



**ALLIANCE ISLAMIC BANK**

**Alliance Islamic Bank Berhad** (776882-V)

## **PILLAR 3 REPORT**

**FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017**

**ALLIANCE ISLAMIC BANK BERHAD**  
**(776882-V)**

<b>CONTENTS</b>	<b>PAGES</b>
1.0 Scope of Application	1
2.0 Capital	2 - 5
2.1 Capital Adequacy Ratios	3
2.2 Capital Structure	3
2.3 Risk Weighted Assets ("RWA") and Capital Requirements	4 - 5
3.0 Credit Risk	6- 19
3.1 Distribution of Credit Exposures	6 - 9
3.2 Past Due Financing and Advances Analysis	10
3.3 Impaired Financing and Advances Analysis	11 - 12
3.4 Assignment of Risk Weights for Portfolios Under the Standardised Approach	13 - 16
3.5 Credit Risk Mitigation	17 - 18
3.6 Off-Balance Sheet Exposures and Counterparty Credit Risk	19
4.0 Market Risk	20
5.0 Rate of Return Risk in the Banking Book	21
6.0 Shariah Governance Disclosures	21

**ALLIANCE ISLAMIC BANK BERHAD**  
**(776882-V)**

**PILLAR 3 REPORT**  
**FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2017**

**Overview**

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.

**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 period 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.

**ALLIANCE ISLAMIC BANK BERHAD**  
(776882-V)

**2.0 Capital (contd.)**

**2.1 Capital Adequacy Ratios**

The capital adequacy ratios of the Bank are as follows:

	30 September 2017	31 March 2017
<u>Before deducting proposed dividends</u>		
CET I/ Tier I capital ratio	14.185%	13.430%
Total capital ratio	<u>17.300%</u>	<u>14.509%</u>
<u>After deducting proposed dividends</u>		
CET I/ Tier I capital ratio	14.185%	13.430%
Total capital ratio	<u>17.300%</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:

	30 September 2017 RM'000	31 March 2017 RM'000
<b><u>CET I Capital</u></b>		
Paid-up share capital	400,000	345,045
Share premium	-	54,955
Retained profits	480,722	215,766
Statutory reserve	-	224,720
Revaluation reserves	2,596	151
	<u>883,318</u>	<u>840,637</u>
Less: Regulatory adjustment		
- Goodwill and other intangibles	(1,200)	(914)
- Deferred tax assets	(288)	(2,083)
- 55% of revaluation reserves	(1,428)	(83)
Total CET I Capital / Total Tier I Capital	<u>880,402</u>	<u>837,557</u>
<b><u>Tier II Capital</u></b>		
Collective assessment allowance and regulatory reserves	63,292	67,243
Subordinated Sukuk Murabahah	130,000	-
Total Tier II Capital	<u>193,292</u>	<u>67,243</u>
<b>Total Capital</b>	<u>1,073,694</u>	<u>904,800</u>

Alliance Islamic Bank has completed its first issuance of subordinated sukuk murabahah ("subordinated sukuk") of RM130million in nominal value, which qualify 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:

30 September 2017 <b>Exposure Class</b>	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
<b>(i) Credit Risk</b>				
On-balance sheet exposures:				
Sovereigns/Central banks	2,303,760	2,303,760	-	-
Public sector entities	121,077	121,077	24,215	1,937
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks ("MDBs")	247,268	247,268	49,454	3,956
Takaful Companies, Securities Firm and Fund Managers	10,378	10,378	10,378	830
Corporates	2,694,076	2,628,854	1,853,264	148,261
Regulatory retail	2,896,479	2,804,636	2,234,039	178,723
Residential Real Estate ("RRE") financing	2,335,139	2,333,932	1,028,320	82,266
Other assets	60,540	60,540	60,540	4,843
Defaulted exposures	56,807	55,437	65,707	5,257
<b>Total on-balance sheet exposures</b>	<b>10,725,524</b>	<b>10,565,882</b>	<b>5,325,917</b>	<b>426,073</b>
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	536,212	503,223	406,547	32,524
Defaulted exposures	332	278	417	33
<b>Total off-balance sheet exposures</b>	<b>536,544</b>	<b>503,501</b>	<b>406,964</b>	<b>32,557</b>
<b>Total on and off-balance sheet exposures</b>	<b>11,262,068</b>	<b>11,069,383</b>	<b>5,732,882</b>	<b>458,630</b>
<b>(ii) Market Risk (Note 4.0)</b>				
	Long Position	Short Position		
Profit rate risk	69,617	-	6,625	530
Foreign currency risk	-	-	-	-
	69,617	-		
<b>Total</b>			<b>6,625</b>	<b>530</b>
<b>(iii) Operational Risk</b>	-	-	466,980	37,358
<b>Total</b>	<b>11,262,068</b>	<b>11,069,383</b>	<b>6,206,487</b>	<b>496,518</b>

**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.):

31 March 2017 <b>Exposure Class</b>	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
<b>(i) Credit Risk</b>				
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
Other assets	39,475	39,475	39,474	3,158
Defaulted exposures	29,118	28,336	31,674	2,534
<b>Total on-balance sheet exposures</b>	<b>9,838,635</b>	<b>9,685,424</b>	<b>5,436,069</b>	<b>434,886</b>
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	474,379	436,443	339,268	27,141
Defaulted exposures	308	306	458	37
<b>Total off-balance sheet exposures</b>	<b>474,687</b>	<b>436,749</b>	<b>339,726</b>	<b>27,178</b>
<b>Total on and off-balance sheet exposures</b>	<b>10,313,322</b>	<b>10,122,173</b>	<b>5,775,795</b>	<b>462,064</b>
<b>(ii) Market Risk (Note 4.0)</b>				
	Long Position	Short Position		
Profit rate risk	40,694	-	19,590	1,567
Foreign currency risk	-	-	-	-
	40,694	-		
<b>Total</b>			<b>19,590</b>	<b>1,567</b>
<b>(iii) Operational Risk</b>	-	-	440,869	35,270
<b>Total</b>	<b>10,313,322</b>	<b>10,122,173</b>	<b>6,236,254</b>	<b>498,901</b>

**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.

**ALLIANCE ISLAMIC BANK BERHAD**  
**(776882-V)**

**3.0 Credit Risk**

**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	
30 September 2017	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	-	1,236,542	-	-	-	1,236,542
Financial assets held-for-trading	-	69,617	-	-	-	69,617
Financial investments available-for-sale	-	1,939,124	-	-	-	1,939,124
Financial investments held-to-maturity	-	-	-	-	-	-
Financing and advances	566,876	4,905,194	1,043,424	518,863	169,642	7,203,999
Statutory deposits	-	308,588	-	-	-	308,588
<b>Total on-balance sheet</b>	<b>566,876</b>	<b>8,459,066</b>	<b>1,043,424</b>	<b>518,863</b>	<b>169,642</b>	<b>10,757,870</b>
Financial guarantees	18,129	120,930	11,266	11,857	38	162,220
Credit related commitments and contingencies	191,171	811,148	202,510	398,763	34,652	1,638,244
<b>Total off-balance sheet</b>	<b>209,300</b>	<b>932,078</b>	<b>213,776</b>	<b>410,620</b>	<b>34,690</b>	<b>1,800,464</b>
<b>Total credit exposure</b>	<b>776,175</b>	<b>9,391,143</b>	<b>1,257,199</b>	<b>929,483</b>	<b>204,332</b>	<b>12,558,334</b>

	Geographical region					Total
	Northern	Central	Southern	Sabah	Sarawak	
31 March 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	-	274,288	-	-	-	274,288
<b>Total on-balance sheet</b>	<b>536,000</b>	<b>7,632,845</b>	<b>1,050,673</b>	<b>499,299</b>	<b>168,090</b>	<b>9,886,907</b>
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
<b>Total off-balance sheet</b>	<b>181,057</b>	<b>790,728</b>	<b>197,967</b>	<b>431,838</b>	<b>34,166</b>	<b>1,635,756</b>
<b>Total credit exposure</b>	<b>717,057</b>	<b>8,423,573</b>	<b>1,248,640</b>	<b>931,137</b>	<b>202,256</b>	<b>11,522,663</b>



**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
30 September 2017								
Cash and short-term funds	1,236,542	-	-	-	-	-	-	1,236,542
Financial assets held-for-trading	10,067	-	-	59,550	-	-	-	69,617
Financial investments available-for-sale	613,072	920,492	294,439	40,037	71,085	-	-	1,939,124
Financial investments held-to-maturity	-	-	-	-	-	-	-	-
Financing and advances	-	831,025	122,468	2,157,589	155,048	3,878,413	59,457	7,203,999
Statutory deposits	308,588	-	-	-	-	-	-	308,588
<b>Total on-balance sheet</b>	<b>2,168,268</b>	<b>1,751,517</b>	<b>416,907</b>	<b>2,257,176</b>	<b>226,132</b>	<b>3,878,413</b>	<b>59,457</b>	<b>10,757,870</b>
Financial guarantees	-	5,171	5,166	150,906	697	42	238	162,220
Credit related commitments and contingencies	-	135,850	4,662	930,153	79,558	176,355	311,667	1,638,244
<b>Total off-balance sheet</b>	<b>-</b>	<b>141,022</b>	<b>9,828</b>	<b>1,081,060</b>	<b>80,254</b>	<b>176,397</b>	<b>311,904</b>	<b>1,800,464</b>
<b>Total credit exposure</b>	<b>2,168,268</b>	<b>1,892,539</b>	<b>426,734</b>	<b>3,338,235</b>	<b>306,386</b>	<b>4,054,810</b>	<b>371,361</b>	<b>12,558,334</b>

**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
31 March 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	274,288	-	-	-	-	-	-	274,288
<b>Total on-balance sheet</b>	<b>1,066,832</b>	<b>2,098,521</b>	<b>239,675</b>	<b>2,194,553</b>	<b>208,344</b>	<b>4,021,509</b>	<b>57,473</b>	<b>9,886,907</b>
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
<b>Total off-balance sheet</b>	<b>-</b>	<b>188,032</b>	<b>7,246</b>	<b>993,218</b>	<b>80,475</b>	<b>50,969</b>	<b>315,816</b>	<b>1,635,756</b>
<b>Total credit exposure</b>	<b>1,066,832</b>	<b>2,286,553</b>	<b>246,921</b>	<b>3,187,771</b>	<b>288,819</b>	<b>4,072,478</b>	<b>373,289</b>	<b>11,522,663</b>

**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 exposures of financial assets of the Bank:

	<u>Up to 1 month</u>	<u>&gt;1-3 months</u>	<u>&gt;3-6 months</u>	<u>&gt;6-12 months</u>	<u>&gt;1 year</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 September 2017						
Cash and short-term funds	1,236,542	-	-	-	-	1,236,542
Financial assets held-for-trading	-	59,550	52	-	10,015	69,617
Financial investments available-for-sale	92,512	31,108	205,460	55,210	1,554,835	1,939,124
Financial investments held-to-maturity	-	-	-	-	-	-
Financing and advances	1,006,548	314,109	139,676	29,805	5,713,861	7,203,999
Statutory deposits	-	-	-	-	308,588	308,588
<b>Total on-balance sheet exposure</b>	<b>2,335,602</b>	<b>404,767</b>	<b>345,188</b>	<b>85,015</b>	<b>7,587,299</b>	<b>10,757,870</b>
31 March 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	-	-	-	-	274,288	274,288
<b>Total on-balance sheet exposure</b>	<b>1,554,682</b>	<b>699,885</b>	<b>175,125</b>	<b>48,043</b>	<b>7,409,172</b>	<b>9,886,907</b>

**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:

	30 September 2017 RM'000	31 March 2017 RM'000
Past due up to 1 month	264,065	236,651
Past due > 1 - 2 months	83,596	71,233
Past due > 2 - 3 months	19,267	18,106
	<u>366,929</u>	<u>325,990</u>

Past due financing and advances analysed by sector:

	30 September 2017 RM'000	31 March 2017 RM'000
Financial, takaful and business services	18,216	12,186
Transport, storage and communication	3,626	4,137
Agriculture, manufacturing, wholesale & retail trade	39,644	34,154
Construction	8,084	2,451
Household	294,610	270,779
Others	2,750	2,283
	<u>366,929</u>	<u>325,990</u>

Past due financing and advances analysed by significant geographical areas:

	30 September 2017 RM'000	31 March 2017 RM'000
Northern region	34,950	26,287
Central region	234,380	203,751
Southern region	66,969	70,389
Sabah region	24,185	20,973
Sarawak region	6,444	4,590
	<u>366,929</u>	<u>325,990</u>

3.0 Credit Risk (contd.)

3.3 Impaired Financing and Advances Analysis

Impaired financing and advances analysed by sectors:

	30 September 2017 RM'000	31 March 2017 RM'000
Financial, takaful & business services	3,094	-
Transport, storage and communication	201	250
Agriculture, manufacturing, wholesale & retail trade	28,297	11,395
Construction	2,007	2,052
Household	54,464	37,691
Others	-	1
	<u>88,063</u>	<u>51,389</u>

Impairment allowances on impaired financing and advances analysed by sectors:

	Individual assessment allowance RM'000	Collective assessment allowance RM'000	Individual assessment made / write-back during the period/year (net) RM'000	Individual assessment write-off for the period/year (net) RM'000
30 September 2017				
Financial, takaful & business services	1,141	5,490	1,141	-
Transport, storage & communication	-	1,067	-	-
Agriculture, manufacturing, wholesale & retail trade	4,902	24,230	3,549	-
Construction	806	1,707	242	-
Household	951	51,249	456	(274)
Others	-	551	-	-
	<u>7,800</u>	<u>84,294</u>	<u>5,389</u>	<u>(274)</u>
31 March 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>

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 RM'000
30 September 2017			
Northern region	3,648	-	8,140
Central region	64,709	3,426	59,631
Southern region	15,723	3,869	10,820
Sabah region	3,540	505	4,367
Sarawak region	443	-	1,336
	<u>88,063</u>	<u>7,800</u>	<u>84,294</u>
31 March 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:

	30 September 2017 RM'000	31 March 2017 RM'000
<b>Individual assessment allowance:</b>		
At beginning of year	2,480	6,470
Allowance made during the financial period/year (net)	5,389	2,162
Amount written-off	(274)	(6,072)
Transfer from/(to) collective assessment allowance	205	(80)
At end of year	<u>7,800</u>	<u>2,480</u>
<b>Collective assessment allowance:</b>		
At beginning of year	77,336	69,909
Allowance made during the financial period/year (net)	30,485	43,635
Amount written-off	(23,322)	(36,288)
Transfer (to)/from individual assessment allowance	(205)	80
At end of year	<u>84,294</u>	<u>77,336</u>

**ALLIANCE ISLAMIC BANK BERHAD  
(776882-V)**

**3.0 Credit Risk (contd.)**

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

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

30 September 2017 Risk- <u>Weights</u>	Exposures after netting and credit risk mitigation									Total exposures after netting and credit risk <u>mitigation</u> RM'000	Total Risk- Weighted <u>Assets</u> RM'000
	Sovereigns /Central <u>banks</u> RM'000	Public sector <u>entities</u> RM'000	Banks, DFIs and Multilateral Development <u>Banks</u> RM'000	Takaful companies, Securities firms and Fund <u>managers</u> RM'000	<u>Corporates</u> RM'000	Regulatory <u>retail</u> RM'000	RRE <u>financing</u> RM'000	Higher risk <u>assets</u> RM'000	Other <u>assets</u> RM'000		
0%	2,363,760	-	-	-	349,144	-	-	-	-	2,712,904	-
20%	-	125,077	247,268	-	533,058	-	585	-	-	905,989	181,198
35%	-	-	-	-	-	-	1,338,404	-	-	1,338,404	468,442
50%	-	-	-	-	4	3,004	870,741	-	-	873,749	436,875
75%	-	-	-	-	-	2,414,385	1,173	-	-	2,415,559	1,811,669
100%	-	-	-	10,428	2,053,025	530,232	144,714	-	60,540	2,798,940	2,798,940
150%	-	-	-	-	11,121	12,718	-	-	-	23,839	35,760
<b>Total exposures</b>	<b>2,363,760</b>	<b>125,077</b>	<b>247,268</b>	<b>10,428</b>	<b>2,946,352</b>	<b>2,960,340</b>	<b>2,355,619</b>	<b>-</b>	<b>60,540</b>	<b>11,069,383</b>	<b>5,732,882</b>
Risk-weighted assets by exposures	-	25,015	49,454	10,428	2,176,320	2,361,601	1,049,407	-	60,540	5,732,882	
Average risk weight	0%	20%	20%	100%	74%	80%	45%	0%	100%	52%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-

**ALLIANCE ISLAMIC BANK BERHAD  
(776882-V)**

**3.0 Credit Risk (contd.)**

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

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

31 March 2017 Risk- <u>Weights</u>	Exposures after netting and credit risk mitigation									Total exposures after netting and credit risk <u>mitigation</u> RM'000	Total Risk- Weighted <u>Assets</u> RM'000
	Sovereigns /Central <u>banks</u> RM'000	Public sector <u>entities</u> RM'000	Banks, DFIs and Multilateral Development <u>Banks</u> RM'000	Takaful companies, Securities firms and Fund <u>managers</u> RM'000	<u>Corporates</u> RM'000	Regulatory <u>retail</u> RM'000	RRE <u>financing</u> RM'000	Higher risk <u>assets</u> RM'000	Other <u>assets</u> 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
<b>Total exposures</b>	<b>1,158,092</b>	<b>65,268</b>	<b>768,346</b>	<b>10,493</b>	<b>2,691,550</b>	<b>2,980,293</b>	<b>2,408,657</b>	<b>-</b>	<b>39,474</b>	<b>10,122,173</b>	<b>5,775,795</b>
Risk-weighted assets by exposures	-	13,054	149,402	10,493	2,080,618	2,383,571	1,094,915	-	43,742	5,775,795	
Average risk weight	0%	20%	19%	100%	77%	80%	45%	0%	111%	57%	
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-	-



**3.0 Credit Risk (contd.)**

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

For the purpose of determining counterparty risk-weights, the Bank uses external credit assessments from Rating Agency Malaysia ("RAM"), Malaysian Rating Corporation ("MARC"), Standard and Poor's ("S&P"), Moody's, and Fitch. In the context of the 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:

30 September 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	
On and Off Balance-Sheet Exposures							RM'000
<b>(i) Exposures risk weighted using Sovereigns and Central Banks rating</b>							
Sovereigns and Central Banks (See Note 1)		-	2,363,760	-	-	-	2,363,760
Public Sector Entities		-	-	-	-	-	-
Corporates		-	349,144	-	-	-	349,144
		-	2,712,904	-	-	-	2,712,904
<b>(ii) Exposures risk weighted using Banking Institutions long term rating</b>							
Banks, DFIs and Multilateral Development Banks		247,268	-	-	-	-	247,268
<b>Exposures risk weighted using Banking Institutions short term rating</b>							
Banks, DFIs and Multilateral Development Banks		-	-	-	-	-	-
		247,268	-	-	-	-	247,268
<b>(iii) Exposures risk weighted using Corporate long term rating</b>							
Public Sector Entities		51,024	-	-	-	74,053	125,077
Corporates		498,146	-	-	-	2,141,092	2,639,238
Takaful Cos, Securities Firms & Fund Managers		-	-	-	-	10,428	10,428
<b>Exposures risk weighted using Corporate short term rating</b>							
Public Sector Entities		-	-	-	-	-	-
Corporates		34,912	-	-	-	-	34,912
Takaful Cos, Securities Firms & Fund Managers		-	-	-	-	-	-
		584,082	-	-	-	2,225,573	2,809,655

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 Portfolio Under the Standardised Approach (contd.)**

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

31 March 2017

Exposure Class	Ratings by Approved ECAIs*						Total
	Moody's	Aaa to Aa3 / P-1	A1 to A3 / P-2	Baa1 to Ba3 / P-3	B1 to C / Others	Unrated	
	S&P	AAA to AA- / A-1	A+ to A- / A-2	BBB+ to BB- / A-3	B+ to D / Others	Unrated	
	Fitch	AAA to AA- / F1+, F1	A+ to A- / A-2	BBB+ to BB- / F3	B+ to D	Unrated	
	RAM	AAA to AA3 / P-1	A+ to A3 / P-2	BBB1+ to BB3 / P-3	B to D / NP	Unrated	
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4	Unrated	
		RM'000	RM'000	RM'000	RM'000	RM'000	
<b>On and Off Balance-Sheet Exposures</b>							
<b>(i) Exposures risk weighted using Sovereigns and Central Banks rating</b>							
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	
<b>(ii) Exposures risk weighted using Banking Institutions long term rating</b>							
Banks, DFIs and Multilateral Development Banks	768,346	-	-	-	-	768,346	
<b>Exposures risk weighted using Banking Institutions short term rating</b>							
Banks, DFIs and Multilateral Development Banks	-	-	-	-	-	-	
	768,346	-	-	-	-	768,346	
<b>(iii) Exposures risk weighted using Corporate long term rating</b>							
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	
<b>Exposures risk weighted using Corporate short term rating</b>							
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.

**ALLIANCE ISLAMIC BANK BERHAD**  
(776882-V)

**3.0 Credit Risk (contd.)**

**3.5 Credit Risk Mitigation ("CRM")**

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.

30 September 2017 <b>Exposure Class</b>	<u>Exposures before CRM</u> RM'000	<u>Exposures covered by guarantees/ credit derivatives</u> RM'000	<u>Exposures covered by eligible financial collateral</u> RM'000	<u>Exposures covered by other eligible collateral</u> RM'000
<b><u>Credit Risk</u></b>				
On-balance sheet exposures:				
Sovereigns/Central banks	2,303,760	-	-	-
Public sector entities	121,077	-	-	-
Banks, DFIs and MDBs	247,268	-	-	-
Takaful Companies, Securities Firm and Fund Managers	10,378	-	-	-
Corporates	2,694,076	-	65,222	-
Regulatory retail	2,896,479	-	91,843	-
RRE financing	2,335,139	-	1,206	-
Other assets	60,540	-	-	-
Defaulted exposures	56,807	-	1,370	-
<b>Total on-balance sheet exposures</b>	<b><u>10,725,524</u></b>	<b><u>-</u></b>	<b><u>159,641</u></b>	<b><u>-</u></b>
Off-balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	536,212	-	32,989	-
Defaulted exposures	332	-	55	-
<b>Total off-balance sheet exposures</b>	<b><u>536,544</u></b>	<b><u>-</u></b>	<b><u>33,044</u></b>	<b><u>-</u></b>
<b>Total on and off-balance sheet exposures</b>	<b><u>11,262,068</u></b>	<b><u>-</u></b>	<b><u>192,685</u></b>	<b><u>-</u></b>

**ALLIANCE ISLAMIC BANK BERHAD**  
**(776882-V)**

**3.0 Credit Risk (contd.)**

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

31 March 2017 <b>Exposure Class</b>	<u>Exposures before CRM</u> RM'000	<u>Exposures covered by guarantees/ credit derivatives</u> RM'000	<u>Exposures covered by eligible financial collateral</u> RM'000	<u>Exposures covered by other eligible collateral</u> RM'000
<b><u>Credit Risk</u></b>				
On-balance sheet exposures:				
Sovereigns/Central banks	1,098,092	-	-	-
Public sector entities	55,268	-	-	-
Banks, DFIs and MDBs	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	-
Other assets	39,475	-	-	-
Defaulted exposures	29,118	-	782	-
Total on-balance sheet exposures	<u>9,838,635</u>	<u>-</u>	<u>153,211</u>	<u>-</u>
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	<u>474,687</u>	<u>-</u>	<u>37,938</u>	<u>-</u>
Total on and off-balance sheet exposures	<u>10,313,322</u>	<u>-</u>	<u>191,149</u>	<u>-</u>

**ALLIANCE ISLAMIC BANK BERHAD**  
(776882-V)

**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
30 September 2017				
<u>Credit-related exposures</u>				
Direct credit substitutes	113,921	-	113,921	105,067
Transaction-related contingent items	53,032	-	26,516	17,351
Short-term self-liquidating trade-related contingencies	52,582	-	10,516	9,931
Irrevocable commitments to extend credit:				
- maturity exceeding one year	231,347	-	115,674	106,231
- maturity not exceeding one year	1,349,583	-	269,917	168,384
	<u>1,800,465</u>	<u>-</u>	<u>536,544</u>	<u>406,964</u>

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk- Weighted Assets RM'000
31 March 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>

**ALLIANCE ISLAMIC BANK BERHAD**  
**(776882-V)**

**4.0 Market Risk**

**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
30 September 2017		
Profit rate risk		
- General profit rate risk	6,625	530
- Specific profit rate risk	-	-
	<u>6,625</u>	<u>530</u>
Equity risk		
- General profit rate risk	-	-
- Specific profit rate risk	-	-
	<u>-</u>	<u>-</u>
Foreign exchange risk	-	-
	<u>6,625</u>	<u>530</u>
31 March 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>

**ALLIANCE ISLAMIC BANK BERHAD**  
**(776882-V)**

**5.0 Rate of Return Risk in the Banking Book**

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.

	30 September 2017 + 100 bps RM'000	31 March 2017 + 100 bps RM'000
<b>Impact on net profit income</b>		
Ringgit Malaysia	<u>14,505</u>	<u>12,816</u>
<b>Impact on Economic value</b>		
Ringgit Malaysia	<u>31,776</u>	<u>46,948</u>

**6.0 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 period, there was no Shariah non-compliance event detected from the ongoing reviews of the Bank's operational processes.