ALLIANCE BANK MALAYSIA BERHAD (88103-W)

Basel II
Pillar 3 Disclosure

BASEL II PILLAR 3 DISCLOSURE

31 March 2011

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.

(ii) Estimation of capital requirements based on ongoing forecasting and budgeting process.

(iii) Regular reporting of regulatory and internal capital ratios to management.

Besides that, 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.

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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 Notes 13 and 14 of the audited financial statements.

The basis of consolidation for the use of regulatory capital purposes is similar to that for financial accounting purposes as prescribed in Note 2(b) 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 comfortably 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.

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.

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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	
	2011	2010	2011	2010
Before deducting proposed dividends				
Core capital ratio	**14.63%**	13.57%	**12.40%**	11.39%
Risk-weighted capital ratio	**14.98%**	13.91%	**16.54%**	15.65%
After deducting proposed dividends				
Core capital ratio	**14.09%**	13.28%	**11.95%**	11.13%
Risk-weighted capital ratio	**14.44%**	13.61%	**16.09%**	15.40%

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

	Alliance Islamic Bank Berhad	Alliance Investment Bank Berhad
31 March 2011		
Before deducting proposed dividends		
Core capital ratio	**11.65%**	**57.17%**
Risk-Weighted capital ratio	**13.37%**	**57.33%**
After deducting proposed dividends		
Core capital ratio	**11.65%**	**55.51%**
Risk-Weighted capital ratio	**13.37%**	**55.67%**
31 March 2010		
Core capital ratio	11.41%	55.58%
Risk-Weighted capital ratio	13.21%	55.88%

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

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2.0 Capital (cont'd)

2.2 Capital Structure

The following table represents the Bank and the Group's capital position as at 31 March 2011. Details on capital resources, including share capital, irredeemable (non-cumulative) convertible preference shares ("ICPS"), share premium and reserves are found in Notes 25 and 26 of the audited financial statements. Details on the terms and conditions of subordinated bonds 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	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Tier I Capital (Core Capital)				
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	**1,148,228**	911,593	**1,194,222**	882,471
Statutory reserves	**601,561**	601,561	**786,406**	735,515
Other reserves	**–**	–	**10,018**	10,018
Minority interests	**–**	–	**4,488**	4,539
	2,947,823	2,711,188	**3,193,168**	2,830,577
Less: Purchased goodwill/goodwill on consolidation	**(186,272)**	(186,272)	**(302,065)**	(302,065)
Deferred tax assets	**(75,272)**	(65,900)	**(108,808)**	(99,347)
Total Tier I capital	**2,686,279**	2,459,016	**2,782,295**	2,429,165
Tier II Capital				
Subordinated bonds	**600,000**	600,000	**600,000**	600,000
Collective assessment allowance	**265,588**	–	**333,466**	–
General allowance	**–**	261,699	**–**	322,933
Total Tier II capital	**865,588**	861,699	**933,466**	922,933
Total Capital	**3,551,867**	3,320,715	**3,715,761**	3,352,098
Less: Investment in subsidiaries	**(801,664)**	(801,664)	**(3,620)**	(12,760)
Total Capital Base	**2,750,203**	2,519,051	**3,712,141**	3,339,338

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2.0 Capital (cont'd)

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 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, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("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

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2.0 Capital (cont'd)

2.3 RWA and Capital Requirements (cont'd)

Regulatory Capital Requirements (cont'd)

The following tables 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)	Credit Risk						
	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)	Market Risk (Note 4.0)	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)	Operational Risk			–	–	2,222,953	177,836
	Total RWA and capital requirements			37,177,939	36,201,503	22,444,142	1,795,531

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2.0 Capital (cont'd)

2.3 RWA and Capital Requirements (cont'd)

Regulatory Capital Requirements (cont'd)

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

Bank 2010 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		2,992,422	2,992,422	–	–
	Public sector entities		50,809	50,809	10,162	813
	Banks, DFIs and MDBs		3,904,595	3,904,595	1,007,229	80,578
	Insurance companies, Securities Firms and Fund Managers		20,172	20,172	20,172	1,614
	Corporates		5,918,593	5,702,493	5,123,554	409,883
	Regulatory retail		5,828,361	5,344,217	4,005,582	320,447
	Residential mortgages		6,229,128	6,217,180	2,751,667	220,133
	Higher risk assets		7,389	7,397	11,095	888
	Other assets		579,720	579,720	380,620	30,450
	Equity exposures		28,140	28,140	37,496	3,000
	Defaulted exposures		261,528	260,366	303,006	24,240
	Total on-balance sheet exposures		25,820,857	25,107,511	13,650,583	1,092,046
	Off-balance sheet exposures:					
	Credit-related off-balance sheet exposures		2,839,358	2,835,345	2,500,213	200,017
	Derivative financial instruments		86,119	86,119	33,275	2,662
	Total off-balance sheet exposures		2,925,477	2,921,464	2,533,488	202,679
	Total on and off-balance sheet exposures		28,746,334	28,028,975	16,184,071	1,294,725
(ii)	Market Risk (Note 4.0)	Long Position	Short Position			
	Foreign exchange risk	9,074	(19,663)		19,663	1,573
(iii)	Operational Risk		–	–	1,912,210	152,977
	Total RWA and capital requirements		28,746,334	28,028,975	18,115,944	1,449,275

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2.0 Capital (cont'd)

2.3 RWA and Capital Requirements (cont'd)

Regulatory Capital Requirements (cont'd)

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

Group 2010 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	5,182,234	5,182,234	–	–
	Public sector entities	50,809	50,809	10,162	813
	Banks, DFIs and MDBs	2,821,041	2,821,042	582,524	46,602
	Insurance companies, Securities Firms and Fund Managers	20,204	20,204	20,204	1,616
	Corporates	7,432,449	7,149,098	6,197,422	495,794
	Regulatory retail	7,946,216	7,446,260	5,580,751	446,460
	Residential mortgages	6,669,658	6,657,174	2,949,854	235,988
	Higher risk assets	7,522	7,530	11,296	904
	Other assets	747,641	747,640	548,695	43,895
	Equity exposures	34,317	34,317	46,761	3,741
	Defaulted exposures	359,469	357,170	441,834	35,347
	Total on-balance sheet exposures	31,271,560	30,473,478	16,389,503	1,311,160
	Off-balance sheet exposures:				
	Credit-related off-balance sheet exposures	3,154,545	3,147,948	2,766,939	221,355
	Derivative financial instruments	86,119	86,119	33,275	2,662
	Total off-balance sheet exposures	3,240,664	3,234,067	2,800,214	224,017
	Total on and off-balance sheet exposures	34,512,224	33,707,545	19,189,717	1,535,177
(ii)	Market Risk (Note 4.0)	Long Position	Short Position		
	Foreign exchange risk	9,074	(19,663)	19,663	1,573
(iii)	Operational Risk	–	–	2,126,663	170,133
	Total RWA and capital requirements	34,512,224	33,707,545	21,336,043	1,706,883

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.

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3.0 Credit Risk

Credit risk is the risk of financial loss arising from the inability of a borrower or counterparty to meet its obligations. Credit risk arises mainly from loans, advances and financing activities as well as financial transactions with counterparties, including interbank activities, derivatives instrument and 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 is responsible for reviewing and approving credit risk policies. In addition, the GRMC reviews and assesses portfolio quality through regular reports which include the quality of newly acquired accounts, quality of the existing loan portfolio, delinquency trends and loss trends.

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; the larger ones on group exposure basis and the small ones 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 credit processes. These reviews provide senior management with objective and timely assessments of the effectiveness of credit risk management practices and ensure policies, guidelines and procedures are being adopted consistently.

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 scenarios are performed using different market and economic assumptions to assess possible vulnerability and effective mitigating actions 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.

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 geographical 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.

	Geographical region			
Bank **2011**	**Northern RM'000**	**Central RM'000**	**Southern RM'000**	**East Malaysia 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
Total on-balance sheet	1,524,762	22,792,107	1,643,642	1,813,654
Contingent liabilities	78,708	757,224	25,992	129,870
Commitments	631,063	7,274,034	340,284	564,542
Total credit exposure	2,234,533	30,823,365	2,009,918	2,508,066

	Geographical region			
Group **2011**	**Northern RM'000**	**Central RM'000**	**Southern RM'000**	**East Malaysia RM'000**
Cash and short-term funds	–	701,862	–	–
Deposits and placements with banks and other financial institutions	–	100,228	–	–
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
Balances due from clients and brokers	22,061	67,867	6,390	–
Total on-balance sheet	1,847,076	29,137,062	1,991,058	2,083,699
Contingent liabilities	89,926	821,966	33,085	137,154
Commitments	685,326	8,036,883	397,926	750,135
Total credit exposure	2,622,328	37,995,911	2,422,069	2,970,988

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 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	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 available-for-sale	2,872,338	3,060,617	94,805	198,478	21,138	–	–	–	6,247,376
Financial investments held-to-maturity	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
Total on-balance sheet	5,153,382	6,088,927	212,917	5,804,696	360,111	7,565,729	210,351	2,378,052	27,774,165
Contingent liabilities	–	113,759	29,906	346,871	462,251	–	–	39,007	991,794
Commitments	–	576,803	60,580	2,054,387	802,173	947,023	5	4,368,952	8,809,923
Total credit exposure	5,153,382	6,779,489	303,403	8,205,954	1,624,535	8,512,752	210,356	6,786,011	37,575,882

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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
Financial assets held-for-trading	1,938,250	–	–	–	–	–	–	–	1,938,250
Financial investments available-for-sale	4,059,908	4,584,626	162,118	300,215	31,611	–	–	–	9,138,478
Financial investments held-to-maturity	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
Balances due from clients and brokers	–	–	–	–	–	–	–	96,318	96,318
Total on-balance sheet	7,433,272	6,946,762	323,814	6,859,499	453,419	8,498,859	557,262	3,986,008	35,058,895
Contingent liabilities	10,500	122,073	32,237	401,769	476,120	–	–	39,432	1,082,131
Commitments	–	710,672	66,330	2,382,347	852,678	948,916	327,265	4,582,062	9,870,270
Total credit exposure	7,443,772	7,779,507	422,381	9,643,615	1,782,217	9,447,775	884,527	8,607,502	46,011,296

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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:

Bank 2011	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 year RM'000	Total RM'000
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
Total on-balance sheet exposure	6,795,591	3,060,842	1,263,744	1,170,202	17,090,499	29,380,878

Group 2011	Up to 1 month RM'000	>1 – 3 months RM'000	>3 – 6 months RM'000	>6 – 12 months RM'000	>1 year RM'000	Total RM'000
Cash and short-term funds	911,730	–	–	–	–	911,730
Deposits and placements with banks and other financial institutions	–	100,065	163	–	–	100,228
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
Balances due from clients and brokers	61,441	–	–	–	19,078	80,519
Other asset balances	26,142	7,741	9,201	2,699	966,803	1,012,586
Total on-balance sheet exposure	7,911,829	4,766,540	1,764,226	1,492,156	20,105,547	36,040,298

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3.0 Credit Risk (cont'd)

3.2 Past Due Loans, Advances and Financing Analysis

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:

	2011	
	Bank RM'000	Group RM'000
Past due up to 1 month	506,042	773,027
Past due 1 – 2 months	125,603	186,858
Past due 2 – 3 months	13,894	27,529
	645,539	987,414

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

	2011	
	Bank RM'000	Group RM'000
Financial, insurance & business services	21,146	22,501
Transport, storage & communication	2,895	5,128
Agriculture, manufacturing, wholesale & retail trade	52,558	62,001
Construction	3,873	5,467
Residential mortgage	355,794	395,189
Motor vehicle financing	72,636	170,745
Other consumer loans	136,637	326,383
	645,539	987,414

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

	2011	
	Bank RM'000	Group RM'000
Northern region	62,787	89,855
Central region	417,416	662,773
Southern region	97,640	143,087
East Malaysia region	67,696	91,699
	645,539	987,414

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3.0 Credit Risk (cont'd)

3.3 Impaired Loans, Advances and Financing Analysis

Impaired loans, advances and financing analysed by sectors:

	2011 Bank RM'000	2011 Group RM'000
Financial, insurance & business services	80,103	90,110
Transport, storage & communication	10,680	16,932
Agriculture, manufacturing, wholesale & retail trade	204,970	246,266
Construction	30,975	95,343
Residential mortgage	198,918	209,552
Motor vehicle financing	2,322	5,677
Other consumer loans	64,490	77,444
	592,458	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
Bank				
2011				
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)
Group				
2011				
Financial, insurance & business services	18,611	30,363	1,262	(6,848)
Transport, storage & communication	10,677	2,357	(758)	(284)
Agriculture, manufacturing, wholesale & retail trade	126,527	99,075	19,511	(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)

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3.0 Credit Risk (cont'd)

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

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

BANK 2011	Impaired loans, advances and financing RM'000	Individual impairment allowance RM'000	Collective impairment allowance RM'000
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
	592,458	273,141	270,378
GROUP **2011**			
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
	741,324	328,375	339,636

Movements in loans impairment allowances are analysed as follows:

	2011 Bank RM'000	2011 Group RM'000
Individual impairment allowance:		
At beginning of year		
– As previously stated	–	–
– Effects of adopting FRS 139	321,364	389,578
As restated	321,364	389,578
Allowance made during the year (net)	69,518	87,812
Amount written off	(117,741)	(149,015)
At end of year	273,141	328,375
Collective impairment allowance:		
At beginning of year		
– As previously stated	–	–
– Effects of adopting FRS 139	262,372	323,644
As restated	262,372	323,644
Allowance made during the year (net)	8,006	15,992
At end of year	270,378	339,636

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3.0 Credit Risk (cont'd)

3.4 Assignment of Risk Weights for Portfolio Under the Standardised Approach

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

Bank 2011 Risk-Weights	Exposures after netting and credit risk mitigation: 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	Total exposures after netting and credit risk mitigation RM'000	Total Risk-Weighted Assets RM'000
0%	4,080,874	–	–	–	–	–	–	–	178,789	–	4,259,663	–
20%	–	50,115	2,673,253	–	1,085,870	–	–	–	–	–	3,809,238	761,848
35%	–	–	–	–	–	–	3,658,493	–	–	–	3,658,493	1,280,473
50%	–	–	801,731	–	578	15,036	2,282,794	–	–	–	3,100,139	1,550,070
75%	–	–	–	–	–	6,389,918	397,267	–	–	–	6,787,185	5,090,388
100%	–	–	–	20,510	6,950,732	39,879	64,060	–	293,175	9,429	7,377,785	7,377,785
150%	–	–	–	–	55,781	67,768	–	24,154	–	103,419	251,122	376,683
Total exposures	4,080,874	50,115	3,474,984	20,510	8,092,961	6,512,601	6,402,614	24,154	471,964	112,848	29,243,625	16,437,247
Risk-weighted assets by exposures	–	10,023	935,516	20,510	7,251,866	4,941,488	2,783,879	36,232	293,175	164,558	16,437,247	
Average risk weight	–	20%	27%	100%	90%	76%	43%	150%	62%	146%	56%	
Deduction from Capital base	–	–	–	–	–	–	–	–	–	–	–	

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3.0 Credit Risk (cont'd)

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

The following tables present the credit exposures by risk weights and after credit risk mitigation (cont'd):

Group 2011 Risk-Weights	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	Total exposures after netting and credit risk mitigation RM'000	Total Risk-Weighted Assets RM'000
	Exposures after netting and credit risk mitigation											
0%	5,711,101	–	–	–	–	–	–	–	182,775	–	5,893,876	–
20%	–	50,115	3,608,621	–	1,456,973	–	–	–	–	–	5,115,709	1,023,142
35%	–	–	–	–	–	–	3,991,155	–	–	–	3,991,155	1,396,904
50%	–	–	47,610	–	2,475	15,058	2,575,396	–	–	–	2,640,539	1,320,269
75%	–	–	–	–	–	8,823,274	496,195	–	–	–	9,319,469	6,989,602
100%	–	–	–	20,510	8,233,748	41,220	67,800	–	510,783	9,429	8,883,490	8,883,490
150%	–	–	–	–	113,949	75,895	–	24,310	–	143,111	357,265	535,898
Total exposures	5,711,101	50,115	3,656,231	20,510	9,807,145	8,955,447	7,130,546	24,310	693,558	152,540	36,201,503	20,149,305
Risk-weighted assets by exposures	–	10,023	745,529	20,510	8,697,304	6,780,046	3,124,549	36,465	510,783	224,096	20,149,305	
Average risk weight	–	20%	20%	100%	89%	76%	44%	150%	74%	147%	56%	
Deduction from Capital base	–	–	–	–	–	–	–	–	–	–	–	

3.0 Credit Risk (cont'd)

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

The following tables present the credit exposures by risk weights and after credit risk mitigation (cont'd):

Bank 2010 Risk-Weights	Exposures after netting and credit risk mitigation: 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	Total exposures after netting and credit risk mitigation RM'000	Total Risk-Weighted Assets RM'000
0%	2,992,422	–	–	–	–	–	–	–	199,100	–	3,191,522	–
20%	–	50,809	3,201,523	–	715,349	–	–	–	–	–	3,967,681	793,536
35%	–	–	–	–	–	–	3,297,571	–	–	–	3,297,571	1,154,150
50%	–	–	786,861	–	3,678	14,609	2,374,253	–	–	–	3,179,401	1,589,701
75%	–	–	–	–	–	6,716,774	549,410	–	–	–	7,266,184	5,449,638
100%	–	–	–	20,436	6,451,900	42,671	80,700	–	380,620	9,429	6,985,756	6,985,756
150%	–	–	–	–	24,202	83,314	–	14,633	–	18,711	140,860	211,290
Total exposures	2,992,422	50,809	3,988,384	20,436	7,195,129	6,857,368	6,301,934	14,633	579,720	28,140	28,028,975	16,184,071
Risk-weighted assets by exposures	–	10,162	1,033,735	20,436	6,633,113	5,212,526	2,834,034	21,949	380,620	37,496	16,184,071	
Average risk weight	–	20%	26%	100%	92%	76%	45%	150%	66%	133%	58%	
Deduction from Capital base	–	–	–	–	–	–	–	–	–	–	–	

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3.0 Credit Risk (cont'd)

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

The following tables present the credit exposures by risk weights and after credit risk mitigation (cont'd):

Group 2010 Risk-Weights	Exposures after netting and credit risk mitigation: 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	Total exposures after netting and credit risk mitigation RM'000	Total Risk-Weighted Assets RM'000
0%	5,192,234	–	–	–	–	–	–	–	198,945	–	5,391,179	–
20%	–	50,809	2,811,286	–	1,182,762	–	–	–	–	–	4,044,857	808,972
35%	–	–	–	–	–	–	3,505,236	–	–	–	3,505,236	1,226,833
50%	–	–	93,545	–	6,618	15,326	2,571,166	–	–	–	2,686,655	1,343,327
75%	–	–	–	–	–	8,964,756	586,082	–	–	–	9,550,838	7,163,128
100%	–	–	–	20,468	7,585,506	44,448	82,879	–	548,695	9,429	8,291,425	8,291,425
150%	–	–	–	–	103,685	93,973	–	14,809	–	24,888	237,355	356,032
Total exposures	5,192,234	50,809	2,904,831	20,468	8,878,571	9,118,503	6,745,363	14,809	747,640	34,317	33,707,545	19,189,717
Risk-weighted assets by exposures	–	10,162	609,030	20,468	7,980,895	6,916,637	3,034,856	22,213	548,695	46,761	19,189,717	
Average risk weight	–	20%	21%	100%	90%	76%	45%	150%	73%	136%	57%	
Deduction from Capital base	–	–	–	–	–	–	–	–	–	–	–	

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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
2011

(a) Ratings of corporate by approved ECAIs

	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**
	Rating & Investment Inc	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
Exposure Class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off Balance-Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
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
Total		1,239,438	–	–	4,599	7,173,502

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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 Eligible Credit Assessment Institutions ("ECAIs") (cont'd):

Bank
2011

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

	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**
	Rating & Investment Inc	**a-1+, a-1**	**a-2**	**a-3**	**b, c**	**Unrated**
Exposure Class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off Balance-Sheet Exposures						
Banks, MDBs and FDIs		2,084,358	–	–	–	561,312
Rated Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		–	–	–	–	–
Insurance Cos, Securities Firms & Fund Managers		–	–	–	–	–
Corporates		–	–	–	–	–
Total		**2,084,358**	**–**	**–**	**–**	**561,312**

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

	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**
	Rating & Investment Inc	**AAA to AA-**	**A+ to A-**	**BBB+to BBB-**	**BB+ to B-**	**CCC+ to C**	**Unrated**
Exposure Class		**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	–	–	–	–	–
Total		**4,080,874**	**–**	**–**	**–**	**–**	**–**

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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 Eligible Credit Assessment Institutions ("ECAIs") (cont'd):

Bank
2011

(d) Ratings of banking institutions by approved ECAIs

	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
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off Balance-Sheet Exposures							
Banks, MDBs and FDIs		829,314	–	–	–	–	–
Total		**829,314**	**–**	**–**	**–**	**–**	**–**

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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 Eligible Credit Assessment Institutions ("ECAIs") (cont'd):

Group
2011

(a) Ratings of corporate by approved ECAIs

		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
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
Exposure Class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off Balance-Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
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
Total		**1,732,887**	**–**	**–**	**7,002**	**8,483,738**

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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 Eligible Credit Assessment Institutions ("ECAIs") (cont'd):

Group
2011

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

	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
	Rating & Investment Inc	a-1+, a-1	a-2	a-3	b,c	Unrated
Exposure Class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off Balance-Sheet Exposures						
Banks, MDBs and FDIs		3,089,183	–	–	–	485,391
Rated Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)		–	–	–	–	–
Insurance Cos, Securities Firms & Fund Managers		–	–	–	–	–
Corporates		–	–	–	–	–
Total		3,089,183	–	–	–	485,391

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

	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
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off Balance-Sheet Exposures							
Sovereigns and Central Banks		5,711,101	–	–	–	–	–
Total		5,711,101	–	–	–	–	–

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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 Eligible Credit Assessment Institutions ("ECAIs") (cont'd):

Group
2011

(d) Ratings of banking institutions by approved ECAIs

	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
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
Exposure Class		**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.

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 Programmme; 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.

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3.0 Credit Risk (cont'd)

3.5 Credit Risk Mitigation ("CRM")

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 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**
Credit Risk				
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	–

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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
Credit Risk				
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	–

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3.0 Credit Risk (cont'd)

3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk

Counterparty Credit Risk ("CCR") for derivatives transactions is the risk that the counterparty to a transaction 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 by the Bank and the Investment Bank for hedging purposes with minimal trading exposures. CCR is mitigated via enforcement of margin collateral requirements, supplemented by margin calls in response to revaluation triggers. The Group's derivatives transactions are governed by 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.

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

Credit-related exposures				
Contingent liabilities				
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
Commitments				
Irrevocable commitments to extent credit:				
– maturity exceeding one year	1,356,908		678,454	582,106
– maturity not exceeding one year	7,453,015		1,490,603	1,265,716
	9,801,717		2,823,745	2,502,510
Derivative financial instruments				
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

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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 follows (cont'd):

Group 2011	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Credit-related exposures				
Contingent liabilities				
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
Commitments				
Irrevocable commitments to extent credit:				
– maturity exceeding one year	1,715,131		857,565	727,272
– maturity not exceeding one year	8,155,139		1,631,028	1,380,827
	10,952,401		3,198,443	2,817,949
Derivative financial instruments				
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

Bank 2010	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Credit-related exposures				
Contingent liabilities				
Direct credit substitutes	464,702		464,702	464,702
Transaction-related contingent items	428,083		214,041	214,041
Short-term self-liquidating trade-related contingencies	138,234		27,647	27,647
Commitments				
Irrevocable commitments to extent credit:				
– maturity exceeding one year	1,198,725		599,363	495,403
– maturity not exceeding one year	7,668,026		1,533,605	1,298,420
	9,897,770		2,839,358	2,500,213
Derivative financial instruments				
Foreign exchange related contracts:				
– less than one year	2,452,403	38,588	64,501	28,951
Interest rate related contracts:				
– one year or less	560,000	491	2,745	549
– over one year to three years	270,000	1,370	5,423	1,085
– over three years	220,000	4,249	13,450	2,690
	3,502,403	44,698	86,119	33,275
	13,400,173	44,698	2,925,477	2,533,488

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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 follows (cont'd):

Group 2010	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
Credit-related exposures				
Contingent liabilities				
Direct credit substitutes	501,940		501,940	501,940
Transaction-related contingent items	456,421		228,211	228,211
Short-term self-liquidating trade-related contingencies	167,968		33,594	33,594
Commitments				
Irrevocable commitments to extent credit:				
– maturity exceeding one year	1,526,427		763,214	626,319
– maturity not exceeding one year	8,137,938		1,627,586	1,376,875
	10,790,694		3,154,545	2,766,939
Derivative financial instruments				
Foreign exchange related contracts:				
– less than one year	2,452,403	38,588	64,501	28,951
Interest rate related contracts:				
– one year or less	560,000	491	2,745	549
– over one year to three years	270,000	1,370	5,423	1,085
– over three years	220,000	4,249	13,450	2,690
	3,502,403	44,698	86,119	33,275
	14,293,097	44,698	3,240,664	2,800,214

4.0 Market Risk

Market risk is the risk of losses arising from on and off-balance sheet positions arising from 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 include rate of return risk and displaced commercial risk.

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.

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4.0 Market Risk

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.
(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.

Hedging Policies and Strategies

The Group had established a hedging policy which outlines the broad principles and policies governing hedging activities by the Group to manage or reduce risk exposures. All hedging strategies are approved by the GALCO and monitored independently by Group Risk Management. Furthermore, all hedging strategies are designated upfront and recorded separately under the hedging portfolios. Hedging positions and effectiveness are 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.

	BANK		GROUP	
2011	**Risk-Weighted Assets RM'000**	**Capital Requirements RM'000**	**Risk-Weighted Assets RM'000**	**Capital Requirements RM'000**
Interest rate risk				
– General interest rate risk	40,057	3,204	47,610	3,809
– Specific interest rate risk	850	68	850	68
	40,907	3,272	48,460	3,877
Equity risk				
– General interest rate risk	–	–	3,425	274
– Specific interest rate risk	–	–	5,987	479
	–	–	9,412	753
Foreign exchange risk	14,012	1,121	14,012	1,121
	54,919	4,393	71,884	5,751
2010				
Interest rate risk				
– General interest rate risk	–	–	–	–
– Specific interest rate risk	–	–	–	–
	–	–	–	–
Equity risk				
– General interest rate risk	–	–	–	–
– Specific interest rate risk	–	–	–	–
	–	–	–	–
Foreign exchange risk	19,663	1,573	19,663	1,573
	19,663	1,573	19,663	1,573

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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 various committees such as Group Operational Risk Management Committee and GRMC 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 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 our 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 comprises Loss Event Data Collection, Risk Control Self Assessment as well as Key Risk Indicator modules that are in place to facilitate the management of operational risk. In addition, our Operational Risk team has inculcated a strong risk culture throughout the entire Group through its continuous training programme. Business continuity and disaster recovery exercises are being conducted at scheduled periodic intervals.

Introduction of new product or services are subject to risk review and sign-off process by the various departments which are independent from the business risk taking unit. Approval of the introduction of new products and services are by Senior Management and/or designated Committee.

For Bank's outsourcing activities, there are guidelines established consistent with regulatory requirements that stipulates the requirements and procedures in carrying out a proper due diligence on the service provider from the start, laying down agreed duties and responsibilities of Service Providers indicators in Service Level Agreements ("SLA"), executing regular follow-up checks and reviews as well as back up business continuity plans which are part of the Bank's important elements.

The Group also insure against operational losses which are termed as high-impact loss events as an effective form of risk mitigation. Internal audit plays its part in ensuring an independent assurance of the implementation of the Framework through their regular audit reviews and reports to the Group Audit Committee.

The Basic Indicator Approach has been adopted to calculate the operational RWA as at 31 March 2011.

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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 following table shows the equity exposures in banking book:

	Gross credit exposures RM'000	Risk weighted assets RM'000	Gross credit exposures RM'000	Risk weighted assets RM'000
Publicly traded				
Holdings of equity investments	11	11	3,875	3,875
Privately held				
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
	82,618	86,822	121,462	125,666

Gains and losses on equity exposures in the banking book

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

	2011 BANK RM'000	2011 GROUP RM'000
Realised gains/(losses) recognised in the statement of comprehensive income		
– Publicly traded equity investments	–	–
– Privately held equity investments	–	–
	–	–
Unrealised gains/(losses) recognised in revaluation reserve		
– Publicly traded equity investments	(6)	(43)
– Privately held equity investments	59,949	92,928
	59,943	92,885

7.0 Interest Rate Risk/Rate of Return Risk in the Banking Book (cont'd)

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. IRR/RORBB arise mainly from mismatches in the repricing characteristics of banking assets and liabilities such as loans/financing, mortgages, treasury assets designated as available-for-sale or held-to-maturity and deposits. IRR in the banking book is inherent in the Bank and Investment bank operations while RORBB is inherent in the Islamic bank operations.

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.

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7.0 Interest Rate Risk/Rate of Return Risk in the Banking Book (cont'd)

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.

(ii) IRR/RORBB are accurately measured and any mismatches identified, reviewed and reported monthly to GALCO.

(iii) Establishment, close monitoring and reporting of limits and triggers.

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

(i) Interest rate/profit rate sensitivity ("PV01"): expresses the impact of one basis point shift in yield curves on a portfolio's fair value. This measures outright directional interest rate/profit rate risks.

(ii) Static repricing gap analysis: essentially involves offsetting interest-sensitive assets against liabilities in specific time bands to derive the net repricing gap for that time interval. Risk is measured by the gap amount and the length of time the gap is open.

(iii) Net interest income/profit income simulation: assesses the impact of interest rate/profit rate changes on earnings specifically net interest income/profit rate. This simulation is normally used to assess short-term interest rate exposure/profit rate movement. Results of the above analysis are monitored and reported monthly to GALCO and GRMC.

The Group generally adopts the assumptions as per BNM's New Liquidity Framework for measurement of IRR/RORBB.

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.

	2011 BANK		2011 GROUP	
	–100 bps	+ 100 bps	–100 bps	+ 100 bps
	Increase/(Decrease)		Increase/(Decrease)	
	RM'000	RM'000	RM'000	RM'000
Impact on net interest income ("NII")				
Ringgit Malaysia	(58,054)	58,054	(44,616)	44,616
Impact on Economic Value ("EV")				
Ringgit Malaysia	(175,675)	175,675	(47,518)	47,518

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

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.