



ALLIANCE BANK

Alliance Bank Malaysia Berhad (88103-W)

**PILLAR 3 REPORT
FOR THE FINANCIAL YEAR ENDED
31 MARCH 2017**



Overview

Bank Negara Malaysia's ("BNM") guidelines on capital adequacy require Alliance Bank Malaysia Berhad ("the Bank") 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 senior management and the Board.

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.

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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 acceptance of deposits and granting of financing under Shariah principles via the Bank's wholly-owned subsidiary, Alliance Islamic Bank Berhad.

The basis of consolidation for the use of regulatory capital purposes is similar to that for financial accounting purposes. Investments in subsidiaries 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 the Basic Indicator Approach for operational risk.

2.0 Capital

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

- (i) To maintain sufficient capital to meet the regulatory capital requirements as set forth by BNM;
- (ii) To maintain sufficient capital to support the Group's risk appetite and facilitate 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 prudential standards.

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 contingency plan(s) where warranted. The results of the stress tests are tabled to the Group Risk Management Committee for approval.

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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>	
	2017	2016	2017	2016
<u>Before deducting proposed dividends</u>				
CET I capital ratio	11.558%	11.237%	12.891%	12.070%
Tier I capital ratio	11.558%	11.237%	12.891%	12.070%
Total capital ratio ¹	16.347%	16.528%	17.518%	17.657%
<u>After deducting proposed dividends</u>				
CET I capital ratio	11.136%	10.880%	12.548%	11.775%
Tier I capital ratio	11.136%	10.880%	12.548%	11.775%
Total capital ratio ¹	15.924%	16.170%	17.175%	17.362%

Note:

1. The Bank had issued a new subordinated medium term notes programme of up to RM1.2 billion. There was a redemption of RM600 million from the previous subordinated medium term notes programme on 8 April 2016.

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

	Alliance Islamic Bank Berhad	Alliance Investment Bank Berhad
2017		
<u>Before deducting proposed dividends</u>		
CET I capital ratio	13.430%	84.804%
Tier I capital ratio	13.430%	84.804%
Total capital ratio	14.509%	85.516%
<u>After deducting proposed dividends</u>		
CET I capital ratio	13.430%	83.729%
Tier I capital ratio	13.430%	83.729%
Total capital ratio	14.509%	84.441%
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%

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

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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>	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 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	2,115,505	1,888,285	2,306,158	2,047,248
Statutory reserves	835,401	835,401	1,223,525	1,200,019
Revaluation reserves	64,916	73,152	99,268	114,786
Capital reserves	-	-	10,018	10,018
	<u>4,213,856</u>	<u>3,994,872</u>	<u>4,837,003</u>	<u>4,570,105</u>
Less: Regulatory adjustment				
- Goodwill and other intangibles	(261,986)	(247,299)	(377,361)	(362,982)
- Deferred tax assets	(4,088)	-	(14,033)	(10,201)
- 55% of revaluation reserves	(35,704)	(40,234)	(54,597)	(63,132)
- Investment in subsidiaries, associate and joint venture	(714,440)	(535,830)	(3,840)	(2,824)
Total CET I capital/Total Tier I capital	<u>3,197,638</u>	<u>3,171,509</u>	<u>4,387,172</u>	<u>4,130,966</u>
<u>Tier II Capital</u>				
Subordinated obligations	1,198,764	1,558,540	1,199,178	1,559,074
Collective assessment allowance and regulatory reserves	304,576	291,825	376,514	354,805
Less: Regulatory adjustment				
- Investment in subsidiaries, associate and joint venture	(178,610)	(357,220)	(960)	(1,882)
Total Tier II Capital	<u>1,324,730</u>	<u>1,493,145</u>	<u>1,574,732</u>	<u>1,911,997</u>
Total Capital	<u><u>4,522,368</u></u>	<u><u>4,664,654</u></u>	<u><u>5,961,904</u></u>	<u><u>6,042,963</u></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 2017 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	5,352,766	5,352,766	-	-
Public sector entities	105,293	105,293	21,059	1,685
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	3,280,378	3,280,378	883,469	70,678
Insurance companies, securities firms and fund managers	27,568	27,467	27,467	2,197
Corporates	12,282,183	11,546,927	9,772,227	781,778
Regulatory retail	8,873,425	7,951,918	6,012,381	480,990
Residential mortgages	12,149,938	12,139,614	5,603,518	448,281
Higher risk assets	3,182	3,176	4,764	381
Other assets	501,191	501,191	232,244	18,580
Equity exposures	111,392	111,392	111,393	8,911
Defaulted exposures	201,335	198,167	230,510	18,441
Total on-balance sheet exposures	42,888,651	41,218,289	22,899,032	1,831,922
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures				
Derivative financial instruments	2,762,616	2,395,557	2,133,275	170,662
Defaulted exposures	313,294	313,294	120,420	9,634
Defaulted exposures	6,394	6,364	9,463	757
Total off-balance sheet exposures	3,082,304	2,715,215	2,263,158	181,053
Total on and off-balance sheet exposures	45,970,955	43,933,504	25,162,190	2,012,975
(ii) Market Risk (Note 4.0)				
	Long Position	Short Position		
Interest rate risk	317,765	(90,830)	29,792	2,383
Foreign currency risk	8,583	(74,523)	74,523	5,962
	326,348	(165,353)		
Option risk			175	14
Total			104,490	8,359
(iii) Operational Risk	-	-	2,398,898	191,912
Total	45,970,955	43,933,504	27,665,578	2,213,246

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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 2017 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	7,090,438	7,090,438	-	-
Public sector entities	175,816	175,816	35,163	2,813
Banks, DFIs and MDBs	2,655,245	2,655,245	535,115	42,809
Insurance companies, securities firms and fund managers	38,061	37,960	37,960	3,037
Corporates	15,689,245	14,694,080	11,857,205	948,576
Regulatory retail	11,840,659	10,814,866	8,304,851	664,388
Residential mortgages	14,544,792	14,533,347	6,685,735	534,859
Higher risk assets	3,182	3,176	4,764	381
Other assets	682,915	682,915	415,223	33,218
Equity exposures	165,294	165,294	165,295	13,224
Defaulted exposures	232,514	228,563	265,264	21,221
Total on-balance sheet exposures	53,118,161	51,081,700	28,306,575	2,264,526
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures				
Derivative financial instruments	3,309,125	2,877,659	2,517,031	201,362
Defaulted exposures	313,294	313,294	120,420	9,634
Defaulted exposures	9,461	9,430	14,062	1,125
Total off-balance sheet exposures	3,631,880	3,200,383	2,651,513	212,121
Total on and off-balance sheet exposures	56,750,041	54,282,083	30,958,088	2,476,647
(ii) Market Risk (Note 4.0)				
	Long Position	Short Position		
Interest rate risk	393,324	(90,830)	51,344	4,108
Foreign currency risk	8,583	(74,523)	74,523	5,962
Option risk	401,907	(165,353)	175	14
Total			126,042	10,083
(iii) Operational Risk	-	-	2,947,948	235,836
Total	56,750,041	54,282,083	34,032,078	2,722,566

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 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	44,796,625	43,057,274	23,150,461	1,852,036
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures				
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	3,493,534	3,146,950	2,593,473	207,478
Total on and off-balance sheet exposures	48,290,159	46,204,224	25,743,934	2,059,514
(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	165,305	(29,842)	118,013	9,441
(iii) Operational Risk	-	-	2,361,359	188,909
Total	48,290,159	46,204,224	28,223,306	2,257,864

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 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	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	54,846,979	52,847,563	28,188,473	2,255,078
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures				
Derivative financial instruments	3,786,783	3,384,969	2,911,993	232,959
Defaulted exposures	285,304	285,304	103,267	8,261
Defaulted exposures	25,532	25,514	38,163	3,053
Total off-balance sheet exposures	4,097,619	3,695,787	3,053,423	244,273
Total on and off-balance sheet exposures	58,944,598	56,543,350	31,241,896	2,499,351
(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
Option risk	165,305	(29,842)	5,830	466
Total			123,843	9,907
(iii) Operational Risk	-	-	2,858,987	228,719
Total	58,944,598	56,543,350	34,224,726	2,737,977

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 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 Credit 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. The Portfolio Review Committee for the respective lines of business, assisted by embedded risk units, helps to manage the portfolio quality. The process also ensures alignment of business strategy with the Bank's risk appetite.

Potential problematic loans are identified through our Early Warning Framework and thematic reviews, where applicable. Recovery of impaired loans are carried out internally or through authorised agents.

The Portfolio Review Committees for the respective lines of business, assisted by embedded risk units, helps to manage the portfolio quality. Portfolio risk reports are reviewed and action plans are formulated to manage identified risks.

Entity level Risk Dashboards are escalated to the Group Risk Management Committee and the Board for deliberation and strategic direction.

Group Risk Management is responsible to assess adequacy and effectiveness of the risk management framework, policies and guidelines. Embedded 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 earnings and capital. Stress tests are performed using a variety of market and economic assumptions to assess possible vulnerability and effective mitigating actions when required.

Group Internal Audit reviews the Bank's credit processes regularly and recommends corrective measures or enhancements. These reviews provide senior management with assurance that the policies, processes and guidelines 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 mandatory impairment thresholds are exceeded or judgmentally impaired when there are reasonable grounds to believe that the borrower may not be able to repay the entire loan amount.

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.

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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	Geographical region					Total
	Northern	Central	Southern	Sabah	Sarawak	
2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	-	1,350,926	-	-	-	1,350,926
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-
Financial assets held-for-trading	-	259,701	-	-	-	259,701
Financial investments available-for-sale	-	7,988,058	-	-	-	7,988,058
Financial investments held-to-maturity	-	658,201	-	-	-	658,201
Derivative financial assets	-	86,345	-	-	-	86,345
Loans, advances and financing	2,065,878	22,761,665	3,563,878	2,023,196	1,093,127	31,507,744
Statutory deposits with Bank Negara Malaysia	-	1,129,366	-	-	-	1,129,366
Total on-balance sheet	2,065,878	34,234,262	3,563,878	2,023,196	1,093,127	42,980,341
Financial guarantees	37,503	363,046	37,839	37,179	12,970	488,537
Credit related commitments and contingencies	849,608	5,779,710	872,365	626,127	257,610	8,385,420
Total off-balance sheet	887,111	6,142,756	910,204	663,306	270,580	8,873,957
Total credit exposure	2,952,989	40,377,018	4,474,082	2,686,502	1,363,707	51,854,298

GROUP	Geographical region					Total
	Northern	Central	Southern	Sabah	Sarawak	
2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	-	1,100,945	-	-	-	1,100,945
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-
Balances due from clients and brokers	27,259	79,327	6,436	-	-	113,022
Financial assets held-for-trading	-	335,260	-	-	-	335,260
Financial investments available-for-sale	-	10,074,263	-	-	-	10,074,263
Financial investments held-to-maturity	-	917,092	-	-	-	917,092
Derivative financial assets	-	86,345	-	-	-	86,345
Loans, advances and financing	2,634,711	28,127,395	4,628,523	2,522,495	1,261,217	39,174,341
Statutory deposits with Bank Negara Malaysia	-	1,437,344	-	-	-	1,437,344
Total on-balance sheet	2,661,970	42,157,971	4,634,959	2,522,495	1,261,217	53,238,612
Financial guarantees	47,110	470,502	50,466	39,605	12,983	620,666
Credit related commitments and contingencies	1,063,100	6,716,395	1,082,173	1,055,538	291,763	10,208,969
Total off-balance sheet	1,110,210	7,186,897	1,132,639	1,095,143	304,746	10,829,635
Total credit exposure	3,772,180	49,344,868	5,767,598	3,617,638	1,565,963	64,068,247

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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	Geographical region					Total
	Northern	Central	Southern	Sabah	Sarawak	
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	-	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	Geographical region					Total
	Northern	Central	Southern	Sabah	Sarawak	
2016	RM'000	RM'000	RM'000	RM'000	RM'000	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

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.

BANK	Government and Central <u>bank</u>	Financial, insurance, business services and <u>real estate</u>	Transport, storage & <u>communication</u>	Agriculture, manufacturing, wholesale & <u>retail trade</u>	<u>Construction</u>	<u>Household</u>	<u>Others</u>	<u>Total</u>
2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	801,475	549,451	-	-	-	-	-	1,350,926
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-
Financial assets held-for-trading	40,159	118,330	101,212	-	-	-	-	259,701
Financial investments available-for-sale	2,977,001	4,003,013	675,032	237,846	95,166	-	-	7,988,058
Financial investments held-to-maturity	568,160	90,041	-	-	-	-	-	658,201
Derivative financial assets	675	25,249	-	-	-	-	60,421	86,345
Loans, advances and financing	-	4,238,985	293,167	8,658,982	850,771	17,112,724	353,115	31,507,744
Statutory deposits with Bank Negara Malaysia	1,129,366	-	-	-	-	-	-	1,129,366
Total on-balance sheet	5,516,836	9,025,069	1,069,411	8,896,828	945,937	17,112,724	413,536	42,980,341
Financial guarantees	-	76,039	23,391	318,115	40,949	4,944	25,099	488,537
Credit related commitments and contingencies	-	1,108,015	113,699	3,410,715	1,246,506	2,032,265	474,220	8,385,420
Total off-balance sheet	-	1,184,054	137,090	3,728,830	1,287,455	2,037,209	499,319	8,873,957
Total credit risk	5,516,836	10,209,123	1,206,501	12,625,658	2,233,392	19,149,933	912,855	51,854,298
GROUP								
2017								
Cash and short-term funds	971,784	129,161	-	-	-	-	-	1,100,945
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-	-	-
Balances due from clients and brokers	-	17,358	-	-	-	-	95,664	113,022
Financial assets held-for-trading	40,159	193,889	101,212	-	-	-	-	335,260
Financial investments available-for-sale	3,841,396	4,672,634	999,537	304,556	256,140	-	-	10,074,263
Financial investments held-to-maturity	770,427	146,665	-	-	-	-	-	917,092
Derivative financial assets	675	25,249	-	-	-	-	60,421	86,345
Loans, advances and financing	-	5,200,321	370,645	10,864,148	988,008	21,292,417	458,802	39,174,341
Statutory deposits with Bank Negara Malaysia	1,437,344	-	-	-	-	-	-	1,437,344
Total on-balance sheet	7,061,785	10,385,277	1,471,394	11,168,704	1,244,148	21,292,417	614,887	53,238,612
Financial guarantees	-	79,098	23,502	440,327	47,378	4,985	25,376	620,666
Credit related commitments and contingencies	-	1,347,539	120,834	4,296,222	1,328,052	2,322,542	793,780	10,208,969
Total off-balance sheet	-	1,426,637	144,336	4,736,549	1,375,430	2,327,527	819,156	10,829,635
Total credit risk	7,061,785	11,811,914	1,615,730	15,905,253	2,619,578	23,619,944	1,434,043	64,068,247

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.).

BANK	Government and Central <u>bank</u>	Financial, insurance, business services and <u>real estate</u>	Transport, storage & <u>communication</u>	Agriculture, manufacturing, wholesale & <u>retail trade</u>	<u>Construction</u>	<u>Household</u>	<u>Others</u>	<u>Total</u>
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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
GROUP								
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.)

(c) Residual Contractual Maturity

The following tables represent the residual contractual maturity for major types of gross credit exposure 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>
2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	1,350,926	-	-	-	-	1,350,926
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-
Financial assets held-for-trading	45,323	146,162	215	-	68,001	259,701
Financial investments available-for-sale	1,052,054	909,695	215,958	625,282	5,185,069	7,988,058
Financial investments held-to-maturity	2,226	446	236,134	209,943	209,452	658,201
Loans, advances and financing	5,780,293	1,511,393	536,870	135,823	23,543,365	31,507,744
Statutory deposits with Bank Negara Malaysia	-	-	-	-	1,129,366	1,129,366
Derivative financial assets	20,678	10,878	24,414	6,118	24,257	86,345
Total on-balance sheet exposure	8,251,500	2,578,574	1,013,591	977,166	30,159,510	42,980,341

GROUP
2017

Cash and short-term funds	1,100,945	-	-	-	-	1,100,945
Deposits and placements with banks and other financial institutions	-	-	-	-	-	-
Balances due from clients and brokers	113,022	-	-	-	-	113,022
Financial assets held-for-trading	45,323	181,602	215	-	108,120	335,260
Financial investments available-for-sale	1,292,220	1,231,788	163,257	624,899	6,762,099	10,074,263
Financial investments held-to-maturity	2,226	81,701	266,680	280,223	286,262	917,092
Loans, advances and financing	6,934,846	1,816,636	660,369	153,855	29,608,635	39,174,341
Statutory deposits with Bank Negara Malaysia	-	-	-	-	1,437,344	1,437,344
Derivative financial assets	20,678	10,878	24,414	6,118	24,257	86,345
Total on-balance sheet exposure	9,509,260	3,322,605	1,114,935	1,065,095	38,226,717	53,238,612

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>
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	104,659	-	-	-	-	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	13,335,653	2,919,963	1,031,937	1,327,759	36,115,168	54,730,480

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 not more than 3 months.

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

	<u>BANK</u>		<u>GROUP</u>	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Past due up to 1 month	779,123	762,974	1,016,032	1,008,966
Past due > 1 - 2 months	148,204	137,024	219,448	193,473
Past due > 2 - 3 months	16,635	16,145	34,742	27,808
	<u>943,962</u>	<u>916,143</u>	<u>1,270,222</u>	<u>1,230,247</u>

Past due loans, advances and financing analysed by sector:

	<u>BANK</u>		<u>GROUP</u>	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Financial, insurance & business services and real estate	133,581	17,662	145,767	28,005
Transport, storage & communication	6,105	4,986	10,243	6,055
Agriculture, manufacturing, wholesale & retail trade	116,896	107,859	151,050	138,804
Construction	25,899	19,364	28,350	23,280
Household	654,809	761,291	925,857	1,026,723
Others	6,672	4,981	8,955	7,380
	<u>943,962</u>	<u>916,143</u>	<u>1,270,222</u>	<u>1,230,247</u>

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

	<u>BANK</u>		<u>GROUP</u>	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Northern region	75,522	67,568	101,809	92,948
Central region	649,386	604,936	853,407	803,554
Southern region	121,395	149,468	191,784	210,949
Sabah region	76,589	81,210	97,562	103,421
Sarawak region	21,070	12,961	25,660	19,375
	<u>943,962</u>	<u>916,143</u>	<u>1,270,222</u>	<u>1,230,247</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>	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Financial, insurance & business services and real estate	17,284	30,035	17,284	32,104
Transport, storage & communication	11,281	11,167	11,531	11,191
Agriculture, manufacturing, wholesale & retail trade	86,840	87,922	98,235	152,619
Construction	16,504	13,593	18,699	13,806
Household	201,235	227,009	241,163	274,109
Others	6,436	3,473	6,437	4,039
	<u>339,580</u>	<u>373,199</u>	<u>393,349</u>	<u>487,868</u>

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

<u>BANK</u> 2017	Individual impairment allowance	Collective impairment allowance	Individual impairment write-back / made for during the year (net)	Individual impairment write-off for the year
	RM'000	RM'000	RM'000	RM'000
Financial, insurance & business services and real estate	735	28,754	296	-
Transport, storage & communication	10,141	3,463	(5)	-
Agriculture, manufacturing, wholesale & retail trade	38,902	110,237	17,104	(7,694)
Construction	7,197	8,524	38	-
Household	6,174	80,967	3,356	(3,344)
Others	998	2,692	555	(965)
	<u>64,147</u>	<u>234,637</u>	<u>21,344</u>	<u>(12,003)</u>
 <u>GROUP</u> 2017				
Financial, insurance & business services and real estate	735	34,594	296	(2,031)
Transport, storage & communication	10,141	4,273	(5)	-
Agriculture, manufacturing, wholesale & retail trade	40,254	134,650	18,381	(14,278)
Construction	7,761	10,036	602	-
Household	6,738	126,126	3,681	(4,041)
Others	998	3,649	551	(1,525)
	<u>66,627</u>	<u>313,328</u>	<u>23,506</u>	<u>(21,875)</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>	<u>Individual impairment allowance</u>	<u>Collective impairment allowance</u>	<u>Individual impairment made for / write-back during the year (net)</u>	<u>Individual impairment write-off for the year</u>
2016	RM'000	RM'000	RM'000	RM'000
Financial, insurance & business services and real estate	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 and real estate	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>

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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> 2017	<u>Impaired loans, advances and financing</u> RM'000	<u>Individual impairment allowance</u> RM'000	<u>Collective impairment allowance</u> RM'000
Northern region	28,290	5,347	31,509
Central region	238,742	50,918	148,047
Southern region	49,829	7,725	27,785
Sabah region	20,245	157	20,306
Sarawak region	2,474	-	6,990
	339,580	64,147	234,637
<u>GROUP</u> 2017			
Northern region	30,552	5,347	38,829
Central region	277,515	51,184	203,818
Southern region	58,562	9,434	37,522
Sabah region	23,737	662	24,711
Sarawak region	2,983	-	8,448
	393,349	66,627	313,328
<u>BANK</u> 2016			
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

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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>	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Individual assessment allowance:				
At beginning of year	58,061	46,191	68,331	56,303
Allowance made during the year (net)	21,344	18,795	23,506	24,229
Amount written-off	(12,003)	(8,662)	(21,875)	(14,060)
Transfers (to)/from collective assessment allowance	(3,255)	1,737	(3,335)	1,859
At end of year	<u>64,147</u>	<u>58,061</u>	<u>66,627</u>	<u>68,331</u>
Collective assessment allowance:				
At beginning of year	236,501	278,599	306,978	334,704
Allowance made during the year (net)	35,986	1,502	80,408	40,577
Amount written-off	(41,105)	(41,863)	(77,393)	(66,444)
Transfers from/(to) individual assessment allowance	3,255	(1,737)	3,335	(1,859)
At end of year	<u>234,637</u>	<u>236,501</u>	<u>313,328</u>	<u>306,978</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:

BANK 2017 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%	5,352,766	-	-	-	419,198	-	-	-	267,691	-	6,039,655	-
20%	27,876	158,988	2,628,381	-	1,668,126	-	1,229	-	1,570	-	4,486,170	897,234
35%	-	-	-	-	-	-	6,599,651	-	-	-	6,599,651	2,309,878
50%	-	-	836,484	-	48,613	18,937	4,511,547	-	-	-	5,415,581	2,707,790
75%	-	-	-	-	-	8,759,512	22,973	-	-	-	8,782,485	6,586,864
100%	-	-	21	39,464	10,819,849	209,112	1,097,273	-	231,930	111,389	12,509,038	12,509,038
150%	-	-	-	-	21,816	73,731	-	5,374	-	3	100,924	151,386
Total exposures	5,380,642	158,988	3,464,886	39,464	12,977,602	9,061,292	12,232,673	5,374	501,191	111,392	43,933,504	25,162,190
Risk-weighted assets by exposures	5,575	31,798	943,939	39,464	11,210,505	6,898,810	5,680,400	8,061	232,244	111,394	25,162,190	
Average risk-weight	-	20%	27%	100%	86%	76%	46%	150%	46%	100%	57%	
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> <u>2017</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%	7,150,438	-	-	-	952,999	-	-	-	267,691	-	8,371,128	-
20%	27,876	239,511	2,747,674	-	2,319,403	111	1,714	-	-	-	5,336,288	1,067,257
35%	-	-	-	-	-	-	7,929,020	-	-	-	7,929,020	2,775,157
50%	-	-	91,937	-	63,325	21,597	5,409,320	-	-	-	5,586,179	2,793,090
75%	-	-	-	-	-	11,155,159	24,488	-	-	-	11,179,647	8,384,735
100%	-	-	21	49,957	13,062,333	794,150	1,276,790	-	415,223	165,291	15,763,765	15,763,765
150%	-	-	-	-	31,143	79,536	-	5,374	-	3	116,056	174,084
Total exposures	7,178,314	239,511	2,839,632	49,957	16,429,203	12,050,553	14,641,332	5,374	682,914	165,294	54,282,083	30,958,088
Risk-weighted assets by exposures	5,575	47,902	595,524	49,957	13,604,591	9,290,643	6,775,316	8,061	415,223	165,296	30,958,088	
Average risk-weight	-	20%	21%	100%	83%	77%	46%	150%	61%	100%	57%	
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 2016 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%	6,172,862	-	-	-	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	7,481,530	5,910,753	8,492	236,581	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	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	9,822,179	7,116,601	8,555	422,405	152,365	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.)

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
2017

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)	-	5,380,642	-	-	-	5,380,642	
Corporates	-	419,198	-	-	-	419,198	
	-	5,799,840	-	-	-	5,799,840	
(ii) Exposures risk weighted using Banking Institutions long term rating							
Banks, MDBs and FDIs	892,473	2,456,085	5,694	-	110,633	3,464,885	
Exposures risk weighted using Banking Institutions short term rating							
Banks, MDBs and FDIs	-	-	-	-	-	-	
	892,473	2,456,085	5,694	-	110,633	3,464,885	
(iii) Exposures risk weighted using Corporate long term rating							
Public Sector Entities	55,802	-	-	-	53,695	109,497	
Corporates	1,678,213	44,126	-	-	11,722,431	13,444,770	
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	39,572	39,572	
Exposures risk weighted using Corporate short term rating							
Public Sector Entities	49,491	-	-	-	-	49,491	
Corporates	-	-	-	-	-	-	
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	
	1,783,506	44,126	-	-	11,815,698	13,643,330	

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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
2017**

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)	-	7,178,314	-	-	-	7,178,314
Corporates	-	952,999	-	-	-	952,999
	-	8,131,313	-	-	-	8,131,313
(ii) Exposures risk weighted using Banking Institutions long term rating						
Banks, MDBs and FDIs	1,642,670	1,080,633	5,694	-	110,633	2,839,630
Exposures risk weighted using Banking Institutions short term rating						
Banks, MDBs and FDIs	-	-	-	-	-	-
	1,642,670	1,080,633	5,694	-	110,633	2,839,630
(iii) Exposures risk weighted using Corporate long term rating						
Public Sector Entities	86,321	-	-	-	103,699	190,020
Corporates	2,329,489	58,835	-	-	14,273,940	16,662,264
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	50,065	50,065
Exposures risk weighted using Corporate short term rating						
Public Sector Entities	49,491	-	-	-	-	49,491
Corporates	-	-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-	-
	2,465,301	58,835	-	-	14,427,704	16,951,840

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
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	RM'000
	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)	-	6,186,036	-	-	-	-	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 ECAIs (contd.):

GROUP
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)	-	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	

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, the Bank guidelines apply 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> <u>2017</u> Exposure Class	Exposures <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	5,352,766	-	-	-
Public sector entities	105,293	-	-	-
Banks, DFIs and MDBs	3,280,378	-	-	-
Insurance companies, securities firms and fund managers	27,568	-	101	-
Corporates	12,282,183	-	735,255	-
Regulatory retail	8,873,425	-	921,507	-
Residential mortgages	12,149,938	-	10,324	-
Higher risk assets	3,182	-	6	-
Other assets	501,191	-	-	-
Equity exposures	111,392	-	-	-
Defaulted exposures	201,335	-	3,168	-
Total on-balance sheet exposures	42,888,651	-	1,670,361	-
Off-balance sheet exposures:				
Off-balance sheet exposures other than				
OTC derivatives or credit derivatives	3,075,910	-	367,061	-
Defaulted exposures	6,394	-	29	-
Total off-balance sheet exposures	3,082,304	-	367,090	-
Total on and off-balance sheet exposures	45,970,955	-	2,037,451	-

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3.0 Credit Risk (contd.)

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

GROUP 2017 Exposure Class	Exposures 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	7,090,438	-	-	-
Public sector entities	175,816	-	-	-
Banks, DFIs and MDBs	2,655,245	-	-	-
Insurance companies, securities firms and fund managers	38,061	-	101	-
Corporates	15,689,245	-	995,165	-
Regulatory retail	11,840,659	-	1,025,793	-
Residential mortgages	14,544,792	-	11,445	-
Higher risk assets	3,182	-	6	-
Other assets	682,915	-	-	-
Equity exposures	165,294	-	-	-
Defaulted exposures	232,514	-	3,950	-
Total on-balance sheet exposures	53,118,161	-	2,036,460	-
Off-balance sheet exposures:				
Off-balance sheet exposures other than				
OTC derivatives or credit derivatives	3,622,419	-	431,467	-
Defaulted exposures	9,461	-	31	-
Total off-balance sheet exposures	3,631,880	-	431,498	-
Total on and off-balance sheet exposures	56,750,041	-	2,467,958	-

3.0 Credit Risk (contd.)

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

<u>BANK</u> 2016 Exposure Class	<u>Exposures</u> <u>before CRM</u> RM'000	<u>Exposures</u> <u>covered by</u> <u>guarantees/</u> <u>credit</u> <u>derivatives</u> RM'000	<u>Exposures</u> <u>covered by</u> <u>eligible</u> <u>financial</u> <u>collateral</u> RM'000	<u>Exposures</u> <u>covered by</u> <u>other eligible</u> <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 exposures	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>

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3.0 Credit Risk (contd.)

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

GROUP 2016 Exposure Class	Exposures 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 exposures	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.)

3.6 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 this agreement should either party default or other such predetermined credit events occur.

CCR is measured via the current exposure method whereby the credit equivalent exposure for derivatives is the sum of the positive mark-to-market exposure plus the potential future exposure which is equivalent to an 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

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

<u>BANK</u> 2017	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	649,782	-	649,782	563,934
Transaction-related contingent items	653,885	-	326,943	238,065
Short-term self-liquidating trade-related contingencies	114,249	-	22,850	18,836
Irrevocable commitments to extend credit:				
- maturity exceeding one year	927,426	-	463,713	388,228
- maturity not exceeding one year	4,943,831	-	988,766	692,205
Unutilised credit card lines	1,584,784	-	316,957	241,470
	8,873,957	-	2,769,010	2,142,738
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
- one year or less	11,082,789	61,802	161,111	52,284
- over one year to three years	116,546	73	6,462	5,135
- over three years	37,817	43	3,433	3,433
Interest rate related contracts:				
- one year or less	750,000	227	1,277	270
- over one year to three years	1,988,572	8,336	44,924	15,343
- over three years	1,605,860	15,775	90,428	41,136
Equity related contracts:				
- one year or less	52,405	59	3,203	1,591
- over one year to three years	30,330	30	2,456	1,228
	15,664,319	86,345	313,294	120,420
	24,538,276	86,345	3,082,304	2,263,158

3.0 Credit Risk (contd.)

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

<u>GROUP</u> 2017	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	757,816	-	757,816	660,814
Transaction-related contingent items	710,106	-	355,053	255,570
Short-term self-liquidating trade- related contingencies	138,588	-	27,718	23,152
Irrevocable commitments to extend credit:				
- maturity exceeding one year	1,111,249	-	555,625	471,495
- maturity not exceeding one year	6,527,092	-	1,305,418	878,592
Unutilised credit card lines	1,584,784	-	316,957	241,470
	<u>10,829,635</u>	<u>-</u>	<u>3,318,586</u>	<u>2,531,093</u>
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
- one year or less	11,082,789	61,802	161,111	52,284
- over one year to three years	116,546	73	6,462	5,135
- over three years	37,817	43	3,433	3,433
Interest rate related contracts:				
- one year or less	750,000	227	1,277	270
- over one year to three years	1,988,572	8,336	44,924	15,343
- over three years	1,605,860	15,775	90,428	41,136
Equity related contracts:				
- one year or less	52,405	59	3,203	1,591
- over one year to three years	30,330	30	2,456	1,228
	<u>15,664,319</u>	<u>86,345</u>	<u>313,294</u>	<u>120,420</u>
	<u>26,493,954</u>	<u>86,345</u>	<u>3,631,880</u>	<u>2,651,513</u>

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3.0 Credit Risk (contd.)

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

<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 extend 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.)

<u>GROUP</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	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 extend 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>

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 Board, via the GRMC provides oversight on market 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) Scheduled and exception reporting on market risk exposures.

Market risk exists in the Group's activities in fixed income securities, foreign exchange and financial derivatives, 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, if any, are monitored and reported monthly to senior 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 fixed income securities, foreign exchange and financial derivatives 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	Capital Requirements	Risk-Weighted Assets	Capital Requirements
	RM'000	RM'000	RM'000	RM'000
2017				
Interest rate risk				
- General interest rate risk	26,405	2,112	36,819	2,946
- Specific interest rate risk	3,387	271	14,525	1,162
	<u>29,792</u>	<u>2,383</u>	<u>51,344</u>	<u>4,108</u>
Option risk	175	14	175	14
Foreign exchange risk	74,523	5,962	74,523	5,962
	<u>104,490</u>	<u>8,359</u>	<u>126,042</u>	<u>10,083</u>
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>

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. It includes legal risk but excludes strategic and reputation risks.

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, via the GRMC provides oversight on operational risk management activities.

On a senior 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 and monitor operational risk issues, reports and action plans
- (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 the banking book 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
2017				
Publicly traded				
Holding of equity investments	15	15	15	15
Privately held				
For socio-economic purposes	111,374	111,374	165,276	165,276
Not for socio-economic purposes	3	4	3	4
	<u>111,392</u>	<u>111,393</u>	<u>165,294</u>	<u>165,295</u>
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>

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	
	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000
Realised gains/(losses) recognised in the statement of comprehensive income				
- Privately held equity investments	-	(549)	-	(549)
	<u>-</u>	<u>(549)</u>	<u>-</u>	<u>(549)</u>
Unrealised gains/(losses) recognised in revaluation reserve				
- Publicly traded equity investments	-	4	-	4
- Privately held equity investments	8,720	8,856	12,938	12,705
	<u>8,720</u>	<u>8,860</u>	<u>12,938</u>	<u>12,709</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 GRMC/Board. 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 assets/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 comprehensive IRR/RORBB reporting and review process, with aggregated information and supporting details to facilitate assessment of the Group's sensitivity to changes in market conditions.

The Bank 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, GRMC and Board. 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.

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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
2017		
Impact on net interest income ("NII")		
Ringgit Malaysia	<u>96,418</u>	<u>101,418</u>
Impact on Economic Value ("EV")		
Ringgit Malaysia	<u>49,770</u>	<u>139,520</u>
2016		
Impact on net interest income ("NII")		
Ringgit Malaysia	<u>84,907</u>	<u>90,847</u>
Impact on Economic Value ("EV")		
Ringgit Malaysia	<u>42,334</u>	<u>125,659</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

Shariah Non-Compliance Risk arises from the risk of failure to comply with Shariah rules and principles as determined by Shariah Advisory Council of Bank Negara Malaysia and Alliance Islamic Bank's (AIS) Shariah Committee. To manage the risks, AIS has adopted the following guiding principles:

- (i) A sound Shariah Compliance Framework which governs the operations of AIS and outlines the roles of key functionalities within AIS, including but not limited to the Shariah risk management process. This is in line with the Shariah Governance Framework issued by BNM.
- (ii) The Board of Directors, assisted by the Shariah Committee and senior management, provide oversight on Shariah compliance aspects of AIS' overall operations. This amongst others include:
 - Oversight and implementation of the Shariah Compliance Framework.
 - Regular review of non-Shariah compliant income and issues.
 - Addressing non-Shariah compliance findings.
 - Ensuring compliance with regulatory and internal requirements including disclosures.
- (iii) Appointment of qualified Shariah Committee member who also serves as AIS' Board member; serving as a 'bridge' between the Board and the Shariah Committee.
- (iv) Ongoing Shariah reviews and training to raise risk awareness and ensure compliance to Shariah rules and principles. This includes:
 - Regular assessment on Shariah compliance in the activities and operations of AIS. The findings of the review are reported to the Shariah Committee for deliberation and decision.
 - Performing research and studies on Shariah issues, including providing day-to-day Shariah advice and consultancy to relevant parties.
 - Conducting Shariah-related training and ongoing engagement with relevant parties to raise awareness on Shariah non-compliance risk.
- (v) Escalation and reporting processes of non-Shariah compliance income and issues governed through designated escalation channels, which include the Board and the Shariah Committee.

Non-Shariah Compliant Income And Events

During the financial period, there were 3 Shariah non-compliance events detected from the ongoing reviews of AIS' operational processes. Necessary efforts had been taken to rectify each Shariah non-compliant event, which was escalated to and tracked by the Board and the Shariah Committee. The Shariah non-compliant income of RM729,164 had been disposed of in accordance with Shariah Committee's decision, except for a sum of RM2,051 which is pending disposal.