HONG LEONG INVESTMENT BANK BERHAD

Company no: 10209-W
(Incorporated in Malaysia)

BASEL II PILLAR 3 DISCLOSURES
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2015

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1. INTRODUCTION

The capital adequacy ratios of Hong Leong Investment Bank Berhad ("HLIBB" or "the Bank") and its subsidiaries ("the Group") are computed in accordance with the Bank Negara Malaysia's ("BNM") revised Risk-Weighted Capital Adequacy Framework ("RWCAF") - Basel II effective from 1 January 2008.

The Group places great importance to Basel II and view Basel II as a group-wide initiative that will ensure that the Group continues to meet international best practices for the credit, market and operational risk management practices. By adopting Basel II, the Group will be able to enhance and embed sound risk management practices within the Group and be equipped with the right risk management discipline, practices, processes and systems.

The following information concerning the Group's risk exposures, risk management practices and capital adequacy is disclosed as accompanying information to the annual report and does not form part of the audited accounts.

2. SCOPE OF APPLICATION

The capital adequacy ratios of the Group consist of capital base and risk-weighted assets derived from consolidated balances of the Bank and its subsidiary companies.

The capital adequacy ratios of the Bank and the Group are computed in accordance with BNM's revised RWCAF - Basel II. The Bank and the Group have adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk.

The Group's capital requirements are generally based on the principles of consolidation adopted in the preparation of its annual financial statements, as discussed in Note 2A to the Financial Statements for financial year ended 30 June 2015, and differs from that used for regulatory capital purposes.

During the course of the year, the Bank and its subsidiaries did not experience any restrictions or other major impediments on transfer of funds or regulatory capital within the Group.

3. CAPITAL STRUCTURE AND ADEQUACY

The Group monitors the capital adequacy position of the Bank and its subsidiaries to ensure compliance with requirements of BNM and to take prompt actions to address projected capital deficiency. The capital position is reviewed on a monthly basis by undertaking stress tests and taking into account the levels and trend of material risks. The sufficiency of capital is assessed against the various risks in the balance sheet as well as future capital requirements based on the Group's expansion plans.

The Group has also formalised an overall capital management framework, which seeks to ensure that there is an adequate balance between Tier I and Tier II capital. The Group is also following very closely the global developments on capital management.

The following table sets forth details on the capital resources, capital adequacy ratios and risk-weighted assets for the Group and the Bank as at 30 June 2015. BNM's revised RWCAF - Basel II sets out the minimum capital adequacy ratios for the banking institutions and the methodology for calculating these ratios. As at 30 June 2015, the Group's and the Bank's Tier I and the total capital adequacy ratios were higher than BNM's minimum requirements.

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(a) The capital adequacy ratios of the Group and the Bank are analysed as follows:

31 December 2015

The capital adequacy ratios of the Group and the Bank are as follows:

	The Group	The Bank
Before deducting proposed dividends:		
Common equity tier 1 ("CET1") ratio	22.241%	22.222%
Tier I capital ratio	22.241%	22.222%
Total capital ratio	26.175%	26.142%
After deducting proposed dividends:		
CET I capital ratio	22.241%	22.222%
Tier I capital ratio	22.241%	22.222%
Total capital ratio	26.175%	26.142%

The components of CET1, Tier 1 and total capital of the Bank are as follows:

	The Group RM'000	The Bank RM'000
CET1 capital		
Paid-up ordinary share capital	165,000	165,000
Share premium	87,950	87,950
Retained profits	(18,560)	(18,858)
Other reserves	197,099	197,099
Less: goodwill and intangible assets	(32,358)	(32,358)
Less: deferred tax assets	(95,002)	(95,002)
Less: Investment in subsidiaries	-	(144)
Less: 55% of cumulative gains of financial instruments available-for-sale	(128)	(128)
Total CET1 capital	304,001	303,559
Tier 1 capital	304,001	303,559
Tier-2 capital		
Redeemable preference shares ("RPS")	-	-
Subordinated notes		
Collective assessment allowance (1)	3,773	3,773
and regulatory reserve (2)	50,000	50,000
Regulatory adjustments:		
- Investment in subsidiaries	-	(217)
Total Tier 2 capital	53,773	53,556
Total capital	357,774	357,115

Note:
(1) Excludes collective assessment allowance attributable to loans and advances classified as impaired.
(2) Includes the qualifying regulatory reserve for non-impaired loans and advances of RM3,773,000 (2014: RM Nil).

Breakdown of risk-weighted assets in the various risk weights:

	The Group RM'000	The Bank RM'000
Credit risk	663,691	663,243
Market risk	389,748	389,748
Operational risk	313,416	313,043
	1,366,855	1,366,034

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(a) The capital adequacy ratios of the Group and the Bank are analysed as follows (continued):

30 June 2015

The capital adequacy ratios of the Group and the Bank are as follows:

	The Group	The Bank
Before deducting proposed dividends:		
Common equity tier 1 ("CET1") ratio	23.695%	23.683%
Tier I capital ratio	23.695%	23.683%
Total capital ratio	27.380%	27.355%
After deducting proposed dividends:		
CET I capital ratio	20.847%	20.832%
Tier I capital ratio	20.847%	20.832%
Total capital ratio	24.532%	24.504%

The components of CET1, Tier 1 and total capital of the Bank are as follows:

	The Group RM'000	The Bank RM'000
CET1 capital		
Paid-up ordinary share capital	165,000	165,000
Share premium	87,950	87,950
Retained profits	23,040	22,742
Other reserves	198,645	198,645
Less: goodwill and intangible assets	(32,535)	(32,535)
Less: deferred tax assets	(95,002)	(95,002)
Less: Investment in subsidiaries	-	(154)
Less: 55% of cumulative gains of financial instruments available-for-sale	(978)	(978)
Total CET1 capital	346,120	345,668
Tier 1 capital	346,120	345,668
Tier-2 capital		
Redeemable preference shares ("RPS")	-	-
Collective assessment allowance [(1)] and regulatory reserve [(2)]	3,825	3,825
Regulatory adjustments:	50,000	50,000
- Investment in subsidiaries		(230)
Total Tier 2 capital	53,825	53,595
Total capital	399,945	399,263

Note:
(1) Excludes collective assessment allowance attributable to loans and advances classified as impaired.
(2) Includes the qualifying regulatory reserve for non-impaired loans and advances of RM3,773,000 (2014: RM Nil).

Breakdown of risk-weighted assets in the various risk weights:

	The Group RM'000	The Bank RM'000
Credit risk	678,755	678,033
Market risk	483,713	483,713
Operational risk	298,237	297,840
	1,460,705	1,459,586

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows:

The Group 31 December 2015 Exposure Class	**Gross Exposures RM'000**	**Net Exposures RM'000**	**Risk-Weighted Assets RM'000**	**Capital Requirements RM'000**
(i) Credit Risk				
On-Balance Sheet Exposures:				
Sovereigns & Central Banks	**451,215**	**451,215**	**-**	**-**
Public Sector Entities	**7**	**7**	**1**	**-**
Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDBs")	**507,308**	**507,308**	**152,524**	**12,202**
Insurance Companies, Securities Firms & Fund Managers	**-**	**-**	**-**	**-**
Corporates	**983,901**	**782,724**	**386,593**	**30,927**
Residential Mortgages	**548**	**548**	**548**	**44**
Other Assets	**280,935**	**280,935**	**33,372**	**2,670**
Equity Exposures	**245**	**245**	**245**	**20**
Total On-Balance Sheet Exposures	**2,224,159**	**2,022,982**	**573,283**	**45,863**
Off-Balance Sheet Exposures:				
Credit-related Off-Balance Sheet Exposures	**44,668**	**44,668**	**44,668**	**3,573**
Derivative Financial Instruments	**207,699**	**207,699**	**45,740**	**3,659**
Total Off-Balance Sheet Exposures	**252,367**	**252,367**	**90,408**	**7,232**
Total On and Off-Balance Sheet Exposures	**2,476,526**	**2,275,349**	**663,691**	**53,095**
(ii) Large Exposure Risk Requirement	**-**	**-**	**-**	**-**

(iii) Market Risk	Long Position	Short Position	Risk-Weighted Assets RM'000	Capital Requirements RM'000
Interest Rate Risk	**7,895,645**	**6,781,829**	**328,448**	**26,276**
Equity Risk	**63,092**	**-**	**53,331**	**4,266**
Foreign Exchange Risk	**3,501**	**5,294**	**5,294**	**424**
Options Risk	**1,911**	**-**	**2,675**	**214**
	7,964,149	**6,787,123**	**389,748**	**31,180**
(iv) Operational Risk			**313,416**	**25,073**
Total RWA and Capital Requirements			**1,366,855**	**109,348**

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3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows (continued):

The Group **30 June 2015** **Exposure Class**			**Gross Exposures RM'000**	**Net Exposures RM'000**	**Risk-Weighted Assets RM'000**	**Capital Requirements RM'000**
(i) Credit Risk						
On-Balance Sheet Exposures:						
Sovereigns & Central Banks			645,153	645,153	-	-
Public Sector Entities			6	6	1	-
Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDBs")			607,963	607,963	187,694	15,016
Insurance Companies, Securities Firms & Fund Managers			-	-	-	-
Corporates			960,351	782,023	416,007	33,281
Residential Mortgages			625	625	625	50
Other Assets			213,394	213,394	25,415	2,033
Equity Exposures			245	245	245	20
Total On-Balance Sheet Exposures			2,427,737	2,249,409	629,987	50,400
Off-Balance Sheet Exposures:						
Credit-related Off-Balance Sheet Exposures			10,250	10,250	4,650	372
Derivative Financial Instruments			171,308	171,308	44,118	3,529
Total Off-Balance Sheet Exposures			181,558	181,558	48,768	3,901
Total On and Off-Balance Sheet Exposures			2,609,295	2,430,967	678,755	54,301
(ii) Large Exposure Risk Requirement			-	-	-	-
(iii) Market Risk	Long Position	Short Position				
Interest Rate Risk	7,587,122	6,672,989			431,165	34,493
Equity Risk	21,759	-			43,640	3,491
Foreign Exchange Risk	729	4,635			4,635	371
Options Risk	3,097	-			4,273	342
	7,612,707	6,677,624			483,713	38,697
(iv) Operational Risk					298,237	23,859
Total RWA and Capital Requirements					1,460,705	116,857

3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows (continued):

The Bank 31 December 2015 Exposure Class			**Gross Exposures RM'000**	**Net Exposures RM'000**	**Risk-Weighted Assets RM'000**	**Capital Requirements RM'000**
(i) Credit Risk						
On-Balance Sheet Exposures:						
Sovereigns & Central Banks			**451,215**	**451,215**	**-**	**-**
Public Sector Entities			**-**	**-**	**-**	**-**
Banks, DFI & MDBs			**507,047**	**507,047**	**152,471**	**12,198**
Insurance Companies, Securities Firms & Fund Managers			**-**	**-**	**-**	**-**
Corporates			**983,506**	**782,330**	**386,199**	**30,896**
Residential Mortgages			**548**	**548**	**548**	**44**
Other Assets			**280,936**	**280,936**	**33,372**	**2,670**
Equity Exposures			**245**	**245**	**245**	**20**
Total On-Balance Sheet Exposures			**2,223,497**	**2,022,321**	**572,835**	**45,828**
Off-Balance Sheet Exposures:						
Credit-related Off-Balance Sheet Exposures			**44,668**	**44,668**	**44,668**	**3,573**
Derivative Financial Instruments			**207,699**	**207,699**	**45,740**	**3,659**
Total Off-Balance Sheet Exposures			**252,367**	**252,367**	**90,408**	**7,232**
Total On and Off-Balance Sheet Exposures			**2,475,864**	**2,274,688**	**663,243**	**53,060**
(ii) Large Exposure Risk Requirement						
(iii) Market Risk	Long Position	Short Position				
Interest Rate Risk	**7,895,645**	**6,781,829**			**328,448**	**26,276**
Equity Risk	**63,092**				**53,331**	**4,266**
Foreign Exchange Risk	**3,501**	**5,294**			**5,294**	**424**
Options Risk	**1,911**				**2,675**	**214**
	7,964,149	**6,787,123**			**389,748**	**31,180**
(iv) Operational Risk					**313,043**	**25,043**
Total RWA and Capital Requirements					**1,366,034**	**109,283**

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3. CAPITAL STRUCTURE AND ADEQUACY (CONTINUED)

(b) The breakdown of risk-weighted assets ("RWA") by exposure is as follows (continued):

The Bank **30 June 2015** **Exposure Class**			**Gross Exposures RM'000**	**Net Exposures RM'000**	**Risk-Weighted Assets RM'000**	**Capital Requirements RM'000**
(i) Credit Risk						
On-Balance Sheet Exposures:						
Sovereigns & Central Banks			645,153	645,153	-	-
Public Sector Entities			-	-	-	-
Banks, DFI & MDBs			605,560	605,560	187,213	14,977
Insurance Companies, Securities Firms & Fund Managers			-	-	-	-
Corporates			960,111	781,783	415,767	33,261
Residential Mortgages			625	625	625	50
Other Assets			213,394	213,394	25,415	2,033
Equity Exposures			245	245	245	20
Total On-Balance Sheet Exposures			2,425,088	2,246,760	629,265	50,341
Off-Balance Sheet Exposures:						
Credit-related Off-Balance Sheet Exposures			10,250	10,250	4,650	372
Derivative Financial Instruments			171,308	171,308	44,118	3,529
Total Off-Balance Sheet Exposures			181,558	181,558	48,768	3,901
Total On and Off-Balance Sheet Exposures			2,606,646	2,428,318	678,033	54,242
(ii) Large Exposure Risk Requirement			-	-	-	-
(iii) Market Risk	Long Position	Short Position				
Interest Rate Risk	7,587,122	6,672,989			431,165	34,493
Equity Risk	21,759				43,640	3,491
Foreign Exchange Risk	729	4,635			4,635	371
Options Risk	3,097				4,273	342
	7,612,707	6,677,624			483,713	38,697
(iv) Operational Risk					297,840	23,827
Total RWA and Capital Requirements					1,459,586	116,766

4. RISK MANAGEMENT

Overview

The Group believes that an integrated risk management framework is key to ensuring the overall financial soundness and stability of the Group's business operations. Key components of our enterprise wide risk management framework include:

(i) A structured risk governance model, incorporating strong Board and senior management oversight.
(ii) Sound capital management processes.
(iii) Comprehensive assessment of material risks.
(iv) A rigorous system of check and balance reviews.
(v) Regular monitoring and reporting.
(vi) Independent reviews by the internal and external auditors.

Risk governance structure

The Board has overall responsibility for providing leadership, overseeing risk appetite and ensuring that a robust risk and compliance culture prevails. The Board is assisted by the following Board and management committees:

(i) Board, Audit and Risk Management Committee ("BARMC").
(ii) Assets and Liabilities Management Committee ("ALMCO").
(iii) Management Credit and Underwriting Committee ("MCUC").

The BARMC is responsible for the following:

(i) Reviewing and recommending risk management strategies, policies and risk tolerance for the Board's approval.
(ii) Reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
(iii) Ensuring infrastructure, resources and systems are in place for risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of risk taking activities.
(iv) Reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

The Risk Management Department is responsible for assisting the BARMC, ALMCO, MCUC and the Board in ensuring that the risk management activities are carried out as per their directives. Amongst others, Risk Management Department is responsible for setting the risk management framework and developing tools and methodologies for the identification, measurement, monitoring, control and valuation of risks. The Risk Management Department consists of three main units namely Market and Liquidity Risk, Operational Risk and Credit Risk Management.

4. RISK MANAGEMENT (continued)

Risk governance structure (continued)

The Group Internal Audit function complements the Risk Management Department in the management of risk by:

(i) Ensuring that the risk policies prepared by the Risk Management Department are enforced through its regular audit cycle.
(ii) Performing independent reviews to assess the risk control environment developed by the Risk Management Department.
(iii) Performing independent reviews to assess the risk grading system and the credit process.
(iv) Forming independent opinions on risk controls being formulated by the Risk Management Department.

Eight broad principles of risk management

(i) Align risk appetite and strategy

Risk appetite is the degree of risk that the Group is willing to accept in pursuit of its goals. Risk appetite is set first in evaluating strategic alternatives, then in setting objectives aligned with the selected strategy and in developing mechanisms to manage the related risks.

(ii) Link growth, risk and return

Framework provides an enhanced ability to identify and assess risks and establish acceptable levels of risk relative to growth and return objectives.

(iii) Enhance risk response decisions

The Group strives to identify and select among alternative risk responses - risk avoidance, reduction, sharing and acceptance based on generally accepted practices and methodologies.

(iv) Minimise operational surprises and losses

The Group continually enhances its capability to identify potential events, assess risk and establish responses, thereby reducing the occurrence of surprises and related costs or losses.

(v) Identify and manage cross-risks

Every product faces a myriad of risks. The Group not only manages the individual risks, but also manages interrelated impacts.

(vi) Provide integrated responses to multiple risks

Business processes carry many inherent risks and the Group continually finds solutions for managing the risks.

4. RISK MANAGEMENT (continued)

Eight broad principles of risk management (continued)

(vii) Seize opportunities

The Group considers potential events, using risk management as offensive initiatives rather than just risks (defensive), and by considering a full range of events, the Group gains an understanding of how certain events represent opportunities.

(viii) Rationalise capital

More robust information on total risk allows the Group to more effectively assess overall capital needs and improve capital allocation.

Risk management framework

The Group's risk management framework outlines the overall structure, aspirations, values and risk management strategies, and is a structured approach in balancing risks and returns.

Appropriate methodologies and measures have been developed in our risk management approaches to manage uncertainties such that the deviations from the intended strategic objectives are monitored and kept within tolerable levels.

Risk management culture

The risk management culture of the Group encompasses the following:

(i) Developing strategies

Documentation that is approved by the Board which expresses the Group's risk management strategies and appetite.

(ii) Adopting skills

The capabilities and resources required for implementing the risk management function.

(iii) Cultivating shared values

The universal risk management culture that the Group expects and promotes throughout the business units.

4. RISK MANAGEMENT (continued)

Risk management approach

The risk management approach is summarised as follows:

(i) Strategy

Risk management policies are integrated with business and strategies, in line with Board approved risk appetite.

(ii) Policy

Risks are addressed using specific risk policies.

(iii) Tools

Risks are measured and assessed using clearly defined models, methodologies and benchmarking.

(iv) Communication

Risks are adequately communicated across the Group in a timely manner.

(v) Implementation

Risks and returns are identified and managed by respective accountable business, support and operating units.

(vi) Maintenance

Risk management policies are clearly and formally documented, with a review in place to respond to changes in operating environment.

Risk management process

The risk management approaches are based on four simple processes:

(i) Identify what, why and how risks can arise:

- Nature of risk.
- Circumstances.
- Causes.
- Potential contributing factors.

4. RISK MANAGEMENT (continued)

Risk management process (continued)

(ii) Analyse and evaluate risks:

- Analyse and measure risk exposures using impact and probability analysis.
- Establish priorities using risk matrix.
- Compare risk exposures with Group's risk appetite.

(iii) Measures to control or mitigate the identified risks:

- Measures to mitigate the identified risks or risk controls.
- Action plans to either prevent or mitigate the risks.

(iv) Monitor and review the performance of the risk management process:

- Review effectiveness of mitigating measures or controls.
- Tracking of incidences and losses.
- Review feedback from internal reports and take appropriate action.

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk

Credit risk arises as a result of customers or counterparties not being able to or willing to fulfill their financial and contractual obligations as and when they fall due. These obligations arise from lending, trade finance and other activities undertaken by the Group.

The primary objective of the credit risk management framework is to ensure that exposure to credit risk is kept within the Group's financial capacity to withstand potential future losses. Lending activities are guided by internal credit policies and guidelines that are approved by the Board. These policies were reviewed and further enhanced during the year.

Credit portfolio management strategies and significant exposures are reviewed by the Board. These portfolio management strategies are designed to achieve a desired ideal portfolio risk tolerance level and sector distribution. This includes minimum credit rating targets for new credit facilities.

The Group's credit approving process encompasses pre-approval evaluation, approval and post-approval evaluation. While the business units are responsible for credit origination, the credit approving function rests mainly with the MCUC.

Credit risk is also identified as part of the new product sign-off process to ensure that new products prior to marketing are acceptable from a credit risk management perspective.

The Group also believes that authority limits for credit approvals should be directly related to the risk levels of the borrower and the transaction. In this respect, a Delegated Authority Limit structure had been implemented.

Credit Risk Management Process

(i) Identification

- Risk assessment on the potential impact of internal and external factors on transactions and positions.

(ii) Assessment/Measurement

- Internal credit rating systems to evaluate customer's credit worthiness.

(iii) Control/Mitigation

- Credit risk management policies and guidelines on credit rating, collateral and loan recovery.
- Exposure limits based on credit worthiness level for corporate groups, and prudent thresholds by economic sectors.
- Monitoring the benchmark return to consider the risk taken.

(iv) Monitoring/Review

- Analysis/review on loan exposures, asset quality evaluation, and movement of impaired loans and advances.
- Reporting on exposures against approved credit limits.

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit quality of loans and advances

A loan is defined as "past due" when the counterparty has failed to make a principal or interest payment when contractually due. Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans advances and financing less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary.

A loan or a group of loans is deems to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For description of approaches adopted by the Group and the Bank for the determination of individual and collective assessment impairment allowances, refer to Note 2O(a) to the audited financial statements for financial year ended 30 June 2015.

Gross credit exposure

(i) The table below sets out the breakdown of gross credit exposures by geographical distribution as follows:

The Group and the Bank	**Malaysia RM'000**	**Other countries RM'000**	**Total RM'000**
31 December 2015			
On-Balance Sheet Exposures			
Financial assets held-for-trading *	**1,089,352**	**-**	**1,089,352**
Financial investments available-for-sale *	**741,645**	**139,099**	**880,744**
Financial investments held-to-maturity	**247,295**	**199,242**	**446,537**
Derivatives financial assets	**61,378**	**867**	**62,245**
Loans and advances	**321,442**	**-**	**321,442**
Clients' and brokers' balances	**245,776**	**-**	**245,776**
Total On-Balance Sheet Exposures	**2,706,888**	**339,208**	**3,046,096**
Off-Balance Sheet Exposures			
Credit-related exposures	**93,830**	**-**	**93,830**
Derivative financial instruments	**231,473**	**1,380**	**232,853**
	325,303	**1,380**	**326,683**
Total On and Off-Balance Sheet Exposures	**3,032,191**	**340,588**	**3,372,779**

** Excludes equity securities*

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

(i) The table below sets out the breakdown of gross credit exposures by geographical distribution as follows (continued):

The Group and the Bank	**Malaysia RM'000**	**Other countries RM'000**	**Total RM'000**
30 June 2015			
On-Balance Sheet Exposures			
Financial assets held-for-trading *	851,559	47,730	899,289
Financial investments available-for-sale *	64,196	157,025	798,951
Financial investments held-to-maturity	186,043	194,212	380,255
Derivatives financial assets	42,075	984	43,059
Loans and advances	325,983	-	325,983
Clients' and brokers' balances	188,838	-	188,838
Total On-Balance Sheet Exposures	1,658,694	399,952	2,636,375
Off-Balance Sheet Exposures			
Credit-related exposures	12,500	-	12,500
Derivative financial instruments	173,643	2,063	175,706
	186,143	2,063	188,206
Total On and Off-Balance Sheet Exposures	1,844,837	402,015	2,824,581

** Excludes equity securities*

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

(ii) The table below sets out the breakdown of gross credit exposures by sector as follows:

The Group and the Bank 31 December 2015	**Financial assets held-for-trading RM'000**	**Financial investments available-for-sale RM'000**	**Financial investments held-to-maturity RM'000**	**Derivative financial assets RM'000**	**Loans and advances RM'000**	**Clients' and brokers' balances RM'000**	**On-balance sheet total RM'000**	**Credit-related Exposures RM'000**	**Derivative Financial Instruments RM'000**	**Total off-balance sheet credit risk exposures RM'000**	**Total on and off-balance sheet credit risk exposures RM'000**
Agriculture	-	-	-	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	26	-	26	-	-	-	26
Electricity, gas and water	40,643	71,255	-	-		-	111,898	-	-	-	111,898
Construction	111,462	117,638	-	-	32,615	-	261,715	90,157	-	90,157	351,872
Wholesale and retail	-	132,540	-	-	-	-	132,540	-	-	-	132,540
Transport, storage and communications	30,099	15,131	-	-	-	-	45,230	-	-	-	45,230
Finance, insurance, real estate and business services	818,486	337,205	245,862	62,245	134,463	-	1,598,261	3,673	232,853	236,526	1,834,787
Government and government agencies	78,280	151,456	191,980	-	-	-	421,716	-	-	-	421,716
Household	-	-	-	-	153,335	-	153,335	-	-	-	153,335
Purchase of securities	-	-	-	-	-	245,776	245,776	-	-	-	245,776
Others	10,382	55,519	8,695	-	1,003	-	75,599	-	-	-	75,599
	1,089,352	**880,744**	**446,537**	**62,245**	**321,442**	**245,776**	**3,046,096**	**93,830**	**232,853**	**326,683**	**3,372,779**

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure (continued)

(ii) The table below sets out the breakdown of gross credit exposures by sector as follows:

The Group and the Bank 30 June 2015	**Financial assets held-for-trading RM'000**	**Financial investments available-for-sale RM'000**	**Financial investments held-to-maturity RM'000**	**Derivative financial assets RM'000**	**Loans and advances RM'000**	**Clients' and brokers' balances RM'000**	**On-balance sheet total RM'000**	**Credit-related Exposures RM'000**	**Derivative Financial Instruments RM'000**	**Total off-balance sheet credit risk exposures RM'000**	**Total on and off-balance sheet credit risk exposures RM'000**
Agriculture	-	-	-	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-	-	-	-	-
Electricity, gas and water	-	40,141	-	-	-	-	40,141	-	-	-	40,141
Construction	87,611	-	-	-	25,284	-	112,895	7,000	-	7,000	119,895
Wholesale and retail	-	5,048	-	-	-	-	5,048	-	-	-	5,048
Transport, storage and							-				-
communications	-	-	-	-	-	-	-	-	-	-	-
Finance, insurance, real estate							-				-
and business services	811,678	753,762	380,255	43,059	165,468	-	2,154,222	5,500	175,706	181,206	2,335,428
Government and government							-				-
agencies	-	-	-	-	-	-	-	-	-	-	-
Household	-	-	-	-	134,048	-	134,048	-	-	-	134,048
Purchase of securities	-	-	-	-	-	188,838	188,838	-	-	-	188,838
Others	-	-	-	-	1,183	-	1,183	-	-	-	1,183
	899,289	798,951	380,255	43,059	325,983	188,838	2,636,375	12,500	175,706	188,206	2,824,581

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BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2015

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure

(iii)The table below sets out the breakdown of gross credit exposures by residual contractual maturity as follows:

The Group and the Bank **31 December 2015**	**Up to 1 Year** **RM'000**	**1 to 5 Years** **RM'000**	**Over 5 Years** **RM'000**	**No specific maturity** **RM'000**	**Total** **RM'000**
On-Balance Sheet Exposures					
Financial assets held-for-trading	**712,247**	**70,924**	**306,181**	**-**	**1,089,352**
Financial investments available-for-sale	**62,483**	**633,400**	**184,861**	**-**	**880,744**
Financial investments held-to-maturity	**65,144**	**331,461**	**49,932**	**-**	**446,537**
Derivatives financial assets	**50,501**	**8,553**	**3,191**	**-**	**62,245**
Loans and advances	**264,240**	**57,128**	**74**	**-**	**321,442**
Clients and brokers balances	**245,776**			**-**	**245,776**
Total On-Balance Sheet Exposures	**1,400,391**	**1,101,466**	**544,239**	**-**	**3,046,096**
Off-Balance Sheet Exposures					
Credit-related Exposures	**10,157**	**3,673**	**80,000**	**-**	**93,830**
Derivative Financial Instruments	**77,169**	**112,113**	**43,571**	**-**	**232,853**
Total Off-Balance Sheet Exposures	**87,326**	**115,786**	**123,571**	**-**	**326,683**
Total On and Off-Balance Sheet Exposures	**1,487,717**	**1,217,252**	**667,810**	**-**	**3,372,779**

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4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Gross credit exposure

(iii)The table below sets out the breakdown of gross credit exposures by residual contractual maturity as follows:

The Group and the Bank 30 June 2015	Up to 1 Year RM'000	1 to 5 Years RM'000	Over 5 Years RM'000	No specific maturity RM'000	Total RM'000
On-Balance Sheet Exposures					
Financial assets held-for-trading	446,770	130,686	321,833	-	899,289
Financial investments available-for-sale	58,996	525,380	214,575	-	798,951
Financial investments held-to-maturity	171,388	208,867	-	-	380,255
Derivatives financial assets	32,485	7,984	2,590	-	43,059
Loans and advances	275,625	50,281	77	-	325,983
Clients and brokers balances	188,838	-	-	-	188,838
Total On-Balance Sheet Exposures	1,174,102	923,198	539,075	-	2,636,375
Off-Balance Sheet Exposures					
Credit-related Exposures	1,000	4,500	7,000	-	12,500
Derivative Financial Instruments	58,804	77,596	39,306	-	175,706
Total Off-Balance Sheet Exposures	59,804	82,096	46,306	-	188,206
Total On and Off-Balance Sheet Exposures	1,233,906	1,005,294	585,381	-	2,824,581

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans and advances

(i) The table below sets out the breakdown by sector the amount of past due loans and advances, impaired loans and advances, individual assessment allowance, collective assessment allowance, charges for individual assessment allowance during the financial year and write-offs during the financial year as follows:

The Group and the Bank 31 December 2015	Past due loans and advances RM'000	Impaired Loans and advances RM'000	Individual assessment allowance RM'000	Collective assessment allowance RM'000	Write-back of individual assessment allowance during the year RM'000	Write offs during the year RM'000
Agriculture	-	-	-	-	-	-
Electricity, gas and water	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-
Construction	-	-	-	(102)	-	-
Finance, insurance, real estate and business services	-	-	-	(734)	-	-
Household	-	-	-	(123)	-	-
Purchase of securities	-	-	-	-	-	-
Transport, storage and communications	-	-	-	-	-	-
Wholesale and retail	-	-	-	-	-	-
Others	-	574	(100)	(97)	-	11
Total	-	574	(100)	(1,056)	-	11

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans and advances

(i) The table below sets out the breakdown by sector the amount of past due loans and advances, impaired loans and advances, individual assessment allowance, collective assessment allowance, charges for individual assessment allowance during the financial year and write-offs during the financial year as follows (continued):

The Group and the Bank 30 June 2015	Past due loans and advances RM'000	Impaired Loans and advances RM'000	Individual assessment allowance RM'000	Collective assessment allowance RM'000	Write-back of individual assessment allowance during the year RM'000	Write offs during the year RM'000
Agriculture	-	-	-	-	-	-
Electricity, gas and water	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-
Construction	-	-	-	(87)	-	-
Finance, insurance, real estate and business services	-	-	-	(600)	-	-
Household	-	-	-	-	-	-
Purchase of securities	-	-	-	(107)	-	-
Transport, storage and communications	-	-	-	-	-	-
Wholesale and retail	-	-	-	-	-	-
Others	-	623	(111)	(98)	83	-
Total	-	623	(111)	(892)	83	-

Note: Refer to Note 10 to the financial statement for financial year ended 30 June 2015 for "movement in individual assessment allowance and collective assessment allowance" during the year for the Group and the Bank.

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Loans and advances (continued)

(ii) The table below sets out the breakdown by geographical areas the amount of past due loans and advances, impaired loans and advances, individual assessment allowance and collective assessment allowance as follows:

The Group and the Bank 31 December 2015	**Past due loans and advances RM'000**	**Impaired Loans and advances RM'000**	**Individual assessment allowance RM'000**	**Collective assessment allowance RM'000**
Malaysia	**-**	**574**	**(100)**	**(1,056)**

The Group and the Bank 30 Jun 2015	**Past due loans and advances RM'000**	**Impaired Loans and advances RM'000**	**Individual assessment allowance RM'000**	**Collective assessment allowance RM'000**
Malaysia	-	623	(111)	(892)

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight

The breakdown of credit risk exposures by risk weight is as follows:

Risk Weights	Sovereigns/Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Residential Mortgages RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
The Group										
31 December 2015										
0%	451,215	-	-	-	-	-	244,281	-	695,496	-
20%	-	7	539,549	-	425,666	-	4,103	-	969,325	193,865
50%	-	-	170,206	-	133,252	-	-	-	303,458	151,729
100%	-	-	-	-	251,675	548	32,551	245	285,019	285,019
150%	-	-	-	-	22,052	-	-	-	22,052	33,078
Total	451,215	7	709,755	-	832,645	548	280,935	245	2,275,350	663,691
Risk-Weighted Assets by Exposures	-	1	193,013	-	436,512	548	33,372	245	663,691	
Average Risk Weights	0.0%	14.3%	27.2%	0.0%	52.4%	100.0%	11.9%	100.0%	29.2%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight (continued)

The breakdown of credit risk exposures by risk weight is as follows:

Risk Weights	Sovereigns/Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Residential Mortgages RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
The Group										
30 June 2015										
0%	645,153	-	-	-	-	-	187,277	-	832,430	-
20%	-	6	543,445	-	408,315	-	878	-	952,644	190,529
50%	-	-	225,406	-	110,298	-	-	-	335,704	167,852
100%	-	-	-	-	263,710	625	25,239	245	289,819	289,819
150%	-	-	-	-	20,370	-	-	-	20,370	30,555
Total	645,153	6	768,851	-	802,693	625	213,394	245	2,430,967	678,755
Risk-Weighted Assets by Exposures	-	1	221,392	-	431,077	625	25,415	245	678,755	
Average Risk Weights	0.0%	16.7%	28.8%	0.0%	53.7%	100.0%	11.9%	100.0%	27.9%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight

The breakdown of credit risk exposures by risk weight is as follows:

Risk Weights	Sovereigns/Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Residential Mortgages RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
The Bank										
31 December 2015										
0%	451,215	-	-	-	-	-	244,281	-	695,496	-
20%	-	-	539,289	-	425,666	-	4,103	-	969,058	193,812
50%	-	-	170,206	-	133,252	-	-	-	303,458	151,729
100%	-	-	-	-	251,280	548	32,551	245	284,624	284,624
150%	-	-	-	-	22,052	-	-	-	22,052	33,078
Total	451,215	-	709,495	-	832,250	548	280,935	245	2,274,688	663,243
Risk-Weighted Assets by Exposures	-	-	192,961	-	436,117	548	33,372	245	663,243	
Average Risk Weights	0.0%	0.0%	27.2%	0.0%	52.4%	100.0%	11.9%	100.0%	29.2%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit risk exposure by risk weight

The breakdown of credit risk exposures by risk weight is as follows:

Risk Weights	Sovereigns/Central Banks RM'000	Public Sector Entities RM'000	Banks, DFIs and MDBs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Residential Mortgages RM'000	Other Assets RM'000	Equity Exposures RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk-Weighted Assets RM'000
The Bank										
30 June 2015										
0%	645,153	-	-	-	-	-	187,277	-	832,430	-
20%	-	-	541,042	-	408,315	-	878	-	950,235	190,047
50%	-	-	225,406	-	110,298	-	-	-	335,704	167,852
100%	-	-	-	-	263,470	625	25,239	245	289,579	289,579
150%	-	-	-	-	20,370	-	-	-	20,370	30,555
Total	645,153	-	766,448	-	802,453	625	213,394	245	2,428,318	678,033
Risk-Weighted Assets by Exposures	-	-	220,911	-	430,837	625	25,415	245	678,033	
Average Risk Weights	0.0%	0.0%	28.8%	0.0%	53.7%	100.0%	11.9%	100.0%	27.9%	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs")

Under Basel II, credit risk for the Group is computed using the Standardised Approach.

External credit assessments (or external ratings) on the customer (the issuer) or specific securities issued by the issuer (the issue) form as a basis for the determination of risk weights under the Standardised Approach for exposures to sovereigns, central banks, public sector entities, banking institutions, corporates as well as certain other specific portfolios.

The approved External Credit Assessment Institutions ("ECAI") ratings and the prescribed risk weights on the above stated asset classes are used in the computation of regulatory capital. An exposure would be deemed to have an external rating if the issuer or the issue has a rating provided by an ECAI. In cases where an exposure does not have an issuer or issue rating, the exposure shall be deemed unrated and shall be accorded a risk weight appropriate for unrated exposures in their respective exposure category.

The ECAI used by the Group are Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's"), Standard & Poor's ("S&P"), Malaysia Rating Corporation Berhad ("MARC") and Rating Agency Malaysia ("RAM"). ECAI ratings are mapped to a common credit quality grade as prescribed by BNM.

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs")

The following tables summarise the rated exposures according to ratings ECAIs as follows:

(i) Ratings of Corporate by Approved ECAIs

	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Ba3**	**B1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
	RAM	**AAA to AA3**	**A1 to A3**	**BBB1 to BB3**	**B to D**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
The Group and the Bank	**Rating & Investment Inc**	**AAA to AA-**	**A+ to A-**	**BBB+ to BB-**	**B+ to D**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
31 December 2015						
On and Off-Balance Sheet Exposures						
Public Sector Entities		-	-	-	-	7
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-
Corporates		**425,666**	**133,252**	**22,966**	**22,052**	**228,709**
		425,666	**133,252**	**22,966**	**22,052**	**228,716**
30 June 2015						
On and Off-Balance Sheet Exposures						
Public Sector Entities		-	-	-	-	6
Insurance Cos, Securities Firms & Fund Managers		-	-	-	-	-
Corporates		401,316	110,298	97,267	20,370	173,202
		401,316	110,298	97,267	20,370	173,208

4. RISK MANAGEMENT (CONTINUED)

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2015

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs") (continued)

(ii) Short term Ratings of Banking Institutions and Corporate by Approved ECAIs

	Moodys	**P-1**	**P-2**	**P-3**	**Others**	**Unrated**
	S&P	**A-1**	**A-2**	**A-3**	**Others**	**Unrated**
	Fitch	**F1+, F1**	**F2**	**F3**	**B to D**	**Unrated**
	RAM	**P-1**	**P-2**	**P-3**	**NP**	**Unrated**
	MARC	**MARC-1**	**MARC-2**	**MARC-3**	**MARC-4**	**Unrated**
The Group and the Bank	**Rating & Investment Inc**	**a-1+, a-1**	**a-2**	**a-3**	**b, c**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
31 December 2015						
On and Off-Balance Sheet Exposures						
Banks, MDBs and FDIs		**258,331**	**-**	**-**	**-**	**20**
30 June 2015						
On and Off-Balance Sheet Exposures						
Banks, MDBs and FDIs		376,962	-	-	-	10

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs") (continued)

(iii) Ratings of Sovereigns and Central Banks by Approved ECAIs

	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Caa1 to C**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to D**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to D**	**Unrated**
The Group and the Bank	**Rating & Investment Inc**	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**CCC+ to C**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
31 December 2015							
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks		**-**	**-**	**-**	**-**	**-**	**451,215**
30 June 2015							
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks		-	-	-	-	-	645,153

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Rated exposures according to ratings by External Credit Assessment Institutions ("ECAIs") (continued)

(iv) Ratings of Banking Institutions by Approved ECAIs

	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB+ to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
The Group and the Bank	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2015							
On and Off-Balance Sheet Exposures							
Banks, MDBs and FDIs		**280,706**	**4,802**	**165,917**	-	-	-
30 June 2015							
On and Off-Balance Sheet Exposures							
Banks, MDBs and FDIs		166,480	23,926	201,473	-	-	-

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit Risk Mitigation ("CRM")

The Group's and the Bank's credit principle is principally granting credit facilities on the basis of the borrower's credit standing, repayment and debt servicing ability. Where possible, collateral is taken to mitigate and reduce any credit risk for the particular credit facility extended. The value of the collateral is monitored periodically and where applicable, a revised valuation may be requested from the borrower. The main types of collateral accepted are cash, marketable securities and securities from listed exchange. There are policies and processes in place to monitor collateral concentration. For credit risk mitigation ("CRM") purposes, only collateral or guarantees that are legally enforceable are taken into account. The credit exposures are computed on a net basis only when there is a legally enforceable netting arrangements for loans and deposits. The Group and the Bank use the Comprehensive Approach for computation of the adjusted exposures.

The following tables resent the credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach for the Group. Eligible financial collateral consists primarily of securities from listed exchange. The Group does not have any credit exposure which is reduced through the application of other eligible collateral.

	31 December 2015		30 June 2015	
The Group	**Exposures before CRM RM'000**	**Exposures covered by eligible financial collateral RM'000**	**Exposures before CRM RM'000**	**Exposures covered by eligible financial collateral RM'000**
On-Balance Sheet Exposures				
Sovereigns/Central Banks	**451,215**	**-**	645,153	-
Public Sector Entities	**7**	**-**	6	-
Banks, DFIs and MDBs	**507,308**	**-**	607,963	-
Insurance Companies, Securities Firms & Fund Managers	**-**	**-**	-	-
Corporates	**983,901**	**201,176**	960,351	178,328
Residential Mortgages	**548**	**-**	625	-
Other Assets	**280,935**	**-**	213,394	-
Equity Exposures	**245**	**-**	245	-
Total On-Balance Sheet Exposures	**2,224,159**	**201,176**	2,427,737	178,328
Off-Balance Sheet Exposures				
Credit-related Exposures	**44,668**	**-**	10,250	-
Derivative Financial Instruments	**207,699**	**-**	171,308	-
Other Treasury-related Exposures	**-**	**-**	-	-
Total Off-Balance Sheet Exposures	**252,367**	**-**	181,558	-
Total On and Off-Balance Sheet Exposures	**2,476,526**	**201,176**	2,609,295	178,328

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Credit Risk Mitigation (continued)

The following tables resent the credit exposures covered by eligible financial collateral and financial guarantees as defined under the Standardised Approach for the Group. Eligible financial collateral consists primarily of securities from listed exchange. The Group does not have any credit exposure which is reduced through the application of other eligible collateral.

	31 December 2015		30 June 2015	
The Bank	**Exposures before CRM RM'000**	**Exposures covered by eligible financial collateral RM'000**	**Exposures before CRM RM'000**	**Exposures covered by eligible financial collateral RM'000**
On-Balance Sheet Exposures				
Sovereigns/Central Banks	**451,215**	**-**	645,153	-
Public Sector Entities	**-**	**-**	-	-
Banks, DFIs and MDBs	**507,047**	**-**	605,560	-
Insurance Companies, Securities Firms & Fund Managers	**-**	**-**	-	-
Corporates	**983,506**	**201,176**	960,111	178,328
Residential Mortgages	**548**	**-**	625	-
Other Assets	**280,936**	**-**	213,394	-
Equity Exposures	**245**	**-**	245	-
Total On-Balance Sheet Exposures	**2,223,497**	**201,176**	2,425,088	178,328
Off-Balance Sheet Exposures				
Credit-related Exposures	**44,668**	**-**	10,250	-
Derivative Financial Instruments	**207,699**	**-**	171,308	-
Total Off-Balance Sheet Exposures	**252,367**	**-**	181,558	-
Total On and Off-Balance Sheet Exposures	**2,475,864**	**201,176**	2,606,646	178,328

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Off-Balance Sheet exposures and counterparty credit risk

Credit limits are established to ensure that the Group and the Bank are not duly exposed to unnecessary credit risk with parties who are unable to meet or honour their financial obligations with the Group and the Bank.

The counterparty limits for the Group and the Bank are established by taking into consideration the tenor of the obligation, rating assignment of the counterparty, counterparty's shareholder's funds, the Group's and the Bank's shareholder's funds.

The credit exposure limit for derivative transactions is calculated based on the standardised approach by applying a specific percentage of risk factor i.e. the potential loss of the contract value to the counterparty limit for the Group and the Bank, which in general is a fraction of the derivative contract or notional amount used to express the volume of instruments.

Nature of commitments and contingencies

Obligations under underwriting agreements arise from underwriting agreements relating to the issuance of equity and debts securities, where the Group and the Bank are obliged to subscribe for or purchase the securities in the event the securities are not taken up when issued.

Irrevocable commitments to extend credit include all obligations on the part of the Group and the Bank to provide funding facilities or the undrawn portion of an approved credit facilities to customers.

Forward foreign exchange contracts are agreements to buy or sell fixed amounts of currency at agreed rates of exchange on a specified future date.

Interest rate swaps involve the exchange of interest obligations with a counterparty for a specified period without the exchange of the underlying principal.

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2015

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Off-Balance Sheet exposures and counterparty credit risk (continued)

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

The Group and the Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
31 December 2015				
Derivative financial instruments				
Interest rate related contracts:				
- One year or less	**1,126,842**	**25,090**	**29,948**	**5,990**
- Over one year to five years	**2,944,350**	**6,121**	**84,207**	**18,549**
- Over five years	**655,000**	**3,072**	**43,572**	**8,714**
Foreign exchange related contracts				
- One year or less	**2,038,125**	**25,267**	**47,221**	**9,736**
Equity related contracts:				
- One year or less	**20,906**	**-**	**-**	**-**
- Over one year to five years	**7,000**	**1,911**	**2,751**	**2,751**
	6,792,223	**61,461**	**207,699**	**45,740**
Commitments				
Direct Credit Substitutes	**1,000**	**-**	**1,000**	**1,000**
Obligations under underwriting agreement	**-**	**-**	**-**	**-**
Other commitments, such as formal standby facilities and credit lines				
- maturity less than one year	**9,157**	**-**	**1,831**	**1,831**
- maturity more than one year	**83,673**	**-**	**41,837**	**41,837**
Any commitment that are unconditionally cancelled at any time by the Bank without prior notice				
- maturity less than one year	**645,820**	**-**	**-**	**-**
	739,650	**-**	**44,668**	**44,668**
Total Off-Balance Sheet Exposures	**7,531,873**	**61,461**	**252,367**	**90,408**

4. RISK MANAGEMENT (CONTINUED)

(A) Credit risk (continued)

Off-Balance Sheet exposures and counterparty credit risk (continued)

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

The Group and the Bank	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk-Weighted Assets RM'000
30 June 2015				
Derivative financial instruments				
Interest rate related contracts:				
- One year or less	1,555,070	3,115	7,448	1,490
- Over one year to five years	2,617,698	4,887	69,096	17,767
- Over five years	525,000	2,590	39,306	7,861
Foreign exchange related contracts				
- One year or less	1,971,194	29,370	51,356	12,898
Equity related contracts:				
- One year or less	-	-	-	-
- Over one year to five years	8,500	3,097	4,102	4,102
	6,677,462	43,059	171,308	44,118
Commitments				
Direct Credit Substitutes	8,000	-	8,000	2,400
Obligations under underwriting agreement	-	-	-	-
Other commitments, such as formal standby facilities and credit lines				
- maturity less than one year	1,781	-	890	890
- maturity more than one year	2,719	-	1,360	1,360
Any commitment that are unconditionally cancelled at any time by the Bank without prior notice				
- maturity less than one year	722,877	-	-	-
	735,377	-	10,250	4,650
Total Off-Balance Sheet Exposures	7,412,839	43,059	181,558	48,768

4. RISK MANAGEMENT (CONTINUED)

(B) Market risk

Market risk is defined as the risk of potential losses in earnings arising from changes in interest rates, foreign exchange rates, credit spreads, equity prices and commodity prices. This change can affect the value of financial instruments and may also affect proprietary trading revenues.

The main objectives of Market Risk Management is to ensure that losses from market risk can be promptly addressed without incurring a potential loss that is beyond the Group's and the Bank risk appetite.

Management of market risk

The ALMCO is the management level committee which supports the BARMC in the oversight of market and liquidity risk. The ALMCO is chaired by the Chief Executive Officer ("CEO") and includes senior representatives from both business and support units. It is primarily responsible for the development, implementation and review of frameworks, broad strategies and policies for managing the Group's and the Bank's balance sheet, funding management, market risk and liquidity risk.

The Risk Management Department is responsible for the development, implementation and maintenance of consistent policies and methodologies to identify, measure, monitor, control and report market risk and liquidity risk.

Market risk is inherent in the ordinary course of the Group's and the Bank's business and is prevalent especially in treasury activities of the Group and the Bank. The Group and the Bank broadly classify their financial instruments as Held-for-Trading ("HFT"), Available-for-Sale ("AFS") and Held-to-Maturity ("HTM") securities. The major differences between the classifications are the accounting treatment and intention of acquiring the financial instruments.

Market Risk Management Process

(i) Identification

- Identify market risks within existing and new products.
- Review market-related information e.g. market trends, economic data.

(ii) Assessment/Measurement

- Sensitivity.
- Value-at-Risk.
- Stress test.

4. RISK MANAGEMENT (CONTINUED)

(B) Market risk (continued)

Market Risk Management Process (continued)

(iii) Control/Mitigation

- Establish market risk limits.
- Limits are set with reference to business profitability, budgets and aligned with the risk appetite approved by the Board.

(iv) Monitoring/Review

- Monitoring of limits.
- Periodical review and reporting.

Regulatory Capital Requirements

The following tables present the minimum regulatory capital requirement on market risk.

The Group and the Bank	**Long Position RM'000**	**Short Position RM'000**	**Risk-Weighted Assets RM'000**	**Minimum Capital Requirement at 8% RM'000**
31 December 2015				
Interest Rate Risk	**7,895,645**	**6,781,829**	**328,448**	**26,276**
Equity Risk	**63,092**	**-**	**53,331**	**4,266**
Foreign Currency Risk	**3,501**	**5,294**	**5,294**	**424**
Option Risk	**1,911**	**-**	**2,675**	**214**
	7,964,149	**6,787,123**	**389,748**	**31,180**
30 June 2015				
Interest Rate Risk	7,587,122	6,672,989	431,165	34,493
Equity Risk	21,759		43,640	3,491
Foreign Currency Risk	729	4,635	4,635	371
Option Risk	3,097		4,273	342
	7,612,707	6,677,624	483,713	38,697

4. RISK MANAGEMENT (CONTINUED)

(C) Operational risk

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

An Operational Risk Management Framework, approved by the HLIBB's Board, has been implemented across the Group to all business and support units. The Framework consists of operational risk’s tools including loss event data reporting, control self-assessment and key risk indicators, to assist these units to identify, assess, monitor and control their operational risks. The information is channeled to the Risk Management Department to facilitate risk analysis, monitoring and reporting.

Related policies and procedures are in place to provide guidance to risk taking units in the areas of developing new products and services and outsourcing of operational functions.

A Business Continuity Framework has been developed to ensure business sustainability in event of business disruptions.

The Risk Management Department oversees the Group’s operational risk management infrastructure, including the Framework, policies, processes, information, methodologies and systems. The Risk Management Department performs regular reviews of the operational risk profiles of the Group, and recommends related operational risk policies to be endorsed and approved at management and Board level.

BASEL II PILLAR 3 DISCLOSURES FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2015

5. EQUITY EXPOSURES IN BANKING BOOK

The Group's and the Bank's banking book's equity investments consist of equity holdings in organisations which are set up for specific socio-economic reasons (i.e. equity interest in Cagamas, MEPS, RAM, IBBM and CGC) and equity holdings and equity instruments received as a result of loan/financing restructuring or loan/financing conversion.

The Group's and the Bank's banking book's equity investments are classified and measured in accordance with FRS 139 and are categorised as financial investments available-for-sale. Refer to Note 2D to the audited financial statements for financial year ended 30 June 2015 for the accounting policies of the Group and the Bank.

The following table summarises the Group and the Bank's equity exposures in the banking book.

	31 December 2015		30 June 2015	
The Group and the Bank	**Exposures subject to risk-weighting RM'000**	**Risk weights %**	**Exposures subject to risk-weighting RM'000**	**Risk weights %**
Financial investments available-for-sale				
Unquoted equity securities	**245**	**100**	245	100

Gain and Loss on Equity Exposures in Banking Book

The tables below present the gains and losses on equity exposure in the banking book.

	31 December 2015 RM'000	30 June 2015 RM'000
Realised gains/losses recognised in the income statements	-	-
Unrealised gain recognised in revaluation reserve		
- Unquoted equity securities	-	-

6. INTEREST RATE RISK/RATE OF RETURN RISK IN BANKING BOOK

To evaluate the potential impact of interest/profit rate risk in the Banking Book, the Group and the Bank consider the effect on their underlying economic value.

The economic perspective provides a measurement of the underlying value of the Group's and the Bank's current position and seeks to evaluate the sensitivity of that value to changes in interest/profit rates. This perspective will allow the Group and the Bank to evaluate the changes in economic value of assets, liabilities, and off-balance sheet instruments against the movement in interest/profit rate. The economic values of these instruments are equivalent to the instruments' present value of future cash flows.

By analyzing the impact of interest/profit rate changes on the value of all future cash flows, the economic perspective can provide a more comprehensive measurement of interest/profit rate risk. The future cash flow projections used to estimate the economic exposure provides a pro forma estimate of the future income generated by its current position. In general, the measurement of present value of the instrument will be able to give an overview of the Group's and the Bank's economic value of equity (“EVE”) over a longer time period.

The increase or decline in economic value for upward and downward rate shocks which are consistent with shocks applied in the Group's and the Bank's stress test for measuring IRR/RORR in the banking book are as follows:

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

Type of currency	Impact on Position as at 31 December 2015		Impact on Position as at 30 June 2015	
	- 100 bps	+ 100 bps	- 100 bps	+ 100 bps
	Increase/(Decrease) in Economic Value		Increase/(Decrease) in Economic Value	
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	**32,055**	**(32,055)**	24,237	(24,237)
US Dollar	**5,770**	**(5,770)**	7,639	(7,639)
	37,825	**(37,825)**	31,876	(31,876)