



ALLIANCE BANK

**PILLAR 3 REPORT FOR
THE FINANCIAL YEAR ENDED 31 MARCH 2023**

ALLIANCE BANK MALAYSIA BERHAD
198201008390 (88103-W)

CONTENTS	PAGE
1.0 Overview	1 - 2
1.1 Medium and Location of Disclosure	1
1.2 Basis of Disclosure	1
1.3 Comparative Information	1
1.4 Scope of Application	2
2.0 Capital	2 - 9
2.1 Capital Adequacy Ratios	3 - 4
2.2 Capital Structure	5
2.3 Risk-Weighted Assets and Capital Requirements	6 - 9
3.0 Risk Management	10 - 11
3.1 Risk Management Framework	10
3.2 Risk Governance and Organisation	10
3.3 Risk Strategy	10
3.4 Risk Appetite	10
3.5 Risk Culture	11
3.6 Risk Management Process	11
4.0 Credit Risk	11 - 41
4.1 Distribution of Credit Exposures	13 - 18
4.2 Impaired Loans, Advances and Financing and Allowance for Expected Credit Losses Analysis	19 - 24
4.3 Assignment of Risk Weights for Portfolios Under the Standardised Approach	25 - 32
4.4 Credit Risk Mitigation	33 - 36
4.5 Off-Balance Sheet Exposures and Counterparty Credit Risk	37 - 41
5.0 Market Risk	42 - 46
5.1 Market Risk Management	42
5.2 Traded Market Risk	42 - 44
5.3 Non-Traded Market Risk	45 - 47
5.4 Equity Exposures in Banking Book	48
6.0 Operational Risk	49 - 50
7.0 Shariah Governance Disclosures	51

BASEL II PILLAR 3 REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023

1.0 Overview

Bank Negara Malaysia ("BNM")'s Capital Adequacy Frameworks require Alliance Bank Malaysia Berhad ("Bank") and its subsidiaries ("Group") to maintain an adequate level of capital to withstand potential losses arising from its operations. BNM's Capital Adequacy Frameworks cover three 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 the adoption of forward-looking approaches to capital management and stress testing/risk simulation techniques; and
- (c) Pillar 3 - covers disclosure and external communication of risk and capital information by banks.

The Pillar 3 Disclosure for the financial year ended 31 March 2023 for the Bank and the Group is in accordance with BNM's Risk-Weighted Capital Adequacy Framework ("RWCAF") – Disclosure Requirements (Pillar 3) and Capital Adequacy Framework for Islamic Banks ("CAFIB") – Disclosures Requirements (Pillar 3).

The Group has adopted the Standardised Approach for credit risk and market risk; and the Basic Indicator Approach for operational risk in determining the capital requirements of Pillar 1.

1.1 Medium and Location of Disclosure

The Pillar 3 Disclosure will be made available under the Investor Relations section of the Group's website at <http://www.alliancebank.com.my/home.aspx> and as a separate report in the annual and half-yearly financial reports.

1.2 Basis of Disclosure

The Group's Pillar 3 Disclosure is governed by the Bank's Pillar 3 Disclosure Policy. This policy outlines the minimum disclosure standards, the approach for determining the appropriateness of information disclosed and the internal controls over the disclosure process. Pillar 3 Disclosure is to be read in conjunction with the Group's and Bank's financial statements for the financial year ended 31 March 2023. Whilst this document discloses the Group's assets both in terms of exposures and capital requirements, the information disclosed herein may not be directly comparable with the information in the financial statements for the financial year ended 31 March 2023 published by the Group.

These disclosures have been reviewed and verified by an independent internal party and approved by the Board of Directors ("Board") of the Group.

1.3 Comparative Information

The corresponding Pillar 3 Disclosure in the preceding reporting period would be as at 31 March 2022.

BASEL II PILLAR 3 REPORT
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023

1.0 Overview (cont'd.)

1.4 Scope of Application

The Pillar 3 Disclosure was prepared on a consolidated basis comprising information on Alliance Bank Malaysia Berhad ("Bank"), its subsidiaries, associate companies and joint ventures. 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 ("AISB").

The quantitative information as at 31 March 2023 also reflects the following events which occurred within the reporting period:

- (a) Alliance Investment Bank Berhad ("AIBB"), a wholly-owned subsidiary of the Bank, has completed the transfer of its stockbroking business to Phillip Capital Sdn. Bhd. (formerly known as Phillip Futures Sdn. Bhd.) on 30 July 2022.
- (b) On 26 September 2022, AIBB obtained an Order in Kuala Lumpur High Court confirming AIBB's proposed share capital reduction under Sections 115(a) and 116 of the Companies Act 2016 where the share capital and issued number of shares of AIBB shall be reduced from RM365,962,500 comprising 365,000,000 ordinary shares to RM215,962,500 comprising 215,000,000 ordinary shares, via cancellation of 150,000,000 ordinary shares held by the Bank. The amount of RM150,000,000 arising from the said shares cancellation was returned to the Bank on 29 September 2022.

Subsequently, AIBB had on 2 March 2023 entered into an asset transfer agreement with the Bank for a consideration based on an amount equal to the net asset value taking into consideration the total assets and total liabilities.

AIBB also had on 22 March 2023 obtained the Vesting Order in the Kuala Lumpur High Court for the transfer of the assets and liabilities. The effective transfer date is on 1 April 2023. There were no material impact to the Group.

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 ventures are deducted from regulatory capital.

The Bank did not experience any significant restrictions or other major impediments on the transfer of funds or regulatory capital within the Group.

There were no capital deficiencies in any of the subsidiaries of the Group as at financial year end.

2.0 Capital

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.

The Group's Internal Capital Adequacy Assessment Process ("ICAAP") covers the following:

- (a) Assesses inherent risks in the business against risk captured under Pillar 1, and risks not sufficiently or not captured under Pillar 1;
- (b) Estimates the potential impact of extreme but plausible events on the Group's earnings, balance sheet and capital via stress testing;
- (c) Sets internal capital targets which include buffers to cushion potential stress losses and contingency plan(s) where warranted; and
- (d) Regularly monitors and reports portfolio risk profiles, required capital and available capital.

ICAAP results are regularly reported to Group Risk Management Committee ("GRMC") and the Board to facilitate proactive capital management.

2.0 Capital (cont'd.)

2.1 Capital Adequacy Ratios

BNM's Transitional Arrangements for Regulatory Capital Treatment of Accounting Provisions took effect on 9 December 2020. This allows the Group and the Bank to add back a portion of Stage 1 ("S1") and Stage 2 ("S2") provisions with an "add-back factor", to the Common Equity Tier I ("CET I") capital from Financial Year 2021 to Financial Year 2024. The Group and the Bank have sufficient capital under both conditions with or without the Transitional Arrangement.

(a) The capital adequacy ratios with and without transitional arrangements of the Group and the Bank are as follows:

	<u>GROUP</u>		<u>BANK</u>	
	2023	2022	2023	2022
(i) With Transitional Arrangements				
<u>Before Deducting Proposed Dividends</u>				
CET I Capital Ratio	14.868%	16.372%	14.608%	15.614%
Tier I Capital Ratio	15.714%	17.287%	15.410%	16.489%
Total Capital Ratio	19.748%	21.401%	19.970%	21.134%
<u>After Deducting Proposed Dividends</u>				
CET I Capital Ratio	14.494%	15.959%	14.111%	15.061%
Tier I Capital Ratio	15.340%	16.874%	14.913%	15.936%
Total Capital Ratio	19.374%	20.988%	19.473%	20.581%
(ii) Without Transitional Arrangements				
<u>Before Deducting Proposed Dividends</u>				
CET I Capital Ratio	14.145%	14.993%	14.082%	14.397%
Tier I Capital Ratio	14.991%	15.908%	14.885%	15.272%
Total Capital Ratio	19.025%	20.173%	19.445%	20.137%
<u>After Deducting Proposed Dividends</u>				
CET I Capital Ratio	13.771%	14.580%	13.586%	13.844%
Tier I Capital Ratio	14.617%	15.495%	14.388%	14.719%
Total Capital Ratio	18.651%	19.760%	18.948%	19.584%

2.0 Capital (cont'd.)

2.1 Capital Adequacy Ratios (cont'd.)

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

	<u>Alliance Islamic Bank Berhad</u>		<u>Alliance Investment Bank Berhad</u>	
	2023	2022	2023	2022
(i) With Transitional Arrangements				
<u>Before Deducting Proposed Dividends</u>				
CET I Capital Ratio	13.717%	14.904%	99.686%	87.301%
Tier I Capital Ratio	14.694%	15.966%	99.686%	87.301%
Total Capital Ratio	17.122%	18.510%	100.257%	88.174%
<u>After Deducting Proposed Dividends</u>				
CET I Capital Ratio	13.715%	14.463%	99.686%	87.301%
Tier I Capital Ratio	14.692%	15.525%	99.686%	87.301%
Total Capital Ratio	17.120%	18.069%	100.257%	88.174%
(ii) Without Transitional Arrangements				
<u>Before Deducting Proposed Dividends</u>				
CET I Capital Ratio	12.401%	12.995%	99.300%	87.240%
Tier I Capital Ratio	13.377%	14.057%	99.300%	87.240%
Total Capital Ratio	15.806%	16.601%	99.871%	88.113%
<u>After Deducting Proposed Dividends</u>				
CET I Capital Ratio	12.399%	12.554%	99.300%	87.240%
Tier I Capital Ratio	13.375%	13.616%	99.300%	87.240%
Total Capital Ratio	15.804%	16.160%	99.871%	88.113%

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 (cont'd.)

2.2 Capital Structure

The following tables present the components of CET I, Tier I and Tier II capital.

	GROUP		BANK	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
<u>CET I Capital/Tier I Capital</u>				
Paid-Up Share Capital	1,548,106	1,548,106	1,548,106	1,548,106
Retained Profits	4,989,825	4,865,214	4,324,216	4,270,419
Regulatory Reserves (Note 1)	257,241	47,686	231,857	41,641
Hedging Reserves	-	(253)	-	(253)
Financial Investments at Fair Value through Other Comprehensive Income ("FVOCI") Reserves	(149,271)	(145,150)	(136,059)	(138,660)
Capital Reserves	100,150	100,150	15,515	15,515
	<u>6,746,051</u>	<u>6,415,753</u>	<u>5,983,635</u>	<u>5,736,768</u>
(Less)/Add: Regulatory Adjustments				
- Goodwill and Other Intangibles	(440,438)	(432,205)	(338,321)	(330,151)
- Deferred Tax Assets	(198,920)	(203,285)	(141,327)	(143,544)
- 55% of FVOCI Reserves	-	-	-	-
- Regulatory Reserves (Note 1)	(257,241)	(47,686)	(231,857)	(41,641)
- Investment in Subsidiaries, Associate and Joint Venture	(1,094)	(1,048)	(883,013)	(1,109,102)
- Transitional Arrangements	298,945	527,033	163,695	347,580
Total CET I Capital	<u>6,147,303</u>	<u>6,258,562</u>	<u>4,552,812</u>	<u>4,459,910</u>
Additional Tier I Capital Securities	349,895	349,753	250,000	249,888
Total Additional Tier I Capital	<u>349,895</u>	<u>349,753</u>	<u>250,000</u>	<u>249,888</u>
Total Tier I Capital	<u>6,497,198</u>	<u>6,608,315</u>	<u>4,802,812</u>	<u>4,709,798</u>
<u>Tier II Capital</u>				
Subordinated Obligations	1,199,459	1,199,264	1,199,153	1,198,848
Expected Credit Losses and Regulatory Reserves (Note 1 & Note 2)	468,411	373,502	352,172	258,031
Less: Regulatory Adjustments				
- Investment in Tier II Capital Instruments	-	-	(130,000)	(130,000)
Total Tier II Capital	<u>1,667,870</u>	<u>1,572,766</u>	<u>1,421,325</u>	<u>1,326,879</u>
Total Capital	<u>8,165,068</u>	<u>8,181,081</u>	<u>6,224,137</u>	<u>6,036,677</u>

Note 1: The Bank maintained its prudent stand in relation to maintaining the regulatory reserves to preserve the potential deterioration of credit quality.

Note 2: Expected Credit Losses ("ECL") for S1 and S2 only.

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 requirements of the Group and the Bank:

GROUP 2023 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
(a) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	10,033,638	10,033,638	-	-
Public Sector Entities	640,350	640,350	17,650	1,412
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks	1,869,210	1,869,210	398,539	31,883
Insurance Companies, Securities Firms and Fund Managers	87,632	87,057	82,669	6,614
Corporates	22,246,629	20,926,235	16,651,212	1,332,097
Regulatory Retail	13,001,176	11,959,910	8,723,717	697,897
Residential Mortgages	16,227,654	16,217,909	6,472,427	517,794
Higher Risk Assets	4,740	4,740	7,110	569
Other Assets	1,201,152	1,201,152	679,406	54,352
Defaulted Exposures	661,334	658,233	563,583	45,087
Total On-Balance Sheet Exposures	65,973,515	63,598,434	33,596,313	2,687,705
Off-Balance Sheet Exposures:				
Credit-Related Off-Balance Sheet Exposures				
Sheet Exposures	5,128,643	4,521,260	3,589,739	287,179
Derivative Financial Instruments	922,950	922,950	275,237	22,019
Defaulted Exposures	7,800	7,795	11,565	925
Total Off-Balance Sheet Exposures	6,059,393	5,452,005	3,876,541	310,123
Total On and Off-Balance Sheet Exposures	72,032,908	69,050,439	37,472,854	2,997,828
(b) Market Risk (Section 5.0)				
	Long Position	Short Position		
Interest Rate Risk	27,565,310	(27,555,042)	266,101	21,288
Foreign Exchange Risk	36,639	(48,882)	48,884	3,911
Option Risk	27,601,949	(27,603,924)	1,663	133
Total			316,648	25,332
(c) Operational Risk				
Total			3,556,380	284,510
Total	72,032,908	69,050,439	41,345,882	3,307,670

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 requirements of the Group and the Bank (cont'd.):

BANK 2023 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(a) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	7,077,581	7,077,581	-	-
Public Sector Entities	361,324	361,324	11,817	945
Banks, DFIs and Multilateral Development Banks	2,515,766	2,515,766	598,952	47,916
Insurance Companies, Securities Firms and Fund Managers	56,699	56,124	53,671	4,294
Corporates	16,550,663	15,364,654	12,453,126	996,250
Regulatory Retail	9,570,461	8,621,370	6,068,793	485,503
Residential Mortgages	11,864,766	11,855,530	4,724,529	377,962
Higher Risk Assets	3,846	3,846	5,769	462
Other Assets	1,195,492	1,195,492	673,746	53,900
Defaulted Exposures	439,174	436,073	384,423	30,754
Total On-Balance Sheet Exposures	49,635,772	47,487,760	24,974,826	1,997,986
Off-Balance Sheet Exposures:				
Credit-Related Off-Balance Sheet Exposures				
Derivative Financial Instruments	937,367	937,367	282,445	22,595
Defaulted Exposures	7,732	7,727	11,496	920
Total Off-Balance Sheet Exposures	5,186,239	4,642,528	3,198,937	255,915
Total On and Off-Balance Sheet Exposures	54,822,011	52,130,288	28,173,763	2,253,901
(b) Market Risk (Section 5.0)				
	Long Position	Short Position		
Interest Rate Risk	27,565,310	(27,555,042)	266,101	21,288
Foreign Exchange Risk	36,722	(48,759)	48,761	3,901
Option Risk	27,602,032	(27,603,801)	1,663	133
Total			316,525	25,322
(c) Operational Risk				
	-	-	2,677,121	214,170
Total	54,822,011	52,130,288	31,167,409	2,493,393

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 requirements of the Group and the Bank (cont'd.):

GROUP 2022 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(a) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	9,060,236	9,060,236	-	-
Public Sector Entities	684,403	684,403	42,664	3,413
Banks, DFIs and Multilateral Development Banks	1,060,610	1,060,610	249,651	19,972
Insurance Companies, Securities Firms and Fund Managers	6,090	5,904	5,744	460
Corporates	21,432,987	20,008,464	15,838,533	1,267,083
Regulatory Retail	11,290,118	10,301,771	7,562,357	604,989
Residential Mortgages	16,334,950	16,325,189	6,575,078	526,006
Higher Risk Assets	5,237	5,235	7,853	628
Other Assets	1,103,582	1,103,582	644,543	51,563
Defaulted Exposures	523,225	522,274	523,930	41,914
Total On-Balance Sheet Exposures	61,501,438	59,077,668	31,450,353	2,516,028
Off-Balance Sheet Exposures:				
Credit-Related Off-Balance Sheet Exposures				
Derivative Financial Instruments	486,471	486,471	165,831	13,266
Defaulted Exposures	908	904	1,347	108
Total Off-Balance Sheet Exposures	4,457,949	3,883,914	3,042,444	243,395
Total On and Off-Balance Sheet Exposures	65,959,387	62,961,582	34,492,797	2,759,423
(b) Market Risk (Section 5.0)				
	Long Position	Short Position		
Interest Rate Risk	20,468,534	(20,157,895)	293,037	23,443
Foreign Exchange Risk	51,453	(60,578)	60,571	4,846
Option Risk	20,519,987	(20,218,473)	-	-
Total			353,608	28,289
(c) Operational Risk	-	-	3,381,129	270,490
Total	65,959,387	62,961,582	38,227,534	3,058,202

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 requirements of the Group and the Bank (cont'd.):

BANK 2022 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(a) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	6,548,855	6,548,855	-	-
Public Sector Entities	340,855	340,855	18,275	1,462
Banks, DFIs and Multilateral Development Banks	1,363,913	1,363,913	379,406	30,352
Insurance Companies, Securities Firms and Fund Managers	2,297	2,111	1,952	156
Corporates	16,073,457	14,859,109	11,914,015	953,121
Regulatory Retail	8,345,008	7,492,812	5,300,991	424,079
Residential Mortgages	11,755,878	11,746,366	4,589,848	367,188
Higher Risk Assets	4,362	4,360	6,540	523
Other Assets	1,011,154	1,011,154	558,445	44,676
Defaulted Exposures	368,064	367,646	385,887	30,871
Total On-Balance Sheet Exposures	45,813,843	43,737,181	23,155,359	1,852,428
Off-Balance Sheet Exposures:				
Credit-Related Off-Balance Sheet Exposures				
Derivative Financial Instruments	486,471	486,471	165,831	13,266
Defaulted Exposures	853	849	1,271	102
Total Off-Balance Sheet Exposures	3,747,140	3,252,432	2,507,017	200,561
Total On and Off-Balance Sheet Exposures	49,560,983	46,989,613	25,662,376	2,052,989
(b) Market Risk (Section 5.0)				
	Long Position	Short Position		
Interest Rate Risk	20,468,534	(20,157,895)	293,037	23,443
Foreign Exchange Risk	51,553	(60,543)	60,537	4,843
Option Risk	20,520,087	(20,218,438)	-	-
Total			353,574	28,286
(c) Operational Risk				
Total	-	-	2,547,781	203,822
Total	49,560,983	46,989,613	28,563,731	2,285,097

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

The Group and the Bank 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 Risk Management

The Board and the Management of Alliance Bank Malaysia Berhad are committed towards ensuring that the Bank's corporate objectives are supported by a sound risk strategy with an effective risk management framework that is appropriate to the nature, scale and complexity of the Bank's activities.

3.1 Risk Management Framework

The Bank's risk management framework recognises the diversity of the organisation's activities by balancing the Board's strong supervision with well-defined independent risk management functions within each business area. The Bank's risk management framework is embedded in our respective business activities in order to integrate risk-taking and decision-making with prudent risk management principles. It provides a structured approach for the Bank to form a consolidated and aggregated view of all risks identified at entity, business segment and product levels; and to manage these risks in a holistic manner alongside business objectives and compliance requirements.

3.2 Risk Governance and Organisation

The Bank adopts the Three Lines of Defence model in managing risks collectively. The Three Lines of Defence comprises the following:

- (a) 1st Line of Defence, whereby the risk taking role is played by Business Units and aided by Business Support functions;
- (b) 2nd Line of Defence, whereby the independent risk control role is played by Group Risk Management and Group Compliance (inclusive of the Shariah Review Team); and
- (c) 3rd Line of Defence, whereby the independent risk assurance role is played by Group Internal Audit.

The governance structure adopted within the Group provides a transparent and effective system that promotes active involvement from the Board and Senior Management in the risk management process to ensure a uniform view of risk across the Group.

The Board established the GRMC to assist the Board to oversee risk-related and compliance-related frameworks, strategies, policies and methodologies.

The Executive Risk Management Committee ("ERMC") and other Management Committees oversee and advise the Management on risk-related matters including risk policies, to support the sustainability of the Bank.

3.3 Risk Strategy

The Bank establishes appropriate risk governance, processes and controls in order to pursue its strategic business objectives with confidence, to protect its balance sheet and stakeholders' interest, and to deliver sustainable profitability. While it may not be possible or feasible to eliminate all inherent risks within the Bank, a set of risk mitigation techniques has been established to reduce the impact of these risks.

3.4 Risk Appetite

Risk Appetite describes the high-level risk parameters and thresholds the Bank is willing to assume in pursuit of its strategic business objectives. These high-level thresholds are then cascaded, where appropriate, into more granular limits and targets across the various portfolios and business units.

3.0 Risk Management (cont'd.)

3.5 Risk Culture

Our Board members, Senior Management and staff are all ambassadors of the Bank's risk culture. Hence, the Bank employs the key elements of leadership, supervision, guidance, counselling and communication to shape and cultivate a desirable risk culture.

3.6 Risk Management Process

The Bank's risk management process embeds the Bank's culture and practices. It starts with risk identification, followed by risk assessment, risk mitigation and control, risk monitoring, risk reporting, escalation and disclosure. The risk management processes of different types of risk are explained in the following sections.

4.0 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 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, and formulates action plans to manage identified risks. The process also ensures alignment of business strategy with the Bank's risk appetite.

Potential problem loans or issues related to portfolios are identified through our Early Warning Framework and thematic reviews, where applicable. Impaired loans are recovered internally or through authorised agents.

In the aspect of credit risk measurement, quantitative tools such as application and behavioural scorecards (for retail loans) and credit rating model (for corporate loans) play an integral role in supporting risk informed pricing, underwriting and portfolio management strategies. In order to manage model risk and ensure that the models remain fit-for-purpose, periodic model validations of all credit models are carried out by an independent validation team within Group Risk Management. The broad principles and framework governing the validation of credit models are set out in the Independent Model Validation Framework. Validation covers both quantitative and qualitative aspects of the model, such as back-testing to assess model performance and accuracy, as well as qualitative evaluation of rating system operations, model design, governance and data quality.

Entity-level Risk Dashboards are escalated to the ERM (Senior Management Level), GRMC (Board Level) 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.

Group Risk Management also performs periodic post approval credit reviews on a sampling basis covering the Consumer, small and medium enterprises ("SMEs"), Corporate and Commercial portfolios to independently assess the quality of credit practices across the Group. The review reports are presented to the GRMC and Group Audit Committee for their notation. Status of all outstanding issues are tracked until closure.

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. Sensitivity analyses are conducted to assess the potential effect of individual risk factors.

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

4.0 Credit Risk (cont'd.)

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.

Provisions for expected credit losses are carried out based on the MFRS 9 approach, loans with defined risk characteristics are transferred to Stage 2 and provisions are estimated based on potential losses for the remaining lifetime of the exposures. Impaired loans are classified as Stage 3 under MFRS 9. Loans that are not classified as Stage 2 or 3 will remain in Stage 1 where provisions will be estimated based on the probability of default over the next 12 months.

Please refer to Note 2(k)(i) of the audited financial statements for accounting policies on impairment of financial assets.

4.0 Credit Risk (cont'd.)

4.1 Distribution of Credit Exposures

(a) Geographical Distribution

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

GROUP 2023	Geographical Region						Total RM'000
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000	Outside Malaysia RM'000	
Exposure Class							
Sovereigns/Central Banks	-	10,033,638	-	-	-	-	10,033,638
Public Sector Entities	-	630,310	-	10,040	-	-	640,350
Banks, DFIs and Multilateral							
Development Banks	-	1,746,398	-	80,158	5,014	37,640	1,869,210
Insurance Companies, Securities							
Firms and Fund Managers	9,028	77,091	1,402	98	13	-	87,632
Corporates	1,809,721	16,605,900	1,692,335	1,434,337	704,336	-	22,246,629
Regulatory Retail	1,364,525	8,526,976	1,635,543	1,044,381	429,751	-	13,001,176
Residential Mortgages	639,282	12,726,294	2,012,818	726,136	123,124	-	16,227,654
Higher Risk Assets	163	908	2,515	-	1,154	-	4,740
Other Assets	-	1,201,152	-	-	-	-	1,201,152
Defaulted Exposures	43,389	492,034	100,529	22,252	3,130	-	661,334
Total On-Balance Sheet Exposures	3,866,108	52,040,701	5,445,142	3,317,402	1,266,522	37,640	65,973,515
Credit-Related Off-Balance							
Sheet Exposures	430,555	3,809,067	429,609	301,725	157,687	-	5,128,643
Derivative Financial Instruments	-	922,950	-	-	-	-	922,950
Defaulted Exposures	322	5,490	1,612	366	10	-	7,800
Total Off-Balance Sheet Exposures	430,877	4,737,507	431,221	302,091	157,697	-	6,059,393
Total Credit Exposures	4,296,985	56,778,208	5,876,363	3,619,493	1,424,219	37,640	72,032,908

BANK 2023	Geographical Region						Total RM'000
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000	Outside Malaysia RM'000	
Exposure Class							
Sovereigns/Central Banks	-	7,077,581	-	-	-	-	7,077,581
Public Sector Entities	-	361,310	-	14	-	-	361,324
Banks, DFIs and Multilateral							
Development Banks	-	2,397,968	-	80,158	-	37,640	2,515,766
Insurance Companies, Securities							
Firms and Fund Managers	20	55,166	1,402	98	13	-	56,699
Corporates	1,078,850	12,765,814	1,266,372	925,108	514,519	-	16,550,663
Regulatory Retail	817,635	6,474,727	1,183,749	751,754	342,596	-	9,570,461
Residential Mortgages	497,526	9,213,033	1,600,626	464,462	89,119	-	11,864,766
Higher Risk Assets	-	356	2,336	-	1,154	-	3,846
Other Assets	-	1,195,492	-	-	-	-	1,195,492
Defaulted Exposures	26,212	324,676	75,154	10,352	2,780	-	439,174
Total On-Balance Sheet Exposures	2,420,243	39,866,123	4,129,639	2,231,946	950,181	37,640	49,635,772
Credit-Related Off-Balance							
Sheet Exposures	290,790	3,301,496	337,800	202,007	109,047	-	4,241,140
Derivative Financial Instruments	-	937,367	-	-	-	-	937,367
Defaulted Exposures	321	5,423	1,612	366	10	-	7,732
Total Off-Balance Sheet Exposures	291,111	4,244,286	339,412	202,373	109,057	-	5,186,239
Total Credit Exposures	2,711,354	44,110,409	4,469,051	2,434,319	1,059,238	37,640	54,822,011

4.1 Distribution of Credit Exposures (cont'd.)

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

<u>GROUP</u> 2022	Geographical Region						Total RM'000
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000	Outside Malaysia RM'000	
Exposure Class							
Sovereigns/Central Banks	-	9,060,236	-	-	-	-	9,060,236
Public Sector Entities	-	594,080	-	90,323	-	-	684,403
Banks, DFIs and Multilateral Development Banks	-	902,509	-	100,186	5,007	52,908	1,060,610
Insurance Companies, Securities Firms and Fund Managers	32	6,043	-	-	15	-	6,090
Corporates	1,500,513	16,165,760	1,638,673	1,408,271	719,770	-	21,432,987
Regulatory Retail	1,212,581	7,134,295	1,574,675	954,753	413,814	-	11,290,118
Residential Mortgages	666,248	12,686,577	2,104,733	743,237	134,155	-	16,334,950
Higher Risk Assets	159	922	2,966	-	1,190	-	5,237
Other Assets	4,960	1,098,251	371	-	-	-	1,103,582
Defaulted Exposures	30,196	389,230	77,930	21,858	4,011	-	523,225
Total On-Balance Sheet Exposures	3,414,689	48,037,903	5,399,348	3,318,628	1,277,962	52,908	61,501,438
Credit-Related Off-Balance Sheet Exposures	360,474	2,854,171	354,498	275,674	125,753	-	3,970,570
Derivative Financial Instruments	-	486,471	-	-	-	-	486,471
Defaulted Exposures	-	787	63	30	28	-	908
Total Off-Balance Sheet Exposures	360,474	3,341,429	354,561	275,704	125,781	-	4,457,949
Total Credit Exposures	3,775,163	51,379,332	5,753,909	3,594,332	1,403,743	52,908	65,959,387

<u>BANK</u> 2022	Geographical Region						Total RM'000
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000	Outside Malaysia RM'000	
Exposure Class							
Sovereigns/Central Banks	-	6,548,855	-	-	-	-	6,548,855
Public Sector Entities	-	340,695	-	160	-	-	340,855
Banks, DFIs and Multilateral Development Banks	-	1,210,819	-	100,186	-	52,908	1,363,913
Insurance Companies, Securities Firms and Fund Managers	31	2,251	-	-	15	-	2,297
Corporates	922,612	12,501,355	1,262,871	931,737	454,882	-	16,073,457
Regulatory Retail	765,039	5,408,202	1,123,594	721,673	326,500	-	8,345,008
Residential Mortgages	509,381	9,018,458	1,655,272	475,384	97,383	-	11,755,878
Higher Risk Assets	-	367	2,805	-	1,190	-	4,362
Other Assets	-	1,011,154	-	-	-	-	1,011,154
Defaulted Exposures	15,767	283,007	55,743	10,473	3,074	-	368,064
Total On-Balance Sheet Exposures	2,212,830	36,325,163	4,100,285	2,239,613	883,044	52,908	45,813,843
Credit-Related Off-Balance Sheet Exposures	237,674	2,463,128	262,456	192,315	104,243	-	3,259,816
Derivative Financial Instruments	-	486,471	-	-	-	-	486,471
Defaulted Exposures	-	752	43	30	28	-	853
Total Off-Balance Sheet Exposures	237,674	2,950,351	262,499	192,345	104,271	-	3,747,140
Total Credit Exposures	2,450,504	39,275,514	4,362,784	2,431,958	987,315	52,908	49,560,983

4.0 Credit Risk (cont'd.)

4.1 Distribution of Credit Exposures (cont'd.)

(b) Industry Distribution

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

<u>GROUP</u> 2023	<u>Government & Central Bank</u> RM'000	<u>Financial, Insurance, Business Services & Real Estate</u> RM'000	<u>Transport, Storage & Communication</u> RM'000	<u>Agriculture, Manufacturing, Wholesale & Retail Trade</u> RM'000	<u>Construction</u> RM'000	<u>Household</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
Exposure Class								
Sovereigns/Central Banks	10,033,638	-	-	-	-	-	-	10,033,638
Public Sector Entities	-	582,943	-	-	-	-	57,407	640,350
Banks, DFIs and Multilateral Development Banks	-	1,869,210	-	-	-	-	-	1,869,210
Insurance Companies, Securities Firms and Fund Managers	-	82,292	-	5,340	-	-	-	87,632
Corporates	-	7,427,077	1,950,692	10,377,826	1,447,453	745,589	297,992	22,246,629
Regulatory Retail	-	1,164,447	156,911	4,893,974	377,007	6,258,252	150,585	13,001,176
Residential Mortgages	-	-	-	-	-	16,227,654	-	16,227,654
Higher Risk Assets	-	-	-	-	-	4,740	-	4,740
Other Assets	-	257,220	-	-	-	-	943,932	1,201,152
Defaulted Exposures	-	44,262	1,746	107,030	17,564	487,318	3,414	661,334
Total On-Balance Sheet Exposures	10,033,638	11,427,451	2,109,349	15,384,170	1,842,024	23,723,553	1,453,330	65,973,515
Credit-Related Off-Balance Sheet Exposures	-	894,418	85,131	1,759,133	547,586	1,753,586	88,789	5,128,643
Derivative Financial Instruments	65,534	727,287	-	-	-	-	130,129	922,950
Defaulted Exposures	-	365	35	2,347	4,834	219	-	7,800
Total Off-Balance Sheet Exposures	65,534	1,622,070	85,166	1,761,480	552,420	1,753,805	218,918	6,059,393
Total Credit Exposures	10,099,172	13,049,521	2,194,515	17,145,650	2,394,444	25,477,358	1,672,248	72,032,908
<u>BANK</u> 2023								
Exposure Class								
Sovereigns/Central Banks	7,077,581	-	-	-	-	-	-	7,077,581
Public Sector Entities	-	303,917	-	-	-	-	57,407	361,324
Banks, DFIs and Multilateral Development Banks	-	2,515,766	-	-	-	-	-	2,515,766
Insurance Companies, Securities Firms and Fund Managers	-	56,699	-	-	-	-	-	56,699
Corporates	-	5,601,596	1,341,512	7,593,058	1,054,449	739,334	220,714	16,550,663
Regulatory Retail	-	897,740	126,805	3,626,914	248,478	4,551,530	118,994	9,570,461
Residential Mortgages	-	-	-	-	-	11,864,766	-	11,864,766
Higher Risk Assets	-	-	-	-	-	3,846	-	3,846
Other Assets	-	257,219	-	-	-	-	938,273	1,195,492
Defaulted Exposures	-	44,178	1,295	93,633	16,337	283,549	182	439,174
Total On-Balance Sheet Exposures	7,077,581	9,677,115	1,469,612	11,313,605	1,319,264	17,443,025	1,335,570	49,635,772
Credit-Related Off-Balance Sheet Exposures	-	765,060	66,678	1,280,440	474,918	1,574,366	79,678	4,241,140
Derivative Financial Instruments	65,534	741,704	-	-	-	-	130,129	937,367
Defaulted Exposures	-	365	35	2,347	4,834	151	-	7,732
Total Off-Balance Sheet Exposures	65,534	1,507,129	66,713	1,282,787	479,752	1,574,517	209,807	5,186,239
Total Credit Exposures	7,143,115	11,184,244	1,536,325	12,596,392	1,799,016	19,017,542	1,545,377	54,822,011

4.0 Credit Risk (cont'd.)

4.1 Distribution of Credit Exposures (cont'd.)

(b) Industry Distribution (cont'd.)

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

<u>GROUP</u> 2022	<u>Government & Central Bank</u> RM'000	<u>Financial, Insurance, Business Services & Real Estate</u> RM'000	<u>Transport, Storage & Communication</u> RM'000	<u>Agriculture, Manufacturing, Wholesale & Retail Trade</u> RM'000	<u>Construction</u> RM'000	<u>Household</u> RM'000	<u>Others</u> RM'000	<u>Total</u> RM'000
Exposure Class								
Sovereigns/Central Banks	9,060,236	-	-	-	-	-	-	9,060,236
Public Sector Entities	-	579,344	23,846	-	-	-	81,213	684,403
Banks, DFIs and Multilateral Development Banks	-	1,060,610	-	-	-	-	-	1,060,610
Insurance Companies, Securities Firms and Fund Managers	-	6,090	-	-	-	-	-	6,090
Corporates	-	6,778,325	2,085,952	10,068,942	1,531,621	712,624	255,523	21,432,987
Regulatory Retail	-	1,032,279	168,259	4,365,130	321,437	5,307,491	95,522	11,290,118
Residential Mortgages	-	-	-	-	-	16,334,950	-	16,334,950
Higher Risk Assets	-	3	-	-	-	5,234	-	5,237
Other Assets	-	253,765	-	-	-	-	849,817	1,103,582
Defaulted Exposures	-	58,999	1,718	69,141	3,743	384,356	5,268	523,225
Total On-Balance Sheet Exposures	9,060,236	9,769,415	2,279,775	14,503,213	1,856,801	22,744,655	1,287,343	61,501,438
Credit-Related Off-Balance Sheet Exposures	-	407,336	34,819	1,535,221	495,604	1,465,079	32,511	3,970,570
Derivative Financial Instruments	18,379	382,125	-	-	-	-	85,967	486,471
Defaulted Exposures	-	30	-	778	22	78	-	908
Total Off-Balance Sheet Exposures	18,379	789,491	34,819	1,535,999	495,626	1,465,157	118,478	4,457,949
Total Credit Exposures	9,078,615	10,558,906	2,314,594	16,039,212	2,352,427	24,209,812	1,405,821	65,959,387
<u>BANK</u> 2022								
Exposure Class								
Sovereigns/Central Banks	6,548,855	-	-	-	-	-	-	6,548,855
Public Sector Entities	-	245,525	14,117	-	-	-	81,213	340,855
Banks, DFIs and Multilateral Development Banks	-	1,363,913	-	-	-	-	-	1,363,913
Insurance Companies, Securities Firms and Fund Managers	-	2,297	-	-	-	-	-	2,297
Corporates	-	5,197,829	1,508,471	7,470,058	1,130,263	621,310	145,526	16,073,457
Regulatory Retail	-	807,524	138,810	3,302,928	242,726	3,779,293	73,727	8,345,008
Residential Mortgages	-	-	-	-	-	11,755,878	-	11,755,878
Higher Risk Assets	-	3	-	-	-	4,359	-	4,362
Other Assets	-	171,499	-	-	-	-	839,655	1,011,154
Defaulted Exposures	-	58,863	1,475	55,715	2,643	247,225	2,143	368,064
Total On-Balance Sheet Exposures	6,548,855	7,847,453	1,662,873	10,828,701	1,375,632	16,408,065	1,142,264	45,813,843
Credit-Related Off-Balance Sheet Exposures	-	337,887	26,325	1,149,180	438,925	1,277,779	29,720	3,259,816
Derivative Financial Instruments	18,379	382,125	-	-	-	-	85,967	486,471
Defaulted Exposures	-	30	-	778	-	45	-	853
Total Off-Balance Sheet Exposures	18,379	720,042	26,325	1,149,958	438,925	1,277,824	115,687	3,747,140
Total Credit Exposures	6,567,234	8,567,495	1,689,198	11,978,659	1,814,557	17,685,889	1,257,951	49,560,983

4.0 Credit Risk (cont'd.)

4.1 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 Group and the Bank.

GROUP 2023	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
Exposure Class						
Sovereigns/Central Banks	1,974,311	111,393	20,292	338,600	7,589,042	10,033,638
Public Sector Entities	10,040	-	100,709	20,712	508,889	640,350
Banks, DFIs and Multilateral Development Banks	1,591,505	108,488	789	10,113	158,315	1,869,210
Insurance Companies, Securities Firms and Fund Managers	75,134	3,800	-	-	8,698	87,632
Corporates	4,466,867	1,958,095	915,769	408,119	14,497,779	22,246,629
Regulatory Retail	2,404,495	340,048	149,588	80,449	10,026,596	13,001,176
Residential Mortgages	812,148	426	535	3,541	15,411,004	16,227,654
Higher Risk Assets	-	-	-	22	4,718	4,740
Other Assets	643,798	9,091	9,997	9,207	529,059	1,201,152
Defaulted Exposures	78,346	1,724	295	1,035	579,934	661,334
Total On-Balance Sheet Exposures	12,056,644	2,533,065	1,197,974	871,798	49,314,034	65,973,515

BANK
2023

Exposure Class						
Sovereigns/Central Banks	499,565	81,010	-	318,185	6,178,821	7,077,581
Public Sector Entities	14	-	-	1,574	359,736	361,324
Banks, DFIs and Multilateral Development Banks	2,029,474	108,488	-	5,049	372,755	2,515,766
Insurance Companies, Securities Firms and Fund Managers	52,636	-	-	-	4,063	56,699
Corporates	3,379,691	1,498,643	701,889	379,474	10,590,966	16,550,663
Regulatory Retail	1,984,740	257,324	109,601	56,648	7,162,148	9,570,461
Residential Mortgages	334,850	417	479	3,267	11,525,753	11,864,766
Higher Risk Assets	-	-	-	22	3,824	3,846
Other Assets	650,051	7,587	8,164	6,745	522,945	1,195,492
Defaulted Exposures	63,822	1,660	214	403	373,075	439,174
Total On-Balance Sheet Exposures	8,994,843	1,955,129	820,347	771,367	37,094,086	49,635,772

4.0 Credit Risk (cont'd.)

4.1 Distribution of Credit Exposures (cont'd.)

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

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

GROUP 2022	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
Exposure Class						
Sovereigns/Central Banks	2,472,855	-	-	30,777	6,556,604	9,060,236
Public Sector Entities	112,074	5,088	-	25,243	541,998	684,403
Banks, DFIs and Multilateral Development Banks	709,113	190,360	-	-	161,137	1,060,610
Insurance Companies, Securities Firms and Fund Managers	336	-	-	-	5,754	6,090
Corporates	4,452,215	2,044,374	754,914	706,267	13,475,217	21,432,987
Regulatory Retail	2,250,699	262,005	128,101	87,918	8,561,395	11,290,118
Residential Mortgages	947,820	456	1,053	3,160	15,382,461	16,334,950
Higher Risk Assets	-	-	-	15	5,222	5,237
Other Assets	581,234	8,091	8,781	6,567	498,909	1,103,582
Defaulted Exposures	53,268	143	288	2,925	466,601	523,225
Total On-Balance Sheet Exposures	11,579,614	2,510,517	893,137	862,872	45,655,298	61,501,438

BANK
2022

Exposure Class						
Sovereigns/Central Banks	1,055,016	-	-	30,777	5,463,062	6,548,855
Public Sector Entities	10,357	-	-	10,104	320,394	340,855
Banks, DFIs and Multilateral Development Banks	740,402	190,360	60,106	-	373,045	1,363,913
Insurance Companies, Securities Firms and Fund Managers	336	-	-	-	1,961	2,297
Corporates	3,211,825	1,500,012	537,832	588,102	10,235,686	16,073,457
Regulatory Retail	1,807,346	200,707	104,330	63,092	6,169,533	8,345,008
Residential Mortgages	380,749	334	906	2,708	11,371,181	11,755,878
Higher Risk Assets	-	-	-	15	4,347	4,362
Other Assets	558,174	7,553	8,008	5,964	431,455	1,011,154
Defaulted Exposures	33,051	130	218	2,783	331,882	368,064
Total On-Balance Sheet Exposures	7,797,256	1,899,096	711,400	703,545	34,702,546	45,813,843

4.0 Credit Risk (cont'd.)

4.2 Impaired Loans, Advances and Financing and Allowance for ECL Analysis

Impaired loans, advances and financing are exposures where the customers have failed to make a principal and/or interest payment for more than three months. In addition, where customers are deemed incapable of continuing repayment obligations, the exposures will be judgmentally impaired. Where exposures are restructured or rescheduled due to increase in credit risk, the exposures are also classified as impaired.

Past Due but Not Impaired 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 three months. Under MFRS 9, exposures more than 30 days past due are transferred to Stage 2. For loans that are structured to pay principal and/or interest at quarterly intervals or longer, a default of payment will trigger an impairment.

Impaired and Past Due Loans, Advances and Financing and Allowance for ECL - Industry Analysis

GROUP	Impaired Loans, Advances and Financing RM'000	Past Due Loan RM'000	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit Impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Stage 3 ECL charged (net) RM'000	Stage 3 write-off (net) RM'000
2023							
Financial, Insurance & Business Services and Real Estate	79,605	81,580	8,131	14,637	35,374	28,969	(1,129)
Transport, Storage & Communication	5,749	15,604	1,174	5,394	3,991	1,979	(0)
Agriculture, Manufacturing, Wholesale & Retail Trade	263,650	421,625	22,454	69,682	156,806	86,931	(22,305)
Construction	154,119	138,795	2,099	36,681	136,572	111,161	(41,058)
Household	724,006	1,293,244	137,451	391,736	236,830	164,665	(84,760)
Others	5,644	19,772	523	5,722	2,217	1,342	(1,033)
Total	1,232,773	1,970,620	171,832	523,852	571,790	395,047	(150,285)

BANK
2023

Financial, Insurance & Business Services and Real Estate	78,776	71,659	6,174	11,975	34,628	28,660	(1,129)
Transport, Storage & Communication	4,610	12,742	933	5,050	3,326	1,614	(0)
Agriculture, Manufacturing, Wholesale & Retail Trade	224,387	348,136	16,902	56,383	130,929	76,382	(18,198)
Construction	140,890	99,710	1,612	22,020	124,569	110,028	(581)
Household	430,002	847,468	79,714	204,975	146,665	87,573	(47,238)
Others	1,052	14,161	447	2,456	870	603	(1,033)
Total	879,717	1,393,876	105,782	302,859	440,987	304,860	(68,179)

4.0 Credit Risk (cont'd.)

4.2 Impaired Loans, Advances and Financing and Allowance for ECL Analysis (cont'd.)

Impaired and Past Due Loans, Advances and Financing and Allowance for ECL - Industry Analysis (cont'd.)

	Impaired Loans, Advances and Financing RM'000	Past Due Loan RM'000	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit Impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	ECL charged/ (write-back) (net) RM'000	Stage 3 write-off (net) RM'000
<u>GROUP</u>							
2022							
Financial, Insurance & Business Services and Real Estate	67,538	151,422	11,370	29,629	8,555	1,486	(452)
Transport, Storage & Communication	3,797	19,695	3,367	4,248	2,076	(1,122)	(118)
Agriculture, Manufacturing, Wholesale & Retail Trade	162,233	236,651	48,119	96,000	93,147	30,786	(13,964)
Construction	69,603	154,504	3,550	59,573	66,645	40,054	(812)
Household	542,925	851,572	203,621	363,840	159,194	60,855	(65,245)
Others	7,170	14,082	647	4,360	1,901	1,576	(1,109)
Total	853,266	1,427,926	270,674	557,650	331,518	133,635	(81,700)
<u>BANK</u>							
2022							
Financial, Insurance & Business Services and Real Estate	66,983	140,432	8,510	23,761	8,118	1,306	(452)
Transport, Storage & Communication	3,244	17,379	2,973	3,950	1,766	(1,046)	(118)
Agriculture, Manufacturing, Wholesale & Retail Trade	129,234	208,666	37,918	85,334	73,575	17,740	(12,876)
Construction	17,912	139,260	2,563	56,273	15,269	1,654	(812)
Household	354,098	556,880	122,017	197,526	107,541	44,513	(42,114)
Others	3,286	14,081	505	1,698	1,143	750	(1,109)
Total	574,757	1,076,698	174,486	368,542	207,412	64,917	(57,481)

4.0 Credit Risk (cont'd.)

4.2 Impaired Loans, Advances and Financing and Allowance for ECL Analysis (cont'd.)

Impaired and Past Due Loans, Advances and Financing and Allowance for ECL - Geographical

	Impaired Loans, Advances and Financing RM'000	Past Due Loan RM'000	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit Impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Stage 3 ECL charged (net) RM'000	Stage 3 write-off for the year RM'000
GROUP							
2023							
Northern Region	94,117	158,014	13,326	32,327	50,782	25,262	(9,817)
Central Region	913,411	1,472,801	129,489	420,027	421,517	317,672	(121,577)
Southern Region	172,504	182,047	19,427	44,744	72,091	31,871	(15,677)
Sabah Region	45,698	113,223	7,334	20,771	23,485	19,200	(2,895)
Sarawak Region	7,043	44,535	2,256	5,983	3,915	1,042	(319)
Total	1,232,773	1,970,620	171,832	523,852	571,790	395,047	(150,285)
BANK							
2023							
Northern Region	59,742	106,462	8,024	18,684	33,596	17,930	(7,431)
Central Region	663,572	1,040,810	77,736	237,554	339,182	244,676	(48,120)
Southern Region	121,736	121,442	13,612	27,936	46,631	25,546	(11,659)
Sabah Region	28,216	87,095	4,726	14,141	17,905	15,583	(799)
Sarawak Region	6,451	38,067	1,684	4,544	3,673	1,125	(170)
Total	879,717	1,393,876	105,782	302,859	440,987	304,860	(68,179)

4.0 Credit Risk (cont'd.)

4.2 Impaired Loans, Advances and Financing and Allowance for ECL Analysis (cont'd.)

Impaired and Past Due Loans, Advances and Financing and Allowance for ECL - Geographical (cont'd.)

	Impaired Loans, Advances and Financing RM'000	Past Due Loan RM'000	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit Impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	ECL charged/ (write-back) (net) RM'000	Stage 3 write-off (net) RM'000
GROUP							
2022							
Northern Region	66,114	88,483	23,572	34,707	36,009	6,018	(5,248)
Central Region	616,851	1,001,220	197,663	438,546	228,925	95,583	(60,296)
Southern Region	134,400	238,306	29,144	48,416	56,540	30,163	(13,330)
Sabah Region	28,823	82,894	15,086	31,167	6,976	1,677	(1,404)
Sarawak Region	7,078	17,023	5,209	4,814	3,068	194	(1,422)
Total	853,266	1,427,926	270,674	557,650	331,518	133,635	(81,700)
BANK							
2022							
Northern Region	39,156	70,521	16,235	24,841	23,481	2,400	(3,459)
Central Region	427,522	751,174	123,875	286,467	145,047	48,083	(40,623)
Southern Region	88,780	200,579	19,899	32,605	33,121	14,807	(10,916)
Sabah Region	13,574	44,032	10,398	20,880	3,112	(464)	(1,146)
Sarawak Region	5,725	10,392	4,079	3,749	2,651	91	(1,337)
Total	574,757	1,076,698	174,486	368,542	207,412	64,917	(57,481)

4.0 Credit Risk (cont'd.)

4.2 Impaired Loans, Advances and Financing and Allowance for ECL Analysis (cont'd)

Movements in the allowance for ECL on loans, advances and financing are as follows:

	12 months ECL	Lifetime ECL Not-credit Impaired	Lifetime ECL Credit Impaired	Total
	(Stage 1)	(Stage 2)	(Stage 3)	
	RM'000	RM'000	RM'000	RM'000
GROUP				
At 1 April 2022	270,674	557,650	331,518	1,159,842
Transfer to Stage 1	174,114	(305,106)	(19,728)	(150,720)
Transfer to Stage 2	(201,111)	498,496	(120,772)	176,613
Transfer to Stage 3	(1,896)	(366,161)	425,096	57,039
New financial assets originated or purchased	75,545	179,430	9,938	264,913
Financial assets derecognised other than write-off	(52,387)	(196,042)	(17,372)	(265,801)
Changes due to change in credit risk	(93,136)	158,320	17,373	82,557
Other adjustment	29	55	-	84
	(98,842)	(31,008)	294,535	164,685
Unwinding of discount	-	-	(4,490)	(4,490)
Total charge to income statement	(98,842)	(31,008)	290,045	160,195
Other movements	-	-	100,512	100,512
Write-off	-	(2,790)	(150,285)	(153,075)
At 31 March 2023	171,832	523,852	571,790	1,267,474
At 1 April 2021	231,025	498,776	277,405	1,007,206
Transfer to Stage 1	139,012	(500,239)	(1,598)	(362,825)
Transfer to Stage 2	(85,699)	730,176	(206,437)	438,040
Transfer to Stage 3	(627)	(308,235)	288,619	(20,243)
New financial assets originated or purchased	93,426	228,198	14,727	336,351
Financial assets derecognised other than write-off	(69,683)	(250,735)	(23,389)	(343,807)
Changes due to change in credit risk	(36,790)	161,540	61,713	186,463
Other adjustments	11	5	-	16
	39,650	60,710	133,635	233,995
Unwinding of discount	-	-	2,178	2,178
Total charge to income statement	39,650	60,710	135,813	236,173
Write-off	(1)	(1,836)	(81,700)	(83,537)
At 31 March 2022	270,674	557,650	331,518	1,159,842

Note: The transfers between stages are inclusive of net remeasurement of allowances.

ALLIANCE BANK MALAYSIA BERHAD

198201008390 (88103-W)

4.0 Credit Risk (cont'd.)

4.2 Impaired Loans, Advances and Financing and Allowance for ECL Analysis (cont'd)

Movements in the allowance for ECL on loans, advances and financing are as follows (cont'd):

	12 months ECL (Stage 1) RM'000	Lifetime ECL Not-credit Impaired (Stage 2) RM'000	Lifetime ECL Credit Impaired (Stage 3) RM'000	Total RM'000
<u>BANK</u>				
At 1 April 2022	174,486	368,542	207,412	750,440
Transfer to Stage 1	103,292	(191,727)	(19,584)	(108,019)
Transfer to Stage 2	(110,870)	286,433	(73,557)	102,006
Transfer to Stage 3	(686)	(258,945)	305,969	46,338
New financial assets originated or purchased	52,352	155,973	5,126	213,451
Financial assets derecognised other than write-off	(36,206)	(169,757)	(10,068)	(216,031)
Changes due to change in credit risk	(76,615)	113,432	19,977	56,794
Other adjustment	29	55	-	84
	(68,704)	(64,536)	227,863	94,623
Unwinding of discount	-	-	(3,106)	(3,106)
Total charge to income statement	(68,704)	(64,536)	224,757	91,517
Other movements	-	-	76,997	76,997
Write-off	-	(1,147)	(68,179)	(69,326)
At 31 March 2023	105,782	302,859	440,987	849,628
At 1 April 2021	154,241	314,669	197,689	666,599
Transfer to Stage 1	86,573	(314,557)	(1,581)	(229,565)
Transfer to Stage 2	(52,603)	442,526	(124,959)	264,964
Transfer to Stage 3	(446)	(157,496)	156,394	(1,548)
New financial assets originated or purchased	61,935	165,809	9,067	236,811
Financial assets derecognised other than write-off	(46,658)	(190,470)	(13,382)	(250,510)
Changes due to change in credit risk	(28,566)	108,957	39,378	119,769
Other adjustments	11	5	-	16
	20,246	54,774	64,917	139,937
Unwinding of discount	-	-	2,287	2,287
Total charge to income statement	20,246	54,774	67,204	142,224
Write-off	(1)	(901)	(57,481)	(58,383)
At 31 March 2022	174,486	368,542	207,412	750,440

Note: The transfers between stages are inclusive of net remeasurement of allowances.

4.0 Credit Risk (cont'd.)

4.3 Assignment of Risk-Weights for Portfolios Under the Standardised Approach

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

GROUP	Exposures after netting and credit risk mitigation										Total Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets
	Sovereigns /Central Banks	Public Sector Entities	Banks, DFIs and Multilateral Development Banks	Insurance Companies, Securities Firms and Fund Managers	Regulatory Corporates	Residential Mortgages	Higher Risk Assets	Other Assets				
Risk-Weights	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	10,033,638	552,100	4,989	4,133	2,139,572	314,535	-	-	299,592	13,348,559	-	
20%	65,533	202,049	2,602,639	340	2,731,341	988,699	3,248	-	277,693	6,871,542	1,374,308	
35%	-	-	-	-	-	-	13,758,050	-	-	13,758,050	4,815,318	
50%	-	-	233,014	-	39,454	63,633	2,009,343	-	-	2,345,444	1,172,722	
75%	-	-	-	-	-	10,610,320	6,982	-	-	10,617,302	7,962,977	
100%	-	-	25	110,995	18,114,055	2,166,287	1,018,339	-	623,867	22,033,568	22,033,568	
150%	-	-	-	-	52,682	17,302	-	5,990	-	75,974	113,961	
Total Exposures	10,099,171	754,149	2,840,667	115,468	23,077,104	14,160,776	16,795,962	5,990	1,201,152	69,050,439	37,472,854	
Risk-Weighted Assets by Exposures	13,107	40,410	637,060	111,063	18,759,073	10,379,536	6,844,214	8,985	679,406	37,472,854		
Average Risk-Weight	0%	5%	22%	96%	81%	73%	41%	150%	57%	54%		
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	

4.0 Credit Risk (cont'd.)

4.3 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.):

BANK 2023 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	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000			
0%	7,077,581	302,238	-	2,199	1,480,216	261,430	-	-	299,592	9,423,256	-	
20%	65,533	140,885	3,020,506	340	1,829,204	802,612	2,180	-	277,693	6,138,953	1,227,791	
35%	-	-	-	-	-	-	10,265,911	-	-	10,265,911	3,593,069	
50%	-	-	480,198	-	33,974	43,140	1,179,972	-	-	1,737,284	868,642	
75%	-	-	-	-	-	8,461,629	5,753	-	-	8,467,382	6,350,537	
100%	-	-	25	72,098	13,603,164	978,565	752,998	-	618,208	16,025,058	16,025,058	
150%	-	-	-	-	52,593	14,846	-	5,005	-	72,444	108,666	
Total Exposures	7,143,114	443,123	3,500,729	74,637	16,999,151	10,562,222	12,206,814	5,005	1,195,493	52,130,288	28,173,763	
Risk-Weighted Assets by Exposures	13,107	28,177	844,225	72,166	14,064,881	7,529,148	4,940,804	7,508	673,747	28,173,763		
Average Risk-Weight	0%	6%	24%	97%	83%	71%	40%	150%	56%	54%		
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	

4.0 Credit Risk (cont'd.)

4.3 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.):

GROUP	Exposures after netting and credit risk mitigation										Total Exposures after Netting and Credit Risk Mitigation	Total Risk-Weighted Assets
	Sovereigns /Central Banks	Public Sector Entities	Banks, DFIs and Multilateral Development Banks	Insurance Companies, Securities Firms and Fund Managers	Regulatory Corporates	Residential Mortgages	Higher Risk Assets	Other Assets				
Risk-Weights	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	9,060,236	471,082	4,938	-	1,627,191	139,040	-	-	272,810	11,575,297	-	
20%	18,379	276,606	1,234,100	199	3,199,981	914,931	1,795	-	232,788	5,878,779	1,175,756	
35%	-	-	-	-	-	-	13,642,847	-	-	13,642,847	4,774,996	
50%	-	-	217,315	-	8,996	20,977	2,107,171	-	-	2,354,459	1,177,230	
75%	-	-	-	-	-	8,803,071	12,010	-	-	8,815,081	6,611,311	
100%	-	-	31	28,031	17,045,747	1,846,186	1,060,370	-	597,985	20,578,350	20,578,350	
150%	-	-	-	-	82,642	26,976	563	6,588	-	116,769	175,154	
Total Exposures	9,078,615	747,688	1,456,384	28,230	21,964,557	11,751,181	16,824,756	6,588	1,103,583	62,961,582	34,492,797	
Risk-Weighted Assets by Exposures	3,676	55,321	355,509	28,071	17,814,204	8,682,428	6,899,163	9,882	644,543	34,492,797		
Average Risk-Weight	0%	7%	24%	99%	81%	74%	41%	150%	58%	55%		
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	

4.0 Credit Risk (cont'd.)

4.3 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.):

BANK 2022 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	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000			
0%	6,548,855	249,477	-	-	1,120,268	114,681	-	-	272,810	8,306,091	-	
20%	18,379	138,662	1,315,320	199	2,297,379	784,037	1,278	-	224,875	4,780,129	956,026	
35%	-	-	-	-	-	-	10,308,601	-	-	10,308,601	3,608,011	
50%	-	-	443,448	-	7,363	16,045	1,128,948	-	-	1,595,804	797,902	
75%	-	-	-	-	-	7,007,664	8,807	-	-	7,016,471	5,262,353	
100%	-	-	31	20,219	12,884,587	841,059	612,018	-	513,470	14,871,384	14,871,384	
150%	-	-	-	-	82,517	22,416	563	5,637	-	111,133	166,700	
Total Exposures	6,567,234	388,139	1,758,799	20,418	16,392,114	8,785,902	12,060,215	5,637	1,011,155	46,989,613	25,662,376	
Risk-Weighted Assets by Exposures	3,676	27,732	484,819	20,259	13,471,520	6,295,261	4,792,208	8,456	558,445	25,662,376		
Average Risk-Weight	0%	7%	28%	99%	82%	72%	40%	150%	55%	55%		
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	

4.0 Credit Risk (cont'd.)

4.3 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 Berhad ("MARC"), Standard and Poor's ("S&P"), Moody's, Fitch Ratings, and Rating and Investment Information, Inc. ("R&I" [See Note 1]). 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 External Credit Assessment Institutions ("ECAIs"):

Long-Term Rating						
Rating Category	S&P	Moody's	Fitch	RAM	MARC	R&I *
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-	A+ to A3	A+ to A-	A+ to A-
3	BBB+ to BB-	Baa1 to Ba3	BBB+ to BB-	BBB1+ to BB3	BBB+ to BB-	BBB+ to BB-
4	B+ to D	B1 to C	B+ to D	B to D	B+ to D	B+ to D
5	Unrated					

Short-Term Rating						
Rating Category	S&P	Moody's	Fitch	RAM	MARC	R&I *
1	A-1	P-1	F1+, F1	P-1	MARC-1	a-1+, a-1
2	A-2	P-2	A-2	P-2	MARC-2	a-2
3	A-3	P-3	F3	P-3	MARC-3	a-3
4	Others	Others	B to D	NP	MARC-4	b, c
5	Unrated					

* Note 1: R&I rating is not recognised for Islamic debt securities.

GROUP
2023

Exposure Class	Rating Categories					Total
	1	2	3	4	5	
	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						
Public Sector Entities	-	552,100	-	-	-	552,100
Sovereigns and Central Banks (See Note 2)	-	10,099,172	-	-	-	10,099,172
Corporates	-	1,719,660	-	-	-	1,719,660
Banks, DFIs and Multilateral Development Banks	-	4,990	-	-	-	4,990
Total	-	12,375,922	-	-	-	12,375,922
(ii) Exposures risk-weighted using Banking Institutions long-term rating						
Banks, DFIs and Multilateral Development Banks	1,601,135	494,507	705	-	739,330	2,835,677
Exposures risk-weighted using Banking Institutions short-term rating						
Banks, DFIs and Multilateral Development Banks	-	-	-	-	-	-
Total	1,601,135	494,507	705	-	739,330	2,835,677
(iii) Exposures risk-weighted using Corporate long-term rating						
Public Sector Entities	-	-	-	-	202,049	202,049
Corporates	2,507,980	-	-	-	20,444,716	22,952,696
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	116,055	116,055
Exposures risk-weighted using Corporate short-term rating						
Public Sector Entities	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	-	-
Total	2,507,980	-	-	-	20,762,820	23,270,800

Note 2: The Federal Government and Central Bank of Malaysia are accorded 0% risk weight as provided under the Capital Adequacy Framework.

4.0 Credit Risk (cont'd.)

4.3 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 ECAIs (cont'd.):

Bank
2023

Exposure Class	Rating Categories					Total
	1	2	3	4	5	
	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						
Public Sector Entities	-	302,238	-	-	-	302,238
Sovereigns and Central Banks (See Note 2)	-	7,143,114	-	-	-	7,143,114
Corporates	-	1,155,040	-	-	-	1,155,040
Banks, DFIs and Multilateral Development Banks	-	-	-	-	-	-
Total	-	8,600,392	-	-	-	8,600,392
(ii) Exposures risk-weighted using Banking Institutions long-term rating						
Banks, DFIs and Multilateral Development Banks	1,580,849	1,185,858	705	-	733,317	3,500,729
Exposures risk-weighted using Banking Institutions short-term rating						
Banks, DFIs and Multilateral Development Banks	-	-	-	-	-	-
Total	1,580,849	1,185,858	705	-	733,317	3,500,729
(iii) Exposures risk-weighted using Corporate long-term rating						
Public Sector Entities	-	-	-	-	140,885	140,885
Corporates	1,664,943	-	-	-	15,585,960	17,250,903
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	75,224	75,224
Exposures risk-weighted using Corporate short-term rating						
Public Sector Entities	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	-	-
Total	1,664,943	-	-	-	15,802,069	17,467,012

Note 2: The Federal Government and Central Bank of Malaysia are accorded 0% risk weight as provided under the Capital Adequacy Framework.

4.0 Credit Risk (cont'd.)

4.3 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 ECAIs (cont'd.):

Group
2022

Exposure Class	Rating Categories					Total
	1	2	3	4	5	
	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						
Public Sector Entities	-	471,082	-	-	-	471,082
Sovereigns and Central Banks (See Note 2)	-	9,078,615	-	-	-	9,078,615
Corporates	-	1,408,099	-	-	-	1,408,099
Banks, DFIs and Multilateral Development Banks	-	4,938	-	-	-	4,938
Total	-	10,962,734	-	-	-	10,962,734
(ii) Exposures risk-weighted using Banking Institutions long-term rating						
Banks, DFIs and Multilateral Development Banks	664,369	580,810	521	-	185,780	1,431,480
Exposures risk-weighted using Banking Institutions short-term rating						
Banks, DFIs and Multilateral Development Banks	19,966	-	-	-	-	19,966
Total	684,335	580,810	521	-	185,780	1,451,446
(iii) Exposures risk-weighted using Corporate long-term rating						
Public Sector Entities	30,331	-	-	-	246,275	276,606
Corporates	2,963,100	-	10,263	-	19,264,739	22,238,102
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	28,504	28,504
Exposures risk-weighted using Corporate short-term rating						
Public Sector Entities	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	-	-
Total	2,993,431	-	10,263	-	19,539,518	22,543,212

Note 2: The Federal Government and Central Bank of Malaysia are accorded 0% risk weight as provided under the Capital Adequacy Framework.

4.0 Credit Risk (cont'd.)

4.3 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 ECAIs (cont'd.):

Bank
2022

Exposure Class	Rating Categories					Total
	1	2	3	4	5	
	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						
Public Sector Entities	-	249,477	-	-	-	249,477
Sovereigns and Central Banks (See Note 2)	-	6,567,233	-	-	-	6,567,233
Corporates	-	942,826	-	-	-	942,826
Banks, DFIs and Multilateral Development Banks	-	-	-	-	-	-
Total	-	7,759,536	-	-	-	7,759,536
(ii) Exposures risk-weighted using Banking Institutions long-term rating						
Banks, DFIs and Multilateral Development Banks	649,103	909,378	521	-	179,831	1,738,833
Exposures risk-weighted using Banking Institutions short-term rating						
Banks, DFIs and Multilateral Development Banks	19,966	-	-	-	-	19,966
Total	669,069	909,378	521	-	179,831	1,758,799
(iii) Exposures risk-weighted using Corporate long-term rating						
Public Sector Entities	10,104	-	-	-	128,558	138,662
Corporates	2,103,558	-	10,263	-	14,758,774	16,872,595
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	20,692	20,692
Exposures risk-weighted using Corporate short-term rating						
Public Sector Entities	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	-	-
Total	2,113,662	-	10,263	-	14,908,024	17,031,949

Note 2: The Federal Government and Central Bank of Malaysia are accorded 0% risk weight as provided under the Capital Adequacy Framework.

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

4.0 Credit Risk (cont'd.)

4.4 Credit Risk Mitigation ("CRM")

As a practical approach towards mitigating credit risk, the Group accepts a wide range of collaterals. The 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's Capital Adequacy Framework applies 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 Group's/Bank'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.

GROUP	Exposures	Exposures	Exposures	Exposures
2023	before CRM	covered by	covered by	covered by
	RM'000	guarantees/	eligible	other eligible
		credit	financial	collateral
		derivatives	collateral	collateral
		(Note 1)	RM'000	RM'000
		RM'000		
Credit Risk				
Exposure Class				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	10,033,638	-	-	-
Public Sector Entities	640,350	-	-	-
Banks, DFIs and Multilateral				
Development Banks	1,869,210	-	-	-
Insurance Companies, Securities				
Firms and Fund Managers	87,632	4,456	575	-
Corporates	22,246,629	623,508	1,320,394	-
Regulatory Retail	13,001,176	1,284,883	1,041,266	-
Residential Mortgages	16,227,654	3,248	9,745	-
Higher Risk Assets	4,740	-	-	-
Other Assets	1,201,152	-	-	-
Defaulted Exposures	661,334	12,959	3,101	-
Total On-Balance Sheet Exposures	65,973,515	1,929,054	2,375,081	-
Off-Balance Sheet Exposures:				
Off-Balance Sheet Exposures other than Over				
The Counter ("OTC") Derivatives or Credit				
Derivatives	6,051,593	25,174	607,383	-
Defaulted Exposures	7,800	-	5	-
Total Off-Balance Sheet Exposures	6,059,393	25,174	607,388	-
Total On and Off-Balance Sheet				
Exposures	72,032,908	1,954,228	2,982,469	-

Note 1: The exposures covered by guarantees/credit derivative refer to the exposures guaranteed by eligible guarantors.

4.0 Credit Risk (cont'd.)

4.4 Credit Risk Mitigation ("CRM") (cont'd.)

<u>BANK</u> 2023	<u>Exposures</u> <u>before CRM</u> RM'000	<u>Exposures</u> <u>covered by</u> <u>guarantees/</u> <u>credit</u> <u>derivatives</u> <u>(Note 1)</u> RM'000	<u>Exposures</u> <u>covered by</u> <u>eligible</u> <u>financial</u> <u>collateral</u> RM'000	<u>Exposures</u> <u>covered by</u> <u>other eligible</u> <u>collateral</u> RM'000
<u>Credit Risk</u>				
<u>Exposure Class</u>				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	7,077,581	-	-	-
Public Sector Entities	361,324	-	-	-
Banks, DFIs and Multilateral Development Banks	2,515,766	-	-	-
Insurance Companies, Securities Firms and Fund Managers	56,699	2,521	575	-
Corporates	16,550,663	475,243	1,186,009	-
Regulatory Retail	9,570,461	1,049,569	949,091	-
Residential Mortgages	11,864,766	2,180	9,236	-
Higher Risk Assets	3,846	-	-	-
Other Assets	1,195,492	-	-	-
Defaulted Exposures	439,174	12,439	3,101	-
Total On-Balance Sheet Exposures	49,635,772	1,541,952	2,148,012	-
Off-Balance Sheet Exposures:				
Off-Balance Sheet Exposures other than				
OTC Derivatives or Credit Derivatives	5,178,507	16,246	543,706	-
Defaulted Exposures	7,732	-	5	-
Total Off-Balance Sheet Exposures	5,186,239	16,246	543,711	-
Total On and Off-Balance Sheet Exposures	54,822,011	1,558,198	2,691,723	-

Note 1: The exposures covered by guarantees/credit derivative refer to the exposures guaranteed by eligible guarantors.

4.0 Credit Risk (cont'd.)

4.4 Credit Risk Mitigation ("CRM") (cont'd.)

GROUP	Exposures	Exposures	Exposures	Exposures
2022	before CRM	covered by	covered by	covered by
	RM'000	guarantees/	eligible	other eligible
		credit	financial	collateral
		derivatives	collateral	collateral
		(Note 1)	RM'000	RM'000
		RM'000		RM'000
Credit Risk				
Exposure Class				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	9,060,236	-	-	-
Public Sector Entities	684,403	-	-	-
Banks, DFIs and Multilateral Development Banks	1,060,610	-	-	-
Insurance Companies, Securities Firms and Fund Managers	6,090	199	186	-
Corporates	21,432,987	448,479	1,424,523	-
Regulatory Retail	11,290,118	1,049,811	988,347	-
Residential Mortgages	16,334,950	1,795	9,761	-
Higher Risk Assets	5,237	-	2	-
Other Assets	1,103,582	-	-	-
Defaulted Exposures	523,225	3,181	951	-
Total On-Balance Sheet Exposures	61,501,438	1,503,465	2,423,770	-
Off-Balance Sheet Exposures:				
Off-Balance Sheet Exposures other than				
OTC Derivatives or Credit Derivatives	4,457,041	8,472	574,031	-
Defaulted Exposures	908	-	4	-
Total Off-Balance Sheet Exposures	4,457,949	8,472	574,035	-
Total On and Off-Balance Sheet Exposures	65,959,387	1,511,937	2,997,805	-

Note 1: The exposures covered by guarantees/credit derivative refer to the exposures guaranteed by eligible guarantors.

4.0 Credit Risk (cont'd.)

4.4 Credit Risk Mitigation ("CRM") (cont'd.)

<u>BANK</u> 2022	<u>Exposures</u> <u>before CRM</u> RM'000	<u>Exposures</u> <u>covered by</u> <u>guarantees/</u> <u>credit</u> <u>derivatives</u> <u>(Note 1)</u> RM'000	<u>Exposures</u> <u>covered by</u> <u>eligible</u> <u>financial</u> <u>collateral</u> RM'000	<u>Exposures</u> <u>covered by</u> <u>other eligible</u> <u>collateral</u> RM'000
<u>Credit Risk</u>				
<u>Exposure Class</u>				
On-Balance Sheet Exposures:				
Sovereigns/Central Banks	6,548,855	-	-	-
Public Sector Entities	340,855	-	-	-
Banks, DFIs and Multilateral Development Banks	1,363,913	-	-	-
Insurance Companies, Securities Firms and Fund Managers	2,297	199	186	-
Corporates	16,073,457	367,937	1,214,348	-
Regulatory Retail	8,345,008	895,361	852,196	-
Residential Mortgages	11,755,878	1,278	9,512	-
Higher Risk Assets	4,362	-	2	-
Other Assets	1,011,154	-	-	-
Defaulted Exposures	368,064	3,181	418	-
Total On-Balance Sheet Exposures	45,813,843	1,267,956	2,076,662	-
Off-Balance Sheet Exposures:				
Off-Balance Sheet Exposures other than				
OTC Derivatives or Credit Derivatives	3,746,287	3,500	494,704	-
Defaulted Exposures	853	-	4	-
Total Off-Balance Sheet Exposures	3,747,140	3,500	494,708	-
Total On and Off-Balance Sheet Exposures	49,560,983	1,271,456	2,571,370	-

Note 1: The exposures covered by guarantees/credit derivative refer to the exposures guaranteed by eligible guarantors.

4.0 Credit Risk (cont'd.)

4.5 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. 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 arising from the derivatives is managed via counterparty limits, which are 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.

4.0 Credit Risk (cont'd.)

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

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

GROUP	Principal	Positive	Credit	Risk-
2023	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	488,308	-	488,025	380,393
Transaction-Related Contingent Items	666,236	-	333,118	200,333
Short-Term Self-Liquidating Trade-Related Contingencies	138,542	-	27,708	24,599
Forward Asset Purchase	241,237	-	241,237	48,247
Irrevocable Commitments to Extend Credit:				
- Maturity exceeding one year	3,162,549	-	1,580,210	1,166,734
- Maturity not exceeding one year	10,812,148	-	2,162,402	1,549,268
Unutilised Credit Card Lines	1,518,716	-	303,743	231,730
	<u>17,027,736</u>	<u>-</u>	<u>5,136,443</u>	<u>3,601,304</u>
<u>Derivative Financial Instruments</u>				
Foreign Exchange Related Contracts:				
- One year or less	15,710,254	116,939	286,328	77,469
- Over one year to three years	951,319	2,578	62,508	34,771
- Over three years	381,600	6,032	38,950	20,994
Interest Rate Related Contracts:				
- One year or less	2,312,715	11,340	20,497	5,004
- Over one year to three years	2,532,107	55,819	130,573	30,422
- Over three years	6,849,073	27,828	353,382	98,452
Equity Related Contracts:				
- One year or less	340,226	178	20,790	5,628
- Over one year to three years	118,690	427	9,922	2,497
	<u>29,195,984</u>	<u>221,141</u>	<u>922,950</u>	<u>275,237</u>
	<u>46,223,720</u>	<u>221,141</u>	<u>6,059,393</u>	<u>3,876,541</u>

4.0 Credit Risk (cont'd.)

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

<u>BANK</u> 2023	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	406,699	-	406,416	313,376
Transaction-Related Contingent Items	592,687	-	296,343	176,806
Short-Term Self-Liquidating Trade- Related Contingencies	120,783	-	24,157	21,661
Forward Asset Purchase	226,237	-	226,237	45,247
Irrevocable Commitments to Extend Credit:				
- Maturity exceeding one year	2,665,690	-	1,332,000	976,847
- Maturity not exceeding one year	8,300,015	-	1,659,977	1,150,998
Unutilised Credit Card Lines	1,518,716	-	303,743	231,557
	<u>13,830,827</u>	<u>-</u>	<u>4,248,873</u>	<u>2,916,492</u>
<u>Derivative Financial Instruments</u>				
Foreign Exchange Related Contracts:				
- One year or less	15,710,254	116,939	286,328	77,469
- Over one year to three years	951,319	2,578	62,508	34,771
- Over three years	381,600	6,032	38,950	20,994
Interest Rate Related Contracts:				
- One year or less	2,312,715	11,340	20,497	5,004
- Over one year to three years	2,532,107	55,819	130,573	30,422
- Over three years	7,147,073	30,324	367,798	105,660
Equity Related Contracts:				
- One year or less	340,226	178	20,790	5,628
- Over one year to three years	118,690	427	9,922	2,497
	<u>29,493,984</u>	<u>223,637</u>	<u>937,366</u>	<u>282,445</u>
	<u>43,324,811</u>	<u>223,637</u>	<u>5,186,239</u>	<u>3,198,937</u>

4.0 Credit Risk (cont'd.)

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

GROUP	Principal	Positive	Credit	Risk-
2022	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	498,689	-	498,689	411,241
Transaction-Related Contingent Items	561,778	-	280,889	187,696
Short-Term Self-Liquidating Trade-Related Contingencies	211,549	-	42,310	36,429
Forward Asset Purchase	-	-	-	-
Irrevocable Commitments to Extend Credit:				
- Maturity exceeding one year	1,747,771	-	873,160	619,872
- Maturity not exceeding one year	10,049,097	-	2,009,819	1,417,040
Unutilised Credit Card Lines	1,333,057	-	266,611	204,335
	<u>14,401,941</u>	<u>-</u>	<u>3,971,478</u>	<u>2,876,613</u>
<u>Derivative Financial Instruments</u>				
Foreign Exchange Related Contracts:				
- One year or less	10,370,880	16,936	130,778	41,269
- Over one year to three years	917,134	2,903	66,040	36,371
- Over three years	257,757	899	25,650	13,648
Interest Rate Related Contracts:				
- One year or less	2,158,436	9,743	16,296	4,882
- Over one year to three years	3,307,815	37,099	108,492	29,368
- Over three years	1,948,660	18,280	101,421	29,534
Equity Related Contracts:				
- One year or less	332,492	345	20,418	6,623
- Over one year to three years	216,080	89	17,376	4,136
	<u>19,509,254</u>	<u>86,294</u>	<u>486,471</u>	<u>165,831</u>
	<u>33,911,195</u>	<u>86,294</u>	<u>4,457,949</u>	<u>3,042,444</u>

4.0 Credit Risk (cont'd.)

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

<u>BANK</u> 2022	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	428,454	-	428,454	350,050
Transaction-Related Contingent Items	499,745	-	249,872	167,139
Short-Term Self-Liquidating Trade- Related Contingencies	192,299	-	38,460	33,478
Forward Asset Purchase	-	-	-	-
Irrevocable Commitments to Extend Credit:				
- Maturity exceeding one year	1,462,876	-	730,715	515,958
- Maturity not exceeding one year	7,732,786	-	1,546,557	1,070,536
Unutilised Credit Card Lines	1,333,057	-	266,611	204,025
	<u>11,649,217</u>	<u>-</u>	<u>3,260,669</u>	<u>2,341,186</u>
<u>Derivative Financial Instruments</u>				
Foreign Exchange Related Contracts:				
- One year or less	10,370,880	16,936	130,778	41,269
- Over one year to three years	917,134	2,903	66,040	36,371
- Over three years	257,757	899	25,650	13,648
Interest Rate Related Contracts:				
- One year or less	2,158,436	9,743	16,296	4,882
- Over one year to three years	3,307,815	37,099	108,492	29,368
- Over three years	1,948,660	18,280	101,421	29,534
Equity Related Contracts:				
- One year or less	332,492	345	20,418	6,623
- Over one year to three years	216,080	89	17,376	4,136
	<u>19,509,254</u>	<u>86,294</u>	<u>486,471</u>	<u>165,831</u>
	<u>31,158,471</u>	<u>86,294</u>	<u>3,747,140</u>	<u>2,507,017</u>

5.0 Market Risk

Market risk is defined as the risk of losses in on-balance sheet and off-balance sheet positions arising from movements in market prices such as interest rate/profit rates, foreign exchange rates and equity prices.

5.1 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.

5.2 Traded Market Risk

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

- (a) Identification of market risk in new products and changes in risk profiles of existing exposure;
- (b) Assessment of the type and magnitude of market risks which takes into account the activity and market role undertaken;
- (c) Adoption of various market risk measurement tools and techniques to quantify market risk exposure; and
- (d) 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.

5.0 Market Risk (cont'd.)

5.2 Traded Market Risk (cont'd.)

These exposures are governed by approved policies, risk limits and parameters which are set vis-à-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. Market risk limits, exposures as well as any limit breaches or exceptions are reported to GALCO, ERM and GRMC. The risk measures are outlined below:

- (a) Value-at-Risk ("VaR"): The Group has adopted the historical simulation approach where historical scenarios are generated based on actual past market movements. A snapshot of the end-of-day's positions is taken and full revaluation of the treasury positions is performed for each day's historical scenario versus the previous day's position. The VaR estimate is derived from the value of the 99th percentile of the loss distribution curve level and computed on a one-day holding period, i.e. the model is attempting to estimate the potential loss over the next 24 hours, based on historical market volatility. The Group currently adopts the hypothetical profit and loss ("P&L") approach for back testing purposes. Hypothetical P&L for back testing purposes refers to the simulated P&L that is generated by applying the day's price movements to the previous day's end-of-day portfolio.
- (b) Price Value of a Basis Point ("PV01") Limit: PV01 measures the sensitivity of the portfolio to adverse movements in interest rates. This limit is expressed in terms of potential losses to the entire portfolio for an adverse one basis point movement in interest rates.
- (c) The Total Net Open Position ("NOP"): The NOP limits represent the maximum permissible amount of net open position that the FX Spot & Swap Trading Desk dealers can maintain at any point in time.
- (d) Gamma and Vega Limits for FX and Interest Options: Gamma value parameter of an option is a risk parameter that measures the changes of the portfolio Delta due to changes in the underlying Spot value. Vega risk of an option measures and computes the changes in portfolio value due to parallel shift in volatility surface.
- (e) Others: Other limits include Stop Loss Limits, Tenure Limits and Transaction Limits. These limits provide additional control on the trading portfolio. In addition, stress testing is conducted to gauge and identify potential vulnerability risk areas of a bank's portfolio in accordance with a range of stressed scenarios or sensitivity analyses. It provides a forward looking assessment of risk exposures under stressed conditions which enables the Bank to assess potential worst case scenarios and develop appropriate management actions and contingency plans.

Hedging Policies and Strategies

The Group had established a 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 in the trading and banking book are approved by the GALCO and monitored independently by Group Market Risk Management. 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.

The following actions describe the financial hedges that may be entered into to mitigate the interest rate risk exposures of the Group and Bank.

- (a) Fair value hedge
The Group and the Bank use interest rate swaps to hedge its exposure to changes in the fair value of bonds.
- (b) Cash flow hedge
The Group and the Bank use foreign currency swaps (hedging instrument) to hedge the foreign exchange risks (USD) arising from the foreign currency interbank borrowing (hedged item) denominated in USD.

5.0 Market Risk (cont'd.)

5.2 Traded Market Risk (cont'd.)

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>GROUP</u>		<u>BANK</u>	
	Risk-Weighted Assets RM'000	Capital Requirements RM'000	Risk-Weighted Assets RM'000	Capital Requirements RM'000
2023				
Interest Rate Risk				
- General Interest Rate Risk	265,538	21,243	265,538	21,243
- Specific Interest Rate Risk	563	45	563	45
	<u>266,101</u>	<u>21,288</u>	<u>266,101</u>	<u>21,288</u>
Foreign Exchange Risk	48,884	3,911	48,761	3,901
Option Risk	1,663	133	1,663	133
	<u>316,648</u>	<u>25,332</u>	<u>316,525</u>	<u>25,322</u>
2022				
Interest Rate Risk				
- General Interest Rate Risk	291,525	23,322	291,525	23,322
- Specific Interest Rate Risk	1,512	121	1,512	121
	<u>293,037</u>	<u>23,443</u>	<u>293,037</u>	<u>23,443</u>
Foreign Exchange Risk	60,571	4,846	60,537	4,843
Option Risk	-	-	-	-
	<u>353,608</u>	<u>28,289</u>	<u>353,574</u>	<u>28,286</u>

5.0 Market Risk (cont'd.)

5.3 Non-Traded Market Risk

Non-traded market risk is the inherent risks arising from banking book activities. The primary risk factors in the banking book include interest rate risk/rate of return risk in the banking book.

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

Interest rate risk/rate of return risk in the banking book ("IRR/RORBB") is the risk that occurs when movements in interest rates affect a banking organisation's earnings or economic value. Interest rate/profit rate changes affect the Group's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income ("NII"). It also affects the underlying value of banking assets, liabilities and off-balance sheet instruments as the present value of future cash flows changes when there are changes in the interest rate/profit rate.

Risk Governance

IRR/RORBB is managed collectively by GALCO, Group Financial Markets, Group Finance and Group Risk Management. Each of these 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 strategies as approved by GALCO to manage the assets/liabilities as well as the funding and liquidity needs of the Bank/Group where the Group and its entities have operated above the minimum regulatory requirements for Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR"). 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:

- (a) 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, and complemented by regular monitoring and reporting;
- (b) Checking to ensure that IRR/RORBB is accurately measured and any mismatches identified, reviewed and reported monthly to GALCO;
- (c) Setting of proper gapping limits and the limits monitored closely; and
- (d) Practising comprehensive IRR/RORBB reporting and review process, with aggregated information and supporting details to facilitate the assessment of the Group's sensitivity to changes in market conditions.

5.0 Market Risk (cont'd.)

5.3 Non-Traded Market Risk (cont'd.)

5.3.1 Interest Rate Risk/Rate of Return Risk in the Banking Book ("IRR/RORBB") (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:

- (a) 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;
- (b) Net interest income/profit income simulations to assess the impact of interest rate/profit rate changes on short term earnings volatility;
- (c) Economic value ("EV") simulations that measure the asset-liability impact of adverse interest rate/profit rate movements on the economic value of the Bank's capital; and
- (d) Product behavioural testing is applied regularly to ensure the risk assessment is able to withstand any market interest rate changes within the risk tolerance of the Bank.

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 the 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 Group's and the Bank's projected sensitivity shock based on standard scenario as outlined in BNM's Reporting Requirements for Interest Rate/ Rate of Return Risk in the Banking Book Policy Document issued on 30 June 2020 across all maturities applied on the Group's and the Bank's interest sensitivity gap as at reporting date.

	MYR RM'000	USD RM'000	SGD RM'000	Other Foreign Currencies ("FCY") RM'000	Total RM'000
<u>GROUP</u>					
2023					
Impact on NII					
Parallel 200 bps up	268,477	29,755	(4,136)	(8,075)	286,021
Parallel 200 bps down	(268,477)	(29,755)	4,136	8,075	(286,021)
Impact on EV					
Parallel 200 bps up	(360,381)	11,343	2,812	9,971	(336,255)
Parallel 200 bps down	360,381	(11,343)	(2,812)	(9,971)	336,255
Steeper	(528,035)	(4,995)	(1,143)	(4,954)	(539,127)
Flattener	456,269	7,548	1,564	7,197	472,578
Short Rate Up	(13,482)	11,502	2,189	10,622	10,831
Short Rate Down	13,482	(11,502)	(2,189)	(10,622)	(10,831)
<u>BANK</u>					
2023					
Impact on NII					
Parallel 200 bps up	210,984	29,755	(4,136)	(8,075)	228,528
Parallel 200 bps down	(210,984)	(29,755)	4,136	8,075	(228,528)
Impact on EV					
Parallel 200 bps up	(234,571)	11,343	2,812	9,970	(210,446)
Parallel 200 bps down	234,571	(11,343)	(2,812)	(9,970)	210,446
Steeper	(380,484)	(4,995)	(1,143)	(4,954)	(391,576)
Flattener	332,877	7,548	1,564	7,198	349,187
Short Rate Up	8,773	11,502	2,189	10,622	33,086
Short Rate Down	(8,773)	(11,502)	(2,189)	(10,622)	(33,086)

5.0 Market Risk (cont'd.)

5.3 Non-Traded Market Risk

5.3.1 Interest Rate Risk/Rate of Return Risk in the Banking Book ("IRR/RORBB") (cont'd.)

	MYR RM'000	USD RM'000	SGD RM'000	Other FCY RM'000	Total RM'000
<u>GROUP</u>					
2022					
Impact on NII					
Parallel 200 bps up	218,322	9,519	(1,180)	(3,041)	223,620
Parallel 200 bps down	(218,322)	(9,519)	1,180	3,041	(223,620)
Impact on EV					
Parallel 200 bps up	(481,876)	10,359	2,301	4,063	(465,153)
Parallel 200 bps down	481,876	(10,359)	(2,301)	(4,063)	465,153
Steepener	(525,979)	(4,725)	(764)	(2,003)	(533,471)
Flattener	430,205	7,055	1,109	2,917	441,286
Short Rate Up	(98,830)	10,652	1,636	4,314	(82,228)
Short Rate Down	98,830	(10,652)	(1,636)	(4,314)	82,228
<u>BANK</u>					
2022					
Impact on NII					
Parallel 200 bps up	175,959	9,515	(1,181)	(3,044)	181,249
Parallel 200 bps down	(175,959)	(9,515)	1,181	3,044	(181,249)
Impact on EV					
Parallel 200 bps up	(324,978)	10,359	2,301	4,063	(308,255)
Parallel 200 bps down	324,978	(10,359)	(2,301)	(4,063)	308,255
Steepener	(396,297)	(4,725)	(764)	(2,003)	(403,789)
Flattener	327,465	7,055	1,109	2,917	338,546
Short Rate Up	(48,518)	10,652	1,636	4,314	(31,916)
Short Rate Down	48,518	(10,652)	(1,636)	(4,314)	31,916

The reported amounts do not capture the impact of business growth or of management actions as the impact is based on the balance sheet as at reporting date. In reality, GALCO seeks to proactively change the profit attributable to interest rate risk to minimise losses and maximise revenue.

Actual dates may differ from contractual dates for both financing and deposit owing to prepayments/premature withdrawals. When possible and material, financing prepayments and deposit premature withdrawals are generally estimated based on past statistics and trends. The impact on NII and EV are measured on a monthly basis for the Bank and quarterly for the Group, both of which are reported to GALCO and the Group Risk Management Committee.

5.3.2 BNM Liquidity Coverage Ratio ("LCR")

Liquidity risk can be defined as the risk where an entity is unable to fund increases in assets and meet financial obligations as they come due without incurring unacceptable losses. Liquidity risk measures are usually expressed in the form of various liquidity risk measurement ratios and triggers.

It is essential to adopt a conservative and prudent approach in the measurement of liquidity risk. This is achieved by the establishment of robust liquidity risk management policies, measures and strategies that are complemented by regular monitoring and reporting process.

The liquidity risk management references BNM's LCR to gauge its liquidity exposure, complemented with BNM's Net Stable Funding Ratio ("NSFR") which requires the Group to maintain sufficient liquidity, including a cushion of unencumbered, High Quality Liquid Assets ("HQLA") to withstand a range of stress events.

The Group is in compliance with the minimum regulatory requirements ratio to LCR and NSFR within the period from April 2022 to March 2023.

5.0 Market Risk (cont'd.)

5.4 Equity Exposures in the Banking Book

The Group and the Bank hold 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.

Any gains and losses arising from the returns and changes in fair value of these equities holdings are reflected in the revaluation reserve and statement of income accordingly.

The following table shows the equity exposures in the banking book:

	GROUP		BANK	
	Gross Credit Exposures RM'000	Risk-Weighted Assets RM'000	Gross Credit Exposures RM'000	Risk-Weighted Assets RM'000
2023				
Publicly Traded				
Holding of Equity Investments	14	14	14	14
Privately Held				
For Socio-Economic Purposes	257,206	257,206	257,206	257,206
Not for Socio-Economic Purposes	-	-	-	-
	<u>257,220</u>	<u>257,220</u>	<u>257,220</u>	<u>257,220</u>
2022				
Publicly Traded				
Holding of Equity Investments	13	13	13	13
Privately Held				
For Socio-Economic Purposes	245,839	245,839	171,485	171,485
Not for Socio-Economic Purposes	3	5	3	5
	<u>245,855</u>	<u>245,857</u>	<u>171,501</u>	<u>171,503</u>

The table below presents the movements on equity exposures in the banking book:

	GROUP		BANK	
	2023 RM'000	2022 RM'000	2023 RM'000	2022 RM'000
Publicly Traded				
- Unrealised gains/(losses) recognised in revaluation reserve	<u>1</u>	<u>(2)</u>	<u>1</u>	<u>(2)</u>
Privately Held				
For Socio-Economic Purposes				
- Acquisition during the year	-	-	71,034	-
- Disposal during the year	(3,319)	-	-	-
- Unrealised gains recognised in the statement of comprehensive income	<u>14,686</u>	<u>21,166</u>	<u>14,686</u>	<u>17,006</u>
	<u>11,367</u>	<u>21,166</u>	<u>85,720</u>	<u>17,006</u>
- Realised gains recognised in the statement of comprehensive income	<u>3,604</u>	<u>-</u>	<u>-</u>	<u>-</u>
Not for Socio-Economic Purposes				
- Write off during the year	<u>(3)</u>	<u>-</u>	<u>(3)</u>	<u>-</u>

6.0 Operational Risk

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

Operational Risk Management

Management, escalation and reporting of operational risks are instituted through the Group Operational and Technology Risk Management Committee ("GOTRC"), ERM, and GRMC as well as the Board.

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

At Senior Management level, GOTRC manages the day-to-day operational risk exposures. The roles and responsibilities of GOTRC include:

- (a) Providing strategic guidance on operational issues and monitoring the implementation of Operational Risk Management ("ORM") Framework;
- (b) Reviewing and monitoring operational risk issues, reports and action plans;
- (c) Evaluating and agreeing on initiatives to strengthen operational processes or infrastructure; and
- (d) Promoting risk awareness and operational risk management culture.

The Group practises 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's operational risk management process is depicted in the table below:

Identification	Identify the various risks inherent to each product, process and activity, as well as adverse trends of risk parameters
Assessment	<ul style="list-style-type: none"> - Risk Control Self-Assessment ("RCSA") - Control Self-Assessment ("CSA") - Key Risk Indicators ("KRI") - Loss Event Data ("LED") - Stress Testing and Scenario Analysis ("SA")
Mitigation & Control	<ul style="list-style-type: none"> - Set risk mitigation measures and controls - Insurance / takaful - Outsourcing - Business Continuity Management
Reporting	<ul style="list-style-type: none"> - Escalate and highlight regular operational risk reports to Senior Management and the Board - Highlight new/emerging risk areas and the controls in place
Disclosure	Provide regular risk disclosure to regulators through the Pillar 3 disclosure report and regulatory reports on operational risk, e.g. ORION/FIBOX reporting.

6.0 Operational Risk (cont'd.)

Operational Risk Management (cont'd.)

The customary tools employed by the Group for the management of operational risk are:

- (a) **RCSA** - An operational risk tool that is used to identify and assess risks inherent in the Group's operations and to evaluate the overall effectiveness of the internal controls in mitigating the identified risks;
- (b) **CSA** - Complements the RCSA process by validating the effectiveness of the controls measures identified and highlighting control lapses;
- (c) **KRI** - A quantitative and statistical parameter, often financial in nature and focuses on business processes and activities to identify emerging risks and potential changes in operational risk profiles;
- (d) **LED** - The process of collecting, evaluating, monitoring and reporting operational risk events, loss amount and irregularities; and
- (e) **Stress Testing and SA** - Assessment made to identify potential operational risk events and potential outcomes including identifying potential significant operational risks and the need for additional risk management, controls or mitigation solutions.

The Group adopts the Basic Indicator Approach for computation of operational Risk-Weighted Assets ("RWA").

7.0 Shariah Governance Disclosures

Shariah Non-Compliance Risk is the risk of loss that arises from failure to comply with Shariah rules and principles as determined by the Shariah Advisory Council of BNM and AISB's Shariah Committee. To manage the risks, AISB has adopted the following guiding principles:

- (a) A sound Shariah Compliance Framework which governs the operations of AISB and outlines the roles of key functionalities within AISB, including but not limited to the Shariah risk management process. This is in line with the Shariah governance policy document issued by BNM;
- (b) The Board of Directors, assisted by the Shariah Committee and Senior Management, provides oversight on Shariah compliance aspects of AISB's overall operations. This, amongst others, includes:
 - Oversight and implementation of the Shariah Compliance Framework;
 - Regular review of Shariah non-compliant income and issues;
 - Addressing Shariah non-compliance findings; and
 - Ensuring compliance with regulatory and internal requirements including disclosures.
- (c) Appointment of a qualified Shariah Committee member who also serves as AISB's Board member; serving as a 'bridge' between the Board and the Shariah Committee;
- (d) 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 AISB. 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; and
 - Conducting Shariah-related training and ongoing engagement with relevant parties to raise awareness on Shariah non-compliance risk.
- (e) Escalation and reporting processes of Shariah non-compliant income and issues governed through designated escalation channels, which include the Board and the Shariah Committee; and
- (f) Periodic engagement between the Board and the Shariah Committee to discuss Shariah research, Shariah compliance and the views of scholars on Islamic banking activities.

Shariah Non-Compliant Income and Events

During the financial period, two instances of Shariah non-compliance were detected from the ongoing reviews of AISB's operational processes. The Shariah non-compliance events had been tracked and escalated to the Shariah Committee and the Board, and immediate actions were taken to rectify the events. The Shariah non-compliant income of RM100.54 had been donated to charity and/or refunded to the affected customers in accordance with the Shariah Committee's decision.