



ALLIANCE BANK

Alliance Bank Malaysia Berhad (88103-W)

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



Overview

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

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

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

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

In summary, the capital management process involves the following:

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

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

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

ALLIANCE BANK MALAYSIA BERHAD
(88103-W)

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ALLIANCE BANK MALAYSIA BERHAD
(88103-W)

1.0 Scope of Application

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

The basis of consolidation for the use of regulatory capital purposes is similar to that for financial accounting purposes. Investments in subsidiaries are deducted from regulatory capital.

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

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

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

2.0 Capital

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

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

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

The Group carries out stress testing to estimate the potential impact of extreme but plausible events on the Group's earnings, balance sheet and capital. The results of the stress tests are to facilitate the formulation of contingency plan(s) where warranted. The results of the stress tests are tabled to the Group Risk Management Committee for approval.

2.0 Capital (contd.)

2.1 Capital Adequacy Ratios

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

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

Note:

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

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

| | Alliance Islamic Bank Berhad | Alliance Investment Bank Berhad |
|--|---|--|
| 2017 | | |
| <u>Before deducting proposed dividends</u> | | |
| CET I capital ratio | 13.430% | 84.804% |
| Tier I capital ratio | 13.430% | 84.804% |
| Total capital ratio | 14.509% | 85.516% |
| <u>After deducting proposed dividends</u> | | |
| CET I capital ratio | 13.430% | 83.729% |
| Tier I capital ratio | 13.430% | 83.729% |
| Total capital ratio | 14.509% | 84.441% |
| 2016 | | |
| <u>Before deducting proposed dividends</u> | | |
| CET I capital ratio | 13.375% | 103.287% |
| Tier I capital ratio | 13.375% | 103.287% |
| Total capital ratio | 14.399% | 103.641% |
| <u>After deducting proposed dividends</u> | | |
| CET I capital ratio | 13.044% | 101.292% |
| Tier I capital ratio | 13.044% | 101.292% |
| Total capital ratio | 14.068% | 101.646% |

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

2.0 Capital (contd.)

2.2 Capital Structure

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

| | <u>BANK</u> | | <u>GROUP</u> | |
|--|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>CET I Capital</u> | | | | |
| Paid-up share capital | 796,517 | 796,517 | 796,517 | 796,517 |
| Share premium | 401,517 | 401,517 | 401,517 | 401,517 |
| Retained profits | 2,115,505 | 1,888,285 | 2,306,158 | 2,047,248 |
| Statutory reserves | 835,401 | 835,401 | 1,223,525 | 1,200,019 |
| Revaluation reserves | 64,916 | 73,152 | 99,268 | 114,786 |
| Capital reserves | - | - | 10,018 | 10,018 |
| | <u>4,213,856</u> | <u>3,994,872</u> | <u>4,837,003</u> | <u>4,570,105</u> |
| Less: Regulatory adjustment | | | | |
| - Goodwill and other intangibles | (261,986) | (247,299) | (377,361) | (362,982) |
| - Deferred tax assets | (4,088) | - | (14,033) | (10,201) |
| - 55% of revaluation reserves | (35,704) | (40,234) | (54,597) | (63,132) |
| - Investment in subsidiaries, associate and joint venture | <u>(714,440)</u> | <u>(535,830)</u> | <u>(3,840)</u> | <u>(2,824)</u> |
| Total CET I capital/Total Tier I capital | <u>3,197,638</u> | <u>3,171,509</u> | <u>4,387,172</u> | <u>4,130,966</u> |
| <u>Tier II Capital</u> | | | | |
| Subordinated obligations | 1,198,764 | 1,558,540 | 1,199,178 | 1,559,074 |
| Collective assessment allowance and regulatory reserves | 304,576 | 291,825 | 376,514 | 354,805 |
| Less: Regulatory adjustment | | | | |
| - Investment in subsidiaries, associate and joint venture | <u>(178,610)</u> | <u>(357,220)</u> | <u>(960)</u> | <u>(1,882)</u> |
| Total Tier II Capital | <u>1,324,730</u> | <u>1,493,145</u> | <u>1,574,732</u> | <u>1,911,997</u> |
| Total Capital | <u>4,522,368</u> | <u>4,664,654</u> | <u>5,961,904</u> | <u>6,042,963</u> |

2.0 Capital (contd.)

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

Regulatory Capital Requirements

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

| BANK 2017 Exposure Class | Gross Exposures RM'000 | Net Exposures RM'000 | Risk- Weighted Assets RM'000 | Capital Requirements RM'000 |
|---|---------------------------------------|-------------------------------------|---|--|
| (i) Credit Risk | | | | |
| On-balance sheet exposures: | | | | |
| Sovereigns/Central banks | 5,352,766 | 5,352,766 | - | - |
| Public sector entities | 105,293 | 105,293 | 21,059 | 1,685 |
| Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs") | 3,280,378 | 3,280,378 | 883,469 | 70,678 |
| Insurance companies, securities firms and fund managers | 27,568 | 27,467 | 27,467 | 2,197 |
| Corporates | 12,282,183 | 11,546,927 | 9,772,227 | 781,778 |
| Regulatory retail | 8,873,425 | 7,951,918 | 6,012,381 | 480,990 |
| Residential mortgages | 12,149,938 | 12,139,614 | 5,603,518 | 448,281 |
| Higher risk assets | 3,182 | 3,176 | 4,764 | 381 |
| Other assets | 501,191 | 501,191 | 232,244 | 18,580 |
| Equity exposures | 111,392 | 111,392 | 111,393 | 8,911 |
| Defaulted exposures | 201,335 | 198,167 | 230,510 | 18,441 |
| Total on-balance sheet exposures | <u>42,888,651</u> | <u>41,218,289</u> | <u>22,899,032</u> | <u>1,831,922</u> |
| Off-balance sheet exposures: | | | | |
| Credit-related off-balance sheet exposures | 2,762,616 | 2,395,557 | 2,133,275 | 170,662 |
| Derivative financial instruments | 313,294 | 313,294 | 120,420 | 9,634 |
| Defaulted exposures | 6,394 | 6,364 | 9,463 | 757 |
| Total off-balance sheet exposures | <u>3,082,304</u> | <u>2,715,215</u> | <u>2,263,158</u> | <u>181,053</u> |
| Total on and off-balance sheet exposures | <u>45,970,955</u> | <u>43,933,504</u> | <u>25,162,190</u> | <u>2,012,975</u> |
| (ii) Market Risk (Note 4.0) | | | | |
| | Long Position | Short Position | | |
| Interest rate risk | 317,765 | (90,830) | 29,792 | 2,383 |
| Foreign currency risk | 8,583 | (74,523) | 74,523 | 5,962 |
| | 326,348 | (165,353) | | |
| Option risk | | | 175 | 14 |
| Total | | | <u>104,490</u> | <u>8,359</u> |
| (iii) Operational Risk | - | - | 2,398,898 | 191,912 |
| Total | <u>45,970,955</u> | <u>43,933,504</u> | <u>27,665,578</u> | <u>2,213,246</u> |

2.0 Capital (contd.)

2.3 RWA and Capital Requirements (contd.)

Regulatory Capital Requirements

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

| GROUP 2017 Exposure Class | Gross Exposures RM'000 | Net Exposures RM'000 | Risk- Weighted Assets RM'000 | Capital Requirements RM'000 |
|--|---------------------------------------|-------------------------------------|---|--|
| (i) Credit Risk | | | | |
| On-balance sheet exposures: | | | | |
| Sovereigns/Central banks | 7,090,438 | 7,090,438 | - | - |
| Public sector entities | 175,816 | 175,816 | 35,163 | 2,813 |
| Banks, DFIs and MDBs | 2,655,245 | 2,655,245 | 535,115 | 42,809 |
| Insurance companies, securities firms and fund managers | 38,061 | 37,960 | 37,960 | 3,037 |
| Corporates | 15,689,245 | 14,694,080 | 11,857,205 | 948,576 |
| Regulatory retail | 11,840,659 | 10,814,866 | 8,304,851 | 664,388 |
| Residential mortgages | 14,544,792 | 14,533,347 | 6,685,735 | 534,859 |
| Higher risk assets | 3,182 | 3,176 | 4,764 | 381 |
| Other assets | 682,915 | 682,915 | 415,223 | 33,218 |
| Equity exposures | 165,294 | 165,294 | 165,295 | 13,224 |
| Defaulted exposures | 232,514 | 228,563 | 265,264 | 21,221 |
| Total on-balance sheet exposures | <u>53,118,161</u> | <u>51,081,700</u> | <u>28,306,575</u> | <u>2,264,526</u> |
| Off-balance sheet exposures: | | | | |
| Credit-related off-balance sheet exposures | 3,309,125 | 2,877,659 | 2,517,031 | 201,362 |
| Derivative financial instruments | 313,294 | 313,294 | 120,420 | 9,634 |
| Defaulted exposures | 9,461 | 9,430 | 14,062 | 1,125 |
| Total off-balance sheet exposures | <u>3,631,880</u> | <u>3,200,383</u> | <u>2,651,513</u> | <u>212,121</u> |
| Total on and off-balance sheet exposures | <u>56,750,041</u> | <u>54,282,083</u> | <u>30,958,088</u> | <u>2,476,647</u> |
| (ii) Market Risk (Note 4.0) | | | | |
| | Long Position | Short Position | | |
| Interest rate risk | 393,324 | (90,830) | 51,344 | 4,108 |
| Foreign currency risk | 8,583 | (74,523) | 74,523 | 5,962 |
| | 401,907 | (165,353) | | |
| Option risk | | | 175 | 14 |
| Total | | | <u>126,042</u> | <u>10,083</u> |
| (iii) Operational Risk | | | | |
| | - | - | 2,947,948 | 235,836 |
| Total | <u>56,750,041</u> | <u>54,282,083</u> | <u>34,032,078</u> | <u>2,722,566</u> |

2.0 Capital (contd.)

2.3 RWA and Capital Requirements (contd.)

Regulatory Capital Requirements (contd.)

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

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

2.0 Capital (contd.)

2.3 RWA and Capital Requirements (contd.)

Regulatory Capital Requirements (contd.)

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

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

Note:

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

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

3.0 Credit Risk

Credit risk is the risk of financial loss resulting from the failure of the Bank's borrowers or counterparties to fulfil their contractual obligations to repay their loans or to settle financial commitments.

Credit Risk Management

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

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

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

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

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

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

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

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

Group Internal Audit reviews the Bank's credit processes regularly and recommends corrective measures or enhancements. These reviews provide senior management with assurance that the policies, processes and guidelines are adhered to.

Impaired Loans and Provisions

Past due accounts are loan accounts with any payment of principal and/or interest due and not paid, but are not classified as impaired. Loans are classified as impaired if the mandatory impairment thresholds are exceeded or judgmentally impaired when there are reasonable grounds to believe that the borrower may not be able to repay the entire loan amount.

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

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

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures

(a) Geographical Distribution (contd.)

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

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

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

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3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(a) Geographical Distribution (contd.)

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

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

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

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(b) Industry Distribution

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

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

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(b) Industry Distribution (contd.)

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

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

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(c) Residual Contractual Maturity

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

| <u>BANK</u> | <u>Up to 1 month</u> | <u>>1-3 months</u> | <u>>3-6 months</u> | <u>>6-12 months</u> | <u>>1 year</u> | <u>Total</u> |
|---|-----------------------------|------------------------------|------------------------------|-------------------------------|--------------------------|---------------------|
| 2017 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Cash and short-term funds | 1,350,926 | - | - | - | - | 1,350,926 |
| Deposits and placements with banks and other financial institutions | - | - | - | - | - | - |
| Financial assets held-for-trading | 45,323 | 146,162 | 215 | - | 68,001 | 259,701 |
| Financial investments available-for-sale | 1,052,054 | 909,695 | 215,958 | 625,282 | 5,185,069 | 7,988,058 |
| Financial investments held-to-maturity | 2,226 | 446 | 236,134 | 209,943 | 209,452 | 658,201 |
| Loans, advances and financing | 5,780,293 | 1,511,393 | 536,870 | 135,823 | 23,543,365 | 31,507,744 |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | 1,129,366 | 1,129,366 |
| Derivative financial assets | 20,678 | 10,878 | 24,414 | 6,118 | 24,257 | 86,345 |
| Total on-balance sheet exposure | 8,251,500 | 2,578,574 | 1,013,591 | 977,166 | 30,159,510 | 42,980,341 |

GROUP **2017**

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

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(c) Residual Contractual Maturity (contd.)

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

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

| <u>GROUP</u> | | | | | | |
|---|-------------------|------------------|------------------|------------------|-------------------|-------------------|
| 2016 | | | | | | |
| Cash and short-term funds | 4,640,610 | - | - | - | - | 4,640,610 |
| Deposits and placements with banks and other financial institutions | - | 195,865 | - | - | - | 195,865 |
| Balances due from clients and brokers | 104,659 | - | - | - | - | 104,659 |
| Financial assets held-for-trading | 911 | 213 | 226 | - | 130,879 | 132,229 |
| Financial investments available-for-sale | 837,870 | 923,432 | 58,646 | 346,312 | 6,247,080 | 8,413,340 |
| Financial investments held-to-maturity | 2,229 | 3,848 | 1,309 | 213,901 | 908,020 | 1,129,307 |
| Loans, advances and financing | 7,671,645 | 1,783,082 | 956,625 | 756,060 | 27,402,579 | 38,569,991 |
| Statutory deposits with Bank Negara Malaysia | - | - | - | - | 1,410,828 | 1,410,828 |
| Derivative financial assets | 77,729 | 13,523 | 15,131 | 11,486 | 15,782 | 133,651 |
| Total on-balance sheet exposure | 13,335,653 | 2,919,963 | 1,031,937 | 1,327,759 | 36,115,168 | 54,730,480 |

3.0 Credit Risk (contd.)

3.2 Past Due Loans, Advances and Financing Analysis

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

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

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

Past due loans, advances and financing analysed by sector:

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

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

| | <u>BANK</u> | | <u>GROUP</u> | |
|-----------------|--------------------|----------------|---------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Northern region | 75,522 | 67,568 | 101,809 | 92,948 |
| Central region | 649,386 | 604,936 | 853,407 | 803,554 |
| Southern region | 121,395 | 149,468 | 191,784 | 210,949 |
| Sabah region | 76,589 | 81,210 | 97,562 | 103,421 |
| Sarawak region | 21,070 | 12,961 | 25,660 | 19,375 |
| | <u>943,962</u> | <u>916,143</u> | <u>1,270,222</u> | <u>1,230,247</u> |

3.0 Credit Risk (contd.)

3.3 Impaired Loans, Advances and Financing Analysis

Impaired loans, advances and financing analysed by sectors:

| | BANK | | GROUP | |
|--|----------------|----------------|----------------|----------------|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Financial, insurance & business services and real estate | 17,284 | 30,035 | 17,284 | 32,104 |
| Transport, storage & communication | 11,281 | 11,167 | 11,531 | 11,191 |
| Agriculture, manufacturing, wholesale & retail trade | 86,840 | 87,922 | 98,235 | 152,619 |
| Construction | 16,504 | 13,593 | 18,699 | 13,806 |
| Household | 201,235 | 227,009 | 241,163 | 274,109 |
| Others | 6,436 | 3,473 | 6,437 | 4,039 |
| | <u>339,580</u> | <u>373,199</u> | <u>393,349</u> | <u>487,868</u> |

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

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

3.0 Credit Risk (contd.)

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

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

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

3.0 Credit Risk (contd.)

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

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

| <u>BANK</u> 2017 | Impaired loans, advances and financing RM'000 | Individual impairment allowance RM'000 | Collective impairment allowance RM'000 |
|-----------------------------------|--|---|---|
| Northern region | 28,290 | 5,347 | 31,509 |
| Central region | 238,742 | 50,918 | 148,047 |
| Southern region | 49,829 | 7,725 | 27,785 |
| Sabah region | 20,245 | 157 | 20,306 |
| Sarawak region | 2,474 | - | 6,990 |
| | 339,580 | 64,147 | 234,637 |

GROUP
2017

| | | | |
|-----------------|----------------|---------------|----------------|
| Northern region | 30,552 | 5,347 | 38,829 |
| Central region | 277,515 | 51,184 | 203,818 |
| Southern region | 58,562 | 9,434 | 37,522 |
| Sabah region | 23,737 | 662 | 24,711 |
| Sarawak region | 2,983 | - | 8,448 |
| | 393,349 | 66,627 | 313,328 |

| <u>BANK</u> 2016 | Impaired loans, advances and financing RM'000 | Individual impairment allowance RM'000 | Collective impairment allowance RM'000 |
|-----------------------------------|--|---|---|
| Northern region | 42,935 | 7,702 | 34,867 |
| Central region | 272,288 | 49,188 | 148,845 |
| Southern region | 33,365 | 923 | 27,021 |
| Sabah region | 21,662 | 248 | 19,822 |
| Sarawak region | 2,949 | - | 5,946 |
| | 373,199 | 58,061 | 236,501 |

GROUP
2016

| | | | |
|-----------------|----------------|---------------|----------------|
| Northern region | 46,072 | 7,702 | 41,079 |
| Central region | 372,422 | 59,052 | 198,203 |
| Southern region | 40,279 | 1,329 | 35,683 |
| Sabah region | 25,088 | 248 | 24,768 |
| Sarawak region | 4,007 | - | 7,245 |
| | 487,868 | 68,331 | 306,978 |

3.0 Credit Risk (contd.)

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

Movements in loan impairment allowances are analysed as follows:

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

3.0 Credit Risk (contd.)

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

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

| BANK 2017 Risk- Weights | Exposures after netting and credit risk mitigation | | | | | | | | | | Total exposures after netting and credit risk mitigation RM'000 | Total Risk- Weighted Assets RM'000 |
|--|--|--|--------------------------------------|--|----------------------|--------------------------------|------------------------------------|------------------------------------|---------------------------|-------------------------------|---|--|
| | Sovereigns /Central banks RM'000 | Public sector entities RM'000 | Banks, DFIs and MDBs RM'000 | Insurance companies, Securities firms and Fund managers RM'000 | Corporates RM'000 | Regulatory retail RM'000 | Residential mortgages RM'000 | Higher risk assets RM'000 | Other assets RM'000 | Equity exposures RM'000 | | |
| 0% | 5,352,766 | - | - | - | 419,198 | - | - | - | 267,691 | - | 6,039,655 | - |
| 20% | 27,876 | 158,988 | 2,628,381 | - | 1,668,126 | - | 1,229 | - | 1,570 | - | 4,486,170 | 897,234 |
| 35% | - | - | - | - | - | - | 6,599,651 | - | - | - | 6,599,651 | 2,309,878 |
| 50% | - | - | 836,484 | - | 48,613 | 18,937 | 4,511,547 | - | - | - | 5,415,581 | 2,707,790 |
| 75% | - | - | - | - | - | 8,759,512 | 22,973 | - | - | - | 8,782,485 | 6,586,864 |
| 100% | - | - | 21 | 39,464 | 10,819,849 | 209,112 | 1,097,273 | - | 231,930 | 111,389 | 12,509,038 | 12,509,038 |
| 150% | - | - | - | - | 21,816 | 73,731 | - | 5,374 | - | 3 | 100,924 | 151,386 |
| Total exposures | 5,380,642 | 158,988 | 3,464,886 | 39,464 | 12,977,602 | 9,061,292 | 12,232,673 | 5,374 | 501,191 | 111,392 | 43,933,504 | 25,162,190 |
| Risk-weighted assets by exposures | 5,575 | 31,798 | 943,939 | 39,464 | 11,210,505 | 6,898,810 | 5,680,400 | 8,061 | 232,244 | 111,394 | 25,162,190 | |
| Average risk-weight | - | 20% | 27% | 100% | 86% | 76% | 46% | 150% | 46% | 100% | 57% | |
| Deduction from Capital base | - | - | - | - | - | - | - | - | - | - | - | |

3.0 Credit Risk (contd.)

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

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

| <u>GROUP</u> 2017 Risk- Weights | Exposures after netting and credit risk mitigation | | | | | | | | | | Total exposures after netting and credit risk mitigation RM'000 | Total Risk- Weighted Assets RM'000 |
|---|--|--|--------------------------------------|--|----------------------|--------------------------------|------------------------------------|------------------------------------|---------------------------|-------------------------------|---|--|
| | Sovereigns /Central banks RM'000 | Public sector entities RM'000 | Banks, DFIs and MDBs RM'000 | Insurance companies, Securities firms and Fund managers RM'000 | Corporates RM'000 | Regulatory retail RM'000 | Residential mortgages RM'000 | Higher risk assets RM'000 | Other assets RM'000 | Equity exposures RM'000 | | |
| 0% | 7,150,438 | - | - | - | 952,999 | - | - | - | 267,691 | - | 8,371,128 | - |
| 20% | 27,876 | 239,511 | 2,747,674 | - | 2,319,403 | 111 | 1,714 | - | - | - | 5,336,288 | 1,067,257 |
| 35% | - | - | - | - | - | - | 7,929,020 | - | - | - | 7,929,020 | 2,775,157 |
| 50% | - | - | 91,937 | - | 63,325 | 21,597 | 5,409,320 | - | - | - | 5,586,179 | 2,793,090 |
| 75% | - | - | - | - | - | 11,155,159 | 24,488 | - | - | - | 11,179,647 | 8,384,735 |
| 100% | - | - | 21 | 49,957 | 13,062,333 | 794,150 | 1,276,790 | - | 415,223 | 165,291 | 15,763,765 | 15,763,765 |
| 150% | - | - | - | - | 31,143 | 79,536 | - | 5,374 | - | 3 | 116,056 | 174,084 |
| Total exposures | 7,178,314 | 239,511 | 2,839,632 | 49,957 | 16,429,203 | 12,050,553 | 14,641,332 | 5,374 | 682,914 | 165,294 | 54,282,083 | 30,958,088 |
| Risk-weighted assets by exposures | 5,575 | 47,902 | 595,524 | 49,957 | 13,604,591 | 9,290,643 | 6,775,316 | 8,061 | 415,223 | 165,296 | 30,958,088 | |
| Average risk-weight | - | 20% | 21% | 100% | 83% | 77% | 46% | 150% | 61% | 100% | 57% | |
| Deduction from Capital base | - | - | - | - | - | - | - | - | - | - | - | |

3.0 Credit Risk (contd.)

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

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

| BANK 2016 Risk- Weights | Exposures after netting and credit risk mitigation | | | | | | | | | | Total exposures after netting and credit risk mitigation RM'000 | Total Risk- Weighted Assets RM'000 |
|--|--|--|--------------------------------------|--|----------------------|--------------------------------|------------------------------------|------------------------------------|---------------------------|-------------------------------|---|--|
| | Sovereigns /Central banks RM'000 | Public sector entities RM'000 | Banks, DFIs and MDBs RM'000 | Insurance companies, Securities firms and Fund managers RM'000 | Corporates RM'000 | Regulatory retail RM'000 | Residential mortgages RM'000 | Higher risk assets RM'000 | Other assets RM'000 | Equity exposures RM'000 | | |
| | | | | | | | | | | | | |
| 0% | 6,172,862 | - | - | - | 425,119 | - | - | - | 293,588 | - | 6,891,569 | - |
| 20% | 13,175 | 64,967 | 4,184,192 | - | 1,461,519 | - | - | - | 10,777 | - | 5,734,630 | 1,146,926 |
| 35% | - | - | - | - | - | - | 6,428,212 | - | - | - | 6,428,212 | 2,249,874 |
| 50% | - | - | 814,459 | - | 7,157 | 10,606 | 4,077,231 | - | - | - | 4,909,453 | 2,454,727 |
| 75% | - | - | - | - | - | 9,621,824 | 36,269 | - | - | - | 9,658,093 | 7,243,570 |
| 100% | - | - | 46 | 37,508 | 10,336,004 | 143,424 | 1,595,063 | - | 234,425 | 102,654 | 12,449,124 | 12,449,122 |
| 150% | - | - | - | - | 49,840 | 77,624 | - | 5,661 | - | 18 | 133,143 | 199,715 |
| Total exposures | 6,186,037 | 64,967 | 4,998,697 | 37,508 | 12,279,639 | 9,853,478 | 12,136,775 | 5,661 | 538,790 | 102,672 | 46,204,224 | 25,743,934 |
| Risk-weighted assets by exposures | 2,635 | 12,993 | 1,244,114 | 37,508 | 10,706,646 | 7,481,530 | 5,910,753 | 8,492 | 236,581 | 102,681 | 25,743,934 | |
| Average risk-weight | - | 20% | 25% | 100% | 87% | 76% | 49% | 150% | 44% | 100% | 56% | |
| Deduction from Capital base | - | - | - | - | - | - | - | - | - | - | - | |

3.0 Credit Risk (contd.)

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

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

| <u>GROUP</u> 2016 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% | 8,874,847 | - | - | - | 709,642 | - | - | - | 293,588 | - | 9,878,077 | - |
| 20% | 13,174 | 95,547 | 3,979,944 | - | 2,072,848 | - | - | - | - | - | 6,161,513 | 1,232,303 |
| 35% | - | - | - | - | - | - | 7,664,958 | - | - | - | 7,664,958 | 2,682,735 |
| 50% | - | - | 74,807 | - | 7,157 | 12,715 | 5,053,298 | - | - | - | 5,147,977 | 2,573,988 |
| 75% | - | - | - | - | - | 12,124,788 | 38,517 | - | - | - | 12,163,305 | 9,122,479 |
| 100% | - | - | 46 | 48,156 | 12,222,260 | 598,248 | 1,878,328 | - | 422,405 | 152,337 | 15,321,780 | 15,321,780 |
| 150% | - | - | - | - | 117,363 | 82,656 | - | 5,703 | - | 18 | 205,740 | 308,611 |
| Total exposures | 8,888,021 | 95,547 | 4,054,797 | 48,156 | 15,129,270 | 12,818,407 | 14,635,101 | 5,703 | 715,993 | 152,355 | 56,543,350 | 31,241,896 |
| Risk-weighted assets by exposures | 2,635 | 19,109 | 833,438 | 48,156 | 12,816,453 | 9,822,179 | 7,116,601 | 8,555 | 422,405 | 152,365 | 31,241,896 | |
| Average risk-weight | - | 20% | 21% | 100% | 85% | 77% | 49% | 150% | 59% | 100% | 55% | |
| Deduction from Capital base | - | - | - | - | - | - | - | - | - | - | - | |

3.0 Credit Risk (contd.)

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

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

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

BANK **2017**

| Exposure Class | Ratings by Approved ECAIs * | | | | | | Total |
|---|-----------------------------|----------------------|-------------------|----------------------|------------------|------------|------------|
| | Moody's | Aaa to Aa3 / P-1 | A1 to A3 / P-2 | Baa1 to Ba3 / P-3 | B1 to C / Others | Unrated | |
| | S&P | AAA to AA- / A-1 | A+ to A- / A-2 | BBB+ to BB- / A-3 | B+ to D / Others | Unrated | |
| | Fitch | AAA to AA- / F1+, F1 | A+ to A- / A-2 | BBB+ to BB- / F3 | B+ to D | Unrated | |
| | RAM | AAA to AA3 / P-1 | A+ to A3 / P-2 | BBB1+ to BB3 / P-3 | B to D / NP | Unrated | |
| | MARC | AAA to AA- / MARC-1 | A+ to A- / MARC-2 | BBB+ to BB- / MARC-3 | B+ to D / MARC-4 | Unrated | |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>On and Off Balance-Sheet Exposures</u> | | | | | | | |
| (i) Exposures risk weighted using Sovereigns and Central Banks rating | | | | | | | |
| Sovereigns and Central Banks (See Note 1) | | - | 5,380,642 | - | - | - | 5,380,642 |
| Corporates | | - | 419,198 | - | - | - | 419,198 |
| | | - | 5,799,840 | - | - | - | 5,799,840 |
| (ii) Exposures risk weighted using Banking Institutions long term rating | | | | | | | |
| Banks, MDBs and FDIs | | 892,473 | 2,456,085 | 5,694 | - | 110,633 | 3,464,885 |
| Exposures risk weighted using Banking Institutions short term rating | | | | | | | |
| Banks, MDBs and FDIs | | - | - | - | - | - | - |
| | | 892,473 | 2,456,085 | 5,694 | - | 110,633 | 3,464,885 |
| (iii) Exposures risk weighted using Corporate long term rating | | | | | | | |
| Public Sector Entities | | 55,802 | - | - | - | 53,695 | 109,497 |
| Corporates | | 1,678,213 | 44,126 | - | - | 11,722,431 | 13,444,770 |
| Insurance Cos, Securities Firms & Fund Managers | | - | - | - | - | 39,572 | 39,572 |
| Exposures risk weighted using Corporate short term rating | | | | | | | |
| Public Sector Entities | | 49,491 | - | - | - | - | 49,491 |
| Corporates | | - | - | - | - | - | - |
| Insurance Cos, Securities Firms & Fund Managers | | - | - | - | - | - | - |
| | | 1,783,506 | 44,126 | - | - | 11,815,698 | 13,643,330 |

3.0 Credit Risk (contd.)

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

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

GROUP
2017

| Exposure Class | Ratings by Approved ECAs * | | | | | | Total |
|---|----------------------------|----------------------|-------------------|----------------------|------------------|------------|------------|
| | Moody's | Aaa to Aa3 / P-1 | A1 to A3 / P-2 | Baa1 to Ba3 / P-3 | B1 to C / Others | Unrated | |
| | S&P | AAA to AA- / A-1 | A+ to A- / A-2 | BBB+ to BB- / A-3 | B+ to D / Others | Unrated | |
| | Fitch | AAA to AA- / F1+, F1 | A+ to A- / A-2 | BBB+ to BB- / F3 | B+ to D | Unrated | |
| | RAM | AAA to AA3 / P-1 | A+ to A3 / P-2 | BBB1+ to BB3 / P-3 | B to D / NP | Unrated | |
| | MARC | AAA to AA- / MARC-1 | A+ to A- / MARC-2 | BBB+ to BB- / MARC-3 | B+ to D / MARC-4 | Unrated | |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| On and Off Balance-Sheet Exposures | | | | | | | |
| (i) Exposures risk weighted using Sovereigns and Central Banks rating | | | | | | | |
| Sovereigns and Central Banks (See Note 1) | | - | 7,178,314 | - | - | - | 7,178,314 |
| Corporates | | - | 952,999 | - | - | - | 952,999 |
| | | - | 8,131,313 | - | - | - | 8,131,313 |
| (ii) Exposures risk weighted using Banking Institutions long term rating | | | | | | | |
| Banks, MDBs and FDIs | | 1,642,670 | 1,080,633 | 5,694 | - | 110,633 | 2,839,630 |
| Exposures risk weighted using Banking Institutions short term rating | | | | | | | |
| Banks, MDBs and FDIs | | - | - | - | - | - | - |
| | | 1,642,670 | 1,080,633 | 5,694 | - | 110,633 | 2,839,630 |
| (iii) Exposures risk weighted using Corporate long term rating | | | | | | | |
| Public Sector Entities | | 86,321 | - | - | - | 103,699 | 190,020 |
| Corporates | | 2,329,489 | 58,835 | - | - | 14,273,940 | 16,662,264 |
| Insurance Cos, Securities Firms & Fund Managers | | - | - | - | - | 50,065 | 50,065 |
| Exposures risk weighted using Corporate short term rating | | | | | | | |
| Public Sector Entities | | 49,491 | - | - | - | - | 49,491 |
| Corporates | | - | - | - | - | - | - |
| Insurance Cos, Securities Firms & Fund Managers | | - | - | - | - | - | - |
| | | 2,465,301 | 58,835 | - | - | 14,427,704 | 16,951,840 |

3.0 Credit Risk (contd.)

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

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

BANK
2016

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

3.0 Credit Risk (contd.)

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

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

GROUP **2016**

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

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

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

Note:

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

3.0 Credit Risk (contd.)

3.5 Credit Risk Mitigation ("CRM")

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

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

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

| <u>BANK</u> <u>2017</u> Exposure Class | Exposures <u>before CRM</u> RM'000 | Exposures covered by guarantees/ credit <u>derivatives</u> RM'000 | Exposures covered by eligible financial <u>collateral</u> RM'000 | Exposures covered by other eligible <u>collateral</u> RM'000 |
|---|---|--|---|---|
| <u>Credit Risk</u> | | | | |
| On-balance sheet exposures: | | | | |
| Sovereigns/Central banks | 5,352,766 | - | - | - |
| Public sector entities | 105,293 | - | - | - |
| Banks, DFIs and MDBs | 3,280,378 | - | - | - |
| Insurance companies, securities firms and fund managers | 27,568 | - | 101 | - |
| Corporates | 12,282,183 | - | 735,255 | - |
| Regulatory retail | 8,873,425 | - | 921,507 | - |
| Residential mortgages | 12,149,938 | - | 10,324 | - |
| Higher risk assets | 3,182 | - | 6 | - |
| Other assets | 501,191 | - | - | - |
| Equity exposures | 111,392 | - | - | - |
| Defaulted exposures | 201,335 | - | 3,168 | - |
| Total on-balance sheet exposures | <u>42,888,651</u> | <u>-</u> | <u>1,670,361</u> | <u>-</u> |
| Off-balance sheet exposures: | | | | |
| Off-balance sheet exposures other than | | | | |
| OTC derivatives or credit derivatives | 3,075,910 | - | 367,061 | - |
| Defaulted exposures | 6,394 | - | 29 | - |
| Total off-balance sheet exposures | <u>3,082,304</u> | <u>-</u> | <u>367,090</u> | <u>-</u> |
| Total on and off-balance sheet exposures | <u>45,970,955</u> | <u>-</u> | <u>2,037,451</u> | <u>-</u> |

3.0 Credit Risk (contd.)

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

| GROUP | | | | |
|---|--|---|--|--|
| 2017 | | | | |
| Exposure Class | Exposures before CRM RM'000 | Exposures covered by guarantees/ credit derivatives RM'000 | Exposures covered by eligible financial collateral RM'000 | Exposures covered by other eligible collateral RM'000 |
| <u>Credit Risk</u> | | | | |
| On-balance sheet exposures: | | | | |
| Sovereigns/Central banks | 7,090,438 | - | - | - |
| Public sector entities | 175,816 | - | - | - |
| Banks, DFIs and MDBs | 2,655,245 | - | - | - |
| Insurance companies, securities firms and fund managers | 38,061 | - | 101 | - |
| Corporates | 15,689,245 | - | 995,165 | - |
| Regulatory retail | 11,840,659 | - | 1,025,793 | - |
| Residential mortgages | 14,544,792 | - | 11,445 | - |
| Higher risk assets | 3,182 | - | 6 | - |
| Other assets | 682,915 | - | - | - |
| Equity exposures | 165,294 | - | - | - |
| Defaulted exposures | 232,514 | - | 3,950 | - |
| Total on-balance sheet exposures | 53,118,161 | - | 2,036,460 | - |
| Off-balance sheet exposures: | | | | |
| Off-balance sheet exposures other than OTC derivatives or credit derivatives | 3,622,419 | - | 431,467 | - |
| Defaulted exposures | 9,461 | - | 31 | - |
| Total off-balance sheet exposures | 3,631,880 | - | 431,498 | - |
| Total on and off-balance sheet exposures | 56,750,041 | - | 2,467,958 | - |

3.0 Credit Risk (contd.)

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

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

3.0 Credit Risk (contd.)

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

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

3.0 Credit Risk (contd.)

3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk

Counterparty Credit Risk ("CCR") is the risk that the counterparty to a transaction involving financial instruments such as foreign exchange and derivatives, could default before the final settlement of the transaction's cash flows. Unlike a loan where the credit risk is unilateral i.e. only the lending bank faces the risk of loss, CCR on derivatives creates bilateral risk of loss. This means either party of the transaction can incur losses depending on the market value of the derivative, which can vary over time with the movement of underlying market factors.

For derivatives, the Group is not exposed to credit risk for the full face value of the contracts. The CCR is limited to the potential cost of replacing the cash-flow if the counterparty defaults. As such, the credit equivalent amount will depend, inter alia, on the maturity of the contract and on the volatility of the rates underlying that type of instrument.

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

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

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

3.0 Credit Risk (contd.)

3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk

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

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

3.0 Credit Risk (contd.)

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

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

3.0 Credit Risk (contd.)

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

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

3.0 Credit Risk (contd.)

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

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

4.0 Market Risk

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

Market Risk Management

The Board, via the GRMC provides oversight on market risk management activities. Its responsibilities include reviewing and approving risk management policies, risk exposures and limits whilst ensuring the necessary infrastructure and resources are in place.

At senior management level, the Group Assets and Liabilities Management Committee ("GALCO") manages the Group's market risk by reviewing and recommending market risk frameworks and policies; ensuring that market risk limits and parameters are within the approved thresholds; and aligning market risk management with business strategy and planning.

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

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

- (i) Identification of market risk in new products and changes in risk profiles of existing exposures.
- (ii) Assessment of the type and magnitude of market risks which takes into account the activity and market role undertaken.
- (iii) Adoption of various market risk measurement tools and techniques to quantify market risk exposures.
- (iv) Scheduled and exception reporting on market risk exposures.

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

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

4.0 Market Risk (contd.)

Hedging Policies and Strategies

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

Market risk capital charge

For the Group, the market risk charge is computed on the standardised approach and the capital charges are mainly on the fixed income securities, foreign exchange and financial derivatives portfolios if any.

Regulatory capital requirements

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

| | <u>BANK</u> | | <u>GROUP</u> | |
|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Risk-Weighted Assets | Capital Requirements | Risk-Weighted Assets | Capital Requirements |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| 2017 | | | | |
| Interest rate risk | | | | |
| - General interest rate risk | 26,405 | 2,112 | 36,819 | 2,946 |
| - Specific interest rate risk | 3,387 | 271 | 14,525 | 1,162 |
| | <u>29,792</u> | <u>2,383</u> | <u>51,344</u> | <u>4,108</u> |
| Option risk | 175 | 14 | 175 | 14 |
| Foreign exchange risk | 74,523 | 5,962 | 74,523 | 5,962 |
| | <u>104,490</u> | <u>8,359</u> | <u>126,042</u> | <u>10,083</u> |
| 2016 | | | | |
| Interest rate risk | | | | |
| - General interest rate risk | 76,062 | 6,085 | 76,062 | 6,085 |
| - Specific interest rate risk | 24,913 | 1,993 | 24,913 | 1,993 |
| | <u>100,975</u> | <u>8,078</u> | <u>100,975</u> | <u>8,078</u> |
| Option risk | - | - | 5,830 | 466 |
| Foreign exchange risk | 17,038 | 1,363 | 17,038 | 1,363 |
| | <u>118,013</u> | <u>9,441</u> | <u>123,843</u> | <u>9,907</u> |

5.0 Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk but excludes strategic and reputation risks.

Operational Risk Management

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

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

On a senior management level, Group Operational Risk Management (GORMC) manages the day-to-day operational risk exposures. Amongst the roles and responsibilities of GORMC include:

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

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

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

6.0 Equity Exposures in Banking Book

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

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

The following table shows the equity exposures in banking book:

| | BANK | | GROUP | |
|---------------------------------|-------------------------------|-----------------------------|-------------------------------|-----------------------------|
| | Gross credit exposures | Risk-weighted assets | Gross credit exposures | Risk-weighted assets |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| 2017 | | | | |
| Publicly traded | | | | |
| Holding of equity investments | 15 | 15 | 15 | 15 |
| Privately held | | | | |
| For socio-economic purposes | 111,374 | 111,374 | 165,276 | 165,276 |
| Not for socio-economic purposes | 3 | 4 | 3 | 4 |
| | <u>111,392</u> | <u>111,393</u> | <u>165,294</u> | <u>165,295</u> |
| 2016 | | | | |
| Publicly traded | | | | |
| Holding of equity investments | 15 | 23 | 15 | 23 |
| Privately held | | | | |
| For socio-economic purposes | 102,654 | 102,654 | 152,338 | 152,338 |
| Not for socio-economic purposes | 3 | 5 | 3 | 5 |
| | <u>102,672</u> | <u>102,682</u> | <u>152,356</u> | <u>152,366</u> |

Gains and losses on equity exposures in the banking book

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

| | BANK | | GROUP | |
|---|---------------|---------------|---------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Realised gains/(losses) recognised in the statement of comprehensive income | | | | |
| - Privately held equity investments | - | (549) | - | (549) |
| | <u>-</u> | <u>(549)</u> | <u>-</u> | <u>(549)</u> |
| Unrealised gains/(losses) recognised in revaluation reserve | | | | |
| - Publicly traded equity investments | - | 4 | - | 4 |
| - Privately held equity investments | 8,720 | 8,856 | 12,938 | 12,705 |
| | <u>8,720</u> | <u>8,860</u> | <u>12,938</u> | <u>12,709</u> |

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

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

Risk Governance

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

IRR/RORBB Management

The guiding principles in managing IRR/RORBB include:

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

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

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

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

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

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

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

| | Bank + 100 bps RM'000 | Group + 100 bps RM'000 |
|--|--------------------------------------|---------------------------------------|
| 2017 | | |
| Impact on net interest income ("NII") | | |
| Ringgit Malaysia | <u>96,418</u> | <u>101,418</u> |
| Impact on Economic Value ("EV") | | |
| Ringgit Malaysia | <u>49,770</u> | <u>139,520</u> |
| 2016 | | |
| Impact on net interest income ("NII") | | |
| Ringgit Malaysia | <u>84,907</u> | <u>90,847</u> |
| Impact on Economic Value ("EV") | | |
| Ringgit Malaysia | <u>42,334</u> | <u>125,659</u> |

Note:

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

8.0 Shariah Governance Disclosures

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

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

Non-Shariah Compliant Income And Events

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