



ALLIANCE ISLAMIC BANK

**PILLAR 3 REPORT
FOR THE FINANCIAL YEAR ENDED
31 MARCH 2018**

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Overview

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

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

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

To ensure that risks and returns are appropriately balanced, the Bank has implemented a Group-wide Integrated Risk Management Framework, with guidelines for identifying, measuring, and managing risks. This process includes quantifying and aggregating various risks in order to ensure the Bank has sufficient capital to cushion unexpected losses and remain solvent. Within the Alliance Bank Group, Alliance Islamic Bank leverages on centralized services provided by the Group, including risk management functions.

In summary, the capital management process involves the following:

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

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

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

ALLIANCE ISLAMIC BANK BERHAD
(776882-V)

CONTENTS	PAGES
1.0 Scope of Application	3
2.0 Capital	3 - 6
2.1 Capital Adequacy Ratios	4
2.2 Capital Structure	4
2.3 Risk Weighted Assets (RWA) and Capital Requirements	5 - 6
3.0 Credit Risk	7 - 21
3.1 Distribution of Credit Exposures	8 - 11
3.2 Past Due Financing and Advances Analysis	12
3.3 Impaired Financing and Advances Analysis	13 - 14
3.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach	15 - 18
3.5 Credit Risk Mitigation	19 - 20
3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk	21
4.0 Market Risk	22 - 23
5.0 Operational Risk	24
6.0 Rate of Return Risk in the Banking Book	24 - 25
7.0 Shariah Governance Disclosures	26

1.0 Scope of Application

The Pillar 3 Disclosure provided in this document is in respect of the Bank, which is involved in Islamic banking financial services.

There are no significant restrictions or other major impediments on transfer of funds or regulatory capital between the Bank and its holding company, Alliance Bank Malaysia Berhad.

There were no capital deficiencies in the Bank as at the financial year end.

The capital adequacy information is computed in accordance with Capital Adequacy Framework for Islamic Banks. The Bank has adopted the Standardised Approach for credit risk and market risk; and the Basic Indicator Approach for operational risk.

2.0 Capital

The capital management of the Bank is under the purview of Alliance Bank Group's (the Group) capital management with the objectives:

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

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

The Bank carries out stress testing to estimate the potential impact of extreme but plausible events on the Bank's earnings, statement of financial position and capital. The results of the stress tests are to facilitate the formulation of contingency plans where warranted. The results of the stress tests are tabled to the Group Risk Management Committee for approval.

2.0 Capital (contd.)

2.1 Capital Adequacy Ratios (contd.)

The capital adequacy ratios of the Bank are as follows:

	2018	2017
<u>Before deducting proposed dividends</u>		
CET I/ Tier I capital ratio	12.569%	13.430%
Total capital ratio	<u>15.421%</u>	<u>14.509%</u>
<u>After deducting proposed dividends</u>		
CET I/ Tier I capital ratio	12.198%	13.430%
Total capital ratio	<u>15.050%</u>	<u>14.509%</u>

The Bank's capital ratios comply with the prescribed capital adequacy ratios under BNM's Capital Adequacy Framework for Islamic Banks.

2.2 Capital Structure

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

	2018 RM'000	2017 RM'000
<u>CET I Capital</u>		
Paid-up share capital	400,000	345,045
Share premium	-	54,955
Retained profits	498,216	215,766
Statutory reserve	-	224,720
Revaluation reserves	246	151
	<u>898,462</u>	<u>840,637</u>
Less: Regulatory adjustment		
- Goodwill and other intangibles	(1,058)	(914)
- Deferred tax assets	(1,250)	(2,083)
- 55% of revaluation reserves	(135)	(83)
Total CET I Capital / Total Tier I Capital	<u>896,019</u>	<u>837,557</u>
<u>Tier II Capital</u>		
Subordinated Sukuk Murabahah ¹	129,543	-
Collective assessment allowance and regulatory reserves	73,810	67,243
Total Tier II Capital	<u>203,353</u>	<u>67,243</u>
Total Capital	<u>1,099,372</u>	<u>904,800</u>

Note 1:

Alliance Islamic Bank has completed its first issuance of subordinated sukuk murabahah (subordinated sukuk) of RM130million in nominal valuee, which quality as Basel III compliant Tier 2 regulatory capital of Alliance Islamic Bank.

2.0 Capital (contd.)

2.3 Risk Weighted Assets (RWA) and Capital Requirements

Regulatory Capital Requirements

The following table presents the minimum regulatory capital requirement of the Bank:

2018 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) <u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	2,345,557	2,345,557	-	-
Public sector entities	121,078	121,078	24,216	1,937
Banks, Development Financial Institutions (DFIs) and Multilateral Development Banks	98,526	98,526	19,705	1,576
Takaful Companies, Securities Firm and Fund Managers	25,195	25,195	25,195	2,016
Corporates	3,706,525	3,604,881	2,870,564	229,645
Regulatory retail	2,552,734	2,494,330	2,014,353	161,148
Residential Real Estate (RRE) financing	2,442,946	2,441,718	1,060,928	84,874
Higher risk assets	394	394	591	47
Other assets	35,485	35,485	35,485	2,839
Defaulted exposures	70,487	69,703	86,405	6,912
Total on-balance sheet exposures	<u>11,398,927</u>	<u>11,236,867</u>	<u>6,137,442</u>	<u>490,995</u>
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	636,136	589,053	493,254	39,460
Defaulted exposures	5,813	4,950	7,426	594
Total off-balance sheet exposures	<u>641,949</u>	<u>594,003</u>	<u>500,680</u>	<u>40,054</u>
Total on and off-balance sheet exposures	<u>12,040,876</u>	<u>11,830,870</u>	<u>6,638,122</u>	<u>531,050</u>
(ii) <u>Market Risk (Note 4.0)</u>				
	Long Position	Short Position		
Profit rate risk	-	-	-	-
Foreign currency risk	-	-	-	-
	-	-		
(iii) <u>Operational Risk</u>	-	-	490,929	39,274
Total	<u>12,040,876</u>	<u>11,830,870</u>	<u>7,129,051</u>	<u>570,324</u>

2.0 Capital (contd.)

2.3 RWA and Capital Requirements (contd.)

Regulatory Capital Requirements (contd.)

The following table presents the minimum regulatory capital requirement of the Bank (contd.):

2017 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	1,098,092	1,098,092	-	-
Public sector entities	55,268	55,268	11,054	884
Banks, DFIs and Multilateral Development Banks	768,346	768,346	153,670	12,293
Takaful Companies, Securities Firm and Fund Managers	10,493	10,493	10,493	840
Corporates	2,487,952	2,430,721	1,816,508	145,321
Regulatory retail	2,955,037	2,860,960	2,290,978	183,278
RRE financing	2,394,854	2,393,733	1,082,218	86,578
Higher risk assets	-	-	-	-
Other assets	39,475	39,475	39,474	3,158
Defaulted exposures	29,118	28,336	31,674	2,534
Total on-balance sheet exposures	9,838,635	9,685,424	5,436,069	434,886
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	474,379	436,443	339,268	27,141
Defaulted exposures	308	306	458	37
Total off-balance sheet exposures	474,687	436,749	339,726	27,178
Total on and off-balance sheet exposures	10,313,322	10,122,173	5,775,795	462,064
(ii) Market Risk (Note 4.0)				
	Long Position	Short Position		
Profit rate risk	40,694	-	19,590	1,567
Foreign currency risk	-	-	-	-
	40,694	-		
(iii) Operational Risk	-	-	440,869	35,270
Total	10,313,322	10,122,173	6,236,254	498,901

Note:

The Bank does not use Profit-sharing Investment Account (PSIA) as a risk absorbent mechanism.

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

3.0 Credit Risk

Credit risk is the risk of financial loss resulting from the failure of the Bank's customers or counterparties to fulfil their contractual obligations to pay their financing or to settle financial commitments. Credit risk arises mainly from financing and advances activities and holding of debt securities.

Credit Risk Management

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

Credit approval is under the purview of the Board, Management Credit Committee and Credit Underwriters, depending on the size and complexity of the financing.

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

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

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

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

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

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

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

Impaired Financing and Provisions

Past due accounts are financing accounts with any payment of principal and/or profit due and not paid, but are not classified as impaired. Financing are classified as impaired if the mandatory impairment thresholds are exceeded or judgmentally impaired when there are reasonable grounds to believe that the customer may not be able to pay the entire financing amount.

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

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

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

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures

(a) Geographical Distribution

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

	Geographical region					Total
	Northern	Central	Southern	Sabah	Sarawak	
2018	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	-	1,290,567	-	-	-	1,290,567
Financial assets held-for-trading	-	-	-	-	-	-
Financial investments available-for-sale	-	1,772,502	-	-	-	1,772,502
Financial investments held-to-maturity	-	-	-	-	-	-
Financing and advances	652,976	5,381,178	1,095,714	612,162	307,445	8,049,475
Statutory deposits with Bank Negara Malaysia	-	276,888	-	-	-	276,888
Total on-balance sheet	652,976	8,721,135	1,095,714	612,162	307,445	11,389,432
Financial guarantees	7,932	152,140	12,082	2,121	38	174,313
Credit related commitments and contingencies	234,333	957,257	219,724	417,517	36,977	1,865,808
Total off-balance sheet	242,265	1,109,397	231,806	419,638	37,015	2,040,121
Total credit exposure	895,241	9,830,532	1,327,520	1,031,800	344,460	13,429,553

	Geographical region					Total
	Northern	Central	Southern	Sabah	Sarawak	
2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	-	170,255	-	-	-	170,255
Financial assets held-for-trading	-	40,694	-	-	-	40,694
Financial investments available-for-sale	-	2,071,758	-	-	-	2,071,758
Financial investments held-to-maturity	-	80,957	-	-	-	80,957
Financing and advances	536,000	4,994,893	1,050,673	499,299	168,090	7,248,955
Statutory deposits with Bank Negara Malaysia	-	274,288	-	-	-	274,288
Total on-balance sheet	536,000	7,632,845	1,050,673	499,299	168,090	9,886,907
Financial guarantees	9,607	107,699	12,627	2,427	13	132,373
Credit related commitments and contingencies	171,450	683,029	185,340	429,411	34,153	1,503,383
Total off-balance sheet	181,057	790,728	197,967	431,838	34,166	1,635,756
Total credit exposure	717,057	8,423,573	1,248,640	931,137	202,256	11,522,663

ALLIANCE ISLAMIC BANK BERHAD
(776882-V)

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(b) Industry Distribution

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

	Government and Central <u>Bank</u> RM'000	Financial, Takaful and Business <u>Services</u> RM'000	Transport, Storage and <u>Communication</u> RM'000	Agriculture, Manufacturing, Wholesale & <u>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
2018								
Cash and short-term funds	1,290,567	-	-	-	-	-	-	1,290,567
Financial assets held-for-trading	-	-	-	-	-	-	-	-
Financial investments available-for-sale	643,216	789,625	243,192	5,105	91,364	-	-	1,772,502
Financial investments held-to-maturity	-	-	-	-	-	-	-	-
Financing and advances	-	839,499	148,536	2,599,250	287,260	4,111,877	63,053	8,049,475
Statutory deposits with Bank Negara Malaysia	276,888	-	-	-	-	-	-	276,888
Total on-balance sheet	2,210,671	1,629,124	391,728	2,604,355	378,624	4,111,877	63,053	11,389,432
Financial guarantees	-	5,072	5,154	144,289	19,518	42	238	174,313
Credit related commitments and contingencies	-	116,715	5,894	975,998	117,473	344,066	305,662	1,865,808
Total off-balance sheet	-	121,787	11,048	1,120,287	136,991	344,108	305,900	2,040,121
Total credit exposure	2,210,671	1,750,911	402,776	3,724,642	515,615	4,455,985	368,953	13,429,553

ALLIANCE ISLAMIC BANK BERHAD
(776882-V)

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(b) Industry Distribution (contd.)

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

	Government and Central <u>Bank</u> RM'000	Financial, Takaful and Business <u>Services</u> RM'000	Transport, Storage and <u>Communication</u> RM'000	Agriculture, Manufacturing, Wholesale & <u>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
2017								
Cash and short-term funds	170,255	-	-	-	-	-	-	170,255
Financial assets held-for-trading	-	40,694	-	-	-	-	-	40,694
Financial investments available-for-sale	541,332	1,266,551	162,197	30,571	71,107	-	-	2,071,758
Financial investments held-to-maturity	80,957	-	-	-	-	-	-	80,957
Financing and advances	-	791,276	77,478	2,163,982	137,237	4,021,509	57,473	7,248,955
Statutory deposits with Bank Negara Malaysia	274,288	-	-	-	-	-	-	274,288
Total on-balance sheet	1,066,832	2,098,521	239,675	2,194,553	208,344	4,021,509	57,473	9,886,907
Financial guarantees	-	3,301	111	122,212	6,429	42	278	132,373
Credit related commitments and contingencies	-	184,731	7,135	871,006	74,046	50,927	315,538	1,503,383
Total off-balance sheet	-	188,032	7,246	993,218	80,475	50,969	315,816	1,635,756
Total credit exposure	1,066,832	2,286,553	246,921	3,187,771	288,819	4,072,478	373,289	11,522,663

ALLIANCE ISLAMIC BANK BERHAD
(776882-V)

3.0 Credit Risk (contd.)

3.1 Distribution of Credit Exposures (contd.)

(c) Residual Contractual Maturity

The following table represents the residual contractual maturity for major types of gross credit exposure for on-balance sheet financial assets of the Bank:

	<u>Up to 1 month</u>	<u>>1-3 months</u>	<u>>3-6 months</u>	<u>>6-12 months</u>	<u>>1 year</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2018						
Cash and short-term funds	1,290,567	-	-	-	-	1,290,567
Financial assets held-for-trading	-	-	-	-	-	-
Financial investments available-for-sale	7,410	36,696	127,126	240,326	1,360,944	1,772,502
Financial investments held-to-maturity	-	-	-	-	-	-
Financing and advances	1,424,360	479,662	293,175	59,839	5,792,439	8,049,475
Statutory deposits with Bank Negara Malaysia	-	-	-	-	276,888	276,888
Total on-balance sheet exposure	2,722,338	516,358	420,301	300,165	7,430,271	11,389,432
2017						
Cash and short-term funds	170,255	-	-	-	-	170,255
Financial assets held-for-trading	-	575	-	-	40,119	40,694
Financial investments available-for-sale	436,776	313,111	51,793	30,014	1,240,064	2,071,758
Financial investments held-to-maturity	-	80,957	-	-	-	80,957
Financing and advances	947,651	305,242	123,332	18,029	5,854,701	7,248,955
Statutory deposits with Bank Negara Malaysia	-	-	-	-	274,288	274,288
Total on-balance sheet exposure	1,554,682	699,885	175,125	48,043	7,409,172	9,886,907

3.0 Credit Risk (contd.)

3.2 Past Due Financing and Advances Analysis

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

Past due financing and advances are analysed as follows:

	2018 RM'000	2017 RM'000
Past due up to 1 month	268,297	236,651
Past due > 1 - 2 months	62,279	71,233
Past due > 2 - 3 months	14,718	18,106
	345,294	325,990

Past due financing and advances analysed by sector:

	2018 RM'000	2017 RM'000
Financial, takaful and business services	5,075	12,186
Transport, storage and communication	552	4,137
Agriculture, manufacturing, wholesale & retail trade	19,548	34,154
Construction	4,148	2,451
Household	315,700	270,779
Others	271	2,283
	345,294	325,990

Past due financing and advances analysed by significant geographical areas:

	2018 RM'000	2017 RM'000
Northern region	31,834	26,287
Central region	225,673	203,751
Southern region	59,931	70,389
Sabah region	24,555	20,973
Sarawak region	3,301	4,590
	345,294	325,990

3.0 Credit Risk (contd.)

3.3 Impaired Financing and Advances Analysis

Impaired financing and advances analysed by sectors:

	2018 RM'000	2017 RM'000
Financial, takaful & business services	3,200	-
Transport, storage and communication	963	250
Agriculture, manufacturing, wholesale & retail trade	42,570	11,395
Construction	1,652	2,052
Household	55,847	37,691
Others	-	1
	<u>104,232</u>	<u>51,389</u>

Impairment allowances on impaired financing and advances analysed by sectors:

	Individual assessment allowance RM'000	Collective assessment allowance ¹ RM'000	Individual impairment made / write-back during the year (net) RM'000	Individual impairment write-off for the year (net) RM'000
2018				
Financial, takaful & business services	912	4,457	913	-
Transport, storage & communication	-	1,633	-	-
Agriculture, manufacturing, wholesale & retail trade	7,851	18,652	6,025	-
Construction	600	2,276	80	(45)
Household	1,403	48,027	772	(567)
Others	-	395	-	-
	<u>10,766</u>	<u>75,440</u>	<u>7,790</u>	<u>(612)</u>
2017				
Financial, takaful & business services	-	5,278	-	(2,031)
Transport, storage & communication	-	810	-	-
Agriculture, manufacturing, wholesale & retail trade	1,352	24,258	1,277	(2,784)
Construction	564	1,369	564	-
Household	564	44,979	325	(697)
Others	-	642	(4)	(560)
	<u>2,480</u>	<u>77,336</u>	<u>2,162</u>	<u>(6,072)</u>

Note:

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

3.0 Credit Risk (contd.)

3.3 Impaired Financing and Advances Analysis (contd.)

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

	Impaired financing and advances RM'000	Individual assessment allowance RM'000	Collective assessment allowance ¹ RM'000
2018			
Northern region	7,882	564	6,685
Central region	78,565	6,024	52,263
Southern region	12,857	3,436	10,358
Sabah region	3,882	742	4,189
Sarawak region	1,046	-	1,945
	<u>104,232</u>	<u>10,766</u>	<u>75,440</u>
2017			
Northern region	2,262	-	7,320
Central region	36,393	266	54,416
Southern region	8,733	1,709	9,737
Sabah region	3,492	505	4,405
Sarawak region	509	-	1,458
	<u>51,389</u>	<u>2,480</u>	<u>77,336</u>

Movements in financing impairment allowances are analysed as follows:

	2018 RM'000	2017 RM'000
Individual assessment allowance:		
At beginning of year	2,480	6,470
Allowance made during the year (net)	7,790	2,162
Amount written-off	(612)	(6,072)
Transfer from/(to) collective assessment allowance	1,108	(80)
At end of year	<u>10,766</u>	<u>2,480</u>
Collective assessment allowance¹:		
At beginning of year	77,336	69,909
Allowance made during the year (net)	43,596	43,635
Amount written-off	(44,384)	(36,288)
Transfer (to)/from individual assessment allowance	(1,108)	80
At end of year	<u>75,440</u>	<u>77,336</u>

Note:

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

3.0 Credit Risk (contd.)

3.4 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:

2018 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	Takaful companies, Securities firms and Fund managers RM'000	Corporates RM'000	Regulatory retail RM'000	RRE financing RM'000	Higher risk assets RM'000	Other assets RM'000		
0%	2,405,557	-	-	-	292,150	-	-	-	-	2,697,707	-
20%	-	125,077	98,526	-	552,707	-	154	-	-	776,464	155,293
35%	-	-	-	-	-	-	1,459,371	-	-	1,459,371	510,780
50%	-	-	-	-	827	2,610	875,417	-	-	878,854	439,427
75%	-	-	-	-	-	2,029,000	1,374	-	-	2,030,374	1,522,780
100%	-	-	-	25,195	3,168,174	580,922	134,841	-	35,485	3,944,617	3,944,617
150%	-	-	-	-	29,566	13,523	-	394	-	43,483	65,225
Total exposures	2,405,557	125,077	98,526	25,195	4,043,424	2,626,055	2,471,157	394	35,485	11,830,870	6,638,122
Risk-weighted assets by exposures	-	25,015	19,705	25,195	3,323,478	2,124,262	1,084,391	591	35,485	6,638,122	
Average risk weight	0%	20%	20%	100%	82%	81%	44%	150%	100%	56%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	

3.0 Credit Risk (contd.)

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

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

2017 Risk- Weights	Exposures after netting and credit risk mitigation									Total exposures after netting and credit risk mitigation RM'000	Total Risk- Weighted Assets RM'000
	Sovereigns /Central banks RM'000	Public sector entities RM'000	Banks, DFIs and Multilateral Development Banks RM'000	Takaful companies, Securities firms and Fund managers RM'000	Corporates RM'000	Regulatory retail RM'000	RRE financing RM'000	Higher risk assets RM'000	Other assets RM'000		
0%	1,158,092	-	-	-	297,430	-	-	-	-	1,455,522	-
20%	-	65,268	768,346	-	395,979	111	486	-	-	1,230,190	246,038
35%	-	-	-	-	-	-	1,329,368	-	-	1,329,368	465,279
50%	-	-	-	-	4	2,660	897,772	-	-	900,436	450,218
75%	-	-	-	-	-	2,388,740	1,514	-	-	2,390,254	1,792,691
100%	-	-	-	10,493	1,991,570	585,017	179,517	-	39,474	2,806,071	2,806,071
150%	-	-	-	-	6,567	3,765	-	-	-	10,332	15,498
Total exposures	1,158,092	65,268	768,346	10,493	2,691,550	2,980,293	2,408,657	-	39,474	10,122,173	5,775,795
Risk-weighted assets by exposures	-	13,054	153,669	10,493	2,080,618	2,383,571	1,094,915	-	39,474	5,775,795	
Average risk weight	0%	20%	20%	100%	77%	80%	45%	0%	100%	57%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	

3.0 Credit Risk (contd.)

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

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

The following tables show the rated credit exposures according to ratings by approved Eligible Credit Assessment Institutions (ECAIs), or as prescribed under the CAFIB:

2018

Exposure Class	Ratings by Approved ECAIs*						Total
	Moody's	Aaa to Aa3 / P-1	A1 to A3 / P-2	Baa1 to Ba3 / P-3	B1 to C / Others	Unrated	
	S&P	AAA to AA- / A-1	A+ to A- / A-2	BBB+ to BB- / A-3	B+ to D / Others	Unrated	
	Fitch	AAA to AA- / F1+, F1	A+ to A- / A-2	BBB+ to BB- / F3	B+ to D	Unrated	
	RAM	AAA to AA3 / P-1	A+ to A3 / P-2	BBB1+ to BB3 / P-3	B to D / NP	Unrated	
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4	Unrated	
	R&I	AAA to AA- / a-1+, a-1	A+ to A- / a-2	BBB+ to BB- / a-3	B+ to D / b, c	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures							
(i) Exposures risk weighted using Sovereigns and Central Banks rating							
Sovereigns and Central Banks (See Note 1)	-	2,405,557	-	-	-	-	2,405,557
Public Sector Entities	-	-	-	-	-	-	-
Corporates	-	292,150	-	-	-	-	292,150
	-	2,697,707	-	-	-	-	2,697,707
(ii) Exposures risk weighted using Banking Institutions long term rating							
Banks, DFIs and Multilateral Development Banks	98,526	-	-	-	-	-	98,526
Exposures risk weighted using Banking Institutions short term rating							
Banks, DFIs and Multilateral Development Banks	-	-	-	-	-	-	-
	98,526	-	-	-	-	-	98,526
(iii) Exposures risk weighted using Corporate long term rating							
Public Sector Entities	51,016	-	-	-	74,061	-	125,077
Corporates	552,707	-	-	-	3,335,240	-	3,887,947
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	25,195	-	25,195
Exposures risk weighted using Corporate short term rating							
Public Sector Entities	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-
	603,723	-	-	-	3,434,496	-	4,038,219

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

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

3.0 Credit Risk (contd.)

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

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

2017

Exposure Class	Ratings by Approved ECAIs*					Total
	Moody's	Aaa to Aa3 / P-1	A1 to A3 / P-2	Baa1 to Ba3 / P-3	B1 to C / Others	Unrated
	S&P	AAA to AA- / A-1	A+ to A- / A-2	BBB+ to BB- / A-3	B+ to D / Others	Unrated
	Fitch	AAA to AA- / F1+, F1	A+ to A- / A-2	BBB+ to BB- / F3	B+ to D	Unrated
	RAM	AAA to AA3 / P-1	A+ to A3 / P-2	BBB1+ to BB3 / P-3	B to D / NP	Unrated
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4	Unrated
	R&I	AAA to AA- / a-1+, a-1	A+ to A- / a-2	BBB+ to BB- / a-3	B+ to D / b, c	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance-Sheet Exposures						
(i) Exposures risk weighted using Sovereigns and Central Banks rating						
Sovereigns and Central Banks (See Note 1)	-	1,158,092	-	-	-	1,158,092
Public Sector Entities	-	-	-	-	-	-
Corporates	-	297,430	-	-	-	297,430
	-	1,455,522	-	-	-	1,455,522
(ii) Exposures risk weighted using Banking Institutions long term rating						
Banks, DFIs and Multilateral Development Banks	768,346	-	-	-	-	768,346
Exposures risk weighted using Banking Institutions short term rating						
Banks, DFIs and Multilateral Development Banks	-	-	-	-	-	-
	768,346	-	-	-	-	768,346
(iii) Exposures risk weighted using Corporate long term rating						
Public Sector Entities	15,264	-	-	-	50,004	65,268
Corporates	395,979	-	-	-	2,072,880	2,468,859
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	10,493	10,493
Exposures risk weighted using Corporate short term rating						
Public Sector Entities	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	-	-
	411,243	-	-	-	2,133,377	2,544,620

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

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

Note:

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

3.0 Credit Risk (contd.)

3.5 Credit Risk Mitigation (CRM)

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

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

The following tables represent the 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 for Islamic Banks.

2018 Exposure Class	Exposures before CRM RM'000	Exposures covered by guarantees/ credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000	Exposures covered by other eligible collateral RM'000
<u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	2,345,557	-	-	-
Public sector entities	121,078	-	-	-
Banks, DFIs and Multilateral Development Banks	98,526	-	-	-
Takaful Companies, Securities Firm and Fund Managers	25,195	-	-	-
Corporates	3,706,525	-	101,644	-
Regulatory retail	2,552,734	-	58,403	-
RRE financing	2,442,946	-	1,228	-
Higher risk assets	394	-	-	-
Other assets	35,485	-	-	-
Defaulted exposures	70,487	-	784	-
Total on-balance sheet exposures	11,398,927	-	162,059	-
Off-balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives				
	636,136	-	47,085	-
Defaulted exposures	5,813	-	863	-
Total off-balance sheet exposures	641,949	-	47,948	-
Total on and off-balance sheet exposures	12,040,876	-	210,007	-

3.0 Credit Risk (contd.)

3.5 Credit Risk Mitigation (CRM) (contd.)

2017 Exposure Class	Exposures before CRM RM'000	Exposures covered by guarantees/ credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000	Exposures covered by other eligible collateral RM'000
<u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	1,098,092	-	-	-
Public sector entities	55,268	-	-	-
Banks, DFIs and Multilateral Development Banks	768,346	-	-	-
Takaful Companies, Securities Firm and Fund Managers	10,493	-	-	-
Corporates	2,487,952	-	57,231	-
Regulatory retail	2,955,037	-	94,077	-
RRE financing	2,394,854	-	1,121	-
Higher risk assets	-	-	-	-
Other assets	39,475	-	-	-
Defaulted exposures	29,118	-	782	-
Total on-balance sheet exposures	9,838,635	-	153,211	-
Off-balance sheet exposures:				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	474,379	-	37,936	-
Defaulted exposures	308	-	2	-
Total off-balance sheet exposures	474,687	-	37,938	-
Total on and off-balance sheet exposures	10,313,322	-	191,149	-

3.0 Credit Risk (contd.)

3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk

Off-balance sheet exposures of the Bank are mainly from the commitments to extend credit including the unutilised or undrawn portions of credit facilities.

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

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
2018				
<u>Credit-related exposures</u>				
Direct credit substitutes	154,702	-	154,702	141,789
Transaction-related contingent items	77,381	-	38,690	24,488
Short-term self-liquidating trade- related contingencies	19,611	-	3,922	3,518
Irrevocable commitments to extend credit:				
• maturity exceeding one year	289,834	-	144,918	131,683
• maturity not exceeding one year	1,498,593	-	299,718	199,202
	<u>2,040,121</u>	<u>-</u>	<u>641,949</u>	<u>500,680</u>
2017				
<u>Credit-related exposures</u>				
Direct credit substitutes	108,034	-	108,034	96,880
Transaction-related contingent items	45,963	-	22,982	12,315
Short-term self-liquidating trade- related contingencies	24,339	-	4,868	4,316
Irrevocable commitments to extend credit:				
• maturity exceeding one year	157,730	-	78,865	69,221
• maturity not exceeding one year	1,299,690	-	259,938	156,994
	<u>1,635,756</u>	<u>-</u>	<u>474,687</u>	<u>339,726</u>

4.0 Market Risk

For Islamic banking, market risk refers to fluctuations in values of tradable, marketable or leaseable assets (including sukuk) and in off-balance sheet individual portfolios such as restricted investment accounts. This risk relates to the current and future volatility of market values of specific assets, e.g. the market value of a Sukuk or Murabahah assets purchased to be delivered over a specific period; and of foreign exchange rates.

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 Bank's market risk by reviewing and recommending market risk frameworks and policies; ensuring that market risk limits and parameters are within the approved thresholds; and aligning market risk management with business strategy and planning.

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

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

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

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

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

4.0 Market Risk (contd.)

Hedging Policies and Strategies

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

Market risk capital charge

For the Bank, the market risk charge is computed on the standardised approach and the capital charges are mainly on the Islamic bonds/sukuk.

Regulatory capital requirements

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

	Risk-Weighted Assets RM'000	Capital Requirements RM'000
2018		
Profit rate risk		
• General profit rate risk	-	-
• Specific profit rate risk	-	-
	<u>-</u>	<u>-</u>
Equity risk		
• General profit rate risk	-	-
• Specific profit rate risk	-	-
	<u>-</u>	<u>-</u>
Foreign exchange risk	-	-
	<u>-</u>	<u>-</u>
2017		
Profit rate risk		
• General profit rate risk	9,542	763
• Specific profit rate risk	10,048	804
	<u>19,590</u>	<u>1,567</u>
Equity risk		
• General profit rate risk	-	-
• Specific profit rate risk	-	-
	<u>-</u>	<u>-</u>
Foreign exchange risk	-	-
	<u>19,590</u>	<u>1,567</u>

5.0 Operational Risk

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

Operational Risk Management

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

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

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

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

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

The Bank adopts Basic Indicator Approach for computation of operational Risk-Weighted Asset (RWA).

6.0 Rate of Return Risk in the Banking Book

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

Risk Governance

RORBB is managed collectively by GALCO, Group Financial Markets, Group Finance and Group Risk Management. Each of the above parties has defined roles and responsibilities to provide oversight and manage RORBB within the defined framework and structure as approved by the GRMC/Board. GALCO assumes the overall responsibility in managing RORBB by setting the directions, strategy and risk limits/parameters for the Bank. Group Financial Markets is tasked to execute the approved strategy by managing the assets/liabilities as well as the funding and liquidity needs of the Bank. 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.

6.0 Rate of Return Risk in the Banking Book (contd.)

RORBB Management

The guiding principles in managing RORBB include:

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

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

- (i) Repricing gap analysis to measure profit rate from the earnings perspective i.e. impact of profit rate changes to earnings in the short term.
- (ii) Net profit income simulation to assess the impact of profit rate changes on short term earnings volatility.
- (iii) Economic value (EVE) simulations which measures the asset-liability impact of adverse profit rate movements on the economic value of the Bank's capital.

Group Risk Management performs independent monitoring of the 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 visual gauge (dashboard view) on the RORBB of the Bank.

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

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

	2018	2017
	+ 100 bps	+ 100 bps
	RM'000	RM'000
Impact on net profit income		
Ringgit Malaysia	<u>31,080</u>	<u>12,816</u>
Impact on Economic value		
Ringgit Malaysia	<u>(16,339)</u>	<u>(46,948)</u>

7.0 Shariah Governance Disclosures

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

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

Non-Shariah Compliant Income And Events

During the financial year end, there were 2 Shariah non-compliance events detected from the ongoing reviews of the Bank's operational processes. Necessary efforts had been taken to rectify each Shariah non-compliant event, which was escalated to and tracked by the Shariah Committee and Board of Directors. The Shariah non-compliant income of RM2,797 had been disposed of in accordance with Shariah Committee's decision, except for a sum of RM445 which is pending disposal.