Market risk capital charge

For the Group, the market risk charge is computed on the standardised approach and the capital charges are mainly on the bond, foreign exchange and equities trading portfolios if any.

Regulatory capital requirements

The risk-weighted assets and capital requirements for the various categories of risk under market risk are as follows:

	<u>BANK</u>		<u>GROUP</u>	
	Risk- Weighted Assets RM'000	Capital Requirements RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
2016				
Interest rate risk				
- General interest rate risk	76,062	6,085	76,062	6,085
- Specific interest rate risk	24,913	1,993	24,913	1,993
	<u>100,975</u>	<u>8,078</u>	<u>100,975</u>	<u>8,078</u>
Option risk	-	-	5,830	466
Foreign exchange risk	17,038	1,363	17,038	1,363
	<u>118,013</u>	<u>9,441</u>	<u>123,843</u>	<u>9,907</u>
2015				
Interest rate risk				
- General interest rate risk	3,064	245	3,064	245
- Specific interest rate risk	1,264	101	1,264	101
	<u>4,328</u>	<u>346</u>	<u>4,328</u>	<u>346</u>
Foreign exchange risk	121,450	9,716	121,450	9,716
	<u>125,778</u>	<u>10,062</u>	<u>125,778</u>	<u>10,062</u>

5.0 Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational Risk Management

Management, escalation and reporting of operational risks are instituted through the Group Operational Risk Management Committee, Group Risk Management Committee as well as the Board.

The Board provides overall oversight on operational risk management and is assisted by Group Risk Management Committee which approves risk policies and reviews risk exposures. On a management level, Group Operational Risk Management (GORMC) manages the day-to-day operational risk exposures. Amongst the roles and responsibilities of GORMC include:

- (i) Provide strategic guidance on operational issues and monitor implementation of ORM framework
- (ii) Review operational initiatives, risk reports and exposures.
- (iii) Evaluate and agree on initiatives to strengthen operational processes or infrastructure
- (iv) Promote risk awareness and operational risk management culture

The Group practices operational risk management as outlined in the ORM Framework, in accordance with Basel and regulatory guidelines. The Group applies operational risk tools and methodologies in the identification, assessment, measurement, control and monitoring of operational risks. Other efforts by the Group include the ORM awareness training which is given to all staff, and regular business continuity and disaster recovery plans.

The Group adopts the Basic Indicator Approach for computation of operational RWA.

6.0 Equity Exposures in Banking Book

The Bank and the Group holds equity positions in banking books as a result of debt to equity conversion, for social-economic purposes, or to maintain strategic relationships. All equities are held at fair value. For quoted equities, fair value is estimated based on quoted or observable market price at the end of the reporting period. For unquoted equities, the fair value is estimated using approved valuation techniques.

The returns from these equities holdings are credited to the Statement of Comprehensive Income and any gains or losses arising from a change in fair value are recognised directly in other comprehensive income or in equity through the Statement of Changes in Equity.

The following table shows the equity exposures in banking book:

	BANK		GROUP	
	Gross credit exposures	Risk-weighted assets	Gross credit exposures	Risk-weighted assets
	RM'000	RM'000	RM'000	RM'000
2016				
Publicly traded				
Holding of equity investments	15	23	15	23
Privately held				
For socio-economic purposes	102,654	102,654	152,338	152,338
Not for socio-economic purposes	3	5	3	5
	<u>102,672</u>	<u>102,682</u>	<u>152,356</u>	<u>152,366</u>
2015				
Publicly traded				
Holding of equity investments	11	17	11	17
Privately held				
For socio-economic purposes	94,372	94,372	140,208	140,208
Not for socio-economic purposes	3	5	3	5
	<u>94,386</u>	<u>94,394</u>	<u>140,222</u>	<u>140,230</u>

Gains and losses on equity exposures in the banking book

The table below present the gains and losses on equity exposures in banking book:

	BANK		GROUP	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
Realised gains/(losses) recognised in the statement of comprehensive income				
- Publicly traded equity investments	-	-	-	-
- Privately held equity investments	(549)	11,224	(549)	11,224
	<u>(549)</u>	<u>11,224</u>	<u>(549)</u>	<u>11,224</u>
Unrealised gains/(losses) recognised in revaluation reserve				
- Publicly traded equity investments	4	-	4	-
- Privately held equity investments	8,856	(2,870)	12,705	1,976
	<u>8,860</u>	<u>(2,870)</u>	<u>12,709</u>	<u>1,976</u>

7.0 Interest Rate Risk/Rate of Return Risk in the Banking Book

Interest rate risk/rate of return risk in the banking book ("IRR/RORBB") arises from exposure of banking book positions to interest rate/profit rate movements. Changes in interest rate/profit rate affects the Group's earnings by changing its net interest/profit income and the level of other interest/profit rate sensitive income and expenses. It also affects the underlying value of banking assets, liabilities and off-balance sheet instruments as the present value of future cash flows change when interest rate/profit rate change.

Risk Governance

IRR/RORBB is managed collectively by GALCO, Group Financial Markets, Group Finance and Group Risk Management. Each of the above parties has clearly defined roles and responsibilities to provide oversight and manage IRR/RORBB within the defined framework and structure as approved by the Board of Directors/GRMC. GALCO assumes the overall responsibility in managing IRR/RORBB by setting the directions, strategy and risk limits/parameters for the Bank/Group. Group Financial Markets is tasked to execute the approved strategy by managing the asset liabilities as well as the funding and liquidity needs of the Bank/Group. Group Finance and Group Risk Management provide support in respect of risk monitoring and reporting of the banking book exposures; and ensuring regulatory as well as accounting requirements are met.

IRR/RORBB Management

The guiding principles in managing IRR/RORBB include:

- (i) Adopting a prudent approach to manage IRR/RORBB in ways that commensurate with the Group's size and business activities. This is achieved via establishing robust IRR/RORBB policies, measures and strategies which is complemented by regular monitoring and reporting.
- (ii) Checking to ensure that IRR/RORBB are accurately measured and any mismatches identified, reviewed and reported monthly to GALCO.
- (iii) Setting of proper gapping limits and the limits monitored closely.
- (iv) Practicing of comprehensive IRR/RORBB reporting and review process, which provide aggregate information and sufficient supporting details to enable assessment of the Group's sensitivity to changes in market conditions.

The Group uses a range of tools, including the following primary measures to quantify and monitor IRR/RORBB:

- (i) Repricing gap analysis to measure interest rate/profit rate from the earnings perspective i.e. impact of interest rate/profit rate changes to earnings in the short-term.
- (ii) Net interest income/profit income simulation to assess the impact of interest rate/profit rate changes on short term earnings volatility.
- (iii) Economic value of equity ("EVE") simulation which measures long term interest rate/profit rate exposure through deterioration in capital base based on adverse interest rate/profit rate movements.

Group Risk Management performs independent monitoring of the interest rate/profit rate benchmarks to ensure compliance. Any exceptions are reported and appropriate remedial actions are taken, where necessary. Schedule reporting via risk dashboards are provided to senior management and Board committees periodically. The risk dashboards provide a gauge on the IRR/RORBB of the Group.

The Group is guided by BNM's guidelines and Basel standards on management of IRR/RORBB.

ALLIANCE BANK MALAYSIA BERHAD
(88103-W)

7.0 Interest Rate Risk/Rate of Return Risk in the Banking Book (contd.)

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

	Bank + 100 bps RM'000	Group + 100 bps RM'000
2016		
Impact on net interest income ("NII")		
Ringgit Malaysia	<u>88,226</u>	<u>94,167</u>
Impact on Economic Value ("EV")		
Ringgit Malaysia	<u>96,551</u>	<u>179,876</u>
2015		
Impact on net interest income ("NII")		
Ringgit Malaysia	<u>45,937</u>	<u>49,375</u>
Impact on Economic Value ("EV")		
Ringgit Malaysia	<u>124,570</u>	<u>213,772</u>

Note:

The foreign currency impact on NII/EV are considered insignificant as the exposure is less than 5% of the respective total Banking Book assets and liabilities.

8.0 Shariah Governance Disclosures and Profit Sharing Investment Account ("PSIA")

The disclosures under this section can be referred to Note 7.0 of Alliance Islamic Bank Berhad's Pillar 3 report.