



PILLAR 3 REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

BASEL II PILLAR 3 REPORT DISCLOSURE



ALLIANCE BANK MALAYSIA BERHAD (88103-W)

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BASEL II PILLAR 3 REPORT DISCLOSURE

for the financial year ended 31 March 2018

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's Pillar 3 Disclosure. This policy outlines the minimum disclosure standards, approach for determining the appropriateness of information disclosed and the internal controls over the disclosure process.

During the financial period, Alliance Financial Group Berhad (AFG), the holding company of the Bank has completed its corporate reorganisation exercise whereby the listing status of AFG was assumed by Alliance Bank Malaysia Berhad (ABMB or the Bank) with effect from 26 September 2017. Accordingly the comparative figures of the Group was restated, where applicable, to reflect the completion of the corporate reorganisation exercise (as disclosed in Note 55 of the Statements of Financial Position as at 31 March 2018).

- (i) AFG subscription of RM100,000,000 new ABMB Shares at the issue price of RM1.00 per share;
- (ii) The bonus issue by the Bank of RM651,588,886 new ABMB Shares to AFG, after taking into consideration the RM100,000,000 new ABMB Shares issued pursuant to AFG Subscription;
- (iii) The transfer of AFG and its non-banking subsidiaries to the Bank is accounted for as an internal reorganisation within the AFG Group. Consequently the assets, liabilities and equity of AFG Group, at their carrying amounts, are included in the consolidated financial statements of the ABMB Group.

The comparative figures was restated, where applicable, in items 2.1 (a), 2.2, 2.3, 3.1, 3.4 and 3.5 of the report.

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1.0 SCOPE OF APPLICATION

The Pillar 3 Disclosure was prepared on a consolidated basis and comprises information on Alliance Bank Malaysia Berhad (the Bank), its subsidiaries, associate companies and joint venture. The Group offers Conventional and Islamic banking services. The latter includes accepting deposits and providing 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, associate companies and joint venture 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 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 (cont'd)

2.1 Capital Adequacy Ratios

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

	BANK		GROUP	
	2018	2017	2018	Restated* 2017
<u>Before deducting proposed dividends</u>				
CET I capital ratio	11.680%	11.558%	13.695%	13.334%
Tier I capital ratio	12.217%	11.558%	14.123%	13.334%
Total capital ratio ¹	17.122%	16.347%	18.638%	17.999%
<u>After deducting proposed dividends</u>				
CET I capital ratio	11.302%	11.136%	13.393%	12.990%
Tier I capital ratio	11.839%	11.136%	13.821%	12.990%
Total capital ratio ¹	16.744%	15.924%	18.337%	17.655%

Note:

- ¹ On 8 November 2017, the Bank issued RM150 million Additional Tier 1 Capital Securities under the RM1.0 billion Additional Tier 1 Capital Securities Programme.

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

	Alliance Islamic Bank Berhad	Alliance Investment Bank Berhad
2018		
<u>Before deducting proposed dividends</u>		
CET I capital ratio	12.569%	86.830%
Tier I capital ratio	12.569%	86.830%
Total capital ratio	15.421%	87.642%
<u>After deducting proposed dividends</u>		
CET I capital ratio	12.198%	85.079%
Tier I capital ratio	12.198%	85.079%
Total capital ratio	15.050%	85.892%
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%

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

* Refer to Note 55 in the financial statements.

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for the financial year ended 31 March 2018

2.0 CAPITAL (cont'd)

2.2 Capital Structure

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

	BANK		GROUP	
	2018 RM'000	2017 RM'000	2018 RM'000	Restated* 2017 RM'000
<u>CET I Capital</u>				
Paid-up share capital	1,548,106	796,517	1,548,106	1,548,106
Share premium	-	401,517	-	-
Retained profits	2,866,142	2,115,505	3,510,283	2,062,782
Statutory reserves	-	835,401	-	1,223,525
Revaluation reserves	74,907	64,916	114,987	99,268
Capital reserves	95,515	-	100,150	90,010
	4,584,670	4,213,856	5,273,526	5,023,691
Less: Regulatory adjustment				
- Goodwill and other intangibles	(292,981)	(261,986)	(409,402)	(377,361)
- Deferred tax assets	(9,223)	(4,088)	(22,664)	(14,738)
- 55% of revaluation reserves	(41,199)	(35,704)	(63,243)	(54,597)
- Direct/indirect investment in own ordinary shares	-	-	-	(73,837)
- Investment in subsidiaries, associate and joint venture	(989,102)	(714,440)	(693)	(610)
Total CET I capital/Total Tier I capital	3,252,165	3,197,638	4,777,524	4,502,548
Additional Tier 1 Capital Securities	149,316	-	149,293	-
Total Tier I Capital	3,401,481	3,197,638	4,926,817	4,502,548
<u>Tier II Capital</u>				
Subordinated obligations	1,199,062	1,198,764	1,199,675	1,199,177
Collective assessment allowance and regulatory reserves	296,765	304,576	375,710	376,514
Less: Regulatory adjustment				
- Investment in subsidiaries, associate and joint venture	-	(178,610)	-	(153)
- Investment in Tier 2 capital instruments	(130,000)	-	-	-
Total Tier II Capital	1,365,827	1,324,730	1,575,385	1,575,538
Total Capital	4,767,308	4,522,368	6,502,202	6,078,086

* Refer to Note 55 in the financial statements.

2.0 CAPITAL (cont'd)

2.3 Risk-Weighted Assets (RWA) and Capital Requirements

Regulatory Capital Requirements

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

Bank 2018 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	4,800,900	4,800,900	-	-
Public sector entities	59,446	59,446	11,889	951
Banks, Development Financial Institutions (DFIs) and Multilateral Development Banks	2,212,038	2,212,038	671,377	53,710
Insurance companies, securities firms and fund managers	37,884	37,851	37,851	3,028
Corporates	13,887,523	12,773,551	10,997,016	879,762
Regulatory retail	7,451,752	6,732,624	5,147,926	411,834
Residential mortgages	11,911,755	11,902,044	5,295,448	423,636
Higher risk assets	2,801	2,795	4,192	335
Other assets	529,608	529,608	264,204	21,136
Equity exposures	121,644	121,644	121,646	9,732
Defaulted exposures	313,098	311,149	404,843	32,387
Total on-balance sheet exposures	41,328,449	39,483,650	22,956,392	1,836,511
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	2,800,489	2,406,616	2,212,069	176,966
Derivative financial instruments	254,986	254,986	122,904	9,832
Defaulted exposures	5,267	5,267	7,896	632
Total off-balance sheet exposures	3,060,742	2,666,869	2,342,869	187,430
Total on and off-balance sheet exposures	44,389,191	42,150,519	25,299,261	2,023,941
(ii) Market Risk (Note 4.0)				
	Long Position	Short Position		
Interest rate risk			15,289	1,223
Foreign currency risk	76,686	(70,016)	94,541	7,563
	7,016	(94,542)		
Option risk	83,702	(164,558)	559	45
Total			110,389	8,831
(iii) Operational Risk	-	-	2,433,159	194,653
Total	44,389,191	42,150,519	27,842,809	2,227,425

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2.0 CAPITAL (cont'd)

2.3 RWA and Capital Requirements (cont'd)

Regulatory Capital Requirements (cont'd)

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

Group 2018 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) <u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	7,715,107	7,715,107	-	-
Public sector entities	211,083	211,083	42,217	3,377
Banks, DFIs and Multilateral Development Banks	1,315,416	1,315,416	261,255	20,900
Insurance companies, securities firms and fund managers	63,080	63,047	63,047	5,044
Corporates	18,530,955	17,092,449	14,147,528	1,131,801
Regulatory retail	10,019,382	9,229,348	7,164,075	573,127
Residential mortgages	14,354,700	14,343,762	6,356,377	508,510
Higher risk assets	3,195	3,189	4,783	383
Other assets	639,421	639,421	374,017	29,921
Equity exposures	178,856	178,856	178,858	14,309
Defaulted exposures	385,914	383,181	494,731	39,578
Total on-balance sheet exposures	53,417,109	51,174,859	29,086,888	2,326,950
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	3,511,989	3,039,708	2,748,471	219,878
Derivative financial instruments	254,986	254,986	122,904	9,832
Defaulted exposures	11,080	10,217	15,322	1,226
Total off-balance sheet exposures	3,778,055	3,304,911	2,886,697	230,936
Total on and off-balance sheet exposures	57,195,164	54,479,770	31,973,585	2,557,886
(ii) <u>Market Risk (Note 4.0)</u>				
	Long Position	Short Position		
Interest rate risk	91,664	(70,016)	15,757	1,261
Foreign currency risk	7,016	(94,542)	94,541	7,563
	98,680	(164,558)		
Option risk			559	45
Total			110,857	8,869
(iii) <u>Operational Risk</u>				
	-	-	2,801,473	224,118
Total	57,195,164	54,479,770	34,885,915	2,790,873

2.0 CAPITAL (cont'd)

2.3 RWA and Capital Requirements (cont'd)

Regulatory Capital Requirements (cont'd)

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

Bank 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, DFIs and Multilateral Development Banks	3,281,948	3,281,948	883,783	70,704
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	499,621	499,621	231,930	18,554
Equity exposures	111,392	111,392	111,393	8,911
Defaulted exposures	201,335	198,167	230,510	18,441
Total on-balance sheet exposures	42,888,651	41,218,289	22,899,032	1,831,922
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	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	3,082,304	2,715,215	2,263,158	181,053
Total on and off-balance sheet exposures	45,970,955	43,933,504	25,162,190	2,012,975
(ii) Market Risk (Note 4.0)				
	Long Position	Short Position		
Interest rate risk			29,792	2,383
Foreign currency risk	317,765	(90,830)	74,523	5,962
	8,583	(74,523)		
Option risk	326,348	(165,353)	175	14
Total			104,490	8,359
(iii) Operational Risk				
	-	-	2,398,898	191,912
Total	45,970,955	43,933,504	27,665,578	2,213,246

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2.0 CAPITAL (cont'd)

2.3 RWA and Capital Requirements (cont'd)

Regulatory Capital Requirements (cont'd)

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

Restated* 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	7,090,538	7,090,538	-	-
Public sector entities	175,816	175,816	35,163	2,813
Banks, DFIs and Multilateral Development Banks	2,674,355	2,674,355	538,938	43,115
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	659,027	659,027	391,333	31,307
Equity exposures	165,294	165,294	165,295	13,224
Defaulted exposures	232,514	228,563	265,264	21,221
Total on-balance sheet exposures	53,113,483	51,077,022	28,286,508	2,262,921
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	3,631,880	3,200,383	2,651,513	212,121
Total on and off-balance sheet exposures	56,745,363	54,277,405	30,938,021	2,475,042
(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			126,042	10,083
(iii) Operational Risk	-	-	2,704,544	216,364
Total	56,745,363	54,277,405	33,768,607	2,701,489

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.

* Refer to Note 55 in the financial statements.

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 problem 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 for assessing the 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 assess the impact to earnings and capital. Stress tests are performed using a variety of market and economic assumptions to assess possible vulnerability and to formulate effective mitigation 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.

With effect from 1.4.2018, loan accounts will also be subject to FRS9 stage 1/2/3 accounting classification and treatment.

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

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3.0 CREDIT RISK (cont'd)

3.1 Distribution of Credit Exposures

(a) Geographical Distribution

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 2018	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	-	1,450,557	-	-	-	1,450,557
Deposits and placements with banks and other financial institutions	-	77,283	-	-	-	77,283
Financial assets held-for-trading	-	48,771	-	-	-	48,771
Financial investments available-for-sale	-	6,284,804	-	-	-	6,284,804
Financial investments held-for-maturity	-	344,703	-	-	-	344,703
Derivative financial assets	-	84,455	-	-	-	84,455
Loans, advances and financing	2,122,103	23,064,355	3,794,976	1,985,937	654,300	31,621,671
Statutory deposits with Bank Negara Malaysia	-	1,092,566	-	-	-	1,092,566
Total on-balance sheet	2,122,103	32,447,495	3,794,976	1,985,937	654,300	41,004,811
Financial guarantees	55,509	398,635	42,934	45,088	14,535	556,701
Credit related commitments and contingencies	828,695	6,569,110	829,182	618,932	273,075	9,118,992
Total off-balance sheet	884,204	6,967,745	872,115	664,119	287,610	9,675,693
Total credit exposure	3,006,307	39,415,239	4,667,091	2,649,956	941,910	50,680,504

Group 2018	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	-	2,503,354	-	-	-	2,503,354
Deposits and placements with banks and other financial institutions	-	77,283	-	-	-	77,283
Balances due from clients and brokers	13,920	83,873	3,512	-	-	101,305
Financial assets held-for-trading	-	63,750	-	-	-	63,750
Financial investments available-for-sale	-	8,326,333	-	-	-	8,326,333
Financial investments held-for-maturity	-	293,612	-	-	-	293,612
Derivative financial assets	-	84,455	-	-	-	84,455
Loans, advances and financing	2,815,996	28,829,752	4,918,978	2,598,098	961,745	40,124,570
Statutory deposits with Bank Negara Malaysia	-	1,408,316	-	-	-	1,408,316
Total on-balance sheet	2,829,916	41,670,729	4,922,490	2,598,098	961,745	52,982,979
Financial guarantees	63,441	550,533	55,015	47,209	14,574	730,771
Credit related commitments and contingencies	1,118,225	7,775,286	1,073,320	1,036,449	310,051	11,313,331
Total off-balance sheet	1,181,666	8,325,819	1,128,335	1,083,657	324,625	12,044,102
Total credit exposure	4,011,582	49,996,548	6,050,825	3,681,756	1,286,370	65,027,081

3.0 CREDIT RISK (cont'd)

3.1 Distribution of Credit Exposures (cont'd)

(a) Geographical Distribution (cont'd)

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. (cont'd)

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-for-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

Restated* 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	-	1,114,086	-	-	-	1,114,086
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-for-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	-	1,437,444	-	-	-	1,437,444
Total on-balance sheet	2,661,970	42,171,212	4,634,959	2,522,495	1,261,217	53,251,853
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	49,358,109	5,767,598	3,617,638	1,565,963	64,081,488

* Refer to Note 55 in the financial statements.

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3.0 CREDIT RISK (cont'd)

3.1 Distribution of Credit Exposures (cont'd)

(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 2018	Government and Central bank		Financial, insurance, business services and real estate		Transport, storage & communication		Agriculture, manufacturing, wholesale & retail trade		Construction		Household		Others		Total	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	587,207		863,350		-		-		-		-		-		1,450,557	
Deposits and placements with banks and other financial institutions	-		77,283		-		-		-		-		-		77,283	
Financial assets held-for-trading	-		38,549		10,222		-		-		-		-		48,771	
Financial investments																
available-for-sale	2,863,925		2,453,110		679,796		182,188		105,785		-		-		6,284,804	
Financial investments																
held-to-maturity	121,271		223,432		-		-		-		-		-		344,703	
Derivative financial assets	-		56,969		-		-		-		-		27,486		84,455	
Loans, advances and financing	-		3,936,962		353,452		8,783,073		1,073,400		17,069,873		404,911		31,621,671	
Statutory deposits with Bank Negara Malaysia	1,092,566		-		-		-		-		-		-		1,092,566	
Total on-balance sheet	4,664,969		7,649,655		1,043,470		8,965,261		1,179,186		17,069,873		432,397		41,004,811	
Financial guarantees	-		31,839		26,419		432,615		37,837		7,638		20,353		556,701	
Credit related commitments and contingencies	-		1,292,655		122,364		3,509,320		1,382,911		2,302,406		509,336		9,118,992	
Total off-balance sheet	-		1,324,494		148,783		3,941,935		1,420,748		2,310,044		529,689		9,675,693	
Total credit risk	4,664,969		8,974,149		1,192,253		12,907,196		2,599,934		19,379,917		962,085		50,680,503	

3.0 CREDIT RISK (cont'd)

3.1 Distribution of Credit Exposures (cont'd)

(b) Industry Distribution (cont'd)

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

Group	Government and Central bank	Financial, insurance, business services and real estate	Transport, storage & communication	Agriculture, manufacturing, wholesale & retail trade	Construction	Household	Others	Total
2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	1,877,748	625,606	-	-	-	-	-	2,503,354
Deposits and placements with banks and other financial institutions	-	77,283	-	-	-	-	-	77,283
Balances due from clients and brokers	-	670	-	-	-	-	100,635	101,305
Financial assets held-for-trading	-	53,527	10,223	-	-	-	-	63,750
Financial investments	3,853,263	2,806,383	1,161,400	208,142	297,146	-	-	8,326,333
available-for-sale								
Financial investments held-to-maturity	141,686	151,926	-	-	-	-	-	293,612
Derivative financial assets	-	56,969	-	-	-	-	27,486	84,455
Loans, advances and financing	-	4,954,492	501,987	11,408,031	1,370,993	21,373,155	515,912	40,124,570
Statutory deposits with Bank Negara Malaysia	1,408,316	-	-	-	-	-	-	1,408,316
Total on-balance sheet	7,281,013	8,726,856	1,673,610	11,616,173	1,668,138	21,373,155	644,033	52,982,979
Financial guarantees	-	36,669	31,573	576,904	57,355	7,680	20,590	730,771
Credit related commitments and contingencies	-	1,453,597	128,259	4,495,893	1,515,553	2,900,735	819,294	11,313,331
Total off-balance sheet	-	1,490,266	159,831	5,072,797	1,572,909	2,908,415	839,884	12,044,102
Total credit risk	7,281,013	10,217,122	1,833,442	16,688,970	3,241,047	24,281,570	1,483,917	65,027,081

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3.0 CREDIT RISK (cont'd)

3.1 Distribution of Credit Exposures (cont'd)

(b) Industry Distribution (cont'd)

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

	Government and Central bank	Financial, insurance, business services and real estate	Transport, storage & communication	Agriculture, manufacturing, wholesale & retail trade	Construction	Household	Others	Total
Bank	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017								
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

3.0 CREDIT RISK (cont'd)

3.1 Distribution of Credit Exposures (cont'd)

(b) Industry Distribution (cont'd)

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

Restated* Group	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	971,784	142,302	-	-	-	-	-	1,114,086
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	1,437,444	-	-	-	-	-	-	1,437,444
Total on-balance sheet	7,061,885	10,398,418	1,471,394	11,168,704	1,244,148	21,292,417	614,887	53,251,853
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	793,790	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	7,061,885	11,825,055	1,615,730	15,905,253	2,619,578	23,619,944	1,434,043	64,081,488

* Refer to Note 55 in the financial statements.

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3.0 CREDIT RISK (cont'd)

3.1 Distribution of Credit Exposures (cont'd)

(c) Residual Contractual Maturity

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

Bank 2018	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1 year RM'000	Total RM'000
Cash and short-term funds	1,450,557	-	-	-	-	1,450,557
Deposits and placements with banks and other financial institutions	-	77,283	-	-	-	77,283
Financial assets held-for-trading	-	25,926	167	-	22,678	48,771
Financial investments available-for-sale	61,449	274,130	489,924	455,660	5,003,641	6,284,804
Financial investments held-to-maturity	1,229	446	49,764	63,149	230,115	344,703
Loans, advances and financing	6,240,348	1,494,915	700,136	127,353	23,058,919	31,621,671
Statutory deposits with Bank Negara Malaysia	-	-	-	-	1,092,566	1,092,566
Derivative financial assets	17,806	25,115	4,083	11,223	26,229	84,455
Total on-balance sheet exposure	7,771,389	1,897,814	1,244,074	657,385	29,434,149	41,004,811

Group 2018

Cash and short-term funds	2,503,354	-	-	-	-	2,503,354
Deposits and placements with banks and other financial institutions	-	77,283	-	-	-	77,283
Balances due from clients and brokers	101,305	-	-	-	-	101,305
Financial assets held-for-trading	14,978	25,926	167	-	22,678	63,750
Financial investments available-for-sale	61,848	355,038	519,110	619,793	6,770,545	8,326,333
Financial investments held-to-maturity	1,229	744	84,422	82,636	124,581	293,612
Loans, advances and financing	7,927,745	1,986,359	1,000,365	187,192	29,022,910	40,124,570
Statutory deposits with Bank Negara Malaysia	-	-	-	-	1,408,316	1,408,316
Derivative financial assets	17,806	25,115	4,083	11,223	26,229	84,455
Total on-balance sheet exposure	10,628,265	2,470,464	1,608,147	900,843	37,375,260	52,982,979

3.0 CREDIT RISK (cont'd)

3.1 Distribution of Credit Exposures (cont'd)

(c) Residual Contractual Maturity (cont'd)

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

Bank 2017	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1 year RM'000	Total RM'000
Cash and short-term funds	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
Restated* Group 2017						
Cash and short-term funds	1,114,086	-	-	-	-	1,114,086
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	-	-	-	-	1,437,444	1,437,444
Derivative financial assets	20,678	10,878	24,414	6,118	24,257	86,345
Total on-balance sheet exposure	9,522,401	3,322,605	1,114,935	1,065,095	38,226,817	53,251,853

* Refer to Note 55 in the financial statements.

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3.0 CREDIT RISK (cont'd)

3.2 Past Due Loans, Advances and Financing Analysis

Past due but not impaired loans, advances and financing are loans where the 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. For loans that are structured to pay principal and/or interest at quarterly interval or longer, a default of payment will trigger an impairment immediately.

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

	Bank		Group	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Past due up to 1 month	836,874	779,123	1,105,247	1,016,032
Past due > 1 - 2 months	159,159	148,204	221,479	219,448
Past due > 2 - 3 months	20,164	16,635	34,883	34,742
	1,016,197	943,962	1,361,609	1,270,222

Past due loans, advances and financing analysed by sector:

	Bank		Group	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Financial, insurance & business services and real estate	39,321	133,581	44,396	145,767
Transport, storage & communication	12,370	6,105	12,922	10,243
Agriculture, manufacturing, wholesale & retail trade	107,956	116,896	127,504	151,050
Construction	37,965	25,899	42,113	28,350
Household	814,802	654,809	1,130,620	925,857
Others	3,783	6,672	4,054	8,955
	1,016,197	943,962	1,361,609	1,270,222

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

	Bank		Group	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Northern region	75,634	75,522	107,468	101,809
Central region	700,806	649,386	926,597	853,407
Southern region	134,561	121,395	194,492	191,784
Sabah region	85,781	76,589	110,336	97,562
Sarawak region	19,415	21,070	22,716	25,660
	1,016,197	943,962	1,361,609	1,270,222

3.0 CREDIT RISK (cont'd)

3.3 Impaired Loans, Advances and Financing Analysis

Impaired loans, advances and financing analysed by sectors:

	Bank		Group	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Financial, insurance & business services and real estate	103,133	17,284	106,333	17,284
Transport, storage & communication	5,028	11,281	5,991	11,531
Agriculture, manufacturing, wholesale & retail trade	127,274	86,840	169,844	98,235
Construction	11,450	16,504	13,271	18,699
Household	212,935	201,235	271,254	241,163
Others	10,826	6,436	10,826	6,437
	470,646	339,580	577,519	393,349

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

	Individual assessment allowance RM'000	Collective assessment allowance ¹ RM'000	Individual impairment write-back/ made for during the year (net) RM'000	Individual impairment write-off for the year RM'000
Bank 2018				
Financial, insurance & business services and real estate	1,992	29,353	1,044	-
Transport, storage & communication	2,510	4,667	1,930	(9,561)
Agriculture, manufacturing, wholesale & retail trade	47,416	96,493	12,928	(3,953)
Construction	2,665	8,980	3,888	(8,663)
Household	7,523	78,624	2,432	(2,440)
Others	2,861	2,318	1,863	-
	64,967	220,435	24,085	(24,617)
Group 2018				
Financial, insurance & business services and real estate	2,904	34,075	1,957	-
Transport, storage & communication	2,510	6,300	1,930	(9,561)
Agriculture, manufacturing, wholesale & retail trade	55,267	115,199	18,954	(3,953)
Construction	3,265	11,425	3,968	(8,708)
Household	8,926	126,796	3,204	(3,007)
Others	2,861	2,921	1,863	-
	75,733	296,716	31,876	(25,229)

Note:

¹ Includes collective assessment on impaired loans and non impaired loans.

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3.0 CREDIT RISK (cont'd)

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

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

Bank 2017	Individual assessment allowance RM'000	Collective assessment allowance¹ RM'000	Individual impairment made for/ write-back during the year (net) RM'000	Individual impairment write-off for the year RM'000
Financial, insurance & business services and real estate	735	28,754	296	-
Transport, storage & communication	10,141	3,463	(5)	-
Agriculture, manufacturing, wholesale & retail trade	38,902	110,237	17,104	(7,694)
Construction	7,197	8,524	38	-
Household	6,174	80,967	3,356	(3,344)
Others	998	2,692	555	(965)
	64,147	234,637	21,344	(12,003)
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)
	66,627	313,328	23,506	(21,875)

Note:

¹ Includes collective assessment on impaired loans and non impaired loans.

3.0 CREDIT RISK (cont'd)

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

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

Bank 2018	Impaired loans, advances and financing RM'000	Individual assessment allowance RM'000	Collective assessment allowance¹ RM'000
Northern region	34,658	7,299	26,602
Central region	336,653	42,378	144,320
Southern region	65,560	11,848	27,381
Sabah region	24,263	645	16,431
Sarawak region	9,512	2,797	5,701
	470,646	64,967	220,435
Group 2018			
Northern region	42,540	7,863	33,287
Central region	417,859	48,402	197,424
Southern region	78,417	15,284	37,739
Sabah region	28,145	1,387	20,620
Sarawak region	10,558	2,797	7,646
	577,519	75,733	296,716
Bank 2017	Impaired loans, advances and financing RM'000	Individual assessment allowance RM'000	Collective assessment allowance¹ 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

Note:

¹ Includes collective assessment on impaired loans and non impaired loans.

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3.0 CREDIT RISK (cont'd)

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

Movements in loan impairment allowances are analysed as follows:

	Bank		Group	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Individual assessment allowance:				
At beginning of year	64,147	58,061	66,627	68,331
Allowance made during the year (net)	24,085	21,344	31,876	23,506
Amount written-off	(24,617)	(12,003)	(25,229)	(21,875)
Transfers from/(to) collective assessment allowance	1,352	(3,255)	2,459	(3,335)
At end of year	64,967	64,147	75,733	66,627
Collective assessment allowance¹:				
At beginning of year	234,637	236,501	313,328	306,978
Allowance made during the year (net)	30,618	35,986	73,699	80,408
Amount written-off	(43,468)	(41,105)	(87,852)	(77,393)
Transfers (to)/from individual assessment allowance	(1,352)	3,255	(2,459)	3,335
At end of year	220,435	234,637	296,716	313,328

Note:

¹ Includes collective assessment on impaired loans and non impaired loans.

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3.0 CREDIT RISK (cont'd)

3.3.4 Assignment of Risk-Weights for Portfolios Under the Standardised Approach (cont'd)

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

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3.0 CREDIT RISK (cont'd)

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

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

Restated* Group 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 Multilateral Development Banks RM'000		Insurance companies, Securities firms and Fund managers RM'000		Regulatory retail RM'000	Residential mortgages RM'000	Higher risk assets RM'000	Other assets RM'000	Equity exposures RM'000		
0%	7,150,538	-	-	-	-	952,999	-	-	-	267,692	-	8,371,229	-
20%	27,876	239,511	2,766,784	-	2,319,403	111	1,714	-	-	-	-	5,355,398	1,071,080
35%	-	-	-	-	-	-	-	-	-	-	-	7,929,020	2,775,157
50%	-	-	91,937	-	63,325	21,597	5,409,320	-	-	-	-	5,586,179	2,793,089
75%	-	-	-	-	-	11,155,159	24,488	-	-	-	-	11,179,647	8,384,735
100%	-	-	21	49,957	13,062,333	794,150	1,276,790	-	391,334	165,291	15,739,876	15,739,876	
150%	-	-	-	-	31,143	79,536	-	5,374	-	3	116,056	174,084	
Total exposures	7,178,414	239,511	2,858,742	49,957	16,429,203	12,050,553	14,641,332	5,374	659,026	165,294	54,277,405	30,938,021	

Risk-weighted assets by exposures	5,575	47,902	599,346	49,957	13,604,591	9,290,644	6,775,316	8,061	391,334	165,296	30,938,021	
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Average risk-weight	0%	20%	21%	100%	83%	77%	46%	150%	59%	100%	57%	
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Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-	
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* Refer to Note 55 in the financial statements.

3.0 CREDIT RISK (cont'd)

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

For the purpose of determining counterparty risk-weights, the Group uses external credit assessments from Rating Agency Malaysia (RAM), Malaysian Rating Corporation (MARC), Standard and Poor's (S&P), Moody's, Fitch, and Rating and Investment (R&I). 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 2018

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	
	R&I	AAA to AA-/ a-1+, a-1	A+ to A-/ a-2	BBB+ to BB-/a-3	B+ to D/ b,c	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures							
(i) Exposures risk weighted using Sovereigns and Central Banks rating							
Sovereigns and Central Banks (See Note 1)	-	4,800,900	-	-	-	-	4,800,900
Corporates	-	383,680	-	-	-	-	383,680
Banks, DFIs and Multilateral Development Banks	-	-	-	-	-	-	-
	-	5,184,580	-	-	-	-	5,184,580
(ii) Exposures risk weighted using Banking Institutions long term rating							
Banks, DFIs and Multilateral Development Banks	475,428	1,274,546	403,451	-	224,537	-	2,377,962
Exposures risk weighted using Banking Institutions short term rating							
Banks, DFIs and Multilateral Development Banks	14,978	-	-	-	-	-	14,978
	490,406	1,274,546	403,451	-	224,537	-	2,392,940
(iii) Exposures risk weighted using Corporate long term rating							
Public Sector Entities	55,778	-	-	-	18,678	-	74,456
Corporates	1,704,377	58,704	-	-	13,789,513	-	15,552,594
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	53,514	-	53,514
Exposures risk weighted using Corporate short term rating							
Public Sector Entities	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-
	1,760,155	58,704	-	-	13,861,705	-	15,680,564

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3.0 CREDIT RISK (cont'd)

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

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

Group
2018

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	
	R&I	AAA to AA-/ a-1+, a-1	A+ to A-/ a-2	BBB+ to BB-/a-3	B+ to D/ b,c	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)	-	7,775,108	-	-	-	-	7,775,108
Corporates	-	882,250	-	-	-	-	882,250
Banks, DFIs and Multilateral Development Banks	-	45,149	-	-	-	-	45,149
	-	8,702,507	-	-	-	-	8,702,507
(ii) Exposures risk weighted using Banking Institutions long term rating							
Banks, DFIs and Multilateral Development Banks	576,166	231,916	403,451	-	224,537		1,436,070
Exposures risk weighted using Banking Institutions short term rating							
Banks, DFIs and Multilateral Development Banks	14,978	-	-	-	-		14,978
	591,144	231,916	403,451	-	224,537		1,451,048
(iii) Exposures risk weighted using Corporate long term rating							
Public Sector Entities	137,353	-	-	-	92,739		230,092
Corporates	2,532,552	73,250	-	-	17,632,805		20,238,607
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	78,709		78,709
Exposures risk weighted using Corporate short term rating							
Public Sector Entities	-	-	-	-	-		-
Corporates	-	-	-	-	-		-
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-		-
	2,669,905	73,250	-	-	17,804,253		20,547,408

3.0 CREDIT RISK (cont'd)

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

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

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	
	R&I	AAA to AA-/ a-1+, a-1	A+ to A-/ a-2	BBB+ to BB-/a-3	B+ to D/ b,c	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)		-	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, DFIs and Multilateral Development Banks		892,473	2,457,655	5,694	-	110,633	3,466,455
Exposures risk weighted using Banking Institutions short term rating							
Banks, DFIs and Multilateral Development Banks		-	-	-	-	-	-
		892,473	2,457,655	5,694	-	110,633	3,466,455
(iii) Exposures risk weighted using Corporate long term rating							
Public Sector Entities		55,802	-	-	-	53,695	109,497
Corporates		1,678,213	44,126	-	-	11,722,431	13,444,770
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	39,572	39,572
Exposures risk weighted using Corporate short term rating							
Public Sector Entities		49,491	-	-	-	-	49,491
Corporates		-	-	-	-	-	-
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-	-
		1,783,506	44,126	-	-	11,815,698	13,643,330

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3.0 CREDIT RISK (cont'd)

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

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

Restated*
Group
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	
	R&I	AAA to AA-/ a-1+, a-1	A+ to A-/ a-2	BBB+ to BB-/a-3	B+ to D/ b,c	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)		-	7,178,414	-	-	-	7,178,414
Corporates		-	952,999	-	-	-	952,999
		-	8,131,413	-	-	-	8,131,413
(ii) Exposures risk weighted using Banking Institutions long term rating							
Banks, DFIs and Multilateral Development Banks		1,642,670	1,099,743	5,694	-	110,633	2,858,740
Exposures risk weighted using Banking Institutions short term rating							
Banks, DFIs and Multilateral Development Banks		-	-	-	-	-	-
		1,642,670	1,099,743	5,694	-	110,633	2,858,740
(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

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.

* Refer to Note 55 in the financial statements.

3.0 CREDIT RISK (cont'd)

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 BNM guidelines apply more restrictive rules on collaterals that qualify as credit risk 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.

Bank 2018 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
Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	4,800,900	-	-	-
Public sector entities	59,446	-	-	-
Banks, DFIs and Multilateral Development Banks	2,212,038	-	-	-
Insurance companies, securities firms and fund managers	37,884	-	33	-
Corporates	13,887,523	-	1,113,972	-
Regulatory retail	7,451,752	-	719,128	-
Residential mortgages	11,911,755	-	9,711	-
Higher risk assets	2,801	-	6	-
Other assets	529,608	-	-	-
Equity exposures	121,644	-	-	-
Defaulted exposures	313,098	-	1,949	-
Total on-balance sheet exposures	41,328,449	-	1,844,799	-
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	3,055,475	-	393,872	-
Defaulted exposures	5,267	-	-	-
Total off-balance sheet exposures	3,060,742	-	393,872	-
Total on and off-balance sheet exposures	44,389,191	-	2,238,671	-

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3.0 CREDIT RISK (cont'd)

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

Group 2018 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
Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	7,715,107	-	-	-
Public sector entities	211,083	-	-	-
Banks, DFIs and Multilateral Development Banks	1,315,416	-	-	-
Insurance companies, securities firms and fund managers	63,080	-	33	-
Corporates	18,530,955	-	1,438,506	-
Regulatory retail	10,019,382	-	790,034	-
Residential mortgages	14,354,700	-	10,938	-
Higher risk assets	3,195	-	6	-
Other assets	639,421	-	-	-
Equity exposures	178,856	-	-	-
Defaulted exposures	385,914	-	2,733	-
Total on-balance sheet exposures	53,417,109	-	2,242,250	-
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	3,766,975	-	472,280	-
Defaulted exposures	11,080	-	863	-
Total off-balance sheet exposures	3,778,055	-	473,143	-
Total on and off-balance sheet exposures	57,195,164	-	2,715,393	-

3.0 CREDIT RISK (cont'd)

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

Bank 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
Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	5,352,766	-	-	-
Public sector entities	105,293	-	-	-
Banks, DFIs and Multilateral Development Banks	3,281,948	-	-	-
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	499,621	-	-	-
Equity exposures	111,392	-	-	-
Defaulted exposures	201,335	-	3,168	-
Total on-balance sheet exposures	42,888,651	-	1,670,361	-
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	3,075,910	-	367,061	-
Defaulted exposures	6,394	-	29	-
Total off-balance sheet exposures	3,082,304	-	367,090	-
Total on and off-balance sheet exposures	45,970,955	-	2,037,451	-

BASEL II PILLAR 3 REPORT DISCLOSURE

for the financial year ended 31 March 2018

3.0 CREDIT RISK (cont'd)

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

Restated* 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
Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	7,090,538	-	-	-
Public sector entities	175,816	-	-	-
Banks, DFIs and Multilateral Development Banks	2,674,355	-	-	-
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	659,027	-	-	-
Equity exposures	165,294	-	-	-
Defaulted exposures	232,514	-	3,950	-
Total on-balance sheet exposures	53,113,483	-	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	56,745,363	-	2,467,958	-

* Refer to Note 55 in the financial statements.

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, defaults 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.

3.0 CREDIT RISK (cont'd)

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

Derivatives are mainly utilised for hedging purposes with minimal trading exposures. CCR arising from the derivatives 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.

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

Bank 2018	Principal Amount RM'000	Positive Fair Value of Derivative Contracts ¹ RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
<u>Credit-related exposures</u>				
Direct credit substitutes	564,446	-	564,446	494,530
Transaction-related contingent items	651,896	-	325,948	244,337
Short-term self-liquidating trade-related contingencies	215,445	-	43,089	39,457
Irrevocable commitments to extend credit:				
• maturity exceeding one year	744,972	-	372,486	336,606
• maturity not exceeding one year	5,748,870	-	1,149,774	834,826
Unutilised credit card lines	1,750,064	-	350,013	270,209
	9,675,693	-	2,805,756	2,219,965
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
• one year or less	5,057,347	57,169	94,639	41,707
• over one year to three years	73,015	-	3,964	3,964
• over three years	17,385	-	1,536	1,536
Interest rate related contracts:				
• one year or less	1,206,130	1,050	5,343	1,801
• over one year to three years	1,990,360	7,158	38,427	11,888
• over three years	2,146,310	18,864	102,929	57,951
Equity related contracts:				
• one year or less	38,825	-	2,330	1,148
• over one year to three years	67,660	404	5,817	2,909
	10,597,032	84,645	254,986	122,904
	20,272,725	84,645	3,060,742	2,342,869

Note:

¹ Exclude interest receivable for derivatives contracts.

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3.0 CREDIT RISK (cont'd)

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

Group 2018	Principal Amount RM'000	Positive Fair Value of Derivative Contracts ¹ RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
<u>Credit-related exposures</u>				
Direct credit substitutes	719,148	-	719,148	636,319
Transaction-related contingent items	739,535	-	369,768	274,015
Short-term self-liquidating trade-related contingencies	235,056	-	47,011	42,975
Irrevocable commitments to extend credit:				
• maturity exceeding one year	1,056,899	-	528,450	479,335
• maturity not exceeding one year	7,543,400	-	1,508,680	1,060,940
Unutilised credit card lines	1,750,064	-	350,013	270,209
	12,044,102	-	3,523,069	2,763,793
<u>Derivative financial instruments</u>				
Foreign exchange related contracts:				
• one year or less	5,057,347	57,169	94,639	41,707
• over one year to three years	73,015	-	3,964	3,964
• over three years	17,385	-	1,536	1,536
Interest rate related contracts:				
• one year or less	1,206,130	1,050	5,343	1,801
• over one year to three years	1,990,360	7,158	38,427	11,888
• over three years	2,146,310	18,864	102,929	57,951
Equity related contracts:				
• one year or less	38,825	-	2,330	1,148
• over one year to three years	67,660	404	5,817	2,909
	10,597,032	84,645	254,986	122,904
	22,641,134	84,645	3,778,055	2,886,697

Note:

¹ Exclude interest receivable for derivatives contracts.

3.0 CREDIT RISK (cont'd)

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

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

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3.0 CREDIT RISK (cont'd)

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

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

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.

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.

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4.0 MARKET RISK (cont'd)

Regulatory capital requirements

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

	Bank		Group	
	Risk-Weighted Assets	Capital Requirements	Risk-Weighted Assets	Capital Requirements
2018	RM'000	RM'000	RM'000	RM'000
Interest rate risk				
• General interest rate risk	11,971	958	11,971	958
• Specific interest rate risk	3,318	265	3,786	303
	15,289	1,223	15,757	1,261
Option risk	559	45	559	45
Foreign exchange risk	94,541	7,563	94,541	7,563
	110,389	8,831	110,857	8,869
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
	29,792	2,383	51,344	4,108
Option risk	175	14	175	14
Foreign exchange risk	74,523	5,962	74,523	5,962
	104,490	8,359	126,042	10,083

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 (GORMC), Group Risk Management Committee (GRMC) as well as the Board.

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

5.0 OPERATIONAL RISK (cont'd)

Operational Risk Management (cont'd)

At senior management level, GORMC manages the day-to-day operational risk exposures. The roles and responsibilities of GORMC include:

- (i) Providing strategic guidance on operational issues and monitor implementation of Operational Risk Management (ORM) framework
- (ii) Reviewing and monitoring operational risk issues, reports and action plans
- (iii) Evaluating and agree on initiatives to strengthen operational processes or infrastructure
- (iv) Promoting 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 Risk-Weighted Asset (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:

	Gross credit exposures RM'000	Bank Risk-weighted assets RM'000	Gross credit exposures RM'000	Group Risk-weighted assets RM'000
2018				
Publicly traded				
Holding of equity investments	10	10	10	10
Privately held				
For socio-economic purposes	121,631	121,631	178,843	178,843
Not for socio-economic purposes	3	5	3	5
	121,644	121,646	178,856	178,858
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
	111,392	111,393	165,294	165,295

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6.0 EQUITY EXPOSURES IN BANKING BOOK (cont'd)

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	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Realised gains/(losses) recognised in the statement of comprehensive income				
• Privately held equity investments	18,343	-	18,343	-
	18,343	-	18,343	-
Unrealised (losses)/gains recognised in revaluation reserve				
• Publicly traded equity investments	(5)	-	(5)	-
• Privately held equity investments	(8,086)	8,720	(4,776)	12,938
	(8,091)	8,720	(4,781)	12,938

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:

- 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.
- Checking to ensure that IRR/RORBB are accurately measured and any mismatches identified, reviewed and reported monthly to GALCO.
- Setting of proper gapping limits and the limits monitored closely.
- 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.

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

IRR/RORBB Management (cont'd)

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 (EVE) simulations which measures the asset-liability impact of adverse interest rate/profit rate movements on the economic value of the Bank's capital.

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.

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
2018		
Impact on net interest income (NII)		
Ringgit Malaysia	102,916	125,768
Impact on Economic Value (EV)		
Ringgit Malaysia	29,042	(24,233)
2017		
Impact on net interest income (NII)		
Ringgit Malaysia	96,418	101,418
Impact on Economic Value (EV)		
Ringgit Malaysia	(19,398)	(109,148)

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.

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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 year end, there were 2 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 RM2,797 had been disposed of in accordance with Shariah Committee's decision, except for a sum of RM445 which is pending disposal.