

**Industrial and Commercial Bank of China (Malaysia) Berhad**

(Company No. 839839 M)

(Incorporated in Malaysia)

**Risk-Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures  
as at 31 December 2015**

**OFFICER-IN-CHARGE'S ATTESTATION**

I, Yuan Bin, being the Chief Executive Officer of Industrial and Commercial Bank of China (Malaysia) Berhad, do hereby state that, in my opinion, the Pillar 3 Disclosures set out on pages 1 to 21 have been prepared in accordance with the Bank Negara Malaysia's Risk-Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3), and are accurate and complete.

Yuan Bin  
Chief Executive Officer

Date: 29 March 2016

**Risk-Weighted Capital Adequacy Framework (Basel II)****Pillar 3 Disclosure****1.0 Overview**

The Pillar 3 Disclosure for financial reporting beginning 1 January 2011 is required under the Bank Negara Malaysia (“BNM”)’s Risk-Weighted Capital Adequacy Framework (“RWCAF”). This is equivalent to Basel II issued by the Basel Committee on Banking Supervision. Basel II consists of the following Pillars:

## (i) Pillar 1

Outlines the minimum regulatory capital that banking institutions must hold against the credit, market and operational risks assumed.

## (ii) Pillar 2

Focuses on strengthening the supervisory review process in developing more rigorous risk management framework and techniques. The purpose of this Pillar is for banking institutions to implement an effective and rigorous internal capital adequacy assessment process that commensurates with the scale, nature and complexity of its operations. It sets out the requirements to assess risks in a holistic manner and beyond the capital requirements for Pillar 1 risks.

## (iii) Pillar 3

Outlines the minimum disclosure requirements of information on the risk management practices and capital adequacy of banking institutions. The Pillar’s aim is to enhance transparency and market discipline in regulating the risk-taking behaviours of banking institutions. In turn, this will contribute to BNM’s supervisory monitoring efforts and strengthen incentives for the banking institutions to implement robust risk management systems.

The approaches adopted by Industrial and Commercial Bank of China (Malaysia) Berhad (“the Bank”), are shown in table below:

|   | <b>Risk Type</b> | <b>Approach Adopted</b>        | <b>Capital Requirement Assessment</b>                                  |
|---|------------------|--------------------------------|--|
| 1 | Credit           | Standardised Approach          | Standard risk-weights  |
| 2 | Market           | Standardised Approach          | Standard risk-weights  |
| 3 | Operational      | Basic Indicator Approach (BIA) | Fixed percentage over average gross income for a fixed number of years |

The Bank is principally engaged in the provision of conventional banking and other related financial services. The Bank’s Pillar 3 Disclosure is in compliance with the BNM’s Risk-Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3). The information provided herein has been reviewed and certified by the Bank’s Chief Executive Officer.

**2.0 Capital Management and Capital Adequacy**

The Bank’s lead regulator, BNM, sets and monitors capital requirement for the Bank. The Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital adequacy.

The Bank adopts a prudent and forward-looking capital management approach to ensure it has adequate capital to support its operations at all times. On top of the minimum regulatory capital requirements, a buffer is added on to arrive at the Bank’s internal capital target to ensure adequacy of capital to support the current and anticipated business growth. Internal Capital Adequacy Assessment Process (“ICAAP”) is formulated to identify the material risks in the business. The material risk areas that are taken into consideration are credit risk, market risk, operational risk, credit concentration risk, liquidity risk, interest rate risk in banking book, compliance risk, legal risk, strategic risk as well as reputation risk.

## 2.0 Capital Management and Capital Adequacy *(continued)*

Internal capital assessment is carried out to determine the level of internal capital required by the Bank based on the Pillar 1 and 2 requirements as well as actual results of the preceding financial year (as the base case). Capital plan, business plan and budget are approved by the Board of Directors on annual basis. The business plan in particular would set out the Bank's risk appetite to be in line with the lending direction and business strategies for the coming year. Senior Management is responsible in ensuring a smooth development and implementation of the ICAAP policy as well as effective systems and processes are in place. The Bank's performance against the internal capital levels is reviewed on a regular basis by the Senior Management. Should there be a need for capital raising exercise, it will be presented to the Board of Directors for approval.

The Bank undertakes stress test exercise on half yearly basis to assess the Bank's capability to withstand the adverse environment. The stress test will at least cover the exceptional but plausible event and the worst case scenario. The possible impact to the Bank due to occurrence of adverse events, i.e. significant deterioration in borrowers' credit profile, decline in collateral value, erosion in the Bank's net interest margin and sizeable foreign exchange loss will be examined. The results of the stress test together with the proposed mitigating actions shall be tabled to the Senior Management and the Board of Directors for deliberations.

The Bank's regulatory capital are analysed as follows:

(i) Tier 1 Capital, which comprises the followings:

- Common Equity Tier 1 ("CET1") Capital, which includes ordinary share capital, share premium, retained earnings (net of dividends declared), statutory reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purpose.
- Additional Tier 1 Capital, which consists of instruments that are issued and paid-up, subordinated to depositors and perpetual in nature (amongst all other criteria) which are not included in CET1 Capital, the share premium arising from issuance of such instruments as well as the regulatory adjustments in relation to the calculation of Additional Tier 1 Capital.

(ii) Tier 2 Capital includes collective impairment allowances (excluding collective impairment allowances attributable to financing classified as impaired) and regulatory reserve.

Capital adequacy ratios of the Bank are computed in accordance with BNM's Capital Adequacy Framework. The minimum regulatory capital adequacy requirement is 8% on the risk-weighted assets ("RWA") for total capital at all times. Commencing 1 January 2015, the minimum CET1 Capital and Tier 1 Capital ratio will be set at 4.5% and 6.0% respectively (excluding conservation buffer). The following information presents the capital adequacy ratios of the Bank and the breakdown of RWA:

| (a) Capital Adequacy Ratio | 31 Dec 2015    | 31 Dec 2014<br>(restated) |
|----------------------------|----------------|---------------------------|
| CET1 capital ratio         | <b>15.675%</b> | 17.887%                   |
| Tier 1 capital ratio       | <b>15.675%</b> | 17.887%                   |
| Total capital ratio        | <b>16.886%</b> | 18.960%                   |

**2.0 Capital Management and Capital Adequacy (continued)**

(b) The breakdown of RWA by exposures in each major risk category under standardised approach are as follows:

| Risk type  | 31 Dec 2015               |                         |                                |                               |
|--|---------------------------|-------------------------|--------------------------------|-------------------------------|
|  | Gross Exposures<br>RM'000 | Net Exposures<br>RM'000 | Risk-Weighted Assets<br>RM'000 | Capital Requirement<br>RM'000 |
| <i>Credit Risk</i>                                 |                           |                         |                                |                               |
| <u>On-Balance Sheet Exposures</u>                  |                           |                         |                                |                               |
| Sovereigns/Central Banks                           | 608,326                   | 608,326                 | -                              | -                             |
| Banks, Development Financial Institutions and MDBs | 906,083                   | 906,083                 | 219,329                        | 17,546                        |
| Corporates   | 2,425,505                 | 2,425,505               | 1,507,344                      | 120,588                       |
| Regulatory Retail                                  | 75,632                    | 75,632                  | 63,195                         | 5,056                         |
| Residential Mortgages                              | 49,611                    | 49,611                  | 18,374                         | 1,470                         |
| Other Assets                                       | 15,166                    | 15,166                  | 9,382                          | 751                           |
| <b>Total On-Balance Sheet Exposures</b>            | <b>4,080,323</b>          | <b>4,080,323</b>        | <b>1,817,624</b>               | <b>145,411</b>                |
| <u>Off-Balance Sheet Exposures</u>                 |                           |                         |                                |                               |
| Credit-related off-balance sheet exposures         | 767,286                   | 767,286                 | 535,761                        | 42,861                        |
| OTC derivatives                                    | 21,870                    | 21,870                  | 10,523                         | 842                           |
| <b>Total Off-Balance Sheet Exposures</b>           | <b>789,156</b>            | <b>789,156</b>          | <b>546,284</b>                 | <b>43,703</b>                 |
| <b>Total On and Off-Balance Sheet Exposures</b>    | <b>4,869,479</b>          | <b>4,869,479</b>        | <b>2,363,908</b>               | <b>189,114</b>                |
| Large exposure risk requirement*                   | -                         | -                       | -                              | -                             |
| <i>Market Risk</i>                                 |                           |                         |                                |                               |
|  | <u>Long Position</u>      | <u>Short Position</u>   |                                |                               |
| Foreign currency risk                              | 894                       | 628                     | 894                            | 72                            |
| <i>Operational Risk</i>                            | -                         | -                       | -                              | 158,249                       |
| <b>Total RWA and Capital Requirements</b>          |                           |                         | <b>2,523,051</b>               | <b>201,846</b>                |

Note:

MDBs - Multilateral Development Banks

OTC - Over the counter

\*The Bank does not need to fulfill the capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM's RWCAF.

**2.0 Capital Management and Capital Adequacy (continued)**

| Risk type  | 31 Dec 2014      |                  |                  |                |
|--|------------------|------------------|------------------|----------------|
|  | Gross            | Net              | Risk-            | Capital        |
|  | Exposures        | Exposures        | Weighted         | Requirement    |
|  | RM'000           | RM'000           | Assets           | RM'000         |
|  | RM'000           | RM'000           | RM'000           | RM'000         |
| <i>Credit Risk</i>                                 |                  |                  |                  |                |
| <u>On-Balance Sheet Exposures</u>                  |                  |                  |                  |                |
| Sovereigns/Central Banks                           | 845,321          | 845,321          | -                | -              |
| Banks, Development Financial Institutions and MDBs | 957,163          | 957,163          | 191,433          | 15,315         |
| Corporates   | 2,179,278        | 2,179,278        | 1,324,467        | 105,957        |
| Regulatory Retail                                  | 11,069           | 11,069           | 10,468           | 837            |
| Residential Mortgages                              | 36,596           | 36,596           | 13,596           | 1,088          |
| Other Assets                                       | 17,947           | 17,947           | 12,811           | 1,025          |
| <b>Total On-Balance Sheet Exposures</b>            | <b>4,047,374</b> | <b>4,047,374</b> | <b>1,552,775</b> | <b>124,222</b> |
| <u>Off-Balance Sheet Exposures</u>                 |                  |                  |                  |                |
| Credit-related off-balance sheet exposures         | 555,831          | 555,831          | 391,408          | 31,313         |
| OTC derivatives                                    | 13,647           | 13,647           | 3,589            | 287            |
| <b>Total Off-Balance Sheet Exposures</b>           | <b>569,478</b>   | <b>569,478</b>   | <b>394,997</b>   | <b>31,600</b>  |
| <b>Total On and Off-Balance Sheet Exposures</b>    | <b>4,616,852</b> | <b>4,616,852</b> | <b>1,947,772</b> | <b>155,822</b> |
| Large exposure risk requirement*                   | -                | -                | -                | -              |
| <i>Market Risk</i>                                 |                  |                  |                  |                |
|  | <b>Long</b>      | <b>Short</b>     |                  |                |
|  | <b>Position</b>  | <b>Position</b>  |                  |                |
| Foreign currency risk                              | 592              | 1,968            | 1,968            | 157            |
| <i>Operational Risk</i>                            | -                | -                | -                | 123,544        |
| <b>Total RWA and Capital Requirements</b>          |                  |                  | <b>2,073,284</b> | <b>165,863</b> |

Note:

MDBs - Multilateral Development Banks

OTC - Over the counter

\*The Bank does not need to fulfill the capital requirement for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM's RWCAF.

### 3.0 Capital Structure

The bank's total capital according to Bank Negara Malaysia's Capital Adequacy Framework (Capital Components) are as follows:

|   | <b>31 Dec 2015</b> | 31 Dec 2014 |
|---|--------------------|-------------|
|   | <b>RM'000</b>      | RM'000      |
| <b>Common Equity Tier 1 ("CET1") Capital</b>                        |                    | (restated)  |
| Paid-up share capital   | <b>331,000</b>     | 331,000     |
| Retained earnings   | <b>30,400</b>      | 18,346      |
| Statutory reserve   | <b>40,392</b>      | 26,227      |
| Regulatory reserve  | <b>13,162</b>      | 11,051      |
| Unrealised losses on financial investments available-for-sale       | <b>(1,413)</b>     | (278)       |
|   | <b>413,541</b>     | 386,346     |
| Less: Regulatory adjustments applied in calculation of CET1 Capital |                    |             |
| - Intangible asset  | <b>(824)</b>       | (1,344)     |
| - Deferred tax assets   | <b>(4,058)</b>     | (3,102)     |
| - Regulatory reserve attributable to loans, advances and financing  | <b>(13,162)</b>    | (11,051)    |
|   | <b>(18,044)</b>    | (15,497)    |
| Total CET1 Capital  | <b>395,497</b>     | 370,849     |
| <b>Tier 2 Capital</b>   |                    |             |
| Collective impairment allowance                                     | <b>17,387</b>      | 11,189      |
| Regulatory reserve  | <b>13,162</b>      | 11,051      |
| Total Tier 2 Capital  | <b>30,549</b>      | 22,240      |
| Total Capital   | <b>426,046</b>     | 393,089     |

### 4.0 Risk Management Framework

The Board of Directors establishes the Bank's risk appetite and risk principles. The Board Risk Management Committee ("BRMC") is the principal board committee that oversees the Bank's risk management. It reviews the Bank's overall risk management frameworks and major risk policies. The BRMC is supported by both Management Risk Management Committee ("MRMC") at management level and Risk Management Department.

MRMC has been established for active Senior Management oversight, understanding, and dialogue on policies, profiles, and activities pertaining to the relevant risk types. All major risk policies have to be deliberated at MRMC level prior to escalation to BRMC and Board of Directors for approval.

The Bank's risk management policies are established to identify the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Unsecured exposures are managed in a prudent manner and collaterals are taken whenever required as risk mitigation measures. The Bank's unsecured exposures are diversified to a larger pool of clients to promote a more effective use of capital. Risk management policies and systems are reviewed regularly to reflect changes in the market condition, products and services offered. Periodic credit review is performed on the Bank's loan portfolio to assess the impact of changes in economic environment to the Bank's exposures and the collaterals taken. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board Audit Committee, supported by Internal Audit Department, provides an independent assessment of the adequacy and reliability of the risk management processes and system of internal controls, and compliance with risk policies and regulatory requirements.

The Bank has exposure to the following risks, amongst others, from financial instruments:

- Credit risk
- Market risk
- Operational risk
- Liquidity risk

## 5.0 Credit Risk

Credit risk is the risk of financial loss to the Bank due to failure of the Bank's customers or counterparties in meeting their contractual financial obligation. The credit risk comes primarily from the Bank's cash and deposits/placements, direct lending, trade finance and funding activities.

The Board of Directors has delegated responsibility for the oversight of credit risk to the Credit Committee, MRMC, and Credit Policy Committee ("CPC") . These committees are supervised by the Senior Management Committee.

The functions of the Credit Committee are as follows:

- Ensuring prudent underwriting standards that are consistent with the Bank's risk appetite and lending direction
- Deliberation of lending propositions and credit related requests

The functions of the CPC are as follows:

- Reviewing and deliberation of credit policies, guidelines, procedures and manuals.
- Reviewing and deliberation of the variation requests related to the Bank's standard legal documents for lending business

The functions of the MRMC are as follows:

- Reviewing the Bank's credit risk management profile
- Reviewing the credit risk appetite of the Bank
- Ensure effective credit risk management is in place

The Bank employs a credit risk grading system as a tool for determining the credit risk profile of borrowers using appropriate form of scorecards. The credit grades are used as a basis to support the underwriting of credit and are mapped accordingly to the credit rating scales of major international credit rating agencies.

A collective impairment allowance is performed on "collective basis" on the Bank's loan portfolio using statistical techniques with the necessary adjustments to the credit grades and probability of defaults of the respective credit grade band of the loans in order to guard against the risk of judgement error in the credit grading process. Although the credit grading process would involve qualitative assessment which is subject to judgement error, the loans within the same credit grade band generally share the similar credit risk characteristics for collective assessment. Given the lack of historical loss experience, the relevant market data will be taken for consideration to derive the model risk adjustment.

In the case of individual assessment, a loan is deemed as impaired if there is objective evidence of impairment which is triggered by certain events. In general, loans that are not repaid on time as they come due, be it the principal or interest, will be monitored closely as the likelihood of impairment from these past due loans is expected to be higher. Individual impairment allowances are made for loans, advances and financing which have been individually reviewed and specifically identified as impaired. Individual impairment allowances are provided if the recoverable amount (present value of estimated future cash flows discounted at original effective interest rate) is lower than the carrying value of the loans, advances and financing (outstanding amount of loans, advances and financing, net of individual impairment allowance). The expected cash flows are based on projections of liquidation proceeds, realisation of assets or estimates of future operating cash flows.

The methodology adopted for collective impairment assessment and the list of trigger events for individual impairment assessment will be reviewed on a regular basis to suit with the Bank's policy and the traits of its loan portfolio.

## 5.1 Distribution of Credit Exposures

The following tables present the credit exposures of financial assets broken down by relevant category and class against the relevant industry, geography and maturity. For on-balance sheet exposures, the maximum exposure to credit risk equals to their carrying amounts. For financial guarantees, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations for which the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit granted to customers.

### (i) Industry Analysis

The following tables present the credit exposures of financial assets of the Bank analysed by industrial distribution.

|  | As at 31 Dec 2015      |                                 |                         |                        |                       |   |  |   |                                  |                     |                  | Total<br>RM'000  |
|--|------------------------|---------------------------------|-------------------------|------------------------|-----------------------|---|--|---|----------------------------------|---------------------|------------------|------------------|
|  | Central Bank<br>RM'000 | Financial<br>Services<br>RM'000 | Manufacturing<br>RM'000 | Construction<br>RM'000 | Real Estate<br>RM'000 | Wholesale &<br>Retail Trade and<br>Restaurant &<br>Hotels<br>RM'000 | Transport,<br>Storage and<br>Communication<br>RM'000 | Finance,<br>Insurance and<br>Business<br>Services<br>RM'000 | Primary<br>Agriculture<br>RM'000 | Household<br>RM'000 | Others<br>RM'000 |                  |
| <b>On-Balance Sheet Exposures</b>                                      |                        |                                 |                         |                        |                       |   |  |   |                                  |                     |                  |                  |
| Cash and short-term funds  | 515,313                | 782,510                         | -                       | -                      | -                     | -   | -  | -   | -                                | -                   | -                | 1,297,823        |
| Deposits and placements with banks<br>and other financial institutions | -                      | 2,314                           | -                       | -                      | -                     | -   | -  | -   | -                                | -                   | -                | 2,314            |
| Financial investments available-for-sale                               | 70,553                 | 127,042                         | -                       | -                      | 4,973                 | -   | -  | -   | -                                | -                   | -                | 202,568          |
| Loans, advances and financing  | -                      | -                               | 136,688                 | 122,614                | 363,146               | 758,469   | 533,691  | 397,736   | 49,297                           | 69,406              | 114,728          | 2,545,775        |
| Overdrafts   | -                      | -                               | 9,332                   | 7,028                  | 7,819                 | 53,040  | 1,882  | 85,686  | -                                | 618                 | -                | 165,405          |
| Term loans   |                        |                                 |                         |                        |                       |   |  |   |                                  |                     |                  |                  |
| - Housing loans  | -                      | -                               | -                       | -                      | -                     | -   | -  | -   | -                                | 47,605              | -                | 47,605           |
| - Syndicated term loans  | -                      | -                               | -                       | -                      | -                     | -   | 43,135   | 86,024  | 49,297                           | -                   | -                | 178,456          |
| - Other term loans   | -                      | -                               | 46,206                  | 86,728                 | 206,471               | 129,416   | 52,315   | 8,206   | -                                | 17,556              | 20,649           | 567,547          |
| Bills receivable   | -                      | -                               | 27,818                  | -                      | -                     | 5,992   | -  | -   | -                                | -                   | -                | 33,810           |
| Revolving credit   | -                      | -                               | 16,903                  | 26,458                 | 148,856               | 522,935   | 435,197  | 215,320   | -                                | -                   | 94,079           | 1,459,748        |
| Bankers' acceptances   | -                      | -                               | 36,429                  | 2,400                  | -                     | 47,086  | 1,162  | 2,500   | -                                | -                   | -                | 89,577           |
| Staff loans  | -                      | -                               | -                       | -                      | -                     | -   | -  | -   | -                                | 2,118               | -                | 2,118            |
| Credit card loans  | -                      | -                               | -                       | -                      | -                     | -   | -  | -   | -                                | 1,509               | -                | 1,509            |
| Statutory deposits with Bank Negara Malaysia                           | 22,460                 | -                               | -                       | -                      | -                     | -   | -  | -   | -                                | -                   | -                | 22,460           |
|  | <b>608,326</b>         | <b>911,866</b>                  | <b>136,688</b>          | <b>122,614</b>         | <b>368,119</b>        | <b>758,469</b>  | <b>533,691</b>                                       | <b>397,736</b>  | <b>49,297</b>                    | <b>69,406</b>       | <b>114,728</b>   | <b>4,070,940</b> |
| <b>Commitments and Contingencies</b>                                   |                        |                                 |                         |                        |                       |   |  |   |                                  |                     |                  |                  |
| Contingent liabilities   | -                      | 246,581                         | 28,189                  | 10,505                 | 17,539                | 66,608  | 4,350  | 44,876  | -                                | -                   | 4                | 418,652          |
| Commitments  | -                      | 21,511                          | 45,214                  | 24,623                 | 57,534                | 147,768   | 4,472  | 32,467  | 10,353                           | 25,863              | 699              | 370,504          |
|  | -                      | <b>268,092</b>                  | <b>73,403</b>           | <b>35,128</b>          | <b>75,073</b>         | <b>214,376</b>  | <b>8,822</b>   | <b>77,343</b>   | <b>10,353</b>                    | <b>25,863</b>       | <b>703</b>       | <b>789,156</b>   |
| <b>Total Credit Exposures</b>  | <b>608,326</b>         | <b>1,179,958</b>                | <b>210,091</b>          | <b>157,742</b>         | <b>443,192</b>        | <b>972,845</b>  | <b>542,513</b>                                       | <b>475,079</b>  | <b>59,650</b>                    | <b>95,269</b>       | <b>115,431</b>   | <b>4,860,096</b> |



## 5.1 Distribution of Credit Exposures (continued)

## (i) Industry Analysis (continued)

|  | As at 31 Dec 2014      |                                 |                         |                        |                       |   |  |   |                                  |                     |                  | Total<br>RM'000 |
|--|------------------------|---------------------------------|-------------------------|------------------------|-----------------------|---|--|---|----------------------------------|---------------------|------------------|-----------------|
|  | Central Bank<br>RM'000 | Financial<br>Services<br>RM'000 | Manufacturing<br>RM'000 | Construction<br>RM'000 | Real Estate<br>RM'000 | Wholesale &<br>Retail Trade and<br>Restaurant &<br>Hotels<br>RM'000 | Transport,<br>Storage and<br>Communication<br>RM'000 | Finance,<br>Insurance and<br>Business<br>Services<br>RM'000 | Primary<br>Agriculture<br>RM'000 | Household<br>RM'000 | Others<br>RM'000 |                 |
| <b>On-Balance Sheet Exposures</b>                                      |                        |                                 |                         |                        |                       |   |  |   |                                  |                     |                  |                 |
| Cash and short-term funds  | 784,796                | 854,699                         | -                       | -                      | -                     | -   | -  | -   | -                                | -                   | -                | 1,639,495       |
| Deposits and placements with banks<br>and other financial institutions | -                      | 107,600                         | -                       | -                      | -                     | -   | -  | -   | -                                | -                   | -                | 107,600         |
| Financial investments available-for-sale                               | 50,185                 | -                               | -                       | -                      | 4,971                 | -   | -  | -   | -                                | -                   | -                | 55,156          |
| Loans, advances and financing  | -                      | -                               | 41,460                  | 41,337                 | 221,591               | 970,045   | 416,813  | 396,749   | 23,481                           | 47,666              | 62,831           | 2,221,973       |
| Overdrafts   | -                      | -                               | 3,607                   | 3,009                  | 11,097                | 22,030  | -  | 77,817  | -                                | 592                 | -                | 118,152         |
| Term loans   |                        |                                 |                         |                        |                       |   |  |   |                                  |                     |                  |                 |
| - Housing loans  | -                      | -                               | -                       | -                      | -                     | -   | -  | -   | -                                | 34,895              | -                | 34,895          |
| - Syndicated term loans  | -                      | -                               | -                       | -                      | -                     | -   | 34,221   | 87,484  | 23,481                           | -                   | -                | 145,186         |
| - Other term loans   | -                      | -                               | 5,544                   | 607                    | 111,098               | 348,079   | 31,804   | 99,479  | -                                | 9,128               | 17,779           | 623,518         |
| Bills receivable   | -                      | -                               | 2,156                   | -                      | -                     | -   | -  | -   | -                                | -                   | -                | 2,156           |
| Trust receipt  | -                      | -                               | -                       | 320                    | -                     | -   | -  | -   | -                                | -                   | -                | 320             |
| Revolving credit   | -                      | -                               | 18,276                  | 35,904                 | 99,396                | 553,184   | 349,722  | 121,969   | -                                | -                   | 45,052           | 1,223,503       |
| Bankers' acceptances   | -                      | -                               | 11,877                  | 1,497                  | -                     | 46,752  | 1,066  | 10,000  | -                                | -                   | -                | 71,192          |
| Staff loans  | -                      | -                               | -                       | -                      | -                     | -   | -  | -   | -                                | 1,867               | -                | 1,867           |
| Credit card loans  | -                      | -                               | -                       | -                      | -                     | -   | -  | -   | -                                | 1,184               | -                | 1,184           |
| Statutory deposits with Bank Negara Malaysia                           | 10,340                 | -                               | -                       | -                      | -                     | -   | -  | -   | -                                | -                   | -                | 10,340          |
|  | 845,321                | 962,299                         | 41,460                  | 41,337                 | 226,562               | 970,045   | 416,813  | 396,749   | 23,481                           | 47,666              | 62,831           | 4,034,564       |
| <b>Commitments and Contingencies</b>                                   |                        |                                 |                         |                        |                       |   |  |   |                                  |                     |                  |                 |
| Contingent liabilities   | -                      | -                               | 78,469                  | 45,404                 | 12,392                | 43,846  | 82,662   | 47,995  | -                                | -                   | -                | 310,768         |
| Commitments  | -                      | 13,584                          | 33,836                  | 22,849                 | 38,588                | 86,256  | 6,636  | 22,762  | 1,424                            | 24,220              | 8,555            | 258,710         |
|  | -                      | 13,584                          | 112,305                 | 68,253                 | 50,980                | 130,102   | 89,298   | 70,757  | 1,424                            | 24,220              | 8,555            | 569,478         |
| Total Credit Exposures   | 845,321                | 975,883                         | 153,765                 | 109,590                | 277,542               | 1,100,147   | 506,111  | 467,506   | 24,905                           | 71,886              | 71,386           | 4,604,042       |

**5.1 Distribution of Credit Exposures (continued)****(ii) Geographical Analysis**

The following tables present the credit exposures of financial assets analysed by geographical distribution based on the geographical location where the credit risk resides.

|  | As at 31 Dec 2015            |                               |                  |
|--|------------------------------|-------------------------------|------------------|
|  | Within<br>Malaysia<br>RM'000 | Outside<br>Malaysia<br>RM'000 | Total<br>RM'000  |
| <b>On-Balance Sheet Exposures</b>                                      |                              |                               |                  |
| Cash and short-term funds  | 963,496                      | 334,327                       | 1,297,823        |
| Deposits and placements with banks<br>and other financial institutions | -                            | 2,314                         | 2,314            |
| Financial investments available-for-sale                               | 75,526                       | 127,042                       | 202,568          |
| Loans, advances and financing  | 1,632,668                    | 913,107                       | 2,545,775        |
| Overdrafts   | 165,405                      | -                             | 165,405          |
| Term loans   |                              |                               |                  |
| - Housing loans  | 47,605                       | -                             | 47,605           |
| - Syndicated term loans  | -                            | 178,456                       | 178,456          |
| - Other term loans   | 228,170                      | 339,377                       | 567,547          |
| Bills receivable   | 33,380                       | 430                           | 33,810           |
| Revolving credit   | 1,064,904                    | 394,844                       | 1,459,748        |
| Bankers' acceptances   | 89,577                       | -                             | 89,577           |
| Staff loans  | 2,118                        | -                             | 2,118            |
| Credit card loans  | 1,509                        | -                             | 1,509            |
| Statutory deposits with Bank Negara Malaysia                           | 22,460                       | -                             | 22,460           |
|  | <b>2,694,150</b>             | <b>1,376,790</b>              | <b>4,070,940</b> |
| <b>Commitments and Contingencies</b>                                   |                              |                               |                  |
| Contingent liabilities   | 126,037                      | 292,615                       | 418,652          |
| Commitments  | 223,560                      | 146,944                       | 370,504          |
|  | <b>349,597</b>               | <b>439,559</b>                | <b>789,156</b>   |
| <b>Total Credit Exposures</b>  | <b>3,043,747</b>             | <b>1,816,349</b>              | <b>4,860,096</b> |
|  |                              |                               |                  |
|  | As at 31 Dec 2014            |                               |                  |
|  | Within<br>Malaysia<br>RM'000 | Outside<br>Malaysia<br>RM'000 | Total<br>RM'000  |
| <b>On-Balance Sheet Exposures</b>                                      |                              |                               |                  |
| Cash and short-term funds  | 1,050,366                    | 589,129                       | 1,639,495        |
| Deposits and placements with banks<br>and other financial institutions | -                            | 107,600                       | 107,600          |
| Financial investments available-for-sale                               | 55,156                       | -                             | 55,156           |
| Loans, advances and financing  | 1,097,753                    | 1,124,220                     | 2,221,973        |
| Overdrafts   | 118,152                      | -                             | 118,152          |
| Term loans   |                              |                               |                  |
| - Housing loans  | 34,895                       | -                             | 34,895           |
| - Syndicated term loans  | -                            | 145,186                       | 145,186          |
| - Other term loans   | 98,656                       | 524,862                       | 623,518          |
| Bills receivable   | 2,156                        | -                             | 2,156            |
| Trust receipt  | 320                          | -                             | 320              |
| Revolving credit   | 769,331                      | 454,172                       | 1,223,503        |
| Bankers' acceptances   | 71,192                       | -                             | 71,192           |
| Staff loans  | 1,867                        | -                             | 1,867            |
| Credit card loans  | 1,184                        | -                             | 1,184            |
| Statutory deposits with Bank Negara Malaysia                           | 10,340                       | -                             | 10,340           |
|  | <b>2,213,615</b>             | <b>1,820,949</b>              | <b>4,034,564</b> |
| <b>Commitments and Contingencies</b>                                   |                              |                               |                  |
| Contingent liabilities   | 114,034                      | 196,734                       | 310,768          |
| Commitments  | 188,722                      | 69,988                        | 258,710          |
|  | <b>302,756</b>               | <b>266,722</b>                | <b>569,478</b>   |
| <b>Total Credit Exposures</b>  | <b>2,516,371</b>             | <b>2,087,671</b>              | <b>4,604,042</b> |

**5.1 Distribution of Credit Exposures (continued)****(iii) Maturity Analysis**

The following tables present the residual contractual maturity for major types of gross credit exposures for on and off-balance sheet exposures of financial assets.

|   | As at 31 Dec 2015          |                            |                             |                       |                        |                 |
|---|----------------------------|----------------------------|-----------------------------|-----------------------|------------------------|-----------------|
|   | Up to 1<br>month<br>RM'000 | >1 - 3<br>months<br>RM'000 | >3 - 12<br>months<br>RM'000 | 1 - 5 years<br>RM'000 | Over 5 years<br>RM'000 | Total<br>RM'000 |
| <b>On-Balance Sheet Exposures</b>                                   |                            |                            |                             |                       |                        |                 |
| Cash and short-term funds   | 1,297,823                  | -                          | -                           | -                     | -                      | 1,297,823       |
| Deposits and placements with banks and other financial institutions | -                          | 2,314                      | -                           | -                     | -                      | 2,314           |
| Financial investments available-for-sale                            | -                          | -                          | 127,042                     | 75,526                | -                      | 202,568         |
| Loans, advances and financing                                       | 1,127,407                  | 342,000                    | 300,942                     | 662,751               | 112,675                | 2,545,775       |
| Overdrafts  | 165,405                    | -                          | -                           | -                     | -                      | 165,405         |
| Term loans  |                            |                            |                             |                       |                        |                 |
| - Housing loans   | 316                        | 279                        | 1,256                       | 7,398                 | 38,356                 | 47,605          |
| - Syndicated term loans   | 235                        | 353                        | -                           | 161,007               | 16,861                 | 178,456         |
| - Other term loans  | 4,105                      | 42,018                     | 160,268                     | 305,399               | 55,757                 | 567,547         |
| Bills receivable  | 27,590                     | 5,790                      | 430                         | -                     | -                      | 33,810          |
| Revolving credit  | 890,606                    | 259,819                    | 120,681                     | 188,642               | -                      | 1,459,748       |
| Bankers' acceptances  | 37,625                     | 33,723                     | 18,229                      | -                     | -                      | 89,577          |
| Staff loans   | 16                         | 18                         | 78                          | 305                   | 1,701                  | 2,118           |
| Credit card loans   | 1,509                      | -                          | -                           | -                     | -                      | 1,509           |
| Statutory deposits with Bank Negara Malaysia                        | -                          | -                          | -                           | -                     | 22,460                 | 22,460          |
|   | 2,425,230                  | 344,314                    | 427,984                     | 738,277               | 135,135                | 4,070,940       |
| <b>Commitments and Contingencies</b>                                |                            |                            |                             |                       |                        |                 |
| Contingent liabilities  | 19,235                     | 10,995                     | 106,040                     | 272,420               | 9,962                  | 418,652         |
| Commitments   | 1,653                      | 6,068                      | 251,003                     | 111,780               | -                      | 370,504         |
|   | 20,888                     | 17,063                     | 357,043                     | 384,200               | 9,962                  | 789,156         |
| <b>Total Credit Exposures</b>                                       | 2,446,118                  | 361,377                    | 785,027                     | 1,122,477             | 145,097                | 4,860,096       |

|   | As at 31 Dec 2014          |                            |                             |                       |                        |                 |
|---|----------------------------|----------------------------|-----------------------------|-----------------------|------------------------|-----------------|
|   | Up to 1<br>month<br>RM'000 | >1 - 3<br>months<br>RM'000 | >3 - 12<br>months<br>RM'000 | 1 - 5 years<br>RM'000 | Over 5 years<br>RM'000 | Total<br>RM'000 |
| <b>On-Balance Sheet Exposures</b>                                   |                            |                            |                             |                       |                        |                 |
| Cash and short-term funds   | 1,639,495                  | -                          | -                           | -                     | -                      | 1,639,495       |
| Deposits and placements with banks and other financial institutions | -                          | 65,023                     | 42,577                      | -                     | -                      | 107,600         |
| Financial investments available-for-sale                            | -                          | -                          | -                           | 55,156                | -                      | 55,156          |
| Loans, advances and financing                                       | 1,068,050                  | 500,088                    | 319,333                     | 236,973               | 97,529                 | 2,221,973       |
| Overdrafts  | 118,152                    | -                          | -                           | -                     | -                      | 118,152         |
| Term loans  |                            |                            |                             |                       |                        |                 |
| - Housing loans   | 230                        | 210                        | 925                         | 5,305                 | 28,225                 | 34,895          |
| - Syndicated term loans   | 177                        | 152                        | -                           | 121,482               | 23,375                 | 145,186         |
| - Other term loans  | 106,039                    | 122,769                    | 240,349                     | 109,839               | 44,522                 | 623,518         |
| Bills receivable  | 188                        | 1,158                      | 810                         | -                     | -                      | 2,156           |
| Trust receipt   | -                          | 320                        | -                           | -                     | -                      | 320             |
| Revolving credit  | 823,953                    | 342,019                    | 57,531                      | -                     | -                      | 1,223,503       |
| Bankers' acceptances  | 18,112                     | 33,442                     | 19,638                      | -                     | -                      | 71,192          |
| Staff loans   | 15                         | 18                         | 80                          | 347                   | 1,407                  | 1,867           |
| Credit card loans   | 1,184                      | -                          | -                           | -                     | -                      | 1,184           |
| Statutory deposits with Bank Negara Malaysia                        | -                          | -                          | -                           | -                     | 10,340                 | 10,340          |
|   | 2,707,545                  | 565,111                    | 361,910                     | 292,129               | 107,869                | 4,034,564       |
| <b>Commitments and Contingencies</b>                                |                            |                            |                             |                       |                        |                 |
| Contingent liabilities  | 11,877                     | 41,909                     | 72,906                      | 184,077               | -                      | 310,769         |
| Commitments   | 100                        | 9,605                      | 196,660                     | 52,344                | -                      | 258,709         |
|   | 11,977                     | 51,514                     | 269,566                     | 236,421               | -                      | 569,478         |
| <b>Total Credit Exposures</b>                                       | 2,719,522                  | 616,625                    | 631,476                     | 528,550               | 107,869                | 4,604,042       |

## 5.2 Credit Quality of Loans, Advances and Financing

### (i) Impaired loans, advances and financing

|  | 31 Dec 2015<br>RM'000 | 31 Dec 2014<br>RM'000 |
|--|-----------------------|-----------------------|
| Wholesale & retail trade and restaurant & hotels | 2,029                 | 2,029                 |
| Household  | 51                    | 51                    |

### (ii) Past due but not impaired loans

|           | 31 Dec 2015<br>RM'000 | 31 Dec 2014<br>RM'000 |
|-----------|-----------------------|-----------------------|
| Household | 104                   | 176                   |

All impaired loans and past due loans were from customers residing in Malaysia.

### (iii) Collective impairment provision broken down by geographical location

The following tables present the collective impairment provision of loans, advances and financing analysed by geographical distribution based on the geographical location where the credit risk resides.

|                               | 31 Dec 2015                  |                               |                 |
|-------------------------------|------------------------------|-------------------------------|-----------------|
|                               | Within<br>Malaysia<br>RM'000 | Outside<br>Malaysia<br>RM'000 | Total<br>RM'000 |
| Loans, advances and financing | 10,144                       | 7,243                         | 17,387          |
| Overdrafts                    | 2,208                        | -                             | 2,208           |
| Term loans                    |                              |                               |                 |
| - Housing loans               | 296                          | -                             | 296             |
| - Syndicated term loans       | -                            | 2,318                         | 2,318           |
| - Other term loans            | 1,371                        | 3,705                         | 5,076           |
| Bills receivable              | 402                          | 12                            | 414             |
| Revolving credit              | 5,012                        | 1,208                         | 6,220           |
| Bankers' acceptances          | 827                          | -                             | 827             |
| Staff loans                   | 14                           | -                             | 14              |
| Credit card loans             | 14                           | -                             | 14              |
|                               | <b>10,144</b>                | <b>7,243</b>                  | <b>17,387</b>   |

|                               | 31 Dec 2014                  |                               |                 |
|-------------------------------|------------------------------|-------------------------------|-----------------|
|                               | Within<br>Malaysia<br>RM'000 | Outside<br>Malaysia<br>RM'000 | Total<br>RM'000 |
| Loans, advances and financing | 4,969                        | 6,220                         | 11,189          |
| Overdrafts                    | 646                          | -                             | 646             |
| Term loans                    |                              |                               |                 |
| - Housing loans               | 153                          | -                             | 153             |
| - Syndicated term loans       | -                            | 1,869                         | 1,869           |
| - Other term loans            | 724                          | 2,284                         | 3,008           |
| Bills receivable              | 5                            | -                             | 5               |
| Trust receipt                 | 3                            | -                             | 3               |
| Revolving credit              | 2,637                        | 2,067                         | 4,704           |
| Bankers' acceptances          | 783                          | -                             | 783             |
| Staff loans                   | 11                           | -                             | 11              |
| Credit card loans             | 7                            | -                             | 7               |
|                               | <b>4,969</b>                 | <b>6,220</b>                  | <b>11,189</b>   |

## 5.2 Credit Quality of Loans, advances and Financing (continued)

### (iv) Collective impairment provision broken down by sector

The following tables present the collective impairment provision of loans, advances and financing of the Bank analysed by industrial distribution.

| As at 31 Dec 2015                 |                         |                        |                       |   |  |   |                                  |                     |                  |                 |
|-----------------------------------|-------------------------|------------------------|-----------------------|---|--|---|----------------------------------|---------------------|------------------|-----------------|
|                                   | Manufacturing<br>RM'000 | Construction<br>RM'000 | Real Estate<br>RM'000 | Wholesale &<br>Retail Trade and<br>Restaurant &<br>Hotels<br>RM'000 | Transport,<br>Storage and<br>Communication<br>RM'000 | Finance,<br>Insurance and<br>Business<br>Services<br>RM'000 | Primary<br>Agriculture<br>RM'000 | Household<br>RM'000 | Others<br>RM'000 | Total<br>RM'000 |
| <b>On-Balance Sheet Exposures</b> |                         |                        |                       |   |  |   |                                  |                     |                  |                 |
| Loans, advances and financing     | 1,426                   | 1,052                  | 4,743                 | 4,912   | 1,442  | 2,607   | 407                              | 597                 | 201              | 17,387          |
| Overdrafts                        | 131                     | 107                    | 63                    | 1,390   | -  | 505   | -                                | 12                  | -                | 2,208           |
| Term loans                        |                         |                        |                       |   |  |   |                                  |                     |                  |                 |
| - Housing loans                   | -                       | -                      | -                     | -   | -  | -   | -                                | 296                 | -                | 296             |
| - Syndicated term loans           | -                       | -                      | -                     | -   | 1,201  | 710   | 407                              | -                   | -                | 2,318           |
| - Other term loans                | 459                     | 156                    | 3,170                 | 617   | 191  | 186   | -                                | 261                 | 36               | 5,076           |
| Bills receivable                  | 402                     | -                      | -                     | 12  | -  | -   | -                                | -                   | -                | 414             |
| Revolving credit                  | 140                     | 722                    | 1,510                 | 2,448   | 50   | 1,185   | -                                | -                   | 165              | 6,220           |
| Bankers' acceptances              | 294                     | 67                     | -                     | 445   | -  | 21  | -                                | -                   | -                | 827             |
| Staff loans                       | -                       | -                      | -                     | -   | -  | -   | -                                | 14                  | -                | 14              |
| Credit card loans                 | -                       | -                      | -                     | -   | -  | -   | -                                | 14                  | -                | 14              |
|                                   | <b>1,426</b>            | <b>1,052</b>           | <b>4,743</b>          | <b>4,912</b>  | <b>1,442</b>   | <b>2,607</b>  | <b>407</b>                       | <b>597</b>          | <b>201</b>       | <b>17,387</b>   |

| As at 31 Dec 2014                 |                         |                        |                       |   |  |   |                                  |                     |                  |                 |
|-----------------------------------|-------------------------|------------------------|-----------------------|---|--|---|----------------------------------|---------------------|------------------|-----------------|
|                                   | Manufacturing<br>RM'000 | Construction<br>RM'000 | Real Estate<br>RM'000 | Wholesale &<br>Retail Trade and<br>Restaurant &<br>Hotels<br>RM'000 | Transport,<br>Storage and<br>Communication<br>RM'000 | Finance,<br>Insurance and<br>Business<br>Services<br>RM'000 | Primary<br>Agriculture<br>RM'000 | Household<br>RM'000 | Others<br>RM'000 | Total<br>RM'000 |
| <b>On-Balance Sheet Exposures</b> |                         |                        |                       |   |  |   |                                  |                     |                  |                 |
| Loans, advances and financing     | 428                     | 428                    | 1,345                 | 4,964   | 1,009  | 2,480   | 194                              | 231                 | 110              | 11,189          |
| Overdrafts                        | 72                      | 84                     | 92                    | 173   | -  | 224   | -                                | 1                   | -                | 646             |
| Term loans                        |                         |                        |                       |   |  |   |                                  |                     |                  |                 |
| - Housing loans                   | -                       | -                      | -                     | -   | -  | -   | -                                | 153                 | -                | 153             |
| - Syndicated term loans           | -                       | -                      | -                     | -   | 953  | 722   | 194                              | -                   | -                | 1,869           |
| - Other term loans                | 46                      | 3                      | 534                   | 1,458   | 56   | 821   | -                                | 59                  | 31               | 3,008           |
| Bills receivable                  | 5                       | -                      | -                     | -   | -  | -   | -                                | -                   | -                | 5               |
| Trust receipt                     | -                       | 3                      | -                     | -   | -  | -   | -                                | -                   | -                | 3               |
| Revolving credit                  | 117                     | 296                    | 719                   | 2,863   | -  | 630   | -                                | -                   | 79               | 4,704           |
| Bankers' acceptances              | 188                     | 42                     | -                     | 470   | -  | 83  | -                                | -                   | -                | 783             |
| Staff loans                       | -                       | -                      | -                     | -   | -  | -   | -                                | 11                  | -                | 11              |
| Credit card loans                 | -                       | -                      | -                     | -   | -  | -   | -                                | 7                   | -                | 7               |
|                                   | <b>428</b>              | <b>428</b>             | <b>1,345</b>          | <b>4,964</b>  | <b>1,009</b>   | <b>2,480</b>  | <b>194</b>                       | <b>231</b>          | <b>110</b>       | <b>11,189</b>   |

**5.2 Credit Quality of Loans, advances and Financing (continued)****(v) Movements in allowance for impairment on loans, advances and financing**

|  | 31 Dec 2015<br>RM'000 | 31 Dec 2014<br>RM'000 |
|--|-----------------------|-----------------------|
| <u>Collective allowance for impairment</u>       |                       |                       |
| At beginning of the financial year               | 11,189                | 8,466                 |
| Allowance made during the financial year         | 9,199                 | 6,082                 |
| Allowance written back during the financial year | (3,001)               | (3,359)               |
| At end of the financial year                     | <u>17,387</u>         | <u>11,189</u>         |
| <u>Individual allowance for impairment</u>       |                       |                       |
| At beginning of the financial year               | 2,080                 | -                     |
| Allowance made during the financial year         | -                     | 2,080                 |
| At end of the financial year                     | <u>2,080</u>          | <u>2,080</u>          |

**5.3 Off-Balance Sheet Exposures and Counterparty Credit Risk**

Off-balance sheet exposures of the Bank arise mainly from the following:

- Bank guarantee which represents the Bank's undertaking to make payment to the beneficiary in the event the customer unable to meet its obligations to the latter.
- Undrawn credit commitment represents the Bank's commitment to extend credit for approved credit facilities which have yet to be fully utilised within the availability period.
- Documentary letter of credit is the Bank's undertaking on behalf of customer to make payment in relation to trade transaction.
- Derivative financial instruments.

Counterparty credit risk on derivative financial instruments is the risk that the Bank's counterparty in a derivative contract is unable to meet the terms of the contract upon maturity. To mitigate the risk, the creditworthiness of the counterparty is thoroughly assessed and depending on a case to case basis, collateral may be required.

**(i) Composition of Off-Balance Sheet Exposures**

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

|   | 31 Dec 2015                   |   |  |                                       |
|---|-------------------------------|---|--|---------------------------------------|
|   | Principal<br>Amount<br>RM'000 | Positive<br>Value of<br>Derivative<br>Contracts<br>RM'000 | Credit<br>Equivalent<br>Amount<br>RM'000 | Risk-<br>Weighted<br>Assets<br>RM'000 |
| <u>Credit-related exposures</u>   |                               |   |  |                                       |
| Transaction-related contingent items  | 818,692                       | -   | 409,346                                  | 264,726                               |
| Short term self-liquidating trade-related contingencies   | 46,529                        | -   | 9,306                                    | 6,553                                 |
| Other commitments, such as formal standby facilities<br>and credit lines, with an original maturity of: |                               |   |  |                                       |
| - Exceeding one year  | 223,558                       | -   | 111,779                                  | 100,046                               |
| - Not exceeding one year  | 1,157,325                     | -   | 231,465                                  | 160,394                               |
| Unutilised credit card lines  | 26,949                        | -   | 5,390                                    | 4,042                                 |
| <u>Derivative financial contracts</u>   |                               |   |  |                                       |
| Foreign exchange related contracts:   |                               |   |  |                                       |
| - Less than one year  | 754,062                       | 7,555   | 21,870                                   | 10,523                                |
| Total   | <u>3,027,115</u>              | <u>7,555</u>  | <u>789,156</u>                           | <u>546,284</u>                        |

**5.3 Off-Balance Sheet Exposures and Counterparty Credit Risk (continued)****(i) Composition of Off-Balance Sheet Exposures (continued)**

|   | 31 Dec 2014                |   |  |                                       |
|---|----------------------------|---|--|---------------------------------------|
|   | Principal Amount<br>RM'000 | Positive Value of<br>Derivative Contracts<br>RM'000 | Credit<br>Equivalent<br>Amount<br>RM'000 | Risk-<br>Weighted<br>Assets<br>RM'000 |
| <u>Credit-related exposures</u>   |                            |   |  |                                       |
| Transaction-related contingent items  | 620,391                    | -   | 310,196                                  | 177,732                               |
| Short term self-liquidating trade-related contingencies   | 2,864                      | -   | 573                                      | 147                                   |
| Other commitments, such as formal standby facilities<br>and credit lines, with an original maturity of: |                            |   |  |                                       |
| - Exceeding one year  | 104,691                    | -   | 52,346                                   | 40,744                                |
| - Not exceeding one year  | 942,825                    | -   | 188,565                                  | 169,671                               |
| Unutilised credit card lines  | 20,757                     | -   | 4,151                                    | 3,114                                 |
| <u>Derivative financial contracts</u>   |                            |   |  |                                       |
| Foreign exchange related contracts:   |                            |   |  |                                       |
| - Less than one year  | 806,800                    | 592   | 13,647                                   | 3,589                                 |
| Total   | 2,498,328                  | 592   | 569,478                                  | 394,997                               |

**5.4 Credit Risk Mitigation**

The Bank takes prudent approach in granting credit facilities to customers. The main considerations in the credit assessment process are assessing customer's credit-worthiness, reliability of source of repayment and debt servicing ability. Credit Risk Mitigates ("CRM") such as collateral and guarantee provide further comfort to the Bank's exposures but these are deemed as the secondary safeguard measure. Depending on the credit standing of the customer, the Bank may provide facilities to customer on a clean basis. It is the interest of the Bank to diversify its unsecured exposures to a larger pool of clients that carry good credit grade.

As at the respective reporting dates, the main types of collateral obtained to mitigate credit risks are in the form of cash deposit, bank guarantee, standby letter of credit, quoted shares and property. Corporate guarantee and personal guarantee are often taken to enhance the risk profile of the customer.

Prior to accepting the CRM, proper assessment on the aspect of legal enforceability and guarantor's credibility will be undertaken to arrive at reasonable security coverage. Valuation on the property taken as CRM is required prior to the loan's drawdown.

Proper legal documentations are in place to ensure that the Bank's interests are protected and CRM are enforceable in the event of default by the customer. The value and status of CRM will be reviewed periodically (at least once a year) to ensure the Bank's exposures remain adequately covered. For collateral that its value fluctuates in a more frequent and volatile manner, such as quoted securities, the collateral value is marked to market on weekly basis for close monitoring. Top up of collateral may be required to bring the loan-to-value ratio back to satisfactory level in the event of sharp deterioration in the collateral value.

In order to manage any potential concentration risk within the mitigation taken, there is a credit risk management report which is prepared on a monthly basis, and any undue CRM concentration will be reported to the Board Risk Management Committee. Thus, the CRM concentration risk is appropriately managed whilst the Bank's loan portfolio continues growing and diversifying.

There is no netting arrangement in place for the Bank's existing on and off-balance sheet exposures. The netting arrangement will be considered on as-and-when basis to minimise the Bank's risk exposures.

**5.4 Credit Risk Mitigation (continued)**

The following tables present the credit exposures covered by guarantee (bank guarantees) and eligible financial collateral (fixed deposits) as at the respective reporting dates:

| <i>Credit Risk</i>                                 | 31 Dec 2015                |                                       |  |
|--|----------------------------|---------------------------------------|--|
|  | Total Exposures Before CRM | Total Exposures Covered by Guarantees | Total Exposures Covered by Eligible Financial Collateral |
|  | RM'000                     | RM'000                                | RM'000   |
| <u>On-Balance Sheet Exposures</u>                  |                            |                                       |  |
| Sovereigns/Central Banks                           | 608,326                    | -                                     | -  |
| Banks, Development Financial Institutions and MDBs | 906,083                    | -                                     | -  |
| Corporates   | 2,425,505                  | 657,501                               | 543,628  |
| Regulatory Retail                                  | 75,632                     | 20,649                                | 1,707  |
| Residential Mortgages                              | 49,611                     | -                                     | 270  |
| Other Assets                                       | 15,166                     | -                                     | -  |
| <b>Total On-Balance Sheet Exposures</b>            | <b>4,080,323</b>           | <b>678,150</b>                        | <b>545,605</b>   |
| <u>Off-Balance Sheet Exposures</u>                 |                            |                                       |  |
| Credit-related off-balance sheet exposures         | 767,286                    | 248,370                               | 89,983   |
| OTC derivatives                                    | 21,870                     | -                                     | -  |
| <b>Total Off-Balance Sheet Exposures</b>           | <b>789,156</b>             | <b>248,370</b>                        | <b>89,983</b>  |
| <b>Total On and Off-Balance Sheet Exposures</b>    | <b>4,869,479</b>           | <b>926,520</b>                        | <b>635,588</b>   |
|  |                            |                                       |  |
| <i>Credit Risk</i>                                 | 31 Dec 2014                |                                       |  |
|  | Total Exposures Before CRM | Total Exposures Covered by Guarantees | Total Exposures Covered by Eligible Financial Collateral |
|  | RM'000                     | RM'000                                | RM'000   |
| <u>On-Balance Sheet Exposures</u>                  |                            |                                       |  |
| Sovereigns/Central Banks                           | 845,321                    | -                                     | -  |
| Banks, Development Financial Institutions and MDBs | 957,163                    | -                                     | -  |
| Corporates   | 2,179,278                  | 823,040                               | 479,079  |
| Regulatory Retail                                  | 11,069                     | -                                     | 264  |
| Residential Mortgages                              | 36,596                     | -                                     | 552  |
| Other Assets                                       | 17,947                     | -                                     | -  |
| <b>Total On-Balance Sheet Exposures</b>            | <b>4,047,374</b>           | <b>823,040</b>                        | <b>479,895</b>   |
| <u>Off-Balance Sheet Exposures</u>                 |                            |                                       |  |
| Credit-related off-balance sheet exposures         | 555,831                    | 203,454                               | 47,012   |
| OTC derivatives                                    | 13,647                     | -                                     | -  |
| <b>Total Off-Balance Sheet Exposures</b>           | <b>569,478</b>             | <b>203,454</b>                        | <b>47,012</b>  |
| <b>Total On and Off-Balance Sheet Exposures</b>    | <b>4,616,852</b>           | <b>1,026,494</b>                      | <b>526,907</b>   |

*Note:*

*MDBs - Multilateral Development Banks*

*OTC - Over the counter*



### 5.5 Assignment of Risk Weights for Portfolios Under The Standardised Approach

The Bank refers to the credit ratings assigned by credit rating agencies in its calculation of credit risk-weighted assets. The following are the External Credit Assessment Institutions (“ECAI”) ratings used by the Bank and are recognised by BNM in the RWCAF:

- (a) Standard & Poor’s Rating Services (“S&P”)
- (b) Moody’s Investors Service (“Moody’s”)
- (c) Fitch Ratings (“Fitch”)
- (d) RAM Rating Services Berhad (“RAM”)
- (e) Malaysian Rating Corporation Berhad (“MARC”)
- (f) Rating and Investment Information, Inc. (“R&I”).

The ECAI ratings accorded to the following counterparty exposure classes are used in the calculation of risk-weighted assets for capital adequacy purposes:

- (a) Sovereigns/Central Banks
- (b) Banking institutions
- (c) Corporates

#### **Rated and Unrated Counterparties**

The issue rating i.e. the rating specific to the credit exposure is used. If there is no specific rating available, the credit rating assigned to the issuer or counterparty of the particular credit exposure is used. In cases where an exposure has neither an issue nor issuer rating, it is deemed as unrated.

- Where 2 recognised external ratings are available, the lower rating is to be applied; or
- Where 3 or more recognised external ratings are available, the lower of the highest 2 ratings will be used for capital adequacy calculation purposes.



## 5.5 Assignment of Risk Weights for Portfolios Under The Standardised Approach (continued)

### (i) Rated Exposures As Per ECAIs

The following tables present the credit exposures, categorised according to the credit quality rating as at 31 December 2015:

|   | Ratings of Sovereigns/Central Banks |        |        |        |        |         | Total   |
|---|-------------------------------------|--------|--------|--------|--------|---------|---------|
|   | 1                                   | 2      | 3      | 4      | 5      | Unrated |         |
|   | RM'000                              | RM'000 | RM'000 | RM'000 | RM'000 | RM'000  | RM'000  |
| <u>On and Off-Balance Sheet Exposures</u> |                                     |        |        |        |        |         |         |
| Sovereigns/Central Banks                  | -                                   | -      | -      | -      | -      | 608,326 | 608,326 |

|   | Ratings of Banking Institutions |           |        |        |        |         | Total     |
|---|---------------------------------|-----------|--------|--------|--------|---------|-----------|
|   | 1                               | 2         | 3      | 4      | 5      | Unrated |           |
|   | RM'000                          | RM'000    | RM'000 | RM'000 | RM'000 | RM'000  | RM'000    |
| <u>On and Off-Balance Sheet Exposures</u> |                                 |           |        |        |        |         |           |
| Banks, MDBs and DFIs                      | 230                             | 1,018,833 | 3,213  | 24,581 | -      | 127,317 | 1,174,174 |

|   | Ratings of Corporates |         |         |         |           |           | Total  |
|---|-----------------------|---------|---------|---------|-----------|-----------|--------|
|   | 1                     | 2       | 3       | 4       | Unrated   | Total     |        |
|   | RM'000                | RM'000  | RM'000  | RM'000  | RM'000    | RM'000    | RM'000 |
| <u>On and Off-Balance Sheet Exposures</u> |                       |         |         |         |           |           |        |
| Corporates                                | 191,175               | 201,671 | 107,840 | 106,694 | 2,296,043 | 2,903,423 |        |

|   | Ratings of Regulatory Retail |        |        |        |         |         | Total  |
|---|------------------------------|--------|--------|--------|---------|---------|--------|
|   | 1                            | 2      | 3      | 4      | Unrated | Total   |        |
|   | RM'000                       | RM'000 | RM'000 | RM'000 | RM'000  | RM'000  | RM'000 |
| <u>On and Off-Balance Sheet Exposures</u> |                              |        |        |        |         |         |        |
| Regulatory Retail                         | -                            | -      | 20,649 | -      | 80,096  | 100,745 |        |

|   | Ratings of Residential Mortgages |        |        |        |         |        | Total  |
|---|----------------------------------|--------|--------|--------|---------|--------|--------|
|   | 1                                | 2      | 3      | 4      | Unrated | Total  |        |
|   | RM'000                           | RM'000 | RM'000 | RM'000 | RM'000  | RM'000 | RM'000 |
| <u>On and Off-Balance Sheet Exposures</u> |                                  |        |        |        |         |        |        |
| Residential Mortgages                     | -                                | -      | -      | -      | 67,644  | 67,644 |        |

The following tables present the credit exposures, categorised according to the credit quality rating as at 31 December 2014:

|   | Ratings of Sovereigns/Central Banks |        |        |        |        |         | Total   |
|---|-------------------------------------|--------|--------|--------|--------|---------|---------|
|   | 1                                   | 2      | 3      | 4      | 5      | Unrated |         |
|   | RM'000                              | RM'000 | RM'000 | RM'000 | RM'000 | RM'000  | RM'000  |
| <u>On and Off-Balance Sheet Exposures</u> |                                     |        |        |        |        |         |         |
| Sovereigns/Central Banks                  | -                                   | -      | -      | -      | -      | 845,321 | 845,321 |

|   | Ratings of Banking Institutions |         |        |        |        |         | Total   |
|---|---------------------------------|---------|--------|--------|--------|---------|---------|
|   | 1                               | 2       | 3      | 4      | 5      | Unrated |         |
|   | RM'000                          | RM'000  | RM'000 | RM'000 | RM'000 | RM'000  | RM'000  |
| <u>On and Off-Balance Sheet Exposures</u> |                                 |         |        |        |        |         |         |
| Banks, MDBs and DFIs                      | -                               | 970,747 | -      | -      | -      | -       | 970,747 |

|   | Ratings of Corporates |         |         |         |           |           | Total  |
|---|-----------------------|---------|---------|---------|-----------|-----------|--------|
|   | 1                     | 2       | 3       | 4       | Unrated   | Total     |        |
|   | RM'000                | RM'000  | RM'000  | RM'000  | RM'000    | RM'000    | RM'000 |
| <u>On and Off-Balance Sheet Exposures</u> |                       |         |         |         |           |           |        |
| Corporates                                | 114,132               | 301,434 | 275,618 | 257,287 | 1,762,481 | 2,710,952 |        |

|   | Ratings of Regulatory Retail |        |        |        |         |        | Total  |
|---|------------------------------|--------|--------|--------|---------|--------|--------|
|   | 1                            | 2      | 3      | 4      | Unrated | Total  |        |
|   | RM'000                       | RM'000 | RM'000 | RM'000 | RM'000  | RM'000 | RM'000 |
| <u>On and Off-Balance Sheet Exposures</u> |                              |        |        |        |         |        |        |
| Regulatory Retail                         | -                            | -      | -      | -      | 17,024  | 17,024 |        |

|   | Ratings of Residential Mortgages |        |        |        |         |        | Total  |
|---|----------------------------------|--------|--------|--------|---------|--------|--------|
|   | 1                                | 2      | 3      | 4      | Unrated | Total  |        |
|   | RM'000                           | RM'000 | RM'000 | RM'000 | RM'000  | RM'000 | RM'000 |
| <u>On and Off-Balance Sheet Exposures</u> |                                  |        |        |        |         |        |        |
| Residential Mortgages                     | -                                | -      | -      | -      | 54,862  | 54,862 |        |

*Note:*

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

## 5.5 Assignment of Risk Weights for Portfolios Under The Standardised Approach *(continued)*

### (ii) Assignment of Risk Weights for Portfolios Under The Standardised Approach

The following tables present the breakdown of credit exposures by risk weights as at the respective reporting dates:

| Exposures after Netting and Credit Risk Mitigation |                                |                         |            |                      |                          |                 |  |                                   |
|--|--------------------------------|-------------------------|------------|----------------------|--------------------------|-----------------|--|-----------------------------------|
|  | Sovereign/<br>Central<br>Banks | Banks,<br>MDBs and DFIs | Corporates | Regulatory<br>Retail | Residential<br>Mortgages | Other<br>Assets | Total Exposures After<br>Netting & Credit<br>Risk Mitigation | Total Risk-<br>Weighted<br>Assets |
| 31 Dec 2015<br>Risk Weights                        | RM'000                         | RM'000                  | RM'000     | RM'000               | RM'000                   | RM'000          | RM'000   | RM'000                            |
| 0%   | 608,326                        | -                       | 629,397    | 5,922                | 270                      | 5,784           | 1,249,699  | -                                 |
| 20%  | -                              | 779,040                 | 199,762    | -                    | -                        | 1,970           | 980,772  | 196,154                           |
| 35%  | -                              | -                       | -          | -                    | 58,370                   | -               | 58,370   | 20,430                            |
| 50%  | -                              | 127,043                 | 687,233    | 20,649               | 8,657                    | 19,540          | 863,122  | 431,561                           |
| 75%  | -                              | -                       | -          | 7,011                | -                        | -               | 7,011  | 5,258                             |
| 100%   | -                              | -                       | 1,633,253  | 67,163               | 347                      | 9,742           | 1,710,505  | 1,710,505                         |
| Total Exposures                                    | 608,326                        | 906,083                 | 3,149,645  | 100,745              | 67,644                   | 37,036          | 4,869,479  | 2,363,908                         |
| Risk-Weighted Assets<br>by Exposures               | -                              | 219,330                 | 2,016,821  | 82,746               | 25,105                   | 19,906          | 2,363,908  |                                   |
| Average Risk Weight                                | 0.0%                           | 24.2%                   | 64.0%      | 82.1%                | 37.1%                    | 53.7%           | 48.5%  |                                   |
| Deduction from<br>Capital Base                     | -                              | -                       | -          | -                    | -                        | -               | -  |                                   |

  

| Exposures after Netting and Credit Risk Mitigation |                                |                         |            |                      |                          |                 |  |                                   |
|--|--------------------------------|-------------------------|------------|----------------------|--------------------------|-----------------|--|-----------------------------------|
|  | Sovereign/<br>Central<br>Banks | Banks,<br>MDBs and DFIs | Corporates | Regulatory<br>Retail | Residential<br>Mortgages | Other<br>Assets | Total Exposures After<br>Netting & Credit<br>Risk Mitigation | Total Risk-<br>Weighted<br>Assets |
| 31 Dec 2014<br>Risk Weights                        | RM'000                         | RM'000                  | RM'000     | RM'000               | RM'000                   | RM'000          | RM'000   | RM'000                            |
| 0%   | 845,321                        | -                       | 525,817    | 538                  | 552                      | 5,137           | 1,377,365  | -                                 |
| 20%  | -                              | 957,163                 | 121,126    | -                    | -                        | 10,886          | 1,089,175  | 217,835                           |
| 35%  | -                              | -                       | -          | -                    | 46,740                   | -               | 46,740   | 16,359                            |
| 50%  | -                              | -                       | 767,505    | -                    | 7,037                    | 2,697           | 777,239  | 388,620                           |
| 75%  | -                              | -                       | -          | 5,501                | -                        | -               | 5,501  | 4,126                             |
| 100%   | -                              | -                       | 1,296,440  | 10,985               | 533                      | 12,874          | 1,320,832  | 1,320,832                         |
| Total Exposures                                    | 845,321                        | 957,163                 | 2,710,888  | 17,024               | 54,862                   | 31,594          | 4,616,852  | 1,947,772                         |
| Risk-Weighted Assets<br>by Exposures               | -                              | 191,433                 | 1,704,418  | 15,110               | 20,411                   | 16,400          | 1,947,772  |                                   |
| Average Risk Weight                                | 0.0%                           | 20.0%                   | 62.9%      | 88.8%                | 37.2%                    | 51.9%           | 42.2%  |                                   |
| Deduction from<br>Capital Base                     | -                              | -                       | -          | -                    | -                        | -               | -  |                                   |

*Note:*

MDBs - Multilateral Development Banks

DFIs - Development Financial Institutions

## 6.0 Market Risk

Market risk is the risk of loss arising from movements in market variables, such as interest rates, credit spreads and foreign exchange rates. The Bank's market risk management is the process of identifying, measuring, monitoring, controlling and reporting market risk for the purposes of setting up and enhancing the market risk management system, specifying responsibilities and process, determining and standardising the measurement approaches, limit management indicators and market risk reports, controlling and mitigating market risk and improving the level of market risk management. The objective of market risk management is to manage and control market risk exposures within a tolerable level and maximise risk-adjusted return according to the Bank's risk preference.

The types of market risk faced by the Bank mainly include interest rate risk and exchange rate risk. For derivative contracts that the Bank enters into with its counterparty, the Bank will square its position by entering into offsetting trades with other financial institutions. The netting arrangements, if required and to be considered on case-to-case basis, will be in place to minimise the credit risk of its derivative counterparties as the cash flows are netted on the settlement date. For interest rate risk, the Bank conducts gap analysis through sensitivity testing and seeks to minimise the interest rate sensitivity gap. The Asset and Liabilities Committee ("ALCO") plays a critical role in monitoring the Bank's overall interest rate risk profile and the Bank's earnings sensitivity in an interest rate changing environment.

The Bank does not engage in any proprietary trading activities. Exposures arising from normal banking activities (deposits, loans, foreign exchange, etc) are hedged accordingly to minimise and preferably eliminate exposure to market risk. All risks related to treasury money market activities will be managed according to, and within the authorised risk limits.

The minimum regulatory capital requirement on market risk exposures for the financial period is disclosed in note 2.0 (b).

### 6.1 Interest Rate Risk in the Banking Book (IRRBB)

The projection, by using the repricing gap method, assumes that interest rate moves up and down parallelly by 100 basis points ("bps") across all maturities for all the interest bearing assets and liabilities. It is further assumed that all positions are repriced at the mid-point of each time band and will run to maturity. The repricing profile of loan that does not have maturity is based on the earliest possible repricing dates. The impact on earnings and economic value is measured on a quarterly basis.

The table below illustrates the impact under a 100 bps parallel upward interest rate shock on the Bank's earnings and economic value.

|                                      | 31 Dec 2015        |                    | 31 Dec 2014        |                    |
|--------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                      | -100 bps<br>RM'000 | +100 bps<br>RM'000 | -100 bps<br>RM'000 | +100 bps<br>RM'000 |
| <b>Impact on net interest income</b> |                    |                    |                    |                    |
| Ringgit Malaysia                     | (6,858)            | 6,858              | (6,817)            | 6,817              |
| United States Dollar                 | (9,882)            | 9,882              | (2,644)            | 2,644              |
| Chinese Renminbi                     | (1,195)            | 1,195              | 64                 | (64)               |
| Others                               | (128)              | 128                | 57                 | (57)               |
| <b>Total</b>                         | <b>(18,063)</b>    | <b>18,063</b>      | <b>(9,340)</b>     | <b>9,340</b>       |
| <b>Impact on economic value</b>      |                    |                    |                    |                    |
| Ringgit Malaysia                     | (2,684)            | 2,684              | (2,715)            | 2,715              |
| United States Dollar                 | (10,367)           | 10,367             | (2,321)            | 2,321              |
| Chinese Yuan Renminbi                | (373)              | 373                | 41                 | (41)               |
| Others                               | (159)              | 159                | (112)              | 112                |
| <b>Total</b>                         | <b>(13,583)</b>    | <b>13,583</b>      | <b>(5,107)</b>     | <b>5,107</b>       |

## 7.0 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk.

Every department is responsible for understanding the operational risks inherent in its material products, activities, processes and systems. They are responsible for the management of operational risk on a day-to-day basis. The responsibility is supported by the development of a Bank-wide standard for the management of operational risk in the following areas:

- requirement for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where applicable

The minimum regulatory capital requirement on operational risk exposures for the financial period is disclosed in note 2.0 (b).

## 8.0 Liquidity Risk

Liquidity risks are the risks when the Bank fails to raise funds to meet the present or future demand of customers or counterparties at a reasonable cost. The potential liquidity risks of the Bank include mainly customers' premature and collective withdrawal, overdue payment of the debtors, mismatched asset-liability maturity structure and difficulties in realisation of assets.

The management of liquidity and funding is mainly carried out in compliance with BNM's liquidity coverage ratio; and practices and limits set by the Assets and Liabilities Committee ("ALCO"). The Bank maintains a strong liquidity position and constantly manages the liquidity profile of its assets, liabilities and commitments to ensure that cash flow requirements are appropriately balanced and all obligations are met accordingly.

It is imperative for the Bank to continuously seek and maintain new sources of funding to increase and diversify its funding base. The Bank also endeavours to maintain an optimum liquidity position at all times in order to meet the requirement on Basel III's liquidity standards imposed by BNM over the coming years.