



ALLIANCE BANK

Alliance Bank Malaysia Berhad (88103-W)

PILLAR 3 REPORT

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2014

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Overview

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

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

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

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

In summary, the capital management process involves the following:

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

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

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

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1.0 Scope of Application

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

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

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

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

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

2.0 Capital

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

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

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

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

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

2.0 Capital (contd.)

2.1 Capital Adequacy Ratios

The capital adequacy ratios of the Bank and the Group are computed in accordance with Bank Negara Malaysia's Capital Adequacy Framework issued on 28 November 2012. The Framework sets out the approach for computing regulatory capital adequacy ratios, as well as the levels of those ratios at which banking institutions are required to operate. The framework is to strengthen capital adequacy standards, in line with the requirements set forth under Basel III. The risk-weighted assets of the Bank and the Group are computed using the Standardised Approach for credit risk and market risk, and the Basic Indicator Approach for operational risk.

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

	<u>BANK</u>		<u>GROUP</u>	
	2014	2013	2014	2013
<u>Before deducting proposed dividends</u>				
CET I capital ratio	10.987%	12.235%	10.908%	11.221%
Tier I capital ratio	12.235%	13.445%	11.961%	12.513%
Total capital ratio	12.295%	13.445%	14.201%	15.226%
<u>After deducting proposed dividends</u>				
CET I capital ratio	10.361%	11.514%	10.379%	10.620%
Tier I capital ratio	11.609%	12.723%	11.433%	11.913%
Total capital ratio	11.670%	12.723%	13.673%	14.625%

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

	Alliance Islamic Bank Berhad	Alliance Investment Bank Berhad
2014		
<u>Before deducting proposed dividends</u>		
CET I capital ratio	13.426%	93.737%
Tier I capital ratio	13.426%	93.737%
Total capital ratio	14.134%	93.767%
<u>After deducting proposed dividends</u>		
CET I capital ratio	13.113%	92.148%
Tier I capital ratio	13.113%	92.148%
Total capital ratio	13.821%	92.178%
2013		
<u>Before deducting proposed dividends</u>		
CET I capital ratio	12.927%	96.235%
Tier I capital ratio	12.927%	96.235%
Total capital ratio	13.718%	96.398%
<u>After deducting proposed dividends</u>		
CET I capital ratio	12.927%	94.956%
Tier I capital ratio	12.927%	94.956%
Total capital ratio	13.718%	95.119%

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 (contd.)

2.2 Capital Structure

The following tables represent the Bank's and the Group's capital positions. Details on capital resources, including share capital, irredeemable (non-cumulative) convertible preference shares ("ICPS"), share premium and reserves are found in Note 26 and 27 of the audited financial statements. Details on the terms and conditions of subordinated obligations are contained in Note 25 of the audited financial statements.

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

	<u>BANK</u>		<u>GROUP</u>	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
<u>CET I Capital</u>				
Paid-up share capital	596,517	596,517	596,517	596,517
Share premium	201,517	201,517	201,517	201,517
Retained profits	1,840,384	1,641,549	1,957,952	1,749,256
Statutory reserves	601,561	601,561	929,055	885,744
Revaluation reserves	(7,546)	85,257	7,071	115,397
Other reserves	-	-	10,018	10,018
	<u>3,232,433</u>	<u>3,126,401</u>	<u>3,702,130</u>	<u>3,558,449</u>
Less: Regulatory adjustment				
- Goodwill and other intangibles	(238,665)	(241,961)	(353,256)	(358,275)
- Deferred tax assets	(18,036)	-	(32,343)	(11,040)
- 55% of revaluation reserve	-	(46,891)	(3,889)	(63,468)
- Investment in subsidiaries and associates	(158,610)	-	(824)	-
Total CET I Capital	<u>2,817,122</u>	<u>2,837,549</u>	<u>3,311,818</u>	<u>3,125,666</u>
<u>Tier I Capital</u>				
ICPS	3,200	3,600	3,200	3,600
Share premium	316,800	356,400	316,800	356,400
Less: Regulatory adjustment				
- Investment in subsidiaries and associates	-	(79,467)	-	-
Total additional Tier I Capital	<u>320,000</u>	<u>280,533</u>	<u>320,000</u>	<u>360,000</u>
Total Tier I Capital	<u>3,137,122</u>	<u>3,118,082</u>	<u>3,631,818</u>	<u>3,485,666</u>
<u>Tier II Capital</u>				
Subordinated obligations	479,082	538,495	479,082	538,495
Collective assessment allowance	170,942	183,932	204,226	221,153
Less: Regulatory adjustment				
- Investment in subsidiaries and associates	(634,440)	(722,427)	(3,297)	(4,117)
Total Tier II Capital	<u>15,584</u>	<u>-</u>	<u>680,011</u>	<u>755,531</u>
Total Capital	<u>3,152,706</u>	<u>3,118,082</u>	<u>4,311,829</u>	<u>4,241,197</u>

The comparative capital adequacy ratios and components of capital base have been restated in relation to Basel 3 requirements to gradually phased-out the ICPS as Tier I Capital. Details of the restatements are as set out on Note 52(iii) of the financial statements.

2.0 Capital (contd.)

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

Regulatory Capital Requirements

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

BANK 2014 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	6,519,686	6,519,686	-	-
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	2,779,818	2,779,818	866,849	69,348
Insurance companies, securities firms and fund managers	3,456	3,456	3,456	276
Corporates	10,639,608	9,697,859	7,815,569	625,246
Regulatory retail	10,740,445	9,546,852	7,174,584	573,967
Residential mortgages	7,096,161	7,088,222	3,110,812	248,865
Higher risk assets	6,086	6,076	9,114	729
Other assets	574,333	574,333	271,782	21,743
Equity exposures	100,122	100,122	106,834	8,547
Defaulted exposures	181,562	181,342	210,503	16,840
Total on-balance sheet exposures	<u>38,641,277</u>	<u>36,497,766</u>	<u>19,569,503</u>	<u>1,565,561</u>
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	4,288,548	4,281,652	3,643,075	291,446
Derivative financial instruments	177,037	177,037	62,744	5,020
Defaulted exposures	5,220	5,220	7,835	627
Total off-balance sheet exposures	<u>4,470,805</u>	<u>4,463,909</u>	<u>3,713,654</u>	<u>297,093</u>
Total on and off-balance sheet exposures	<u>43,112,082</u>	<u>40,961,675</u>	<u>23,283,157</u>	<u>1,862,654</u>
(ii) <u>Market Risk (Note 4.0)</u>				
	Long Position	Short Position		
Interest rate risk	116,802	(1,988)	27,689	2,215
Foreign currency risk	173,925	-	173,925	13,914
Total	290,727	(1,988)	<u>201,614</u>	<u>16,129</u>
(iii) <u>Operational Risk</u>	-	-	2,156,708	172,537
Total	<u>43,112,082</u>	<u>40,961,675</u>	<u>25,641,479</u>	<u>2,051,320</u>

2.0 Capital (contd.)

2.3 RWA and Capital Requirements (contd.)

Regulatory Capital Requirements

GROUP 2014 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) <u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	8,942,862	8,942,862	-	-
Banks, DFIs and MDBs	3,070,885	3,070,885	671,679	53,734
Insurance companies, securities firms and fund managers	3,467	3,467	3,467	277
Corporates	12,571,696	11,426,766	9,066,484	725,319
Regulatory retail	13,121,711	11,884,568	8,942,193	715,375
Residential mortgages	8,568,240	8,559,717	3,804,668	304,373
Higher risk assets	6,129	6,119	9,179	734
Other assets	704,025	704,025	401,473	32,118
Equity exposures	141,111	141,111	147,824	11,826
Defaulted exposures	226,522	226,270	261,486	20,919
Total on-balance sheet exposures	<u>47,356,648</u>	<u>44,965,790</u>	<u>23,308,453</u>	<u>1,864,675</u>
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	4,877,590	4,869,454	4,104,243	328,339
Derivative financial instruments	177,037	177,037	62,744	5,020
Defaulted exposures	5,886	5,886	8,815	705
Total off-balance sheet exposures	<u>5,060,513</u>	<u>5,052,377</u>	<u>4,175,802</u>	<u>334,064</u>
Total on and off-balance sheet exposures	<u>52,417,161</u>	<u>50,018,167</u>	<u>27,484,255</u>	<u>2,198,739</u>
(ii) <u>Market Risk (Note 4.0)</u>				
	Long Position	Short Position		
Interest rate risk	116,802	(1,988)	27,689	2,215
Foreign currency risk	173,925	-	173,925	13,914
Total	290,727	(1,988)	201,614	16,129
(iii) <u>Operational Risk</u>	-	-	2,676,791	214,143
Total	<u>52,417,161</u>	<u>50,018,167</u>	<u>30,362,660</u>	<u>2,429,011</u>

2.0 Capital (contd.)

2.3 RWA and Capital Requirements (contd.)

Regulatory Capital Requirements (contd.)

BANK 2013 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	4,428,064	4,428,064	-	-
Public sector entities	50,615	50,615	10,123	810
Banks, DFIs and MDBs	4,235,331	4,229,449	1,070,873	85,670
Insurance companies, securities firms and fund managers	7,691	770	770	62
Corporates	9,494,895	8,839,664	7,452,448	596,196
Regulatory retail	8,350,281	7,401,539	5,551,155	444,092
Residential mortgages	6,754,731	6,745,505	2,920,155	233,612
Higher risk assets	6,765	6,756	10,133	811
Other assets	470,311	470,311	226,797	18,144
Equity exposures	99,472	99,472	109,432	8,755
Defaulted exposures	239,338	237,881	276,250	22,100
Total on-balance sheet exposures	<u>34,137,494</u>	<u>32,510,026</u>	<u>17,628,136</u>	<u>1,410,252</u>
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	3,940,937	3,934,084	3,365,606	269,248
Derivative financial instruments	102,250	102,250	44,484	3,559
Defaulted exposures	12,433	12,422	18,633	1,491
Total off-balance sheet exposures	<u>4,055,620</u>	<u>4,048,756</u>	<u>3,428,723</u>	<u>274,298</u>
Total on and off-balance sheet exposures	<u>38,193,114</u>	<u>36,558,782</u>	<u>21,056,859</u>	<u>1,684,550</u>
(ii) <u>Market Risk (Note 4.0)</u>				
Interest rate risk	1,270,537	(3,229)	10,236	819
Foreign currency risk	63,818	(2,733)	63,818	5,105
Total	<u>1,334,355</u>	<u>(5,962)</u>	<u>74,054</u>	<u>5,924</u>
(iii) <u>Operational Risk</u>	-	-	2,060,540	164,843
Total	<u>38,193,114</u>	<u>36,558,782</u>	<u>23,191,453</u>	<u>1,855,317</u>

2.0 Capital (contd.)

2.3 RWA and Capital Requirements (contd.)

Regulatory Capital Requirements (contd.)

GROUP 2013 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	6,293,224	6,293,224	-	-
Public sector entities	50,615	50,615	10,123	810
Banks, DFIs and MDBs	4,366,278	4,360,396	936,747	74,940
Insurance companies, securities firms and fund managers	7,712	790	790	63
Corporates	11,438,538	10,530,451	8,772,591	701,807
Regulatory retail	10,534,294	9,542,026	7,169,014	573,521
Residential mortgages	8,108,149	8,098,296	3,567,034	285,363
Higher risk assets	6,833	6,823	10,235	819
Other assets	584,149	584,149	332,896	26,632
Equity exposures	137,392	137,392	147,352	11,788
Defaulted exposures	295,977	293,908	339,208	27,137
Total on-balance sheet exposures	<u>41,823,161</u>	<u>39,898,070</u>	<u>21,285,990</u>	<u>1,702,880</u>
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	4,546,740	4,538,237	3,825,953	306,076
Derivative financial instruments	102,250	102,250	44,484	3,559
Defaulted exposures	12,891	12,880	19,319	1,546
Total off-balance sheet exposures	<u>4,661,881</u>	<u>4,653,367</u>	<u>3,889,756</u>	<u>311,181</u>
Total on and off-balance sheet exposures	<u>46,485,042</u>	<u>44,551,437</u>	<u>25,175,746</u>	<u>2,014,061</u>
(ii) <u>Market Risk (Note 4.0)</u>				
Interest rate risk	1,525,169	(3,229)	12,227	978
Foreign currency risk	63,818	(2,733)	63,818	5,105
Total	<u>1,588,987</u>	<u>(5,962)</u>	<u>76,045</u>	<u>6,083</u>
(iii) <u>Operational Risk</u>	-	-	2,603,941	208,315
Total	<u>46,485,042</u>	<u>44,551,437</u>	<u>27,855,732</u>	<u>2,228,459</u>

Note:

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

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

3.0 Credit Risk

Credit risk is the risk of financial loss resulting from the failure of the Bank's borrowers or counterparties to fulfil their contractual obligations to repay their loans or settle financial commitments. Credit risk arises mainly from lending/financing activities and trading/holding of debt securities.

Credit Risk Management

The Board, via the Group Risk Management Committee ("GRMC"), established a Credit Risk Management Framework ("CRMF") which outlines the principles for managing credit risk in the Group. The CRMF covers the credit approving structure, risk policies framework, the credit process, collateral management, review, portfolio risk management, collection, problem credit management, rating, infrastructure, fraud and stress test.

Credit approval authority is delegated to underwriters based on their experience and seniority. Credit granting decisions are based on expert judgment supplemented with credit rating; risk reward is a major consideration in loan pricing. Larger loans are approved by the Management Credit Committee. Policy loans are subject to concurrence by the Executive Committee.

Retail loans are subject to portfolio reviews and corporate loans are subject to periodic individual borrower or group reviews. Loans with signs of problem will be managed under the Early Warning Framework. Recovery of impaired loans are carried out by specialists independent of the lines of business.

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

Group Risk Management and business risk units are responsible to assess adequacy and effectiveness of the risk management framework, policies and guidelines.

Stress testing is 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 a variety of market and economic assumptions to assess possible vulnerability and effective mitigating actions when required.

The Credit Review Unit under Group Internal Audit review the credit process regularly and recommend corrective measures or enhancements. These reviews provide senior management with assurance that the policies, guidelines and limits are adhered to and that the credit process in the Bank is acceptable.

Impaired Loans and Provisions

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

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

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

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3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures

(a) Geographical Distribution

The following tables represent the Bank's 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.

BANK 2014	Geographical region				
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000
Cash and short-term funds	-	1,540,445	-	-	-
Deposits and placements with banks and other financial institutions	-	655,305	-	-	-
Financial assets held-for-trading	-	110,172	-	-	-
Financial investments available-for-sale	-	7,438,485	-	-	-
Financial investments held-to-maturity	-	710,730	-	-	-
Derivative financial assets	-	39,677	-	-	-
Loans, advances and financing	1,660,084	20,205,212	2,500,507	1,791,852	379,673
Total on-balance sheet	1,660,084	30,700,026	2,500,507	1,791,852	379,673
Financial guarantees	65,940	394,198	32,349	34,601	6,189
Credit related commitments and contingencies	673,116	9,200,454	957,994	675,719	141,508
Total off-balance sheet	739,056	9,594,652	990,343	710,320	147,697
Total credit exposure	2,399,140	40,294,678	3,490,850	2,502,172	527,370

GROUP 2014	Geographical region				
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000
Cash and short-term funds	-	1,827,207	-	-	-
Deposits and placements with banks and other financial institutions	-	655,305	-	-	-
Balances due from clients and brokers	19,898	50,663	5,704	-	-
Financial assets held-for-trading	-	110,172	-	-	-
Financial investments available-for-sale	-	9,597,649	-	-	-
Financial investments held-to-maturity	-	1,320,122	-	-	-
Derivative financial assets	-	39,677	-	-	-
Loans, advances and financing	1,959,329	24,044,481	3,182,327	2,152,994	449,810
Total on-balance sheet	1,979,227	37,645,276	3,188,031	2,152,994	449,810
Financial guarantees	85,718	439,205	41,772	37,965	6,189
Credit related commitments and contingencies	773,886	10,147,196	1,105,974	1,161,770	181,841
Total off-balance sheet	859,604	10,586,401	1,147,746	1,199,735	188,030
Total credit exposure	2,838,831	48,231,677	4,335,777	3,352,729	637,840

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3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(a) Geographical Distribution (contd.)

BANK 2013	Geographical region				
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000
Cash and short-term funds	-	1,123,142	-	-	-
Deposits and placements with banks and other financial institutions	-	124,946	-	-	-
Financial assets held-for-trading	-	1,265,298	-	-	-
Financial investments available-for-sale	-	8,328,534	-	-	-
Financial investments held-to-maturity	-	101,717	-	-	-
Derivative financial assets	-	19,792	-	-	-
Loans, advances and financing	1,558,192	17,355,446	1,947,550	1,688,915	314,297
Total on-balance sheet	1,558,192	28,318,875	1,947,550	1,688,915	314,297
Financial guarantees	55,768	312,230	26,042	26,470	5,011
Credit related commitments and contingencies	638,075	8,407,125	811,711	660,890	149,672
Total off-balance sheet	693,843	8,719,355	837,753	687,360	154,683
Total credit exposure	2,252,035	37,038,230	2,785,303	2,376,275	468,980

GROUP 2013	Geographical region				
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000
Cash and short-term funds	-	1,044,219	-	-	-
Deposits and placements with banks and other financial institutions	-	153,236	-	-	-
Balances due from clients and brokers	13,105	32,510	4,507	-	-
Financial assets held-for-trading	-	1,519,930	-	-	-
Financial investments available-for-sale	-	10,225,058	-	-	-
Financial investments held-to-maturity	-	596,949	-	-	-
Derivative financial assets	-	19,792	-	-	-
Loans, advances and financing	1,797,137	21,147,476	2,450,937	1,983,475	368,781
Total on-balance sheet	1,810,242	34,739,170	2,455,444	1,983,475	368,781
Financial guarantees	74,505	356,286	34,764	29,692	5,011
Credit related commitments and contingencies	738,443	9,397,039	974,144	1,062,980	157,591
Total off-balance sheet	812,948	9,753,325	1,008,908	1,092,672	162,602
Total credit exposure	2,623,190	44,492,495	3,464,352	3,076,147	531,383

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(b) Industry Distribution

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

BANK 2014	Government and Central bank RM'000	Financial, insurance, business services and real estate RM'000	Transport, storage & communication RM'000	Agriculture, manufacturing, wholesale & retail trade RM'000	Construction RM'000	Residential mortgage RM'000	Motor vehicle financing RM'000	Other consumer loans RM'000	Total RM'000
Cash and short-term funds	401,878	1,138,567	-	-	-	-	-	-	1,540,445
Deposits and placements with banks and other financial institutions	-	655,305	-	-	-	-	-	-	655,305
Financial assets held-for-trading	110,172	-	-	-	-	-	-	-	110,172
Financial investments available-for-sale	4,454,365	2,220,466	221,981	350,399	120,123	-	-	71,151	7,438,485
Financial investments held-to-maturity	710,393	337	-	-	-	-	-	-	710,730
Derivative financial assets	-	39,533	-	-	-	-	-	144	39,677
Loans, advances and financing	-	3,135,367	125,277	6,990,043	354,012	10,861,757	496,012	4,574,860	26,537,328
Total on-balance sheet	5,676,808	7,189,575	347,258	7,340,442	474,135	10,861,757	496,012	4,646,155	37,032,142
Financial guarantees	-	115,081	23,187	332,592	24,355	-	-	38,062	533,277
Credit related commitments and contingencies	-	1,152,769	62,754	2,701,328	1,111,276	3,724,320	-	2,896,344	11,648,791
Total off-balance sheet	-	1,267,850	85,941	3,033,920	1,135,631	3,724,320	-	2,934,406	12,182,068
Total credit risk	5,676,808	8,457,425	433,199	10,374,362	1,609,766	14,586,077	496,012	7,580,561	49,214,210
GROUP 2014									
Cash and short-term funds	725,104	1,102,103	-	-	-	-	-	-	1,827,207
Deposits and placements with banks and other financial institutions	-	655,305	-	-	-	-	-	-	655,305
Balances due from clients and brokers	-	-	-	-	-	-	-	76,265	76,265
Financial assets held-for-trading	110,172	-	-	-	-	-	-	-	110,172
Financial investments available-for-sale	5,719,636	2,930,976	314,859	400,574	145,207	-	-	86,397	9,597,649
Financial investments held-to-maturity	1,314,596	389	5,137	-	-	-	-	-	1,320,122
Derivative financial assets	-	39,533	-	-	-	-	-	144	39,677
Loans, advances and financing	-	3,541,246	144,508	8,216,445	411,478	13,094,472	850,571	5,530,221	31,788,941
Total on-balance sheet	7,869,508	8,269,552	464,504	8,617,019	556,685	13,094,472	850,571	5,693,027	45,415,338
Financial guarantees	-	117,711	23,258	406,556	24,873	-	-	38,451	610,849
Credit related commitments and contingencies	-	1,364,871	65,231	3,302,864	1,152,402	4,173,541	1,193	3,310,565	13,370,667
Total off-balance sheet	-	1,482,582	88,489	3,709,420	1,177,275	4,173,541	1,193	3,349,016	13,981,516
Total credit risk	7,869,508	9,752,134	552,993	12,326,439	1,733,960	17,268,013	851,764	9,042,043	59,396,854

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(b) Industry Distribution (contd.)

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

	Government and Central bank	Financial, insurance, business services and real estate	Transport, storage & communication	Agriculture, manufacturing, wholesale & retail trade	Construction	Residential mortgage	Motor vehicle financing	Other consumer loans	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
BANK									
2013									
Cash and short-term funds	618,890	504,252	-	-	-	-	-	-	1,123,142
Deposits and placements with banks and other financial institutions	-	124,946	-	-	-	-	-	-	124,946
Financial assets held-for-trading	1,265,298	-	-	-	-	-	-	-	1,265,298
Financial investments available-for-sale	2,712,779	5,052,209	97,688	336,345	57,589	-	-	71,924	8,328,534
Financial investments held-to-maturity	101,256	461	-	-	-	-	-	-	101,717
Derivative financial assets	-	19,629	-	-	-	-	-	163	19,792
Loans, advances and financing	-	2,564,541	88,553	6,509,323	380,132	9,383,562	365,548	3,572,741	22,864,400
Total on-balance sheet	4,698,223	8,266,038	186,241	6,845,668	437,721	9,383,562	365,548	3,644,828	33,827,829
Financial guarantees	-	28,767	20,375	299,282	37,971	-	-	39,126	425,521
Credit related commitments and contingencies	-	950,781	53,517	2,533,398	814,259	-	-	6,315,518	10,667,473
Total off-balance sheet	-	979,548	73,892	2,832,680	852,230	-	-	6,354,644	11,092,994
Total credit risk	4,698,223	9,245,586	260,133	9,678,348	1,289,951	9,383,562	365,548	9,999,472	44,920,823
GROUP									
2013									
Cash and short-term funds	738,087	306,132	-	-	-	-	-	-	1,044,219
Deposits and placements with banks and other financial institutions	-	153,236	-	-	-	-	-	-	153,236
Balances due from clients and brokers	-	-	-	-	-	-	-	50,122	50,122
Financial assets held-for-trading	1,519,930	-	-	-	-	-	-	-	1,519,930
Financial investments available-for-sale	3,653,718	5,828,940	158,284	418,331	78,449	-	-	87,336	10,225,058
Financial investments held-to-maturity	591,264	513	5,172	-	-	-	-	-	596,949
Derivative financial assets	-	19,629	-	-	-	-	-	163	19,792
Loans, advances and financing	-	2,895,855	111,178	7,626,069	438,726	11,362,649	575,222	4,738,107	27,747,806
Total on-balance sheet	6,502,999	9,204,305	274,634	8,044,400	517,175	11,362,649	575,222	4,875,728	41,357,112
Financial guarantees	-	32,582	20,468	369,636	38,080	-	-	39,492	500,258
Credit related commitments and contingencies	-	1,091,666	55,548	2,988,350	847,321	600,903	218	6,746,191	12,330,197
Total off-balance sheet	-	1,124,248	76,016	3,357,986	885,401	600,903	218	6,785,683	12,830,455
Total credit risk	6,502,999	10,328,553	350,650	11,402,386	1,402,576	11,963,552	575,440	11,661,411	54,187,567

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(c) Residual Contractual Maturity

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

<u>BANK</u>	<u>Up to 1 month</u>	<u>>1-3 months</u>	<u>>3-6 months</u>	<u>>6-12 months</u>	<u>>1 year</u>	<u>Total</u>
2014	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	1,842,996	-	-	-	-	1,842,996
Deposits and placements with banks and other financial institutions	-	557,025	98,280	-	-	655,305
Financial investments	103,420	163,690	17,166	85,403	7,989,830	8,359,509
Loans, advances and financing	5,372,542	1,467,692	940,297	633,463	18,168,786	26,582,780
Other asset balances	78,282	28,006	9,911	10,076	2,483,964	2,610,239
Total on-balance sheet exposure	7,397,240	2,216,413	1,065,654	728,942	28,642,580	40,050,829
<u>GROUP</u>						
2014						
Cash and short-term funds	2,129,759	-	-	-	-	2,129,759
Deposits and placements with banks and other financial institutions	-	557,025	98,280	-	-	655,305
Balances due from clients and brokers	61,181	-	-	-	15,084	76,265
Financial investments	463,411	855,276	119,305	195,634	9,535,428	11,169,054
Loans, advances and financing	6,268,997	1,756,711	1,128,447	793,453	21,871,383	31,818,991
Other asset balances	40,035	28,031	9,950	10,154	2,108,354	2,196,524
Total on-balance sheet exposure	8,963,383	3,197,043	1,355,982	999,241	33,530,249	48,045,898

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(c) Residual Contractual Maturity (contd.)

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

<u>BANK</u>	<u>Up to 1 month</u>	<u>>1-3 months</u>	<u>>3-6 months</u>	<u>>6-12 months</u>	<u>>1 year</u>	<u>Total</u>
2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	1,366,644	11	-	-	-	1,366,655
Deposits and placements with banks and other financial institutions	-	124,946	-	-	-	124,946
Financial investments	1,905,852	2,390,975	72,412	24,448	5,401,334	9,795,021
Loans, advances and financing	4,901,622	1,363,982	812,040	492,046	15,337,583	22,907,273
Other asset balances	43,806	13,383	10,353	5,954	2,207,323	2,280,819
Total on-balance sheet exposure	8,217,924	3,893,297	894,805	522,448	22,946,240	36,474,714
<u>GROUP</u>						
2013						
Cash and short-term funds	1,287,723	11	-	-	-	1,287,734
Deposits and placements with banks and other financial institutions	-	153,062	174	-	-	153,236
Balances due from clients and brokers	35,060	-	-	-	15,062	50,122
Financial investments	2,438,861	2,966,195	442,597	112,258	6,519,418	12,479,329
Loans, advances and financing	5,653,977	1,647,590	1,012,443	652,699	18,805,032	27,771,741
Other asset balances	69,998	13,406	10,388	6,023	1,811,983	1,911,798
Total on-balance sheet exposure	9,485,619	4,780,264	1,465,602	770,980	27,151,495	43,653,960

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3.0 Credit Risk (contd.)

3.2 Past Due Loans, Advances and Financing Analysis

Past due but not impaired loans, advances and financing are loans where the customers have failed to make a principal and/or interest payment when contractually due, and 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:

	<u>BANK</u>		<u>GROUP</u>	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Past due up to 1 month	730,271	714,766	947,287	925,366
Past due > 1 - 2 months	157,024	126,995	211,398	188,773
Past due > 2 - 3 months	16,845	5,097	26,309	17,599
	<u>904,140</u>	<u>846,858</u>	<u>1,184,994</u>	<u>1,131,738</u>

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

	<u>BANK</u>		<u>GROUP</u>	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Financial, insurance & business services	22,313	13,948	23,965	14,840
Transport, storage & communication	5,436	2,741	6,108	3,279
Agriculture, manufacturing, wholesale & retail trade	80,944	79,249	92,202	91,412
Construction	20,681	10,028	22,935	10,634
Residential mortgage	486,728	534,919	587,501	627,621
Motor vehicle financing	94,388	66,442	154,249	126,990
Other consumer loans	193,650	139,531	298,034	256,962
	<u>904,140</u>	<u>846,858</u>	<u>1,184,994</u>	<u>1,131,738</u>

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

	<u>BANK</u>		<u>GROUP</u>	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Northern region	74,945	77,948	86,340	90,397
Central region	639,210	583,123	848,092	807,049
Southern region	119,140	109,411	163,405	144,953
Sabah region	57,123	64,579	70,723	74,382
Sarawak region	13,722	11,797	16,434	14,957
	<u>904,140</u>	<u>846,858</u>	<u>1,184,994</u>	<u>1,131,738</u>

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3.0 Credit Risk (contd.)

3.3 Impaired Loans, Advances and Financing Analysis

Impaired loans, advances and financing analysed by sectors:

	BANK		GROUP	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Financial, insurance & business services	15,853	60,724	16,366	60,803
Transport, storage & communication	9,742	9,673	10,263	10,334
Agriculture, manufacturing, wholesale & retail trade	70,754	153,076	112,805	209,557
Construction	17,239	16,302	20,650	22,416
Residential mortgage	193,419	184,625	218,566	210,480
Motor vehicle financing	5,098	1,567	8,230	4,487
Other consumer loans	41,775	46,566	55,901	61,156
	353,880	472,533	442,781	579,233

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

	Individual impairment allowance	Collective impairment allowance	Individual impairment net (write-back)/ charge for the year	Individual impairment write-off for the year
BANK	RM'000	RM'000	RM'000	RM'000
2014				
Financial, insurance & business services	1,254	22,646	(668)	(410)
Transport, storage & communication	9,536	1,759	1	-
Agriculture, manufacturing, wholesale & retail trade	35,032	119,964	2,955	(22,710)
Construction	10,719	6,573	(577)	(57)
Residential mortgage	8,922	69,947	5,279	(3,248)
Motor vehicle financing	-	6,420	-	-
Other consumer loans	1,818	39,598	(2,364)	(1,147)
	67,281	266,907	4,626	(27,572)
GROUP				
2014				
Financial, insurance & business services	1,296	25,113	(668)	(410)
Transport, storage & communication	9,536	2,159	1	-
Agriculture, manufacturing, wholesale & retail trade	60,190	136,076	4,349	(23,558)
Construction	12,750	7,266	(2,058)	(57)
Residential mortgage	9,338	76,323	5,474	(4,177)
Motor vehicle financing	-	10,658	-	-
Other consumer loans	4,049	55,701	(1,485)	(2,453)
	97,159	313,296	5,613	(30,655)

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3.0 Credit Risk (contd.)

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

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

<u>BANK</u> 2013	Individual impairment allowance RM'000	Collective impairment allowance RM'000	Individual impairment net (write-back)/ charge for the year RM'000	Individual impairment write-off for the year RM'000
Financial, insurance & business services	3,148	21,387	(321)	(1,311)
Transport, storage & communication	9,536	1,271	117	(1,489)
Agriculture, manufacturing, wholesale & retail trade	55,977	132,884	5,847	(32,067)
Construction	11,867	5,420	49	(12,581)
Residential mortgage	10,930	94,519	6,890	(191)
Motor vehicle financing	-	1,685	-	-
Other consumer loans	3,824	38,668	(345)	-
	<u>95,282</u>	<u>295,834</u>	<u>12,237</u>	<u>(47,639)</u>
<u>GROUP</u> 2013				
Financial, insurance & business services	3,190	24,151	(321)	(1,311)
Transport, storage & communication	9,536	1,804	117	(1,489)
Agriculture, manufacturing, wholesale & retail trade	80,589	155,365	14,642	(32,077)
Construction	15,379	6,804	(3,615)	(12,581)
Residential mortgage	13,295	105,338	9,196	(191)
Motor vehicle financing	-	4,278	-	-
Other consumer loans	6,482	51,463	(345)	-
	<u>128,471</u>	<u>349,203</u>	<u>19,674</u>	<u>(47,649)</u>

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3.0 Credit Risk (contd.)

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

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

<u>BANK</u> 2014	Impaired loans, advances and financing RM'000	Individual impairment allowance RM'000	Collective impairment allowance RM'000
Northern region	53,862	22,410	37,820
Central region	239,862	43,721	177,816
Southern region	27,758	-	28,240
Sabah region	29,543	1,150	18,641
Sarawak region	2,855	-	4,390
	353,880	67,281	266,907

<u>GROUP</u> 2014			
Northern region	69,548	35,271	41,687
Central region	304,328	60,208	210,380
Southern region	34,124	530	34,937
Sabah region	31,703	1,150	21,548
Sarawak region	3,078	-	4,744
	442,781	97,159	313,296

<u>BANK</u> 2013	Impaired loans, advances and financing RM'000	Individual impairment allowance RM'000	Collective impairment allowance RM'000
Northern region	86,889	28,616	39,948
Central region	307,875	61,404	196,573
Southern region	33,245	1,822	32,524
Sabah region	41,882	3,440	21,992
Sarawak region	2,642	-	4,797
	472,533	95,282	295,834

<u>GROUP</u> 2013			
Northern region	112,029	42,819	44,441
Central region	379,755	79,860	235,943
Southern region	40,911	2,352	39,148
Sabah region	43,154	3,440	24,273
Sarawak region	3,384	-	5,398
	579,233	128,471	349,203

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3.0 Credit Risk (contd.)

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

Movements in loans impairment allowances are analysed as follows:

	<u>BANK</u>		<u>GROUP</u>	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Individual assessment allowance:				
At beginning of year	95,282	132,263	128,471	157,966
Allowance made during the year (net)	4,626	12,237	5,613	19,674
Amount written-off	(27,572)	(47,639)	(30,655)	(47,649)
Transfers to collective assessment allowance	(5,055)	(1,579)	(6,270)	(1,520)
At end of year	<u>67,281</u>	<u>95,282</u>	<u>97,159</u>	<u>128,471</u>
Collective assessment allowance:				
At beginning of year	295,834	332,345	349,203	393,872
Allowance made/(write-back) during the year (net)	1,886	(8,301)	11,746	8,034
Amount written-off	(35,868)	(29,789)	(53,923)	(54,223)
Transfers from individual assessment allowance	5,055	1,579	6,270	1,520
At end of year	<u>266,907</u>	<u>295,834</u>	<u>313,296</u>	<u>349,203</u>

3.0 Credit Risk (contd.)

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 2014 Risk- Weights	Exposures after netting and credit risk mitigation										Total exposures after netting and credit risk mitigation RM'000	Total Risk- Weighted Assets RM'000
	Sovereigns/ Central banks RM'000	Public sector entities RM'000	Banks, DFIs and MDBs RM'000	Insurance companies, Securities firms and Fund managers RM'000	Corporates RM'000	Regulatory retail RM'000	Residential mortgages RM'000	Higher risk assets RM'000	Other assets RM'000	Equity exposures RM'000		
0%	6,519,686	-	-	-	380,300	-	-	-	302,551	-	7,202,537	-
20%	5,145	-	1,880,969	-	1,835,763	-	-	-	-	-	3,721,877	744,377
35%	-	-	-	-	-	-	4,276,497	-	-	-	4,276,497	1,496,774
50%	-	-	1,050,120	-	100,060	10,551	2,008,887	-	-	-	3,169,618	1,584,809
75%	-	-	-	-	-	11,915,068	823,707	-	-	-	12,738,775	9,554,081
100%	-	-	-	7,659	9,240,372	90,108	54,263	-	271,782	86,697	9,750,881	9,750,881
150%	-	-	-	-	18,543	58,541	-	10,982	-	13,424	101,490	152,235
Total exposures	6,524,831	-	2,931,089	7,659	11,575,038	12,074,268	7,163,354	10,982	574,333	100,121	40,961,675	23,283,157
Risk-weighted assets by exposures	1,029	-	901,256	7,659	9,685,368	9,119,496	3,173,261	16,472	271,782	106,834	23,283,157	
Average risk-weight	-	-	31%	100%	84%	76%	44%	150%	47%	107%	57%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-	

3.0 Credit Risk (contd.)

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

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

GROUP 2014 Risk-Weights	Exposures after netting and credit risk mitigation										Total exposures after netting and credit risk mitigation RM'000	Total Risk-Weighted Assets RM'000
	Sovereigns/ Central banks RM'000	Public sector entities RM'000	Banks, DFIs and MDBs RM'000	Insurance companies, Securities firms and Fund managers RM'000	Corporates RM'000	Regulatory retail RM'000	Residential mortgages RM'000	Higher risk assets RM'000	Other assets RM'000	Equity exposures RM'000		
0%	9,002,862	-	-	-	527,706	-	-	-	302,552	-	9,833,120	-
20%	5,145	-	3,016,646	-	2,248,990	-	-	-	-	-	5,270,781	1,054,157
35%	-	-	-	-	-	-	4,958,585	-	-	-	4,958,585	1,735,505
50%	-	-	205,512	-	101,315	12,359	2,558,423	-	-	-	2,877,609	1,438,805
75%	-	-	-	-	-	14,459,163	1,064,779	-	-	-	15,523,942	11,642,956
100%	-	-	-	7,670	10,683,510	151,413	64,972	-	401,473	127,687	11,436,725	11,436,725
150%	-	-	-	-	20,787	72,127	-	11,067	-	13,424	117,405	176,107
Total exposures	9,008,007	-	3,222,158	7,670	13,582,308	14,695,062	8,646,759	11,067	704,025	141,111	50,018,167	27,484,255
Risk-weighted assets by exposures	1,029	-	706,086	7,670	11,215,146	11,110,155	3,878,272	16,600	401,473	147,824	27,484,255	
Average risk-weight	-	-	22%	100%	83%	76%	45%	150%	57%	105%	55%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-	

3.0 Credit Risk (contd.)

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

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

BANK 2013 <u>Risk-Weights</u>	Exposures after netting and credit risk mitigation										Total exposures after netting and credit risk mitigation RM'000	Total Risk- Weighted Assets RM'000
	Sovereigns/ Central banks RM'000	Public sector entities RM'000	Banks, DFIs and MDBs RM'000	Insurance companies, Securities firms and Fund managers RM'000	Corporates RM'000	Regulatory retail RM'000	Residential mortgages RM'000	Higher risk assets RM'000	Other assets RM'000	Equity exposures RM'000		
0%	4,430,381	-	-	-	-	-	-	-	243,514	-	4,673,895	-
20%	-	50,615	3,530,657	-	1,734,020	-	-	-	-	-	5,315,292	1,063,058
35%	-	-	-	-	-	-	4,131,069	-	-	-	4,131,069	1,445,874
50%	-	-	780,663	-	4,124	15,925	1,969,737	-	-	-	2,770,449	1,385,225
75%	-	-	-	-	-	9,665,749	666,129	-	-	-	10,331,878	7,748,909
100%	-	-	-	4,788	8,794,821	33,126	41,928	-	226,797	79,551	9,181,011	9,181,011
150%	-	-	-	-	87,991	35,520	-	11,756	-	19,921	155,188	232,782
Total exposures	4,430,381	50,615	4,311,320	4,788	10,620,956	9,750,320	6,808,863	11,756	470,311	99,472	36,558,782	21,056,859
Risk-weighted assets by exposures	-	10,123	1,096,463	4,788	9,275,673	7,343,681	2,972,268	17,634	226,797	109,432	21,056,859	
Average risk-weight	-	20%	25%	100%	87%	75%	44%	150%	48%	110%	58%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-	

3.0 Credit Risk (contd.)

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

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

GROUP	Exposures after netting and credit risk mitigation										Total exposures after netting and credit risk mitigation RM'000	Total Risk-Weighted Assets RM'000
	Sovereigns/ Central banks	Public sector entities	Banks, DFIs and MDBs	Insurance companies, Securities firms and Fund managers	Corporates	Regulatory retail	Residential mortgages	Higher risk assets	Other assets	Equity exposures		
<u>Risk-Weights</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	6,355,541	-	-	-	-	-	-	-	251,253	-	6,606,794	-
20%	-	50,615	4,195,990	-	2,197,323	-	-	-	-	-	6,443,928	1,288,786
35%	-	-	-	-	-	-	4,726,878	-	-	-	4,726,878	1,654,407
50%	-	-	246,277	-	6,232	18,725	2,491,321	-	-	-	2,762,555	1,381,277
75%	-	-	-	-	-	12,089,352	905,419	-	-	-	12,994,771	9,746,078
100%	-	-	-	4,808	10,241,260	90,217	52,485	-	332,896	117,471	10,839,137	10,839,137
150%	-	-	-	-	97,557	48,030	-	11,866	-	19,921	177,374	266,061
Total exposures	6,355,541	50,615	4,442,267	4,808	12,542,372	12,246,324	8,176,103	11,866	584,149	137,392	44,551,437	25,175,746
Risk-weighted assets by exposures	-	10,123	962,337	4,808	10,830,176	9,238,638	3,631,617	17,799	332,896	147,352	25,175,746	
Average risk-weight	-	20%	22%	100%	86%	75%	44%	150%	57%	107%	57%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-	

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3.0 Credit Risk (contd.)

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

For the purpose of determining counterparty risk-weights, the Group uses external credit assessments from Rating Agency Malaysia ("RAM"), Malaysian Rating Corporation ("MARC"), Standard and Poor ("S&P"), and 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 CAF 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
2014

Exposure Class	Ratings by Approved ECAIs						Total
	Moody's	Aaa to Aa3 / P-1	A1 to A3 / P-2	Baa1 to Ba3 / P-3	B1 to C / Others	Unrated	
	S&P	AAA to AA- / A-1	A+ to A- / A-2	BBB+ to BB- / A-3	B+ to D / Others	Unrated	
	Fitch	AAA to AA- / F1+, F1	A+ to A- / A-2	BBB+ to BB- / F3	B+ to D	Unrated	
	RAM	AAA to AA3 / P-1	A+ to A3 / P-2	BBB1+ to BB3 / P-3	B to D / NP	Unrated	
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures							
(i) Exposures risk weighted using Sovereigns and Central Banks rating							
Sovereigns and Central Banks (See Note 1)	-	6,524,831	-	-	-	-	6,524,831
Corporates	-	380,300	-	-	-	-	380,300
	-	6,905,131	-	-	-	-	6,905,131
(ii) Exposures risk weighted using Banking Institutions long term rating							
Banks, MDBs and FDIs	477,197	778,013	4,687	-	1,671,192	-	2,931,089
Exposures risk weighted using Banking Institutions short term rating							
Banks, MDBs and FDIs	-	-	-	-	-	-	-
	477,197	778,013	4,687	-	1,671,192	-	2,931,089
(iii) Exposures risk weighted using Corporate long term rating							
Public Sector Entities	-	-	-	-	-	-	-
Corporates	1,835,492	100,060	1,210	-	10,202,573	-	12,139,335
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	7,659	-	7,659
Exposures risk weighted using Corporate short term rating							
Public Sector Entities	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-
	1,835,492	100,060	1,210	-	10,210,232	-	12,146,994

3.0 Credit Risk (contd.)

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3.0 Credit Risk (contd.)

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

BANK
2013

Exposure Class	Ratings by Approved ECAs						Total
	Moody's	Aaa to Aa3 / P-1	A1 to A3 / P-2	Baa1 to Ba3 / P-3	B1 to C / Others	Unrated	
	S&P	AAA to AA- / A-1	A+ to A- / A-2	BBB+ to BB- / A-3	B+ to D / Others	Unrated	
	Fitch	AAA to AA- / F1+, F1	A+ to A- / A-2	BBB+ to BB- / F3	B+ to D	Unrated	
	RAM	AAA to AA3 / P-1	A+ to A3 / P-2	BBB1+ to BB3 / P-3	B to D / NP	Unrated	
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures							
(i) Exposures risk weighted using Sovereigns and Central Banks rating							
Sovereigns and Central Banks (See Note 1)		-	4,430,381	-	-	-	4,430,381
Public Sector Entities		50,615	-	-	-	-	50,615
		50,615	4,430,381	-	-	-	4,480,996
(ii) Exposures risk weighted using Banking Institutions long term rating							
Banks, MDBs and FDIs		2,770,906	202,826	-	-	1,343,470	4,317,202
Exposures risk weighted using Banking Institutions short term rating							
Banks, MDBs and FDIs		-	-	-	-	-	-
		2,770,906	202,826	-	-	1,343,470	4,317,202
(iii) Exposures risk weighted using Corporate long term rating							
Public Sector Entities		-	-	-	-	-	-
Corporates		1,850,747	226,298	-	-	9,202,297	11,279,342
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	11,709	11,709
Exposures risk weighted using Corporate short term rating							
Public Sector Entities		-	-	-	-	-	-
Corporates		-	-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-	-
		1,850,747	226,298	-	-	9,214,006	11,291,051

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3.0 Credit Risk (contd.)

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

GROUP
2013

Exposure Class	Ratings by Approved ECAs						Total
	Moody's	Aaa to Aa3 / P-1	A1 to A3 / P-2	Baa1 to Ba3 / P-3	B1 to C / Others	Unrated	
	S&P	AAA to AA- / A-1	A+ to A- / A-2	BBB+ to BB- / A-3	B+ to D / Others	Unrated	
	Fitch	AAA to AA- / F1+, F1	A+ to A- / A-2	BBB+ to BB- / F3	B+ to D	Unrated	
	RAM	AAA to AA3 / P-1	A+ to A3 / P-2	BBB1+ to BB3 / P-3	B to D / NP	Unrated	
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures							
(i) Exposures risk weighted using Sovereigns and Central Banks rating							
Sovereigns and Central Banks (See Note 1)		-	6,355,542	-	-	-	6,355,542
Public Sector Entities		50,615	-	-	-	-	50,615
		50,615	6,355,542	-	-	-	6,406,157
(ii) Exposures risk weighted using Banking Institutions long term rating							
Banks, MDBs and FDIs		3,630,120	405,864	-	-	412,165	4,448,149
Exposures risk weighted using Banking Institutions short term rating							
Banks, MDBs and FDIs		-	-	-	-	-	-
		3,630,120	405,864	-	-	412,165	4,448,149
(iii) Exposures risk weighted using Corporate long term rating							
Public Sector Entities		-	-	-	-	-	-
Corporates		2,314,050	326,884	-	-	10,813,585	13,454,519
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	11,730	11,730
Exposures risk weighted using Corporate short term rating							
Public Sector Entities		-	-	-	-	-	-
Corporates		-	-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-	-
		2,314,050	326,884	-	-	10,825,315	13,466,249

The comparative figures have been restated to conform with current year presentation.

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

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

Note:

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

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3.0 Credit Risk (contd.)

3.5 Credit Risk Mitigation ("CRM")

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

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

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

<u>BANK</u> 2014	Exposure <u>before CRM</u> RM'000	Exposures covered by guarantees/ credit <u>derivatives</u> RM'000	Exposures covered by eligible financial <u>collateral</u> RM'000	Exposures covered by other eligible <u>collateral</u> RM'000
Exposure Class				
<u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	6,519,686	-	-	-
Banks, DFIs and MDBs	2,779,818	-	-	-
Insurance companies, securities firms and fund managers	3,456	-	-	-
Corporates	10,639,608	-	941,749	-
Regulatory retail	10,740,445	-	1,193,594	-
Residential mortgages	7,096,161	-	7,939	-
Higher risk assets	6,086	-	10	-
Other assets	574,333	-	-	-
Equity exposure	100,122	-	-	-
Defaulted exposures	181,562	-	220	-
Total on-balance sheet exposures	<u>38,641,277</u>	<u>-</u>	<u>2,143,512</u>	<u>-</u>
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	4,465,585	-	6,896	-
Defaulted exposures	5,220	-	-	-
Total off-balance sheet exposures	<u>4,470,805</u>	<u>-</u>	<u>6,896</u>	<u>-</u>
Total on and off-balance sheet exposures	<u>43,112,082</u>	<u>-</u>	<u>2,150,408</u>	<u>-</u>

3.0 Credit Risk (contd.)

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

GROUP	Exposure	Exposures	Exposures	Exposures
2014	before CRM	covered by	covered by	covered by
Exposure Class	RM'000	guarantees/ credit derivatives	eligible financial collateral	other eligible collateral
		RM'000	RM'000	RM'000
<u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	8,942,862	-	-	-
Banks, DFIs and MDBs	3,070,885	-	-	-
Insurance companies, securities firms and fund managers	3,467	-	-	-
Corporates	12,571,696	-	1,144,930	-
Regulatory retail	13,121,711	-	1,237,144	-
Residential mortgages	8,568,240	-	8,523	-
Higher risk assets	6,129	-	10	-
Other assets	704,025	-	-	-
Equity exposure	141,111	-	-	-
Defaulted exposures	226,522	-	252	-
Total on-balance sheet exposures	<u>47,356,648</u>	<u>-</u>	<u>2,390,859</u>	<u>-</u>
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	5,054,627	-	8,134	-
Defaulted exposures	5,886	-	-	-
Total off-balance sheet exposures	<u>5,060,513</u>	<u>-</u>	<u>8,134</u>	<u>-</u>
Total on and off-balance sheet exposures	<u>52,417,161</u>	<u>-</u>	<u>2,398,993</u>	<u>-</u>

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3.0 Credit Risk (contd.)

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

<u>BANK</u> 2013 Exposure Class	Exposure <u>before CRM</u> RM'000	Exposures covered by guarantees/ credit <u>derivatives</u> RM'000	Exposures covered by eligible financial <u>collateral</u> RM'000	Exposures covered by other eligible <u>collateral</u> RM'000
<u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	4,428,064	-	-	-
Public sector entities	50,615	-	-	-
Banks, DFIs and MDBs	4,235,331	-	5,882	-
Insurance companies, securities firms and fund managers	7,691	-	6,921	-
Corporates	9,494,895	-	655,230	-
Regulatory retail	8,350,281	-	948,742	-
Residential mortgages	6,754,731	-	9,226	-
Higher risk assets	6,765	-	10	-
Other assets	470,311	-	-	-
Equity exposure	99,472	-	-	-
Defaulted exposures	239,338	-	1,456	-
Total on-balance sheet exposures	<u>34,137,494</u>	<u>-</u>	<u>1,627,467</u>	<u>-</u>
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	4,043,187	-	6,853	-
Defaulted exposures	12,433	-	11	-
Total off-balance sheet exposures	<u>4,055,620</u>	<u>-</u>	<u>6,864</u>	<u>-</u>
Total on and off-balance sheet exposures	<u>38,193,114</u>	<u>-</u>	<u>1,634,331</u>	<u>-</u>

3.0 Credit Risk (contd.)

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

GROUP 2013 Exposure Class	Exposure before CRM RM'000	Exposures covered by guarantees/ credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000	Exposures covered by other eligible collateral RM'000
<u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	6,293,224	-	-	-
Public sector entities	50,615	-	-	-
Banks, DFIs and MDBs	4,366,278	-	5,882	-
Insurance companies, securities firms and fund managers	7,712	-	6,921	-
Corporates	11,438,538	-	908,087	-
Regulatory retail	10,534,294	-	992,269	-
Residential mortgages	8,108,149	-	9,853	-
Higher risk assets	6,833	-	10	-
Other assets	584,149	-	-	-
Equity exposure	137,392	-	-	-
Defaulted exposures	295,977	-	2,069	-
Total on-balance sheet exposures	<u>41,823,161</u>	<u>-</u>	<u>1,925,091</u>	<u>-</u>
Off-balance sheet exposures:				
Off-balance sheet exposures other than				
OTC derivatives or credit derivatives	4,648,990	-	8,503	-
Defaulted exposures	12,891	-	12	-
Total off-balance sheet exposures	<u>4,661,881</u>	<u>-</u>	<u>8,515</u>	<u>-</u>
Total on and off-balance sheet exposures	<u>46,485,042</u>	<u>-</u>	<u>1,933,606</u>	<u>-</u>

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.

3.0 Credit Risk (contd.)

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

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.

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

<u>BANK</u> 2014	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	425,631	-	425,631	425,631
Transaction-related contingent items	553,277	-	276,638	276,638
Short-term self-liquidating trade-related contingencies	138,220	-	27,644	27,188
Irrevocable commitments to extent credit:				
- maturity exceeding one year	4,502,888	-	2,251,444	1,779,146
- maturity not exceeding one year	5,146,454	-	1,029,291	918,737
Unutilised credit card lines	1,415,598	-	283,120	223,570
	<u>12,182,068</u>	<u>-</u>	<u>4,293,768</u>	<u>3,650,910</u>
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
- one year or less	6,859,251	31,700	103,465	34,619
- over one year to three years	32,835	293	2,955	591
- over three years	31,515	-	4,097	819
Interest rate related contracts:				
- one year or less	250,000	161	485	97
- over one year to three years	2,135,000	5,178	27,028	5,406
- over three years	798,376	1,475	34,497	18,167
Equity related contracts:				
- over one year to three years	57,582	870	4,510	3,045
	<u>10,164,559</u>	<u>39,677</u>	<u>177,037</u>	<u>62,744</u>
	<u>22,346,627</u>	<u>39,677</u>	<u>4,470,805</u>	<u>3,713,654</u>

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3.0 Credit Risk (contd.)

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

GROUP	Principal	Positive	Credit	Risk-
2014	Amount	Fair Value	Equivalent	Weighted
	RM'000	of Derivative	Amount	Assets
		Contracts	RM'000	RM'000
		RM'000		
<u>Credit-related exposures</u>				
Direct credit substitutes	471,930	-	471,930	471,930
Transaction-related contingent items	590,667	-	295,334	295,334
Short-term self-liquidating trade-related contingencies	169,493	-	33,899	33,442
Irrevocable commitments to extent credit:				
- maturity exceeding one year	5,108,092	-	2,554,046	2,023,308
- maturity not exceeding one year	6,225,736	-	1,245,147	1,065,474
Unutilised credit card lines	1,415,598	-	283,120	223,570
	<u>13,981,516</u>	<u>-</u>	<u>4,883,476</u>	<u>4,113,058</u>
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
- one year or less	6,859,251	31,700	103,465	34,619
- over one year to three years	32,835	293	2,955	591
- over three years	31,515	-	4,097	819
Interest rate related contracts:				
- one year or less	250,000	161	485	97
- over one year to three years	2,135,000	5,178	27,028	5,406
- over three years	798,376	1,475	34,497	18,167
Equity related contracts:				
- over one year to three years	57,582	870	4,510	3,045
	<u>10,164,559</u>	<u>39,677</u>	<u>177,037</u>	<u>62,744</u>
	<u>24,146,075</u>	<u>39,677</u>	<u>5,060,513</u>	<u>4,175,802</u>

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3.0 Credit Risk (contd.)

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

<u>BANK</u> 2013	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	338,044	-	338,044	338,044
Transaction-related contingent items	546,968	-	273,484	273,484
Short-term self-liquidating trade- related contingencies	114,653	-	22,931	22,931
Irrevocable commitments to extent credit:				
- maturity exceeding one year	4,334,151	-	2,167,075	1,739,319
- maturity not exceeding one year	4,370,367	-	874,073	792,789
Unutilised credit card lines	1,388,811	-	277,762	217,673
	<u>11,092,994</u>	<u>-</u>	<u>3,953,369</u>	<u>3,384,240</u>
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
- less than one year	3,938,112	14,407	58,978	28,489
Interest rate related contracts:				
- one year or less	1,060,000	640	2,374	475
- over one year to three years	775,000	2,521	15,521	3,104
- over three years	421,608	1,933	20,560	9,719
Equity related contracts:				
- over one year to three years	54,032	291	4,817	2,697
	<u>6,248,752</u>	<u>19,792</u>	<u>102,250</u>	<u>44,484</u>
	<u>17,341,746</u>	<u>19,792</u>	<u>4,055,619</u>	<u>3,428,724</u>
 <u>GROUP</u> 2013				
<u>Credit-related exposures</u>				
Direct credit substitutes	387,122	-	387,122	387,122
Transaction-related contingent items	585,435	-	292,717	292,717
Short-term self-liquidating trade- related contingencies	140,311	-	28,062	28,062
Irrevocable commitments to extent credit:				
- maturity exceeding one year	5,027,371	-	2,513,685	2,010,313
- maturity not exceeding one year	5,301,405	-	1,060,281	909,385
Unutilised credit card lines	1,388,811	-	277,762	217,673
	<u>12,830,455</u>	<u>-</u>	<u>4,559,629</u>	<u>3,845,272</u>
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
- less than one year	3,938,112	14,407	58,978	28,489
Interest rate related contracts:				
- one year or less	1,060,000	640	2,374	475
- over one year to three years	775,000	2,521	15,521	3,104
- over three years	421,608	1,933	20,560	9,719
Equity related contracts:				
- over one year to three years	54,032	291	4,817	2,697
	<u>6,248,752</u>	<u>19,792</u>	<u>102,250</u>	<u>44,484</u>
	<u>19,079,207</u>	<u>19,792</u>	<u>4,661,879</u>	<u>3,889,756</u>

4.0 Market Risk

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

Market Risk Management

The governance structure for market risk management starts with the Board of Directors which has the overall oversight on market risk management and defines the risk philosophy, principles and core policies. The Board is in turn assisted by the Group Risk Management Committee ("GRMC") which is 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 Three 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.

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

- (i) Identification of market risk in new products and changes in risk profiles of existing exposures.
- (ii) Assessment of the type and magnitude of market risks which takes into account the activity and market role undertaken.
- (iii) Adoption of various market risk measurement tools and techniques to quantify market risk exposures.
- (iv) Adoption of the Three Lines of Defence concept for monitoring of market risk; Business Units forming the 1st Line, Group Market Risk Management as the 2nd Line and 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 which are set vis-a-vis the Group's risk appetite and strategy. Besides that, treasury activities are monitored and reported independently by Group Market Risk on a daily basis. Any limit breaches or exceptions are reported to GALCO and GRMC.

4.0 Market Risk (contd.)

Hedging Policies and Strategies

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

Market risk capital charge

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

Regulatory capital requirements

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

	<u>BANK</u>		<u>GROUP</u>	
	Risk-Weighted Assets RM'000	Capital Requirements RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
2014				
Interest rate risk				
- General interest rate risk	27,050	2,164	27,050	2,164
- Specific interest rate risk	639	51	639	51
	<u>27,689</u>	<u>2,215</u>	<u>27,689</u>	<u>2,215</u>
Foreign exchange risk	<u>173,925</u>	<u>13,914</u>	<u>173,925</u>	<u>13,914</u>
	<u>201,614</u>	<u>16,129</u>	<u>201,614</u>	<u>16,129</u>
2013				
Interest rate risk				
- General interest rate risk	9,874	790	11,865	949
- Specific interest rate risk	362	29	362	29
	<u>10,236</u>	<u>819</u>	<u>12,227</u>	<u>978</u>
Foreign exchange risk	<u>63,818</u>	<u>5,105</u>	<u>63,818</u>	<u>5,105</u>
	<u>74,054</u>	<u>5,924</u>	<u>76,045</u>	<u>6,083</u>

5.0 Operational Risk

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

Operational Risk Management

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

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

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

6.0 Equity Exposures in Banking Book

The Bank and the Group 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.

The following table shows the equity exposures in banking book:

	<u>BANK</u>		<u>GROUP</u>	
	Gross credit exposures	Risk-weighted assets	Gross credit exposures	Risk-weighted assets
	RM'000	RM'000	RM'000	RM'000
2014				
Publicly traded				
Holding of equity investments	11	17	11	17
Privately held				
For socio-economic purposes	86,697	86,697	127,687	127,687
Not for socio-economic purposes	13,413	20,120	13,413	20,120
	<u>100,121</u>	<u>106,834</u>	<u>141,111</u>	<u>147,824</u>
2013				
Publicly traded				
Holding of equity investments	9	13	9	13
Privately held				
For socio-economic purposes	79,551	79,551	117,471	117,471
Not for socio-economic purposes	19,912	29,868	19,912	29,868
	<u>99,472</u>	<u>109,432</u>	<u>137,392</u>	<u>147,352</u>

Gains and losses on equity exposures in the banking book

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

	<u>BANK</u>		<u>GROUP</u>	
	2014	2013	2014	2013
	RM'000	RM'000	RM'000	RM'000
Realised gains/(losses) recognised in the statement of comprehensive income				
- Publicly traded equity investments	-	-	-	1,350
- Privately held equity investments	12,509	-	12,509	-
	<u>12,509</u>	<u>-</u>	<u>12,509</u>	<u>1,350</u>
Unrealised gains/(losses) recognised in revaluation reserve				
- Publicly traded equity investments	2	(4)	2	(784)
- Privately held equity investments	3,852	4,568	6,921	1,495
	<u>3,854</u>	<u>4,564</u>	<u>6,923</u>	<u>711</u>

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

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

Risk Governance

IRR/RORBB is managed collectively by GALCO, 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. Financial Markets is tasked to execute the approved strategy by managing the asset liabilities as well as the funding and liquidity needs of the Bank/Group. Group Finance and Group Risk Management provide support in respect of risk monitoring and reporting of the banking book exposures; and ensuring regulatory as well as accounting requirements are met.

IRR/RORBB Management

The guiding principles in managing IRR/RORBB include:

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

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

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

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

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

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

	BANK		GROUP	
	- 100 bps Increase/(Decrease) RM'000	+ 100 bps RM'000	- 100 bps Increase/(Decrease) RM'000	+ 100 bps RM'000
2014				
Impact on net interest income ("NII")				
Ringgit Malaysia	<u>(30,862)</u>	<u>30,862</u>	<u>(30,433)</u>	<u>30,433</u>
Impact on Economic Value ("EV")				
Ringgit Malaysia	<u>(181,027)</u>	<u>181,027</u>	<u>(158,484)</u>	<u>158,484</u>
2013				
Impact on net interest income ("NII")				
Ringgit Malaysia	<u>(55,661)</u>	<u>55,661</u>	<u>(56,563)</u>	<u>56,563</u>
Impact on Economic Value ("EV")				
Ringgit Malaysia	<u>(260,623)</u>	<u>260,623</u>	<u>(267,717)</u>	<u>267,717</u>

Note:

The foreign currency impact on NII/EV are consider 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 disclosures under this section can be referred to Note 7.0 of Alliance Islamic Bank Berhad's Pillar 3 report.