



# ALLIANCE BANK MALAYSIA BERHAD (88103-W)

## Basel II Pillar 3 Disclosure

208	Overview
209	1.0 Scope of Application
209	2.0 Capital
	2.1 Capital Adequacy Ratios
	2.2 Capital Structure
	2.3 Risk-Weighted Assets and Capital Requirements
216	3.0 Credit Risk
	3.1 Distribution of Credit Exposures
	3.2 Past Due Loans, Advances and Financing Analysis
	3.3 Impaired Loans, Advances and Financing Analysis
	3.4 Assignment of Risk Weights for Portfolio Under the Standardised Approach
	3.5 Credit Risk Mitigation
	3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk
250	4.0 Market Risk
252	5.0 Operational Risk
252	6.0 Equity Exposures in Banking Book
254	7.0 Interest Rate Risk/Rate of Return Risk in the Banking Book
255	8.0 Shariah Governance Disclosures and Profit Sharing Investment Account ("PSIA")

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## OVERVIEW

Bank Negara Malaysia (“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 covers 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 (eg 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.
- (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 Group 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.

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 1.0 SCOPE OF APPLICATION

The Basel II Pillar 3 Disclosure is 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 to 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) to the audited financial statements, except for the investments in subsidiaries which are engaged in nominees activities and sales distribution are excluded from the regulatory consolidation and is deducted from regulatory capital.

There are 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 are not included in the consolidation for regulatory purposes as at the financial year end.

The capital adequacy information is computed in accordance with Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework (RWCAF-Basel II). 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 Bank Negara Malaysia,
- (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 test are to facilitate the formation of action plan(s) in advance if the stress test reveals that the Group's capital will be adversely affected. The results of the stress test are tabled to the Group Risk Management Committee for deliberation and to the Board for approval.

The Group's and the Bank's regulatory capital are determined under Bank Negara Malaysia's revised Risk-weighted Capital Adequacy Framework and their capital ratios comply with the prescribed capital adequacy ratios.

### 2.1 Capital Adequacy Ratios

Under Pillar I, the Group has adopted the Standardised Approach in determining the capital requirements for credit risk and market risk and applied the Basic Indicator Approach for operational risk. Under the Standardised Approach, risk-weights are used to assess the capital requirements for exposures in credit risk and market risk, whilst the capital required for operational risk under the Basic Indicator Approach is computed as a fixed percentage of the Group's average gross income.

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 2.0 CAPITAL (cont'd)

### 2.1 Capital Adequacy Ratios (cont'd)

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

	Bank		Group	
	2012	2011	2012	2011
<u>Before deducting proposed dividends</u>				
Core capital ratio	<b>13.93%</b>	14.63%	<b>12.00%</b>	12.40%
Risk-weighted capital ratio	<b>14.37%</b>	14.98%	<b>15.71%</b>	16.54%
<u>After deducting proposed dividends</u>				
Core capital ratio	<b>13.32%</b>	14.09%	<b>11.52%</b>	11.95%
Risk-weighted capital ratio	<b>13.76%</b>	14.44%	<b>15.22%</b>	16.09%

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

	Alliance Islamic Bank Berhad	Alliance Investment Bank Berhad
<b>31 March 2012</b>		
<u>Before deducting proposed dividends</u>		
Core capital ratio	<b>12.35%</b>	<b>57.91%</b>
Risk-weighted capital ratio	<b>14.19%</b>	<b>58.39%</b>
<u>After deducting proposed dividends</u>		
Core capital ratio	<b>11.52%</b>	<b>56.65%</b>
Risk-weighted capital ratio	<b>13.36%</b>	<b>57.13%</b>
<b>31 March 2011</b>		
<u>Before deducting proposed dividends</u>		
Core capital ratio	11.65%	57.17%
Risk-weighted capital ratio	13.37%	57.33%
<u>After deducting proposed dividends</u>		
Core capital ratio	11.65%	55.51%
Risk-weighted capital ratio	13.37%	55.67%

The detailed capital adequacy ratios of the above banking subsidiaries are set out in the Pillar 3 Report of the respective entity.

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 2.0 CAPITAL (cont'd)

### 2.2 Capital Structure

The following table represents the Bank and the Group's capital position. Details on capital resources, including share capital, irredeemable (non-cumulative) convertible preference shares ("ICPS"), share premium and reserves are found in Note 25 and 26 of the audited financial statements. Details on the terms and conditions of subordinated obligations are contained in Note 24 of the audited financial statements.

The following tables present the components of Tier I and Tier II capital and deduction from capital.

	Bank		Group	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b><u>Tier I capital (Core Capital)</u></b>				
Paid-up share capital	596,517	596,517	596,517	596,517
ICPS	4,000	4,000	4,000	4,000
Share premium	597,517	597,517	597,517	597,517
Retained profits	1,333,979	1,148,228	1,440,176	1,194,222
Statutory reserves	601,561	601,561	822,722	786,406
Other reserves	—	—	10,018	10,018
Non-controlling interests	—	—	4,905	4,488
	3,133,574	2,947,823	3,475,855	3,193,168
Less: Purchased goodwill/goodwill on consolidation	(186,272)	(186,272)	(302,065)	(302,065)
Deferred tax assets	—	(75,272)	(15,038)	(108,808)
Total Tier I capital	2,947,302	2,686,279	3,158,752	2,782,295
<b><u>Tier II Capital</u></b>				
Subordinated obligations	597,829	600,000	597,829	600,000
Collective assessment allowance	296,498	265,588	381,019	333,466
Total Tier II capital	894,327	865,588	978,848	933,466
Total Capital	3,841,629	3,551,867	4,137,600	3,715,761
Less: Investment in subsidiaries	(801,664)	(801,664)	(3,620)	(3,620)
<b>Total Capital Base</b>	3,039,965	2,750,203	4,133,980	3,712,141

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 2.0 CAPITAL (cont'd)

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

#### Regulatory Capital Requirements

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

Bank 2012 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	5,022,323	5,022,323	—	—
Public sector entities	50,855	50,855	10,171	814
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	3,754,235	3,754,235	973,940	77,915
Insurance companies, securities firms and fund managers	447	447	447	36
Corporates	7,954,029	7,537,571	6,932,437	554,595
Regulatory retail	6,386,726	5,730,542	4,297,906	343,832
Residential mortgages	6,574,048	6,563,663	2,813,719	225,098
Higher risk assets	7,065	7,065	10,597	848
Other assets	479,264	479,264	288,026	23,042
Equity exposures	125,138	125,138	182,992	14,639
Defaulted exposures	142,744	135,108	161,307	12,905
Total on-balance sheet exposures	30,496,874	29,406,211	15,671,542	1,253,724
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	3,827,677	3,822,467	3,346,379	267,710
Derivative financial instruments	99,681	99,681	47,965	3,837
Defaulted exposures	5,856	5,854	8,781	703
Total off-balance sheet exposures	3,933,214	3,928,002	3,403,125	272,250
Total on and off-balance sheet exposures	34,430,088	33,334,213	19,074,667	1,525,974
(ii) Market Risk (Note 4.0)				
	Long Position	Short Position		
Interest rate risk	1,347,746	(3,463)	136,388	10,911
Foreign currency risk	20,731	(2,619)	20,731	1,658
Total	1,368,477	(6,082)	157,119	12,569
(iii) Operational Risk	—	—	1,925,797	154,064
Total RWA and capital requirements	34,430,088	33,334,213	21,157,583	1,692,607

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 2.0 CAPITAL (cont'd)

### 2.3 RWA and Capital Requirements (cont'd)

#### Regulatory Capital Requirements (cont'd)

The following table present the minimum regulatory capital requirement of the Bank and the Group (cont'd):

Group 2012 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	7,143,989	7,143,989	—	—
Public sector entities	50,855	50,855	10,171	814
Banks, DFIs and MDBs	4,392,711	4,392,711	1,105,558	88,445
Insurance companies, securities firms and fund managers	476	476	476	38
Corporates	9,689,833	9,031,886	8,226,723	658,138
Regulatory retail	8,759,219	8,058,947	6,054,024	484,322
Residential mortgages	7,620,144	7,609,112	3,313,763	265,101
Higher risk assets	7,159	7,159	10,739	859
Other assets	626,605	626,605	435,436	34,835
Equity exposures	169,942	169,942	250,198	20,016
Defaulted exposures	225,479	217,286	277,392	22,191
Total on-balance sheet exposures	38,686,412	37,308,968	19,684,480	1,574,759
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	4,481,607	4,462,291	3,849,888	307,991
Derivative financial instruments	99,681	99,681	47,965	3,837
Defaulted exposures	12,777	12,775	19,162	1,533
Total off-balance sheet exposures	4,594,065	4,574,747	3,917,015	313,361
Total on and off-balance sheet exposures	43,280,477	41,883,715	23,601,495	1,888,120
(ii) <u>Market Risk (Note 4.0)</u>				
	Long Position	Short Position		
Interest rate risk	1,497,439	(3,463)	138,881	11,110
Equity risk	3,419	—	9,402	752
Foreign currency risk	20,731	(2,619)	20,731	1,658
Options risk	70,122	—	96,418	7,713
Total	1,591,711	(6,082)	265,432	21,233
(iii) <u>Operational Risk</u>	—	—	2,445,524	195,642
Total RWA and capital requirements	43,280,477	41,883,715	26,312,451	2,104,995

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 2.0 CAPITAL (cont'd)

### 2.3 RWA and Capital Requirements (cont'd)

#### Regulatory Capital Requirements (cont'd)

The following table present the minimum regulatory capital requirement of the Bank and the Group (cont'd):

Bank 2011 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	4,080,874	4,080,874	—	—
Public sector entities	50,115	50,115	10,023	802
Banks, DFIs and MDBs	3,362,759	3,362,759	897,984	71,839
Insurance companies, securities firms and fund managers	20,508	20,508	20,508	1,641
Corporates	6,763,126	6,510,754	5,644,357	451,549
Regulatory retail	5,638,108	5,059,901	3,794,925	303,594
Residential mortgages	6,341,015	6,330,391	2,715,930	217,274
Higher risk assets	15,586	15,585	23,378	1,870
Other assets	471,964	471,964	293,175	23,454
Equity exposures	112,848	112,848	164,558	13,165
Defaulted exposures	286,359	283,637	319,831	25,586
Total on-balance sheet exposures	27,143,262	26,299,336	13,884,669	1,110,774
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	2,797,541	2,794,898	2,463,236	197,059
Derivative financial instruments	123,208	123,208	50,068	4,005
Defaulted exposures	26,198	26,183	39,274	3,142
Total off-balance sheet exposures	2,946,947	2,944,289	2,552,578	204,206
Total on and off-balance sheet exposures	30,090,209	29,243,625	16,437,247	1,314,980
(ii) Market Risk (Note 4.0)				
	Long Position	Short Position		
Interest rate risk	1,185,668	(5,004)	40,907	3,272
Foreign currency risk	14,012	(3,158)	14,012	1,121
Total	1,199,680	(8,162)	54,919	4,393
(iii) Operational Risk	—	—	1,863,398	149,072
Total RWA and capital requirements	30,090,209	29,243,625	18,355,564	1,468,445



# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 2.0 CAPITAL (cont'd)

### 2.3 RWA and Capital Requirements (cont'd)

#### Regulatory Capital Requirements (cont'd)

The following table present the minimum regulatory capital requirement of the Bank and the Group (cont'd):

Group 2011 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	5,693,101	5,693,101	—	—
Public sector entities	50,115	50,115	10,023	802
Banks, DFIs and MDBs	3,544,007	3,544,007	707,997	56,640
Insurance companies, securities firms and fund managers	20,508	20,508	20,508	1,641
Corporates	8,307,011	7,964,488	6,802,410	544,192
Regulatory retail	7,947,769	7,335,513	6,629,408	530,352
Residential mortgages	7,065,748	7,054,380	1,925,014	154,001
Higher risk assets	15,699	15,698	23,548	1,884
Other assets	693,557	693,557	510,783	40,863
Equity exposures	152,540	152,540	224,096	17,928
Defaulted exposures	366,240	360,740	427,503	34,200
Total on-balance sheet exposures	33,856,295	32,884,647	17,281,290	1,382,503
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	3,171,389	3,166,633	2,777,424	222,194
Derivative financial instruments	123,208	123,208	50,068	4,005
Defaulted exposures	27,047	27,015	40,523	3,242
Total off-balance sheet exposures	3,321,644	3,316,856	2,868,015	229,441
Total on and off-balance sheet exposures	37,177,939	36,201,503	20,149,305	1,611,944
(ii) <u>Market Risk (Note 4.0)</u>				
	Long Position	Short Position		
Interest rate risk	1,947,728	(5,004)	48,460	3,877
Equity risk	3,419	—	9,412	753
Foreign currency risk	14,012	(3,158)	14,012	1,121
Total	1,965,159	(8,162)	71,884	5,751
(iii) <u>Operational Risk</u>	—	—	2,222,953	177,836
Total RWA and capital requirements	37,177,939	36,201,503	22,444,142	1,795,531

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.

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK

Credit risk is the risk of financial loss arising from the failure of a borrower or counterparty to meet its obligations. Credit risk arises mainly from lending/financing activities and trading/holding of debt securities.

### *Risk Governance*

The Board has overall responsibility for credit risk oversight of the Group through the Group Risk Management Committee ("GRMC"). The GRMC, supported by the Credit Risk Working Group ("CRWG"), reviews and aligns credit risk management framework and policies to business strategies, ensuring appropriate balancing in risk taking and risk appetite. In addition, the CRWG reviews and assesses asset quality and risk profile reports/dashboards and direct implementation of prompt corrective measures in the event of any exceptions/anomalies.

Credit risk management process includes establishing framework, policies and guidelines for activities in the Group which attracts credit risk. The Credit Risk Management Framework ("CRMF") sets the broad based requirement for credit risk taking activities; under which, comprehensive policies and guidelines are developed for the credit approving hierarchy and discretionary approving authority, development, application and validation of credit rating tools, acceptable credit and negative list, acceptable collateral and margin, credit review and monitoring, early warning and rehabilitation, impairment and recovery.

### *Credit Risk Management*

Credit risk management begins with initial underwriting and continues through the borrower's credit cycle. Statistical techniques in conjunction with experiential judgement are used in portfolio management, covering underwriting guidelines, product pricing, setting credit limits, operating processes and metrics to quantify and balance risks and returns. In addition, credit facility limits and credit concentration limits are applied to prevent over-concentration of risks. Concentration risk is managed by limiting exposure to single borrower/group, credit rating grade and industry segments. These limits are aligned with business strategies of the respective units, taking into consideration the regulatory constraints.

Credit facilities are reviewed regularly; corporate exposures on group exposure basis and retail exposures on portfolio basis. Problem loans and loans with early warning signs are subject to early warning reporting framework.

Business Risk and Business Portfolio Management functions ensure that credit risks are being taken and maintained in compliance with group-wide credit policies and guidelines. These functions ensure proper activation of approved limits, appropriate endorsement of excesses and policy exceptions, monitor compliance with credit standards and/or credit covenants established by management and/or regulators. These functions also subject all credit facilities to regular review including the conduct of accounts and rating; facilities with indications of deterioration in quality are subject to the early warning frameworks. Recovery of problem or impaired loans are managed by specialists who are independent of the business units.

An independent credit review team conducts regular review of approved credit applications. These reviews provide senior management with assurance that the Bank's credit policies/limits are adhered to.

Stress testing are used to ascertain the size of probable losses under a range of scenarios for the loan portfolio and the impact to bottom lines and capital. These stress tests are performed using different market and economic assumptions to assess possible vulnerability and effective mitigating actions when required.

### *Impaired Loans and Provisions*

FRS 139 has been adopted for the treatment of impaired loans and loan loss provision. Please refer to Note 2(i)(i) of the audited financial statements for accounting policy of impaired loans, advances and financing.

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 triggered.

Individual assessments are performed on impaired accounts with principal outstanding RM1 million and above. Discounted cashflow method will be used to determine the recoverable amounts. The remaining loans portfolio are then collectively assessed for impairment allowance provision. The Group applied transitional arrangement as prescribed in the guideline issued by BNM for collective assessment, based on 1.5% of total outstanding loans, net of individual assessment allowance.

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.1 Distribution of Credit Exposures

#### (a) Geographical Distribution

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

Bank 2012	Geographical region			
	Northern RM'000	Central RM'000	Southern RM'000	East Malaysia RM'000
Cash and short-term funds	—	1,539,052	—	—
Deposits and placements with banks and other financial institutions	—	143,461	—	—
Financial assets held-for-trading	—	1,342,302	—	—
Financial investments available-for-sale	—	7,325,003	—	—
Financial investments held-to-maturity	—	228,622	—	—
Derivative financial assets	—	23,712	—	—
Loans, advances and financing	1,581,138	14,912,616	1,672,228	1,824,205
<b>Total on-balance sheet</b>	<b>1,581,138</b>	<b>25,514,768</b>	<b>1,672,228</b>	<b>1,824,205</b>
Financial guarantees	48,823	291,800	21,381	32,904
Credit related commitments and contingencies	594,161	9,126,214	524,327	867,311
<b>Total credit exposure</b>	<b>2,224,122</b>	<b>34,932,782</b>	<b>2,217,936</b>	<b>2,724,420</b>

  

Group 2012	Geographical region			
	Northern RM'000	Central RM'000	Southern RM'000	East Malaysia RM'000
Cash and short-term funds	—	1,683,092	—	—
Deposits and placements with banks and other financial institutions	—	93,438	—	—
Balances due from clients and brokers	13,791	44,023	3,884	—
Financial assets held-for-trading	—	1,491,995	—	—
Financial investments available-for-sale	—	8,983,101	—	—
Financial investments held-to-maturity	—	795,256	—	—
Derivative financial assets	—	23,712	—	—
Loans, advances and financing	1,839,563	18,663,157	2,078,713	2,136,264
<b>Total on-balance sheet</b>	<b>1,853,354</b>	<b>31,777,774</b>	<b>2,082,597</b>	<b>2,136,264</b>
Financial guarantees	67,643	332,255	27,880	36,184
Credit related commitments and contingencies	659,453	10,363,305	652,725	1,333,544
<b>Total credit exposure</b>	<b>2,580,450</b>	<b>42,473,334</b>	<b>2,763,202</b>	<b>3,505,992</b>

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.1 Distribution of Credit Exposures (cont'd)

#### (a) Geographical Distribution (cont'd)

Bank 2011	Geographical region			East Malaysia RM'000
	Northern RM'000	Central RM'000	Southern RM'000	
Cash and short-term funds	—	779,323	—	—
Deposits and placements with banks and other financial institutions	—	954,610	—	—
Financial assets held-for-trading	—	1,176,190	—	—
Financial investments available-for-sale	—	6,247,376	—	—
Financial investments held-to-maturity	—	633,521	—	—
Derivative financial assets	—	32,047	—	—
Loans, advances and financing	1,524,762	12,969,040	1,643,642	1,813,654
<b>Total on-balance sheet</b>	1,524,762	22,792,107	1,643,642	1,813,654
Financial guarantees	43,640	294,674	23,141	32,409
Credit related commitments and contingencies	666,131	7,736,584	343,135	662,003
<b>Total credit exposure</b>	2,234,533	30,823,365	2,009,918	2,508,066

  

Group 2011				
Cash and short-term funds	—	701,862	—	—
Deposits and placements with banks and other financial institutions	—	100,228	—	—
Balances due from clients and brokers	20,440	54,124	5,955	—
Financial assets held-for-trading	—	1,938,250	—	—
Financial investments available-for-sale	—	9,138,478	—	—
Financial investments held-to-maturity	—	940,726	—	—
Derivative financial assets	—	32,047	—	—
Loans, advances and financing	1,825,015	16,217,604	1,984,668	2,083,699
<b>Total on-balance sheet</b>	1,845,455	29,123,319	1,990,623	2,083,699
Financial guarantees	54,799	333,960	29,450	35,161
Credit related commitments and contingencies	720,453	8,524,888	401,562	852,128
<b>Total credit exposure</b>	2,620,707	37,982,167	2,421,635	2,970,988

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.1 Distribution of Credit Exposures (cont'd)

#### (b) Industry Distribution

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

Bank 2012	Government and Central bank RM'000	Financial, insurance & business services RM'000	Transport, storage & communication RM'000	Agriculture, manufacturing, wholesale & retail trade RM'000	Construction RM'000	Residential mortgage RM'000	Motor vehicle financing RM'000	Other consumer loans RM'000	Total RM'000
Cash and short-term funds	903,812	635,240	-	-	-	-	-	-	1,539,052
Deposits and placements with banks and other financial institutions	-	143,461	-	-	-	-	-	-	143,461
Financial assets held-for-trading	1,342,302	-	-	-	-	-	-	-	1,342,302
Financial investments	3,077,911	3,874,479	84,766	266,737	21,110	-	-	-	7,325,003
Financial investments available-for-sale	227,177	1,445	-	-	-	-	-	-	228,622
Derivative financial assets	-	23,712	-	-	-	-	-	-	23,712
Loans, advances and financing	-	2,239,321	100,562	6,145,387	214,618	8,172,207	142,593	2,975,499	19,990,187
<b>Total on-balance sheet</b>	<b>5,551,202</b>	<b>6,917,658</b>	<b>185,328</b>	<b>6,412,124</b>	<b>235,728</b>	<b>8,172,207</b>	<b>142,593</b>	<b>2,975,499</b>	<b>30,592,339</b>
Financial guarantees	-	34,503	19,817	274,277	29,205	300	-	36,806	394,908
Credit related commitments and contingencies	-	1,156,018	66,185	2,545,111	1,197,481	2,787,615	5	3,359,598	11,112,013
<b>Total off-balance sheet</b>	<b>-</b>	<b>1,190,521</b>	<b>86,002</b>	<b>2,819,388</b>	<b>1,226,686</b>	<b>2,787,915</b>	<b>5</b>	<b>3,396,404</b>	<b>11,506,921</b>
<b>Total credit risk</b>	<b>5,551,202</b>	<b>8,108,179</b>	<b>271,330</b>	<b>9,231,512</b>	<b>1,462,414</b>	<b>10,960,122</b>	<b>142,598</b>	<b>6,371,903</b>	<b>42,099,260</b>

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.1 Distribution of Credit Exposures (cont'd)

#### (b) Industry Distribution (cont'd)

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

Group 2012	Government and Central bank RM'000	Financial, insurance & business services RM'000	Transport, storage & communication RM'000	Agriculture, manufacturing, wholesale & retail trade RM'000	Construction RM'000	Residential mortgage RM'000	Motor vehicle financing RM'000	Other consumer loans RM'000	Total RM'000
Cash and short-term funds	1,067,241	615,851	-	-	-	-	-	-	1,683,092
Deposits and placements with banks and other financial institutions	-	93,438	-	-	-	-	-	-	93,438
Balances due from clients and brokers	-	-	-	-	-	-	-	61,698	61,698
Financial assets held-for-trading	1,491,995	-	-	-	-	-	-	-	1,491,995
Financial investments	4,202,309	4,237,686	137,155	374,422	31,529	-	-	-	8,983,101
Financial assets available-for-sale	768,101	21,949	5,206	-	-	-	-	-	795,256
Financial investments held-to-maturity	-	23,712	-	-	-	-	-	-	23,712
Derivative financial assets	-	2,595,624	130,015	7,240,115	290,869	9,597,766	439,620	4,423,688	24,717,697
Loans, advances and financing	7,529,646	7,588,260	272,376	7,614,537	322,398	9,597,766	439,620	4,485,386	37,849,989
<b>Total on-balance sheet</b>	-	37,712	19,908	338,361	30,596	300	-	37,085	463,962
Financial guarantees	-	1,339,215	66,964	3,126,409	1,225,981	3,404,765	230	3,845,463	13,009,027
Credit related commitments and contingencies	-	1,376,927	86,872	3,464,770	1,256,577	3,405,065	230	3,882,548	13,472,989
<b>Total off-balance sheet</b>	-	-	-	-	-	-	-	-	-
<b>Total credit risk</b>	7,529,646	8,965,187	359,248	11,079,307	1,578,975	13,002,831	439,850	8,367,934	51,322,978

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.1 Distribution of Credit Exposures (cont'd)

#### (b) Industry Distribution (cont'd)

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

Bank	Government and Central bank	Financial, insurance & business services	Transport, storage & communication	Agriculture, manufacturing, wholesale & retail trade	Construction	Residential mortgage	Motor vehicle financing	Other consumer loans	Total
2011	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	475,797	303,526	—	—	—	—	—	—	779,323
Deposits and placements with banks and other financial institutions	—	954,610	—	—	—	—	—	—	954,610
Financial assets held-for-trading	1,176,190	—	—	—	—	—	—	—	1,176,190
Financial investments	2,872,338	3,060,617	94,805	198,478	21,138	—	—	—	6,247,376
Financial investments available-for-sale	629,057	4,464	—	—	—	—	—	—	633,521
Derivative financial assets	—	30,657	—	—	—	—	—	1,390	32,047
Loans, advances and financing	—	1,735,053	118,112	5,606,218	338,973	7,565,729	210,351	2,376,662	17,951,098
<b>Total on-balance sheet</b>	<b>5,153,382</b>	<b>6,088,927</b>	<b>212,917</b>	<b>5,804,696</b>	<b>360,111</b>	<b>7,565,729</b>	<b>210,351</b>	<b>2,378,052</b>	<b>27,774,165</b>
Financial guarantees	—	26,634	20,441	294,532	15,544	—	—	36,713	393,864
Credit related commitments and contingencies	—	663,928	70,045	2,106,726	1,248,880	947,023	5	4,371,246	9,407,853
<b>Total off-balance sheet</b>	<b>—</b>	<b>690,562</b>	<b>90,486</b>	<b>2,401,258</b>	<b>1,264,424</b>	<b>947,023</b>	<b>5</b>	<b>4,407,959</b>	<b>9,801,717</b>
<b>Total credit risk</b>	<b>5,153,382</b>	<b>6,779,489</b>	<b>303,403</b>	<b>8,205,954</b>	<b>1,624,535</b>	<b>8,512,752</b>	<b>210,356</b>	<b>6,786,011</b>	<b>37,575,882</b>

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.1 Distribution of Credit Exposures (cont'd)

#### (b) Industry Distribution (cont'd)

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

Group 2011	Government and Central bank RM'000	Financial, insurance & business services RM'000	Transport, storage & communication RM'000	Agriculture, manufacturing, wholesale & retail trade RM'000	Construction RM'000	Residential mortgage RM'000	Motor vehicle financing RM'000	Other consumer loans RM'000	Total RM'000
Cash and short-term funds	524,670	177,192	-	-	-	-	-	-	701,862
Deposits and placements with banks and other financial institutions	-	100,228	-	-	-	-	-	-	100,228
Balances due from clients and brokers	-	-	-	-	-	-	-	80,519	80,519
Financial assets held-for-trading	1,938,250	-	-	-	-	-	-	-	1,938,250
Financial investments	4,059,908	4,584,626	162,118	300,215	31,611	-	-	-	9,138,478
Financial investments available-for-sale	910,444	24,951	5,236	-	95	-	-	-	940,726
Derivative financial assets	-	30,657	-	-	-	-	-	1,390	32,047
Loans, advances and financing	-	2,029,108	156,460	6,559,284	421,713	8,498,859	557,262	3,888,300	22,110,986
<b>Total on-balance sheet</b>	<b>7,433,272</b>	<b>6,946,762</b>	<b>323,814</b>	<b>6,859,499</b>	<b>453,419</b>	<b>8,498,859</b>	<b>557,262</b>	<b>3,970,209</b>	<b>35,043,096</b>
Financial guarantees	-	28,423	22,630	341,328	23,932	-	-	37,057	453,370
Credit related commitments and contingencies	-	804,322	75,937	2,442,788	1,304,866	948,916	327,265	4,594,937	10,499,031
<b>Total off-balance sheet</b>	<b>-</b>	<b>832,745</b>	<b>98,567</b>	<b>2,784,116</b>	<b>1,328,798</b>	<b>948,916</b>	<b>327,265</b>	<b>4,631,994</b>	<b>10,952,401</b>
<b>Total credit risk</b>	<b>7,433,272</b>	<b>7,779,507</b>	<b>422,381</b>	<b>9,643,615</b>	<b>1,782,217</b>	<b>9,447,775</b>	<b>884,527</b>	<b>8,602,203</b>	<b>45,995,497</b>



# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.1 Distribution of Credit Exposures (cont'd)

#### (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:

<b>Bank 2012</b>	<b>Up to 1 month RM'000</b>	<b>&gt;1 – 3 months RM'000</b>	<b>&gt;3 – 6 months RM'000</b>	<b>&gt;6 – 12 months RM'000</b>	<b>&gt;1 year RM'000</b>	<b>Total RM'000</b>
Cash and short-term funds	1,730,290	–	–	–	–	1,730,290
Deposits and placements with banks and other financial institutions	–	143,461	–	–	–	143,461
Financial investments	649,224	2,430,032	572,018	37,165	5,302,396	8,990,835
Loans, advances and financing	4,329,030	1,273,642	804,274	394,744	12,925,703	19,727,393
Other asset balances	34,096	14,212	7,184	7,763	2,117,622	2,180,877
<b>Total on-balance sheet exposure</b>	<b>6,742,640</b>	<b>3,861,347</b>	<b>1,383,476</b>	<b>439,672</b>	<b>20,345,721</b>	<b>32,772,856</b>
<b>Group 2012</b>						
Cash and short-term funds	1,874,332	–	–	–	–	1,874,332
Deposits and placements with banks and other financial institutions	–	93,270	168	–	–	93,438
Balances due from clients and brokers	42,207	–	–	–	19,491	61,698
Financial investments	1,031,877	2,922,378	697,092	97,906	6,661,199	11,410,452
Loans, advances and financing	4,969,403	1,549,577	987,148	598,935	16,255,140	24,360,203
Other asset balances	36,590	14,213	7,186	7,767	1,704,324	1,770,080
<b>Total on-balance sheet exposure</b>	<b>7,954,409</b>	<b>4,579,438</b>	<b>1,691,594</b>	<b>704,608</b>	<b>24,640,154</b>	<b>39,570,203</b>

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.1 Distribution of Credit Exposures (cont'd)

#### (c) Residual Contractual Maturity (cont'd)

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 (cont'd):

<b>Bank 2011</b>	<b>Up to 1 month RM'000</b>	<b>&gt;1 – 3 months RM'000</b>	<b>&gt;3 – 6 months RM'000</b>	<b>&gt;6 – 12 months RM'000</b>	<b>&gt;1 year RM'000</b>	<b>Total RM'000</b>
Cash and short-term funds	958,111	–	–	–	–	958,111
Deposits and placements with banks and other financial institutions	21,456	100,065	100,089	–	733,000	954,610
Financial investments	1,446,532	1,794,212	395,558	803,688	3,699,715	8,139,705
Loans, advances and financing	4,328,948	1,158,824	758,896	363,815	11,107,959	17,718,442
Other asset balances	40,544	7,741	9,201	2,699	1,549,825	1,610,010
<b>Total on-balance sheet exposure</b>	<b>6,795,591</b>	<b>3,060,842</b>	<b>1,263,744</b>	<b>1,170,202</b>	<b>17,090,499</b>	<b>29,380,878</b>
<b>Group 2011</b>						
Cash and short-term funds	911,730	–	–	–	–	911,730
Deposits and placements with banks and other financial institutions	–	100,065	163	–	–	100,228
Balances due from clients and brokers	61,441	–	–	–	19,078	80,519
Financial investments	2,122,429	3,187,345	809,576	932,379	5,087,187	12,138,916
Loans, advances and financing	4,790,087	1,471,389	945,286	557,078	14,032,479	21,796,319
Other asset balances	26,142	7,741	9,201	2,699	966,803	1,012,586
<b>Total on-balance sheet exposure</b>	<b>7,911,829</b>	<b>4,766,540</b>	<b>1,764,226</b>	<b>1,492,156</b>	<b>20,105,547</b>	<b>36,040,298</b>

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.2 Past Due Loans, Advances and Financing Analysis

- (a) Past due but not impaired loans, advances and financing are loans where the customer has failed to make a principal or interest payment when contractually due, and includes 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:

	Bank		Group	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Past due up to 1 month	602,109	506,042	909,157	773,027
Past due > 1 - 2 months	127,224	125,603	187,351	186,858
Past due > 2 - 3 months	15,430	13,894	30,448	27,529
	<b>744,763</b>	<b>645,539</b>	<b>1,126,956</b>	<b>987,414</b>

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

	Bank		Group	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Financial, insurance & business services	42,494	21,146	43,478	22,501
Transport, storage & communication	1,332	2,895	2,835	5,128
Agriculture, manufacturing, wholesale & retail trade	48,189	52,558	55,198	62,001
Construction	9,495	3,873	14,924	5,467
Residential mortgage	459,166	355,794	516,795	395,189
Motor vehicle financing	53,242	72,636	139,333	170,745
Other consumer loans	130,845	136,637	354,393	326,383
	<b>744,763</b>	<b>645,539</b>	<b>1,126,956</b>	<b>987,414</b>

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

	Bank		Group	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Northern region	53,820	62,787	73,720	89,855
Central region	535,488	417,416	835,122	662,773
Southern region	84,411	97,640	130,463	143,087
East Malaysia region	71,044	67,696	87,651	91,699
	<b>744,763</b>	<b>645,539</b>	<b>1,126,956</b>	<b>987,414</b>

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.3 Impaired Loans, Advances and Financing Analysis

Impaired loans, advances and financing analysed by sectors:

	Bank		Group	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Financial, insurance & business services	55,110	80,103	55,181	90,110
Transport, storage & communication	11,924	10,680	12,003	16,932
Agriculture, manufacturing, wholesale & retail trade	202,433	204,970	247,621	246,266
Construction	29,688	30,975	41,193	95,343
Residential mortgage	161,405	198,918	177,614	209,552
Motor vehicle financing	1,811	2,322	4,407	5,677
Other consumer loans	49,614	64,490	63,116	77,444
	511,985	592,458	601,135	741,324

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

	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
<b>Bank 2012</b>				
Financial, insurance & business services	7,102	33,682	(1,175)	(4,432)
Transport, storage & communication	10,679	1,669	(36)	—
Agriculture, manufacturing, wholesale & retail trade	98,658	94,109	13,754	(23,819)
Construction	25,949	3,711	(546)	(1,112)
Residential mortgage	52,621	123,258	(11,293)	(9,941)
Motor vehicle financing	711	2,163	(499)	(1,109)
Other consumer loans	29,372	42,209	26,114	(33,955)
	225,092	300,801	26,319	(74,368)
<b>Group 2012</b>				
Financial, insurance & business services	7,171	34,522	(2,705)	(8,748)
Transport, storage & communication	10,681	6,614	(100)	(18)
Agriculture, manufacturing, wholesale & retail trade	116,409	110,787	13,707	(25,083)
Construction	33,218	4,965	(4,880)	(1,128)
Residential mortgage	54,166	144,656	(11,447)	(10,357)
Motor vehicle financing	1,388	6,639	(544)	(3,742)
Other consumer loans	43,316	77,834	49,332	(56,313)
	266,349	386,017	43,363	(105,389)

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.3 Impaired Loans, Advances and Financing Analysis (cont'd)

Impairment allowances on impaired loans, advances and financing analysed by sectors (cont'd):

	Individual impairment allowance RM'000	Collective impairment allowance RM'000	Individual impairment net charge/ (write-back) for the year RM'000	Individual impairment write-off for the year RM'000
<b>Bank 2011</b>				
Financial, insurance & business services	12,675	25,958	2,610	(6,848)
Transport, storage & communication	10,600	1,786	(752)	(105)
Agriculture, manufacturing, wholesale & retail trade	107,481	84,754	23,826	(35,962)
Construction	26,817	4,932	903	(800)
Residential mortgage	74,107	113,371	5,064	(21,642)
Motor vehicle financing	2,318	3,174	1,378	(6,555)
Other consumer loans	39,143	36,403	36,489	(45,829)
	273,141	270,378	69,518	(117,741)
<b>Group 2011</b>				
Financial, insurance & business services	18,595	30,363	1,246	(6,848)
Transport, storage & communication	10,677	2,357	(758)	(284)
Agriculture, manufacturing, wholesale & retail trade	126,543	99,075	19,527	(36,164)
Construction	38,435	6,165	(1,093)	(1,464)
Residential mortgage	76,222	127,392	6,006	(22,576)
Motor vehicle financing	5,674	8,385	4,085	(11,326)
Other consumer loans	52,229	65,899	58,799	(70,353)
	328,375	339,636	87,812	(149,015)

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.3 Impaired Loans, Advances and Financing Analysis (cont'd)

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

	Impaired loans, advances and financing RM'000	Individual impairment allowance RM'000	Collective impairment allowance RM'000
<b>BANK 2012</b>			
Northern region	109,955	62,147	23,866
Central region	299,618	132,894	224,414
Southern region	46,629	19,824	25,134
East Malaysia region	55,783	10,227	27,387
	<b>511,985</b>	<b>225,092</b>	<b>300,801</b>
<b>Group 2012</b>			
Northern region	135,319	71,723	27,773
Central region	358,099	162,591	294,942
Southern region	50,698	21,348	31,234
East Malaysia region	57,019	10,687	32,068
	<b>601,135</b>	<b>266,349</b>	<b>386,017</b>
<b>BANK 2011</b>			
Northern region	84,733	48,979	23,082
Central region	375,912	180,953	195,268
Southern region	65,280	26,972	24,756
East Malaysia region	66,533	16,237	27,272
	<b>592,458</b>	<b>273,141</b>	<b>270,378</b>
<b>Group 2011</b>			
Northern region	104,487	57,746	27,761
Central region	500,546	224,617	250,673
Southern region	68,965	29,499	29,879
East Malaysia region	67,326	16,513	31,323
	<b>741,324</b>	<b>328,375</b>	<b>339,636</b>

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.3 Impaired Loans, Advances and Financing Analysis (cont'd)

Movement in loans impairment allowances are analysed as follows:

	Bank		Group	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
<b>Individual impairment allowance:</b>				
At beginning of year	273,141	321,364	328,375	389,578
Allowance made during the year (net)	26,319	69,518	43,363	87,812
Amount written-off	(74,368)	(117,741)	(105,389)	(149,015)
At end of year	225,092	273,141	266,349	328,375
<b>Collective impairment allowance:</b>				
At beginning of year	270,378	262,372	339,636	323,644
Allowance made during the year (net)	30,423	8,006	46,381	15,992
At end of year	300,801	270,378	386,017	339,636











# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (cont'd)

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 RWCAF-Basel II 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 exposures according to rating by Eligible Credit Assessment Institutions ("ECAIs"):

#### BANK 2012

##### (a) Ratings of corporate by approved ECAIs

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A+ to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
<b>On and Off Balance-Sheet Exposures</b>						
<b>Credit Exposures (using Corporate Risk-Weights)</b>						
Public Sector Entities (applicable for entities risk-weighted based on their external ratings as corporates)		50,855	—	—	—	—
Insurance Cos, Securities Firms & Fund Managers		—	—	—	—	4,459
Corporates		1,207,981	34,476	—	—	8,676,650
<b>Total</b>		<b>1,258,836</b>	<b>34,476</b>	<b>—</b>	<b>—</b>	<b>8,681,109</b>

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (cont'd)

The following tables show the rated exposures according to rating by ECAs (cont'd):

**BANK  
2012**

(b) Short-term ratings of banking institutions and corporate by approved ECAs

Exposure Class	Short-term Ratings of Banking Institutions and Corporate by Approved ECAs					
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
<b>On and Off Balance-Sheet Exposures</b>						
Banks, MDBs and FDIs		2,566,211	—	—	—	1,227,345
<b>Rated Credit Exposures (using Corporate Risk-Weights)</b>						
Public Sector Entities (applicable for entities risk-weighted based on their external ratings as corporates)		—	—	—	—	—
Insurance Cos, Securities Firms & Fund Managers		—	—	—	—	—
Corporates		20,137	—	—	—	—
<b>Total</b>		<b>2,586,348</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,227,345</b>

(c) Ratings of Sovereigns and Central banks by approved ECAs

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>On and Off Balance-Sheet Exposures</b>							
Sovereigns and Central Banks		5,028,387	—	—	—	—	—
<b>Total</b>		<b>5,028,387</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (cont'd)

The following tables show the rated exposures according to rating by ECAIs (cont'd):

#### BANK 2012

(d) Ratings of banking institutions by approved ECAIs

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures							
Banks, MDBs and FDIs		30,848	2,336	—	—	—	—
<b>Total</b>		<b>30,848</b>	<b>2,336</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (cont'd)

The following tables show the rated exposures according to rating by ECAIs (cont'd):

Group  
2012

(a) Ratings of corporate by approved ECAIs

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A+ to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
<b>On and Off Balance-Sheet Exposures</b>						
<b>Credit Exposures (using Corporate Risk-Weights)</b>						
Public Sector Entities (applicable for entities risk-weighted based on their external ratings as corporates)		50,855	—	—	—	—
Insurance Cos, Securities Firms & Fund Managers		—	—	—	—	4,488
Corporates		1,713,312	34,476	—	—	10,266,362
<b>Total</b>		<b>1,764,167</b>	<b>34,476</b>	<b>—</b>	<b>—</b>	<b>10,270,850</b>

(b) Short-term ratings of banking institutions and corporate by approved ECAIs

Exposure Class	Short-term Ratings of Banking Institutions and Corporate by Approved ECAIs					
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
<b>On and Off Balance-Sheet Exposures</b>						
Banks, MDBs and FDIs		3,068,732	—	—	—	1,358,206
<b>Rated Credit Exposures (using Corporate Risk-Weights)</b>						
Public Sector Entities (applicable for entities risk-weighted based on their external ratings as corporates)		—	—	—	—	—
Insurance Cos, Securities Firms & Fund Managers		—	—	—	—	—
Corporates		20,137	—	—	—	—
<b>Total</b>		<b>3,088,869</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,358,206</b>

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (cont'd)

The following tables show the rated exposures according to rating by ECAIs (cont'd):

Group  
2012

(c) Ratings of Sovereigns and Central banks by approved ECAIs

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
	On and Off Balance-Sheet Exposures						
	Sovereigns and Central Banks	7,210,053	—	—	—	—	—
Total		7,210,053	—	—	—	—	—

(d) Ratings of banking institutions by approved ECAIs

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures							
Banks, MDBs and FDIs		35,943	2,336	—	—	—	—
Total		35,943	2,336	—	—	—	—



# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (cont'd)

The following tables show the rated exposures according to rating by ECAs (cont'd):

Bank  
2011

(a) Ratings of corporate by approved ECAs

Exposure Class	Ratings of Corporate by Approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A+ to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
<b>On and Off Balance-Sheet Exposures</b>						
<b>Credit Exposures (using Corporate Risk-Weights)</b>						
Public Sector Entities (applicable for entities risk-weighted based on their external ratings as corporates)		50,115	—	—	—	—
Insurance Cos, Securities Firms & Fund Managers		—	—	—	—	20,510
Corporates		1,189,323	—	—	4,599	7,152,992
<b>Total</b>		1,239,438	—	—	4,599	7,173,502

(b) Short-term ratings of banking institutions and corporate by approved ECAs

Exposure Class	Short-term Ratings of Banking Institutions and Corporate by Approved ECAs					
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
<b>On and Off Balance-Sheet Exposures</b>						
Banks, MDBs and FDIs		2,084,358	—	—	—	561,312
<b>Rated Credit Exposures (using Corporate Risk-Weights)</b>						
Public Sector Entities (applicable for entities risk-weighted based on their external ratings as corporates)		—	—	—	—	—
Insurance Cos, Securities Firms & Fund Managers		—	—	—	—	—
Corporates		—	—	—	—	—
<b>Total</b>		2,084,358	—	—	—	561,312

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (cont'd)

The following tables show the rated exposures according to rating by ECAIs (cont'd):

**Bank  
2011**

(c) Ratings of Sovereigns and Central banks by approved ECAIs

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures							
Sovereigns and Central Banks		4,080,874	—	—	—	—	—
<b>Total</b>		4,080,874	—	—	—	—	—

(d) Ratings of banking institutions by approved ECAIs

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures							
Banks, MDBs and FDIs		76,636	—	—	—	—	752,678
<b>Total</b>		76,636	—	—	—	—	752,678

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (cont'd)

The following tables show the rated exposures according to rating by ECAs (cont'd):

Group  
2011

(a) Ratings of corporate by approved ECAs

Exposure Class	Ratings of Corporate by Approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A+ to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
<b>On and Off Balance-Sheet Exposures</b>						
<b>Credit Exposures (using Corporate Risk-Weights)</b>						
Public Sector Entities (applicable for entities risk-weighted based on their external ratings as corporates)		50,115	—	—	—	—
Insurance Cos, Securities Firms & Fund Managers		—	—	—	—	20,510
Corporates		1,682,772	—	—	7,002	8,463,228
<b>Total</b>		1,732,887	—	—	7,002	8,483,738

(b) Short-term ratings of banking institutions and corporate by approved ECAs

Exposure Class	Short-term Ratings of Banking Institutions and Corporate by Approved ECAs					
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
<b>On and Off Balance-Sheet Exposures</b>						
Banks, MDBs and FDIs		3,089,183	—	—	—	485,391
<b>Rated Credit Exposures (using Corporate Risk-Weights)</b>						
Public Sector Entities (applicable for entities risk-weighted based on their external ratings as corporates)		—	—	—	—	—
Insurance Cos, Securities Firms & Fund Managers		—	—	—	—	—
Corporates		—	—	—	—	—
<b>Total</b>		3,089,183	—	—	—	485,391

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.4 Assignment of Risk-Weights for Portfolio Under the Standardised Approach (cont'd)

The following tables show the rated exposures according to rating by ECAIs (cont'd):

**Group  
2011**

(c) Ratings of Sovereigns and Central banks by approved ECAIs

Exposure Class  On and Off Balance-Sheet Exposures  Sovereigns and Central Banks  Total	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
		5,711,101	—	—	—	—	—
		5,711,101	—	—	—	—	—

(d) Ratings of banking institutions by approved ECAIs

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+to BBB-	BB+ to B-	C+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures							
Banks, MDBs and FDIs		81,657	—	—	—	—	—
Total		81,657	—	—	—	—	

Note:

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

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.5 Credit Risk Mitigation ("CRM")

The Group uses a wide range of collaterals to mitigate credit risks. For the purpose of computing Basel II capital charge for credit risk, the process of using guarantees and eligible collaterals as credit risk mitigants are as prescribed in the RWCAF.

In the course of lending, the Group does accept collaterals that are not eligible under the RWCAF. The process of taking collaterals whether or not eligible under RWCAF, including valuation method and loan to value are defined in the Credit and Product Programme; and the Credit Risk Management Framework. Main collaterals acceptable to the Group include cash, guarantees, commercial and residential real estates, and physical collateral/financial collateral for example motor vehicles or shares. Guarantees on loans are accepted after the financial viability of the guarantors have been ascertained.

The following tables represent the Bank and the 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 RWCAF.

Bank 2012 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
<b>Credit Risk</b>				
On-balance sheet exposures:				
Sovereigns/Central banks	5,022,323	—	—	—
Public sector entities	50,855	—	—	—
Banks, DFIs and MDBs	3,754,235	—	—	—
Insurance companies, securities firms and fund managers	447	—	—	—
Corporates	7,954,029	—	416,457	—
Regulatory retail	6,386,726	—	656,183	—
Residential mortgages	6,574,048	—	10,385	—
Higher risk assets	7,065	—	—	—
Other assets	479,264	—	—	—
Equity exposure	125,138	—	—	—
Defaulted exposures	142,744	—	7,637	—
Total on-balance sheet exposures	30,496,874	—	1,090,662	—
Off-balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	3,927,358	—	5,211	—
Defaulted exposures	5,856	—	2	—
Total off-balance sheet exposures	3,933,214	—	5,213	—
Total on and off-balance sheet exposures	34,430,088	—	1,095,875	—

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.5 Credit Risk Mitigation ("CRM") (cont'd)

The following tables represent the Bank and the 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 RWCAF. (cont'd)

Group 2012 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
<b>Credit Risk</b>				
On-balance sheet exposures:				
Sovereigns/Central banks	7,143,989	—	—	—
Public sector entities	50,855	—	—	—
Banks, DFIs and MDBs	4,392,711	—	—	—
Insurance companies, securities firms and fund managers	476	—	—	—
Corporates	9,689,833	—	657,948	—
Regulatory retail	8,759,219	—	700,271	—
Residential mortgages	7,620,144	—	11,033	—
Higher risk assets	7,159	—	—	—
Other assets	626,605	—	—	—
Equity exposure	169,942	—	—	—
Defaulted exposures	225,479	—	8,193	—
Total on-balance sheet exposures	38,686,412	—	1,377,445	—
Off-balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	4,581,288	—	19,316	—
Defaulted exposures	12,777	—	2	—
Total off-balance sheet exposures	4,594,065	—	19,318	—
Total on and off-balance sheet exposures	43,280,477	—	1,396,763	—

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.5 Credit Risk Mitigation ("CRM") (cont'd)

The following tables represent the Bank and the 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 RWCAF. (cont'd)

Bank 2011 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
<b>Credit Risk</b>				
On-balance sheet exposures:				
Sovereigns/Central banks	4,080,874	—	—	—
Public sector entities	50,115	—	—	—
Banks, DFIs and MDBs	3,362,759	—	—	—
Insurance companies, securities firms and fund managers	20,508	—	—	—
Corporates	6,763,126	—	253,372	—
Regulatory retail	5,638,108	—	578,209	—
Residential mortgages	6,341,015	—	10,624	—
Higher risk assets	15,586	—	—	—
Other assets	471,964	—	—	—
Equity exposure	112,848	—	—	—
Defaulted exposures	286,359	—	2,722	—
Total on-balance sheet exposures	27,143,262	—	844,927	—
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	2,920,749	—	2,642	—
Defaulted exposures	26,198	—	15	—
Total off-balance sheet exposures	2,946,947	—	2,657	—
Total on and off-balance sheet exposures	30,090,209	—	847,584	—

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.5 Credit Risk Mitigation ("CRM") (cont'd)

The following tables represent the Bank and the 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 RWCAF. (cont'd)

Group 2011 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
<b>Credit Risk</b>				
On-balance sheet exposures:				
Sovereigns/Central banks	5,693,101	—	—	—
Public sector entities	50,115	—	—	—
Banks, DFIs and MDBs	3,544,007	—	—	—
Insurance companies, securities firms and fund managers	20,508	—	—	—
Corporates	8,307,011	—	342,524	—
Regulatory retail	7,947,769	—	612,257	—
Residential mortgages	7,065,748	—	11,367	—
Higher risk assets	15,699	—	—	—
Other assets	693,557	—	—	—
Equity exposure	152,540	—	—	—
Defaulted exposures	366,240	—	5,500	—
Total on-balance sheet exposures	33,856,295	—	971,648	—
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	3,294,597	—	4,755	—
Defaulted exposures	27,047	—	32	—
Total off-balance sheet exposures	3,321,644	—	4,787	—
Total on and off-balance sheet exposures	37,177,939	—	976,435	—



# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 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.

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk (cont'd)

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

Bank 2012	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	354,758	—	354,758	354,758
Transaction-related contingent items	515,510	—	257,755	257,755
Short-term self-liquidating trade-related contingencies	126,778	—	25,356	25,356
Irrevocable commitments to extent credit:				
- maturity exceeding one year	3,645,632	—	1,822,816	1,518,664
- maturity not exceeding one year	4,675,582	—	935,116	858,102
Unutilised credit card lines	2,188,661	—	437,732	340,525
	11,506,921	—	3,833,533	3,355,160
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
- less than one year	3,147,488	17,730	64,522	38,478
Interest rate related contracts:				
- one year or less	587,000	130	912	182
- over one year to three years	1,110,000	2,592	14,192	2,838
- over three years	423,896	3,260	20,055	6,467
	5,268,384	23,712	99,681	47,965
	16,775,305	23,712	3,933,214	3,403,125
<b>Group 2012</b>				
<u>Credit-related exposures</u>				
Direct credit substitutes	397,029	—	397,029	397,029
Transaction-related contingent items	549,766	—	274,883	274,883
Short-term self-liquidating trade-related contingencies	153,561	—	30,712	30,712
Obligation under on-going underwriting agreement	70,122	—	35,061	35,061
Irrevocable commitments to extent credit:				
- maturity exceeding one year	4,320,657	—	2,160,328	1,786,192
- maturity not exceeding one year	5,793,193	—	1,158,639	1,004,648
Unutilised credit card lines	2,188,661	—	437,732	340,525
	13,472,989	—	4,494,384	3,869,050
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
- less than one year	3,147,488	17,730	64,522	38,478
Interest rate related contracts:				
- one year or less	587,000	130	912	182
- over one year to three years	1,110,000	2,592	14,192	2,838
- over three years	423,896	3,260	20,055	6,467
	5,268,384	23,712	99,681	47,965
	18,741,373	23,712	4,594,065	3,917,015

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 3.0 CREDIT RISK (cont'd)

### 3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk (cont'd)

The off-balance sheet exposures and their related counterparty credit risk of the Bank and the Group are as follow (cont'd):

Bank 2011	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	388,733	—	388,733	388,733
Transaction-related contingent items	484,479	—	242,239	242,239
Short-term self-liquidating trade-related contingencies	118,582	—	23,716	23,716
Irrevocable commitments to extent credit:				
- maturity exceeding one year	1,356,908	—	678,454	582,106
- maturity not exceeding one year	4,027,184	—	805,437	737,330
Unutilised credit card lines	3,425,831	—	685,166	528,386
	9,801,717	—	2,823,745	2,502,510
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
- less than one year	2,844,627	22,568	77,079	40,842
Interest rate related contracts:				
- one year or less	380,000	257	637	127
- over one year to three years	1,447,000	6,465	29,535	5,907
- over three years	285,000	2,757	15,957	3,192
	4,956,627	32,047	123,208	50,068
	14,758,344	32,047	2,946,953	2,552,578
<b>Group 2011</b>				
<u>Credit-related exposures</u>				
Direct credit substitutes	423,539	—	423,539	423,539
Transaction-related contingent items	515,311	—	257,655	257,655
Short-term self-liquidating trade-related contingencies	143,281	—	28,656	28,656
Irrevocable commitments to extent credit:				
- maturity exceeding one year	1,715,131	—	857,565	727,272
- maturity not exceeding one year	4,729,308	—	945,862	852,441
Unutilised credit card lines	3,425,831	—	685,166	528,386
	10,952,401	—	3,198,443	2,817,949
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
- less than one year	2,844,627	22,568	77,079	40,842
Interest rate related contracts:				
- one year or less	380,000	257	637	127
- over one year to three years	1,447,000	6,465	29,535	5,907
- over three years	285,000	2,757	15,957	3,192
	4,956,627	32,047	123,208	50,068
	15,909,028	32,047	3,321,651	2,868,017

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 4.0 MARKET RISK

Market risk is the risk of losses arising from on and off-balance sheet positions due to movements in market prices. This includes movements in interest rates, foreign exchange rates, equity prices, commodity prices and their implied volatilities. For the Islamic bank, market risk refers to fluctuations in values of tradable, marketable or leaseable assets (including sukuk) and in off-balance sheet individual portfolios such as restricted investment accounts. Rate of return risk and displaced commercial risk are commonly associated with Islamic banking.

### *Risk Governance*

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 principally responsible to oversee management activities in managing risks. 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 3 lines of defence concept. 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 audit checking/sampling by Internal Audit.

### *Market Risk Management*

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. For example, Value-at-Risk ("VaR"), price value of a basis point ("PV01") and repricing gap analysis.
- (iv) adoption of 3 Lines of Defense concept for monitoring of market risk; Business Units forming the 1st Line, Group Market Risk Management as the 2nd Line and 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 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 such as notional measures, sensitivity limits, value-at-risk measures, tenor limits and holding period. The limits and parameters 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.

### *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 bonds, foreign exchange and equities portfolios.

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 4.0 MARKET RISK (cont'd)

### Regulatory capital requirements

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

	BANK		GROUP	
	Risk-Weighted Assets RM'000	Capital Requirements RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
<b>2012</b>				
Interest rate risk				
- General interest rate risk	135,911	10,873	138,404	11,072
- Specific interest rate risk	477	38	477	38
	<b>136,388</b>	<b>10,911</b>	<b>138,881</b>	<b>11,110</b>
Equity risk				
- General interest rate risk	—	—	3,419	273
- Specific interest rate risk	—	—	5,983	479
	<b>—</b>	<b>—</b>	<b>9,402</b>	<b>752</b>
Foreign currency risk	20,731	1,658	20,731	1,658
Options risk	—	—	96,418	7,713
	<b>157,119</b>	<b>12,569</b>	<b>265,432</b>	<b>21,233</b>
<b>2011</b>				
Interest rate risk				
- General interest rate risk	40,057	3,204	47,610	3,809
- Specific interest rate risk	850	68	850	68
	<b>40,907</b>	<b>3,272</b>	<b>48,460</b>	<b>3,877</b>
Equity risk				
- General interest rate risk	—	—	3,425	274
- Specific interest rate risk	—	—	5,987	479
	<b>—</b>	<b>—</b>	<b>9,412</b>	<b>753</b>
Foreign currency risk	14,012	1,121	14,012	1,121
	<b>54,919</b>	<b>4,393</b>	<b>71,884</b>	<b>5,751</b>

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 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.

### **Risk Governance**

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

The responsibilities of the Committees and Board include the following:

- (i) Oversight and implementation of the Operational Risk Management ("ORM") Framework;
- (ii) Establishment of risk appetite and the provision of strategic and specific directions;
- (iii) Regular review of operational risks initiatives, reports and profiles;
- (iv) Addressing operational risk issues; and
- (v) Ensuring compliance with regulatory and internal requirements including disclosures.

### **Operational Risk Management**

The Group has adopted the following guiding principles for operational risk management:

- (i) Sound risk management practices as outlined in the ORM Framework. This is in accordance with Basel II and regulatory guidelines. (For Islamic Banking, a separate ORM Framework has been adopted to be in compliance with the Islamic Financial Services Board ("IFSB") and relevant regulatory bodies).
- (ii) Board and Senior Management oversight.
- (iii) Defined responsibilities for all staff.
- (iv) Established operational risk methodologies and processes applied in the identification, assessment, measurement, control and monitor of risks.
- (v) Regular dashboard reports are submitted to Senior Management and Risk Management Committee.
- (vi) Continuous cultivation of an organisational culture that places great emphasis on effective operational risk management and adherence to sound operating controls.

The ORM framework is supported by a comprehensive group-wide Integrated Operational Risk Management system which include the adoption of the following tools:

- Risk Control Self Assessment
- Loss Event Data Collection
- Key Risk Indicator
- Control Self Assessment

The Group actively promotes operational risk awareness by requiring all staff to attend training on the topic. In addition, business continuity and disaster recovery exercises are regularly conducted to verify the adequacy and reliability of the plans.

Internal audit provides independent assurance of the implementation of the Framework through their regular audit reviews and independent reporting to the Group Audit Committee.

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

## 6.0 EQUITY EXPOSURES IN BANKING BOOK

The Bank and the Group hold 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 equity, fair value is estimated based on quoted or observable market price at the end of the reporting period; and for those unquoted equity, the fair value is estimated using certain valuation technique.

The return of the equity are credited to the statement of comprehensive income and any gain or loss arising from a change in fair value are recognised directly in other comprehensive income or in equity through the statement of changes in equity.

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 6.0 EQUITY EXPOSURES IN BANKING BOOK (cont'd)

The following table shows the equity exposures in banking book:

	Bank		Group	
	Gross credit exposures RM'000	Risk-weighted assets RM'000	Gross credit exposures RM'000	Risk-weighted assets RM'000
<b>2012</b>				
<b>Publicly traded</b>				
Holding of equity investments	13	13	4,212	4,212
<b>Privately held</b>				
For socio-economic purposes	86,189	86,189	127,183	127,183
Not for socio-economic purposes	8,705	13,058	8,705	13,058
	<b>94,907</b>	<b>99,260</b>	<b>140,100</b>	<b>144,453</b>
<b>2011</b>				
<b>Publicly traded</b>				
Holding of equity investments	11	11	3,875	3,875
<b>Privately held</b>				
For socio-economic purposes	74,200	74,200	109,180	109,180
Not for socio-economic purposes	8,407	12,611	8,407	12,611
	<b>82,618</b>	<b>86,822</b>	<b>121,462</b>	<b>125,666</b>

### 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	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Realised gains/(losses) recognised in the statement of comprehensive income				
- Publicly traded equity investments	–	–	1,484	–
- Privately held equity investments	300	–	(360)	–
	<b>300</b>	<b>–</b>	<b>1,124</b>	<b>–</b>
Unrealised gains/(losses) recognised in revaluation reserve				
- Publicly traded equity investments	2	(6)	337	(43)
- Privately held equity investments	11,911	59,949	18,926	92,928
	<b>11,913</b>	<b>59,943</b>	<b>19,263</b>	<b>92,885</b>

# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 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") arise from exposure of banking book positions to interest rate/profit rate movements. Changes in interest rate/profit rate affect 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 affect 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, 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. On the ground, 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) prudent approach in management of IRR/RORBB 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) IRR/RORBB are accurately measured and any mismatches identified and reviewed regularly.
- (iii) setting of proper gapping limits and the limits monitored closely.
- (iv) comprehensive IRR/RORBB reporting and review process which provide aggregate information and sufficient supporting detail 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 an 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 monthly. The risk dashboards provide a visual gauge ("dashboard view") on the IRR/RORBB of the Group.

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



# Basel II Pillar 3 Disclosure of Alliance Bank Malaysia Berhad

31 March 2012

## 7.0 INTEREST RATE RISK/RATE OF RETURN RISK IN THE BANKING BOOK (cont'd)

### IRR/RORBB Management (cont'd)

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		Group	
	-100 bps Increase/(Decrease) RM'000	+ 100 bps Increase/(Decrease) RM'000	-100 bps Increase/(Decrease) RM'000	+ 100 bps Increase/(Decrease) RM'000
<b>2012</b>				
<b>Impact on net interest income ("NII")</b>				
Ringgit Malaysia	(57,392)	57,392	(53,366)	53,366
<b>Impact on Economic Value ("EV")</b>				
Ringgit Malaysia	(245,450)	245,450	(278,116)	278,116
<b>2011</b>				
<b>Impact on net interest income ("NII")</b>				
Ringgit Malaysia	(58,054)	58,054	(44,616)	44,616
<b>Impact on Economic Value ("EV")</b>				
Ringgit Malaysia	(175,675)	175,675	(47,518)	47,518

## 8.0 SHARIAH GOVERNANCE DISCLOSURES AND PROFIT SHARING INVESTMENT ACCOUNT ("PSIA")

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