



ALLIANCE ISLAMIC BANK

Alliance Islamic Bank Berhad (776882-V)

PILLAR 3 REPORT

FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018

ALLIANCE ISLAMIC BANK BERHAD
(776882-V)

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PILLAR 3 REPORT
FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2018

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.

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2.0 Capital (contd.)

2.1 Capital Adequacy Ratios

The capital adequacy ratios of the Bank are as follows:

	30 September 2018	31 March 2018
<u>Before deducting proposed dividends</u>		
CET I/ Tier I capital ratio	12.173%	12.569%
Total capital ratio	<u>15.094%</u>	<u>15.421%</u>
<u>After deducting proposed dividends</u>		
CET I/ Tier I capital ratio	11.761%	12.198%
Total capital ratio	<u>14.682%</u>	<u>15.050%</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 2018 RM'000	31 March 2018 RM'000
<u>CET I Capital</u>		
Paid-up share capital	400,000	400,000
Retained profits	508,687	498,216
Regulatory reserves	866	-
Revaluation reserves	4,905	246
	<u>914,458</u>	<u>898,462</u>
Less: Regulatory adjustment		
- Goodwill and other intangibles	(938)	(1,058)
- Deferred tax assets	(12,553)	(1,250)
- 55% of revaluation reserves	(2,698)	(135)
- Regulatory reserves	(866)	-
Total CET I Capital / Total Tier I Capital	<u>897,403</u>	<u>896,019</u>
<u>Tier II Capital</u>		
Subordinated Sukuk Murabahah	129,588	129,543
Collective assessment allowance and regulatory reserves	85,700	73,810
Total Tier II Capital	<u>215,288</u>	<u>203,353</u>
Total Capital	<u>1,112,691</u>	<u>1,099,372</u>

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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 2018 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000
(i) Credit Risk				
On-balance sheet exposures:				
Sovereigns/Central banks	2,205,094	2,205,094	-	-
Public sector entities	111,927	111,927	22,386	1,791
Banks, Development Financial Institutions ("DFIs") and Multilateral Development Banks	446,462	446,462	89,293	7,143
Takaful Companies, Securities Firm and Fund Managers	7,155	7,155	7,155	572
Corporates	3,681,966	3,564,205	2,789,617	223,170
Regulatory retail	2,375,508	2,315,523	1,894,198	151,536
Residential Real Estate ("RRE") financing	3,122,017	3,120,970	1,366,394	109,312
Higher risk assets	159	159	238	19
Other assets	48,137	48,137	48,132	3,851
Defaulted exposures	66,145	65,213	75,764	6,061
Total on-balance sheet exposures	<u>12,064,570</u>	<u>11,884,845</u>	<u>6,293,177</u>	<u>503,455</u>
Off-balance sheet exposures:				
Credit-related off-balance sheet exposures	732,397	684,888	562,368	44,989
Defaulted exposures	443	442	478	38
Total off-balance sheet exposures	<u>732,840</u>	<u>685,330</u>	<u>562,846</u>	<u>45,027</u>
Total on and off-balance sheet exposures	<u>12,797,410</u>	<u>12,570,175</u>	<u>6,856,023</u>	<u>548,482</u>
(ii) Market Risk (Note 4.0)				
	Long Position	Short Position		
Profit rate risk	9,983	-	312	25
Foreign currency risk	-	-	-	-
	9,983	-		
Total			<u>312</u>	<u>25</u>
(iii) Operational Risk				
	-	-	515,615	41,249
Total	<u>12,797,410</u>	<u>12,570,175</u>	<u>7,371,950</u>	<u>589,756</u>

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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 2018 Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk- Weighted Assets RM'000	Capital Requirements RM'000								
(i) Credit Risk												
On-balance sheet exposures:												
Sovereigns/Central banks	2,345,557	2,345,557	-	-								
Public sector entities	121,078	121,078	24,216	1,937								
Banks, 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								
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	11,398,927	11,236,867	6,137,442	490,995								
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	641,949	594,003	500,680	40,054								
Total on and off-balance sheet exposures	12,040,876	11,830,870	6,638,122	531,050								
(ii) Market Risk (Note 4.0)												
	<table border="1"> <thead> <tr> <th>Long Position</th> <th>Short Position</th> </tr> </thead> <tbody> <tr> <td>-</td> <td>-</td> </tr> <tr> <td>-</td> <td>-</td> </tr> <tr> <td>-</td> <td>-</td> </tr> </tbody> </table>		Long Position	Short Position	-	-	-	-	-	-		
Long Position	Short Position											
-	-											
-	-											
-	-											
Profit rate risk			-	-								
Foreign currency risk			-	-								
Total			-	-								
(iii) Operational Risk												
Total	-	-	490,929	39,274								
Total	12,040,876	11,830,870	7,129,051	570,324								

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.

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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 RM'000
	Northern RM'000	Central RM'000	Southern RM'000	Sabah RM'000	Sarawak RM'000	
30 September 2018						
Cash and short-term funds	-	862,884	-	-	-	862,884
Financial assets at fair value through profit or loss	-	9,983	-	-	-	9,983
Financial investments at fair value through other comprehensive income	-	2,435,176	-	-	-	2,435,176
Financial investments available-for-sale	-	-	-	-	-	-
Financing and advances	742,474	5,709,989	1,147,368	630,075	203,120	8,433,026
Statutory deposits with Bank Negara Malaysia	-	305,388	-	-	-	305,388
Total on-balance sheet	742,474	9,323,420	1,147,368	630,075	203,120	12,046,457
Financial guarantees	5,736	149,563	16,476	32,961	163	204,899
Credit related commitments and contingencies	242,102	1,219,722	265,124	152,529	170,659	2,050,136
Total off-balance sheet	247,838	1,369,285	281,600	185,490	170,822	2,255,035
Total credit exposure	990,312	10,692,705	1,428,968	815,565	373,942	14,301,492
31 March 2018						
Cash and short-term funds	-	1,290,567	-	-	-	1,290,567
Financial investments available-for-sale	-	1,772,502	-	-	-	1,772,502
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

Note:

For financial instruments, both the classifications as per Malaysian Financial Reporting Standard (MFRS) 139 and MFRS 9 were stated for comparative purposes.

The classification of financial instruments under MFRS 9 was adopted with effect from 1 April 2018. Please refer to Note A30 of the Financial Statement.

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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 2018								
Cash and short-term funds	862,884	-	-	-	-	-	-	862,884
Financial assets at fair value through profit or loss	-	-	-	9,983	-	-	-	9,983
Financial investments at fair value through other comprehensive income	900,712	1,177,783	244,729	20,123	91,829	-	-	2,435,176
Financial investments at amortised cost	-	-	-	-	-	-	-	-
Financial assets held-for-trading	-	-	-	-	-	-	-	-
Financial investments available-for-sale	-	-	-	-	-	-	-	-
Financial investments held-to-maturity	-	-	-	-	-	-	-	-
Financing and advances	-	801,827	181,793	2,579,116	210,022	4,588,030	72,238	8,433,026
Statutory deposits with Bank Negara Malaysia	305,388	-	-	-	-	-	-	305,388
Total on-balance sheet	2,068,984	1,979,610	426,522	2,609,222	301,851	4,588,030	72,238	12,046,457
Financial guarantees	-	6,438	5,147	173,130	19,672	42	470	204,899
Credit related commitments and contingencies	-	130,596	3,228	1,125,083	109,296	597,875	84,058	2,050,136
Total off-balance sheet	-	137,034	8,375	1,298,213	128,968	597,917	84,528	2,255,035
Total credit exposure	2,068,984	2,116,644	434,897	3,907,435	430,819	5,185,947	156,766	14,301,492

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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 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

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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>>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
30 September 2018						
Cash and short-term funds	862,884	-	-	-	-	862,884
Financial assets at fair value through profit or loss	9,983	-	-	-	-	9,983
Financial investments at fair value through other comprehensive income	197,538	279,331	246,530	135,151	1,576,626	2,435,176
Financial investments at amortised cost	-	-	-	-	-	-
Financial assets held-for-trading	-	-	-	-	-	-
Financial investments available-for-sale	-	-	-	-	-	-
Financial investments held-to-maturity	-	-	-	-	-	-
Financing and advances	1,788,207	363,139	177,561	26,529	6,077,590	8,433,026
Statutory deposits with Bank Negara Malaysia	-	-	-	-	305,388	305,388
Total on-balance sheet exposure	2,858,612	642,470	424,091	161,680	7,959,604	12,046,457
31 March 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

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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 2018 RM'000	31 March 2018 RM'000
Past due up to 1 month	425,203	268,297
Past due > 1 - 2 months	82,016	62,279
Past due > 2 - 3 months	18,183	14,718
	<u>525,402</u>	<u>345,294</u>

Past due financing and advances analysed by sector:

	30 September 2018 RM'000	31 March 2018 RM'000
Financial, takaful and business services	22,021	5,075
Transport, storage and communication	11,411	552
Agriculture, manufacturing, wholesale & retail trade	97,423	19,548
Construction	8,146	4,148
Household	355,372	315,700
Others	31,029	271
	<u>525,402</u>	<u>345,294</u>

Past due financing and advances analysed by significant geographical areas:

	30 September 2018 RM'000	31 March 2018 RM'000
Northern region	63,575	31,834
Central region	329,087	225,673
Southern region	96,719	59,931
Sabah region	29,741	24,555
Sarawak region	6,280	3,301
	<u>525,402</u>	<u>345,294</u>

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3.0 Credit Risk (contd.)

3.3 Impaired Financing and Advances Analysis

Impaired financing and advances analysed by sectors:

	30 September 2018 RM'000	31 March 2018 RM'000
Financial, takaful & business services	329	3,200
Transport, storage and communication	661	963
Agriculture, manufacturing, wholesale & retail trade	47,734	42,570
Construction	5,679	1,652
Household	50,928	55,847
Others	1	-
	<u>105,332</u>	<u>104,232</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 2018				
Financial, takaful & business services	-	4,071	(913)	-
Transport, storage & communication	-	2,593	-	-
Agriculture, manufacturing, wholesale & retail trade	8,206	22,564	969	-
Construction	4,826	1,678	4,243	-
Household	5,654	80,417	(2,146)	-
Others	-	422	-	-
	<u>18,686</u>	<u>111,745</u>	<u>2,153</u>	<u>-</u>
31 March 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>

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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 2018			
Northern region	8,818	720	10,017
Central region	82,021	14,258	82,645
Southern region	10,195	2,885	13,878
Sabah region	3,563	823	3,567
Sarawak region	735	-	1,638
	<u>105,332</u>	<u>18,686</u>	<u>111,745</u>
31 March 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>

3.0 Credit Risk (contd.)

3.3 Impaired Financing and Advances Analysis (contd.)

Movements in the allowance for credit losses on financing and advances are as follows:

	30 September 2018				Total	31 March 2018		
	Non-credit impaired		Credit Impaired			Collectively Assessed	Individually Assessed	
	Collectively Assessed		Collectively Assessed	Individually Assessed				
	12 months ECL (Stage 1)	Lifetime ECL (Stage 2)	Lifetime ECL (Stage 3)			RM'000	RM'000	RM'000
	RM'000	RM'000	RM'000	RM'000				
At 1 April 2018								
As previously stated					86,206	77,336	2,480	
Effect of adoption of MFRS 9					33,966	-	-	
As restated	21,745	63,788	17,212	17,427	120,172	77,336	2,480	
Transfer to 12 month ECL	4,331	(20,036)	(118)	(925)	(16,748)	-	-	
Transfer to lifetime ECL non credit-impaired	(8,259)	40,594	(10,539)	(5,123)	16,673	-	-	
Transfer to lifetime ECL credit-impaired	(2)	(24,785)	29,377	6,544	11,134	-	-	
New financial assets originated or purchased	12,054	17,724	7,460	-	37,238	-	-	
Financial assets derecognised other than write-off	(6,199)	(18,534)	(435)	(534)	(25,702)	-	-	
Changes due to change in credit risk	(1,736)	10,252	(5,613)	2,191	5,094	43,596	7,790	
Total charged to income statement	189	5,215	20,132	2,153	27,689	43,596	7,790	
Unwind of discount	-	-	-	(894)	(894)	-	-	
Write off	-	(60)	(16,476)	-	(16,536)	(44,384)	(612)	
Transfer from collective assessment allowance to individual assessment allowance	-	-	-	-	-	(1,108)	1,108	
At end of financial period/year	21,934	68,943	20,868	18,686	130,431	75,440	10,766	

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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 2018 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
	<u>Sovereigns</u> /Central <u>banks</u> RM'000	<u>Public</u> sector <u>entities</u> RM'000	<u>Banks,</u> DFIs and Multilateral <u>Banks</u> RM'000	<u>Takaful</u> companies, Securities firms and Fund <u>managers</u> RM'000	<u>Corporates</u> RM'000	<u>Regulatory</u> retail RM'000	<u>RRE</u> financing RM'000	<u>Higher</u> risk <u>assets</u> RM'000	<u>Other</u> <u>assets</u> RM'000			
0%	2,205,094	-	-	-	269,300	-	-	-	5	2,474,399	-	
20%	-	117,891	446,462	-	631,610	-	116	-	-	1,196,079	239,216	
35%	-	-	-	-	-	-	1,944,747	-	-	1,944,747	680,661	
50%	-	-	-	-	784	7,230	1,125,629	-	-	1,133,643	566,822	
75%	-	-	-	-	-	1,873,741	973	-	-	1,874,714	1,406,036	
100%	-	-	-	7,205	3,044,993	640,572	172,300	-	48,132	3,913,202	3,913,203	
150%	-	-	-	-	28,113	5,119	-	159	-	33,391	50,085	
Total exposures	2,205,094	117,891	446,462	7,205	3,974,800	2,526,662	3,243,765	159	48,137	12,570,175	6,856,023	
Risk-weighted assets by exposures	-	23,578	89,292	7,205	3,213,876	2,057,171	1,416,529	239	48,132	6,856,023		
Average risk weight	-	20%	20%	100%	81%	81%	44%	150%	100%	55%		
Deduction from Capital base	-	-	-	-	-	-	-	-	-	-		

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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 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	-	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 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, 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:

30 September 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	A1 to A3 / P-2	BBB1 to BB3 / P-3	B to D / NP		Unrated
	MARC	AAA to AA- / MARC-1	A+ to A- / MARC-2	BBB+ to BB- / MARC-3	B+ to D / MARC-4		Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
On and Off Balance-Sheet Exposures							
(i) Exposures risk weighted using Sovereigns and Central Banks rating							
Sovereigns and Central Banks (See Note 1)	-	2,205,094	-	-	-	2,205,094	
Public Sector Entities	-	-	-	-	-	-	
Corporates	-	269,300	-	-	-	269,300	
	-	2,474,394	-	-	-	2,474,394	
(ii) Exposures risk weighted using Banking Institutions long term rating							
Banks, DFIs and Multilateral Development Banks	446,463	-	-	-	-	446,463	
Exposures risk weighted using Banking Institutions short term rating							
Banks, DFIs and Multilateral Development Banks	-	-	-	-	-	-	
	446,463	-	-	-	-	446,463	
(iii) Exposures risk weighted using Corporate long term rating							
Public Sector Entities	50,981	-	-	-	66,910	117,891	
Corporates	616,636	-	-	-	3,225,717	3,842,353	
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	7,205	7,205	
Exposures risk weighted using Corporate short term rating							
Public Sector Entities	-	-	-	-	-	-	
Corporates	14,975	-	-	-	-	14,975	
Takaful Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	
	682,592	-	-	-	3,299,832	3,982,424	

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

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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 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
	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

Note:

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

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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 2018 Exposure Class	<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
<u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	2,205,094	-	-	-
Public sector entities	111,927	-	-	-
Banks, DFIs and Multilateral Development Bank	446,462	-	-	-
Takaful Companies, Securities Firm and Fund Managers	7,155	-	-	-
Corporates	3,681,966	-	117,761	-
Regulatory retail	2,375,508	-	59,985	-
RRE financing	3,122,017	-	1,047	-
Higher risk assets	159	-	-	-
Other assets	48,137	-	-	-
Defaulted exposures	66,145	-	932	-
Total on-balance sheet exposures	<u>12,064,570</u>	<u>-</u>	<u>179,725</u>	<u>-</u>
Off-balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	732,397	-	47,509	-
Defaulted exposures	443	-	1	-
Total off-balance sheet exposures	<u>732,840</u>	<u>-</u>	<u>47,510</u>	<u>-</u>
Total on and off-balance sheet exposures	<u>12,797,410</u>	<u>-</u>	<u>227,235</u>	<u>-</u>

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3.0 Credit Risk (contd.)

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

31 March 2018 Exposure Class	<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
<u>Credit Risk</u>				
On-balance sheet exposures:				
Sovereigns/Central banks	2,345,557	-	-	-
Public sector entities	121,078	-	-	-
Banks, DFIs and Multilateral Development Bank	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	-
Other assets	35,485	-	-	-
Defaulted exposures	70,487	-	784	-
Total on-balance sheet exposures	<u>11,398,927</u>	<u>-</u>	<u>162,059</u>	<u>-</u>
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	<u>641,949</u>	<u>-</u>	<u>47,948</u>	<u>-</u>
Total on and off-balance sheet exposures	<u>12,040,876</u>	<u>-</u>	<u>210,007</u>	<u>-</u>

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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 2018				
<u>Credit-related exposures</u>				
Direct credit substitutes	158,364	-	158,364	142,479
Transaction-related contingent items	65,346	-	32,673	19,252
Short-term self-liquidating trade-related contingencies	46,534	-	9,307	8,775
Irrevocable commitments to extend credit:				
- maturity exceeding one year	451,793	-	225,897	147,272
- maturity not exceeding one year	1,532,996	-	306,599	245,068
	<u>2,255,033</u>	<u>-</u>	<u>732,840</u>	<u>562,846</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 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>

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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 2018		
Profit rate risk		
- General profit rate risk	-	-
- Specific profit rate risk	312	25
	<u>312</u>	<u>25</u>
Equity risk		
- General profit rate risk	-	-
- Specific profit rate risk	-	-
	<u>-</u>	<u>-</u>
Foreign exchange risk	-	-
	<u>312</u>	<u>25</u>
31 March 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>

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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 2018 + 100 bps RM'000	31 March 2018 + 100 bps RM'000
Impact on net profit income		
Ringgit Malaysia	<u>22,541</u>	<u>31,080</u>
Impact on Economic value		
Ringgit Malaysia	<u>(35,941)</u>	<u>(16,339)</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 Shariah non-compliance income and issues.
 - Addressing Shariah non-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 Shariah non-compliance income and issues governed through designated escalation channels, which include the Board and Shariah Committee.
- (vi) Periodic engagement between the Board and the Shariah Committee to discuss on Shariah research, Shariah compliance and scholar's view on Islamic banking activities.

Shariah Non-Compliance Income And Events

During the financial period, there was 1 Shariah non-compliance event detected from the ongoing reviews of the Bank's operational processes. Necessary efforts had been taken to rectify the Shariah non-compliance event, which was tracked and escalated to the Shariah Committee and the Board. There was no Shariah non-compliance income to be disposed of in accordance with Shariah Committee's decision.