

(Company No. 308035 U)

The Bank of Nova Scotia Berhad

(Company No. 308035 U)
(Incorporated in Malaysia)
and its subsidiaries

Basel II Pillar 3 Disclosures
31 October 2017

CHIEF EXECUTIVE OFFICER'S ATTESTATION

I, Sivadas Menon hereby state that, in my opinion, the Pillar 3 Disclosure have been prepared in accordance with the requirements of Bank Negara Malaysia's Guidelines on Risk-Weighted Capital Adequacy Framework (Basel II) - Disclosure Requirements (Pillar 3), and are accurate and complete.



SIVADAS MENON
Chief Executive Officer

THE BANK OF NOVA SCOTIA BERHAD
(Company No. 308035 U)
(Incorporated in Malaysia)
AND ITS SUBSIDIARIES

Pillar 3 disclosures

Overview

The Pillar 3 Disclosure is required under the Bank Negara Malaysia ("BNM")'s Risk-Weighted Capital Adequacy Framework ("RWCAF"), which is the equivalent to Basel II issued by the Basel Committee on Banking Supervision. Basel II consists of 3 Pillars as follows:

- (a) Pillar 1 stipulates the methodologies and parameters that must be applied to calculate minimum capital requirements.
- (b) Pillar 2 introduces the requirement for internal assessment of capital adequacy in relation to strategies, risk appetite, and actual risk profile.
- (c) Pillar 3 enhances public disclosure (both quantitative and qualitative) of specific details of risks being assumed, and how capital and risk are being managed under the Basel II framework.

The Bank of Nova Scotia Berhad ("the Bank") has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk. Under the Standardised Approach, standard risk weights are used to assess the capital requirements for exposure to credit risk and market risk while the capital required for operational risk under the Basic Indicator Approach is computed based on a fixed percentage over the Bank's average gross income for a fixed number of quarterly periods.

This Pillar 3 disclosure is designed to comply with BNM's Guidelines on RWCAF (Basel II) - Disclosure Requirements (Pillar 3), and should be read in conjunction with the financial statements.

The Basel II Pillar 3 Disclosure information provided herein has been reviewed and verified by the Risk Management and approved by the Chief Executive Officer. The information is not audited as there is no requirement for external auditing.

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Scope of Application

The Bank is a public limited liability company, incorporated and domiciled in Malaysia. The Bank is principally engaged in banking and related financial services, and does not offer Islamic financial services nor is involved in Islamic banking operations. Information of its subsidiaries are disclosed in Note 9 to the audited financial statements for the year ended 31 October 2017. The Bank and its subsidiaries are herein referred to as "the Group" in this document.

For regulatory purpose, the investment in subsidiaries has been deducted from the Bank's regulatory capital. As the subsidiaries asset size is immaterial relative to the Bank's assets, the Bank's capital ratios and disclosures are deemed to be representative of the Group's consolidated capital ratios and disclosures.

There are no significant restrictions or impediments on the transfer of funds or regulatory capital within the Group.

There were no capital deficiencies in any of the subsidiaries as at the financial year end.

Capital Adequacy/Capital Management

The Group's capital management and dividend policy is to maintain adequate capital support to its continuing operations, its future expectations for business growth and to withstand such market or economic shocks and/or counterparty failures as may potentially occur in a period of economic stress. The policy aims at ensuring that the Group is adequately capitalised for both regulatory and economic purposes on a forward-looking basis.

The Group is committed to avoid any possibility of breaching the regulatory minimum capital requirements and to maintain a solid capital base to support risk associated with its diverse businesses.

Approach for assessing the adequacy of internal capital levels

The approach is to identify material risks in the business and to assess the adequacy of the Bank's capital required based upon Pillar 1 & 2 requirements, plus add-ons for relevant and material non-Pillar 1 & 2 risks; as well as actual results of the preceding financial year (as the base case). The Bank mitigates risks through policy and procedural controls, segregation of duties, insurance, continuous monitoring and reporting of risk to facilitate effective management oversight. Having determined the level of capital required, a number of future stress test scenarios were applied to assess the adequacy of future capital capacity.

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Capital Adequacy Ratios

The total capital and capital adequacy ratios of the Group are computed in accordance with BNM's Capital Adequacy Framework (Capital Components and Basel II Risk Weighted Assets) Guidelines.

The Group is required to hold and maintain, at all times, the following minimum capital adequacy ratios:

	Capital Ratio
Common Equity Tier 1 ("CET 1")	4.5%
Tier 1	6.0%
Total	<u>8.0%</u>

From 1 January 2016, the Group is also required to hold and maintain capital buffers as specified by BNM in the form of Common Equity Tier 1 ("CET 1") Capital, above the minimum capital adequacy levels. The capital buffers comprise of the following:

- (i) a Countercyclical Capital Buffer ("CCyB"), determined as the weighted average of the prevailing CCyB rates applied in the jurisdiction in which a financial institution has credit exposures; and
- (ii) a Capital Conservation Buffer ("CCB") of up to 2.5%.

The manner in which the Bank is required to hold and maintain CCB is phased-in as follow:

Calendar Year	Capital Conservation Buffer
2016	0.625%
2017	1.250%
2018	1.875%
2019 onwards	2.500%

Capital adequacy ratios maintained by the Group are as follow:

	Group	
	31 October 2017 RM'000	31 October 2016 RM'000
Common Equity Tier 1 ("CET 1") Capital Ratio	52.785%	40.303%
Tier 1 Capital Ratio	52.785%	40.303%
Total Capital Ratio	<u>53.242%</u>	<u>40.976%</u>

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Risk weighted assets and capital requirements

Item	Group	Gross Exposures / EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
1	<u>Credit risk</u> <i>On-balance sheet exposures:</i> Sovereigns/central banks Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs") Corporates Residential mortgages Other assets Defaulted exposures	660,836 168,876 1,417,537 130,233 34,681 74,937	660,836 168,876 1,417,537 130,233 34,681 74,937	- 65,713 1,451,949 88,817 34,087 1,453	- 5,257 116,156 7,105 2,727 116
	Total on-balance sheet exposures	2,487,100	2,487,100	1,642,019	131,361
	<i>Off-balance sheet exposures:</i> Credit-related off-balance sheet exposures OTC derivatives	20,572 41,735	20,572 41,735	16,533 24,246	1,323 1,940
	Total off-balance sheet exposures	62,307	62,307	40,779	3,263
	Total on and off-balance sheet exposures	2,549,407	2,549,407	1,682,798	134,624
2	Large exposures risk requirement	-	-	-	-
3	<u>Market risk</u> Foreign currency risk Interest rate risk	Long Position 1,879 Short Position (4,187)		4,187 14,023	335 1,122
4	Operational risk (Basic Indicator Approach)			149,956	11,996
5	Total RWA and capital requirements			1,850,964	148,077

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Risk weighted assets and capital requirements

Item	Group	Gross Exposures / EAD before CRM RM'000	Net Exposures / EAD after CRM RM'000	Risk Weighted Assets RM'000	Minimum Capital Requirements at 8% RM'000
1	<u>Credit risk</u> <i>On-balance sheet exposures:</i> Sovereigns/central banks Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs") Corporates Residential mortgages Other assets Defaulted exposures	916,060 863,997 1,357,174 203,506 89,870 74,859	916,060 863,997 1,357,174 203,506 89,870 74,859	- 376,537 1,357,174 132,156 89,165 103,214	- 30,123 108,574 10,572 7,133 8,257
	Total on-balance sheet exposures	3,505,466	3,505,466	2,058,246	164,659
	<i>Off-balance sheet exposures:</i> Credit-related off-balance sheet exposures OTC derivatives	69,068 35,161	69,068 35,161	50,030 14,243	4,002 1,139
	Total off-balance sheet exposures	104,229	104,229	64,273	5,141
	Total on and off-balance sheet exposures	3,609,695	3,609,695	2,122,519	169,800
2	Large exposures risk requirement	-	-	-	-
3	<u>Market risk</u> Foreign currency risk	Long Position 47,445 Short Position (2,962)		47,445	3,796
4	Operational risk (Basic Indicator Approach)			174,742	13,979
5	Total RWA and capital requirements			2,344,706	187,575

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Capital Structure

For regulatory purposes, the Group's regulatory capital is divided into two tiers as follows:

- (i) Tier 1 capital, which includes paid-up share capital, audited retained earnings, and reserves, less applicable regulatory adjustments.
- (ii) Tier 2 capital, which includes regulatory reserves and collective impairment allowances (excluding impairment allowances attributable to loans classified as impaired), less investment in subsidiaries.

The breakdown of capital structure components are disclosed in Note 31 to the audited financial statements for the year ended 31 October 2017.

Risk Management

The primary goals of risk management are to ensure that the outcomes of risk-taking activities are predictable and consistent with the Group's strategies and risk appetite, and there is an appropriate balance between risk and reward in order to maximise shareholder returns.

The Group has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

The Group's risk management policies have been disclosed in Note 33 to the audited financial statements for the year ended 31 October 2017.

(a) Credit Risk

Refer to Note 33(a) to the audited financial statements for the year ended 31 October 2017 for disclosures on credit risk and definitions of past due and impaired loans. The approaches for the determination of individual and collective impairment provisions are detailed in Note 2(c)(vii) to the audited financial statements for the year ended 31 October 2017.

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(a) Credit Risk (contd.)**(i) Geographical distribution of credit risk exposures**

Group	Malaysia	Others	Total
31 October 2017	RM'000	RM'000	RM'000
Sovereigns/central banks	660,836	-	660,836
Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	172,241	23,512	195,753
Corporates	1,426,716	84,590	1,511,306
Residential mortgages	120,182	26,649	146,831
Other assets	34,681	-	34,681
Total credit risk exposures	<u>2,414,656</u>	<u>134,751</u>	<u>2,549,407</u>

Group	Malaysia	Others	Total
31 October 2016	RM'000	RM'000	RM'000
Sovereigns/central banks	916,060	-	916,060
Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	657,095	243,019	900,114
Corporates	1,306,685	178,149	1,484,834
Residential mortgages	188,748	30,069	218,817
Other assets	89,870	-	89,870
Total credit risk exposures	<u>3,158,458</u>	<u>451,237</u>	<u>3,609,695</u>

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(a) Credit Risk (contd.)

(ii) Distribution of credit risk exposure by sector

Group	31 October 2017										Total	
	Agriculture RM'000	Manufacturing RM'000	Electricity, gas and water supply RM'000	Construction RM'000	Wholesale & retail trade restaurants & hotels RM'000	Transport, storage and communication RM'000	Finance, insurance and business services RM'000	Education, health and others RM'000	Household RM'000	Others RM'000		Total RM'000
Sovereigns/central banks	-	-	-	-	-	-	-	-	-	-	660,836	660,836
Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	-	-	-	-	-	-	195,753	-	-	-	-	195,753
Corporates	495,128	345,191	-	50,000	129,086	90,000	311,328	40,100	50,473	-	-	1,511,306
Residential mortgages	-	-	-	-	-	-	-	-	146,831	-	-	146,831
Other assets	-	-	-	-	-	-	-	-	-	34,681	-	34,681
Total credit risk exposures	495,128	345,191	-	50,000	129,086	90,000	507,081	40,100	197,304	695,517	-	2,549,407
Group	31 October 2016										Total	
	Agriculture RM'000	Manufacturing RM'000	Electricity, gas and water supply RM'000	Construction RM'000	Wholesale & retail trade restaurants & hotels RM'000	Transport, storage and communication RM'000	Finance, insurance and business services RM'000	Education, health and others RM'000	Household RM'000	Others RM'000		Total RM'000
Sovereigns/central banks	-	-	-	-	-	-	-	-	-	-	916,060	916,060
Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	2,924	-	-	-	-	-	897,190	-	-	-	-	900,114
Corporates	555,466	542,795	-	16,000	127,776	93,884	119,711	28,700	502	-	-	1,484,834
Residential mortgages	-	-	-	-	-	-	-	-	218,817	-	-	218,817
Other assets	-	-	-	-	-	-	-	-	-	89,870	-	89,870
Total credit risk exposures	558,390	542,795	-	16,000	127,776	93,884	1,016,901	28,700	219,319	1,005,930	-	3,609,695

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(a) Credit Risk (contd.)

(iii) Residual contractual maturity breakdown by major type of credit risk exposures

Group	Up to 6 months RM'000	> 6 months - 1 year RM'000	Over 1 year RM'000	Total RM'000
31 October 2017				
Sovereigns/central banks	558,300	-	102,536	660,836
Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	170,966	2,672	22,115	195,753
Corporates	1,501,886	5,399	4,021	1,511,306
Residential mortgages	1,842	1,006	143,983	146,831
Other assets	34,681	-	-	34,681
Total credit risk exposures	2,267,675	9,077	272,655	2,549,407
Group				
31 October 2016				
Sovereigns/central banks	916,060	-	-	916,060
Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	880,811	19,130	173	900,114
Corporates	1,466,994	8,271	9,569	1,484,834
Residential mortgages	52,527	998	165,292	218,817
Other assets	89,870	-	-	89,870
Total credit risk exposures	3,406,262	28,399	175,034	3,609,695

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(a) Credit Risk (contd.)

(iv) Geographical distribution individual and collective impairment provisions

Group	Collective impairment provisions as at 31 October 2017 RM'000	Individual impairment provisions as at 1 November 2016 RM'000	Net individual impairment charge for the year RM'000	Amount written off/ other movements RM'000	Individual impairment provisions as at 31 October 2017 RM'000
Malaysia	19,139	45,378	9,355	(8,512)	46,221
Others	1,542	4,422	1,323	-	5,745
	<u>20,681</u>	<u>49,800</u>	<u>10,678</u>	<u>(8,512)</u>	<u>51,966</u>

Group	Collective impairment provisions as at 31 October 2016 RM'000	Individual impairment provisions as at 1 November 2015 RM'000	Net individual impairment charge for the year RM'000	Amount written off/ other movements RM'000	Individual impairment provisions as at 31 October 2016 RM'000
Malaysia	17,009	21,476	23,903	-	45,379
Others	4,195	3,074	1,347	-	4,421
	<u>21,204</u>	<u>24,550</u>	<u>25,250</u>	<u>-</u>	<u>49,800</u>

(v) Geographical distribution of impaired and past due loans

Group 31 October 2017	Loans and advances past due but not impaired RM'000	Impaired loans and advances RM'000
Malaysia	43,415	114,320
Others	1,933	11,745
	<u>45,348</u>	<u>126,065</u>

Group 31 October 2016	Loans and advances past due but not impaired RM'000	Impaired loans and advances RM'000
Malaysia	43,459	115,050
Others	4,638	9,505
	<u>48,097</u>	<u>124,555</u>

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(a) Credit Risk (contd.)

(vi) Impaired and past due loans by sector

Group 31 October 2017	Loans and advances past due but not impaired RM'000	Impaired loans and advances RM'000
Agriculture	-	-
Manufacturing	-	90,138
Construction	-	-
Wholesale & retail trade and restaurants & hotels	-	-
Transport, storage and communication	-	-
Finance, insurance and business services	-	-
Education, health and others	-	-
Household	45,348	35,927
Others	-	-
	45,348	126,065
	45,348	126,065

Group 31 October 2016	Loans and advances past due but not impaired RM'000	Impaired loans and advances RM'000
Agriculture	-	-
Manufacturing	-	82,866
Construction	-	-
Wholesale & retail trade and restaurants & hotels	-	8,248
Transport, storage and communication	-	-
Finance, insurance and business services	-	-
Education, health and others	-	-
Household	48,097	33,441
Others	-	-
	48,097	124,555
	48,097	124,555

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(a) Credit Risk (contd.)

(vii) Reconciliation of changes to impairment provisions

	Group	
	31 October 2017 RM'000	31 October 2016 RM'000
Collective impairment provisions		
At beginning of financial period	21,204	28,564
Amount written back	(523)	(7,360)
At end of financial period	<u>20,681</u>	<u>21,204</u>

	Group	
	31 October 2017 RM'000	31 October 2016 RM'000
Individual impairment provisions		
At beginning of financial period	49,800	24,550
Impairment made during the financial period	12,717	27,993
Impairment written back in respect of recoveries	(2,039)	(2,743)
Amount written off	(8,512)	-
At end of financial period	<u>51,966</u>	<u>49,800</u>

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(a) Credit Risk (contd.)

(viii) Impairment provisions by sector

Group	Collective impairment provisions as at 31 October 2017 RM'000	Individual impairment provisions as at 1 November 2016 RM'000	Net individual impairment charge for the year RM'000	Amount written off/ other movements RM'000	Individual impairment provisions as at 31 October 2017 RM'000
Agriculture	6,209	-	-	-	-
Manufacturing	4,163	23,144	8,550	-	31,694
Construction	633	-	-	-	-
Wholesale & retail trade and restaurants & hotels	1,594	-	-	-	-
Transport, storage and communication	1,140	-	-	-	-
Finance, insurance and business services	3,945	-	-	-	-
Education, health and others	506	-	-	-	-
Household	2,491	26,656	2,128	(8,512)	20,272
Others	-	-	-	-	-
	20,681	49,800	10,678	(8,512)	51,966
Group	Collective impairment provisions as at 31 October 2016 RM'000	Individual impairment provisions as at 1 November 2015 RM'000	Net individual impairment charge for the year RM'000	Amount written off/ other movements RM'000	Individual impairment provisions as at 31 October 2016 RM'000
Agriculture	5,583	-	-	-	-
Manufacturing	5,305	-	23,144	-	23,144
Construction	-	-	-	-	-
Wholesale & retail trade and restaurants & hotels	1,261	7,752	583	-	8,335
Transport, storage and communication	953	-	-	-	-
Finance, insurance and business services	5,658	-	-	-	-
Education, health and others	223	26	-	-	26
Household	2,221	16,772	1,523	-	18,295
Others	-	-	-	-	-
	21,204	24,550	25,250	-	49,800

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(a) Credit Risk (contd.)

(ix) Use of External Ratings

The following are the rating agencies or Eligible Credit Assessment Institutions ("ECAI") ratings to determine risk-weighted assets, used by the Group and are in accordance with BNM's Capital Adequacy Framework:

- (a) Standard & Poor's ("S&P")
- (b) Moody's Investors Services ("Moody's")
- (c) Fitch Ratings ("Fitch")
- (d) Rating Agency Malaysia Berhad ("RAM")
- (e) Malaysian Rating Corporation Berhad ("MARC")

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 and central banks
- (b) Banking institutions
- (c) Corporates

In cases where counterparty is rated by more than one ECAI, all available external ratings of the counterparty are captured and the following rules observed :

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

Under the Standardised Approach, the Group assigns the appropriate risk weight for issue specific rating and non issue specific rating exposures as stipulated in BNM's Capital Adequacy Framework.

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(a) Credit Risk (contd.)

(ix) Use of External Ratings (contd.)

Credit exposures by risk weights under the Standardised Approach

Group 31 October 2017 Risk Weights	Exposures after Netting and Credit Risk Mitigation				Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	Banks, MDBs and FDIs RM'000	Corporates RM'000	Residential Mortgages RM'000		
0%	660,836	-	-	-	661,343	-
20%	-	84,135	30,196	-	114,440	22,888
35%	-	-	-	54,725	54,725	19,154
50%	-	111,610	-	45,242	156,852	78,426
75%	-	-	-	3,963	3,963	2,972
100%	-	8	1,481,110	40,354	1,555,537	1,555,537
150%	-	-	-	2,547	2,547	3,821
Total Exposures	660,836	195,753	1,511,306	146,831	2,549,407	1,682,798
Risk-Weighted Assets by Exposures	-	72,640	1,487,149	88,922	1,682,798	-
Average Risk Weight Deduction from Capital Base	0.0%	37.1%	98.4%	60.6%	66.0%	-

Group 31 October 2016 Risk Weights	Exposures after Netting and Credit Risk Mitigation				Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	Banks, MDBs and FDIs RM'000	Corporates RM'000	Residential Mortgages RM'000		
0%	916,060	-	-	-	916,678	-
20%	-	603,331	193	-	603,633	120,727
35%	-	-	-	107,800	107,800	37,730
50%	-	66,881	22,166	5,641	94,688	47,344
75%	-	-	-	5,122	5,122	3,842
100%	-	229,902	1,402,753	97,769	1,819,567	1,819,567
150%	-	-	59,722	2,484	62,206	93,309
Total Exposures	916,060	900,114	1,484,834	218,816	3,609,694	2,122,519
Risk-Weighted Assets by Exposures	-	384,009	1,503,458	145,887	2,122,519	-
Average Risk Weight Deduction from Capital Base	0.0%	42.7%	101.3%	66.7%	58.8%	-

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(a) Credit Risk (contd.)

(ix) Use of External Ratings (contd.)

Rated and unrated exposures according to ratings by ECAIs (contd.)

Group

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Exposure Class	Ratings of Corporate by Approved ECAIs						
	Moodys S&P Fitch RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A+ to A- A1 to A3 A+ to A-	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 BBB+ to BB-	B1 to C B+ to D B+ to D B to D B+ to D	Unrated Unrated Unrated Unrated Unrated	Total
On and Off-Balance Sheet Exposures							
Corporates		30,196	-	-	-	1,481,110	1,511,306
Total (i)		30,196	-	-	-	1,481,110	1,511,306

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys S&P Fitch	Aaa to Aa3 AAA to AA- AAA to AA-	A1 to A3 A+ to A- A+ to A-	Baa1 to Ba3 BBB+ to BB- BBB+ to BB-	B1 to C B+ to D B+ to D	Unrated Unrated Unrated	Total
On and Off-Balance Sheet Exposures							
Sovereign and Central Banks		-	660,836	-	-	-	660,836
Total (ii)		-	660,836	-	-	-	660,836

Exposure Class	Short term Ratings of Banking Institutions by Approved ECAIs						
	Moodys S&P Fitch RAM MARC	P-1 A-1 F1+, F1 P-1 MARC-1	P-2 A-2 F2 P-2 MARC-2	P-3 A-3 F3 P-3 MARC-3	Others Others B to D NP MARC-4	Unrated Unrated Unrated Unrated Unrated	Total
On and Off-Balance Sheet Exposures							
Banks, MDBs and FDIs		84,135	100,344	8	-	11,266	195,753
Total (iii)		84,135	100,344	8	-	11,266	195,753
Total Exposure (i)+(ii)+(iii)		114,331	761,180	8	-	1,492,376	2,367,895
Residential Mortgages		-	-	-	-	146,831	146,831
Other Assets		-	-	-	-	34,681	34,681
Total Unrated Exposure		-	-	-	-	181,512	181,512
Total		114,331	761,180	8	-	1,673,888	2,549,407

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(a) Credit Risk (contd.)**(ix) Use of External Ratings (contd.)**

Rated and unrated exposures according to ratings by ECAIs (contd.)

Group
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Exposure Class	Ratings of Corporate by Approved ECAIs						
	Moodys S&P Fitch RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A+ to A- A1 to A3 A+ to A-	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 BBB+ to BB-	B1 to C B+ to D B+ to D B to D B+ to D	Unrated Unrated Unrated Unrated	Total
On and Off-Balance Sheet Exposures							
Corporates		193	22,747	1,402,172	59,722	-	1,484,834
Total (i)		193	22,747	1,402,172	59,722	-	1,484,834

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys S&P Fitch	Aaa to Aa3 AAA to AA- AAA to AA-	A1 to A3 A+ to A- A+ to A-	Baa1 to Ba3 BBB+ to BB- BBB+ to BB-	B1 to C B+ to D B+ to D	Unrated Unrated Unrated	Total
On and Off-Balance Sheet Exposures							
Sovereign and Central Banks		-	916,060	-	-	-	916,060
Total (ii)		-	916,060	-	-	-	916,060

Exposure Class	Short term Ratings of Banking Institutions by Approved ECAIs						
	Moodys S&P Fitch RAM MARC	P-1 A-1 F1+, F1 P-1 MARC-1	P-2 A-2 F2 P-2 MARC-2	P-3 A-3 F3 P-3 MARC-3	Others Others B to D NP MARC-4	Unrated Unrated Unrated Unrated	Total
On and Off-Balance Sheet Exposures							
Banks, MDBs and FDIs		603,331	66,881	229,902	-	-	900,114
Total (iii)		603,331	66,881	229,902	-	-	900,114
Total Exposure (i)+(ii)+(iii)		603,524	1,005,688	1,632,074	59,722	-	3,301,008
Residential Mortgages		-	-	-	-	218,817	218,817
Other Assets		-	-	-	-	89,870	89,870
Total Unrated Exposure		-	-	-	-	308,687	308,687
Total		603,524	1,005,688	1,632,074	59,722	308,687	3,609,695

(Company No. 308035 U)

(a) Credit Risk (contd.)

(x) Credit Risk Mitigation

The Group actively pursues opportunities to mitigate credit risk and reduce capital costs, in a sound and prudent manner, subject to internal controls and in accordance with both legal and regulatory requirements. Credit risk mitigation is achieved through techniques including bilateral close out netting, re-coupons clauses, portfolio hedging, and collateralization. These techniques are implemented through the negotiation of standard trading agreements.

Treasury back office is responsible for daily monitoring of mark-to-market values of applicable positions against the collateral call thresholds negotiated with each counterparty. When the values exceed such thresholds, they are responsible for making collateral calls. They are also responsible for escalating any fails and/or collateral valuation disputes to senior management (i.e. where collateral has not been received as anticipated and/or the the Group is required to post more collateral than calculated internally). Any decision to post excess collateral or receive less collateral or to invoke a dispute resolution procedure can be made by senior management.

The principal collateral types employed by the Group are as follows:

- i) Cash and cash equivalents;
- ii) Marketable securities;
- iii) Mortgages over residential and non-residential properties;
- iv) Charges over business assets such as premises, stocks and debtors;
- v) Corporate and personal guarantees

The securing of collateral to minimize credit-related losses introduces various other material risks that need to be monitored and controlled. The Group actively manages and monitors these material risks as part of its collateral management program. Specifically, the Group's collateral management program comprises all systems, methods, processes, controls, data collection, and information technology systems that are used in the taking, management, valuation, maintenance and realization of collateral held for credit risk mitigation purposes. Individual business lines are responsible for ensuring that their processes to manage material collateral management risks are effective on an ongoing basis.

There is no material concentration on credit risk mitigation held.

(Company No. 308035 U)

(a) Credit Risk (contd.)

(x) Credit Risk Mitigation (contd.)

Exposures before and after credit risk mitigation

Group 31 October 2017	Exposures before CRM RM'000	Exposures covered by guarantees or credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000	Exposures covered by other eligible collateral RM'000
On-balance sheet exposures				
Sovereigns/central banks	660,836	-	-	-
Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	168,876	-	-	-
Corporates	1,417,537	145,978	-	-
Residential mortgages	130,233	-	-	-
Other assets	34,681	-	-	-
Defaulted exposures	74,937	-	-	-
Total on-balance sheet exposures	2,487,100	145,978	-	-
Off-balance sheet exposures				
Credit-related off-balance sheet exposures	20,572	-	-	-
OTC derivatives	41,735	-	-	-
Total off-balance sheet exposures	62,307	-	-	-
Total credit risk exposures	2,549,407	145,978	-	-
Group 31 October 2016	Exposures before CRM RM'000	Exposures covered by guarantees or credit derivatives RM'000	Exposures covered by eligible financial collateral RM'000	Exposures covered by other eligible collateral RM'000
On-balance sheet exposures				
Sovereigns/central banks	916,060	-	-	-
Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	863,997	-	-	-
Corporates	1,357,174	156,630	84,065	-
Regulatory Retail	-	-	-	-
Residential mortgages	203,506	-	-	-
Other assets	89,870	-	-	-
Defaulted exposures	74,859	-	-	-
Total on-balance sheet exposures	3,505,466	156,630	84,065	-
Off-balance sheet exposures				
Credit-related off-balance sheet exposures	69,068	-	-	-
OTC derivatives	35,161	-	-	-
Total off-balance sheet exposures	104,229	-	-	-
Total credit risk exposures	3,609,695	156,630	84,065	-

(Company No. 308035 U)

(b) Off-Balance Sheet Exposures and Counterparty Credit Risk

The Group's risk exposures are adequately assessed, properly approved and actively managed in a consistent manner across all business lines including off-balance sheet exposures and counterparty credit risk.

(i) Off-Balance Sheet Exposures

Off-balance sheet exposures of the Group are mainly from the following:

- Financial guarantees and standby letters of credit, which represent undertakings that the Group will make payments in the event that a customer cannot meet its obligations to third parties. These exposures carry the same credit risk as loans although they are contingent in nature.
- Documentary and commercial letters of credit, which are undertakings by the Group on behalf of the customer. These exposures are usually collateralised by the underlying shipment of goods to which they relate.
- Commitments to extend credit including unutilised or undrawn portions of credit facilities
- Principal/notional amount of derivative financial instruments

The management of off-balance sheet exposures is in accordance to the credit risk management policies approach as set out in Note 33(a) to the financial statements for the year ended 31 October 2017 .

(ii) Counterparty Credit Risk

Counterparty credit risk ("CCR") is the risk that the Group's counterparty in a foreign exchange and interest rate contract defaults prior to maturity date of the contract and that the Group at the time has a claim on the counterparty. Derivative financial instruments are entered into primarily for hedging purposes.

The Group applies The International Swaps and Derivatives Association ("ISDA") Master Agreement which allows for the close-out netting across all outstanding transactions covered by an agreement if either party defaults or another pre-agreed termination event occurs. Where possible, the Group settles its Over-the-Counter ("OTC") derivatives via the Delivery-versus-Payment settlement method to further reduce settlement risk.

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(b) Off-Balance Sheet Exposures and Counterparty Credit Risk (contd.)

(ii) Counterparty Credit Risk (contd.)

The Group may apply credit rating downgrade clauses in ISDA Master Agreement which may include the termination of transactions by the non-affected party, or assignment by the affected party, if its credit rating falls below a specified level.

Principal amounts, gross positive fair values of contracts, credit equivalent amounts and risk weighted assets of derivative contracts and off-balance sheet items are disclosed in Note 32 to the financial statements for the year ended 31 October 2017.

(c) Liquidity Risk

The Group's liquidity risk management policies and approach are set out in Note 33(b) to the financial statements for the year ended 31 October 2017.

(d) Market Risk

The Group's market risk management policies and approach are set out in Note 33(c) to the financial statements for the year ended 31 October 2017.

The Group adopts the Standardised Approach in calculating market risk risk weighted assets. The market risk capital requirements is as follow:

	Group	
	31 October 2017 RM'000	31 October 2016 RM'000
Capital requirement under standardised approach for		
Foreign exchange risk	335	3,796
Interest rate risk	1,122	-
	<hr/>	<hr/>
Total risk weighted assets equivalent for market risk	18,210	47,445
	<hr/>	<hr/>

(e) Operational Risk

The Group's operational risk management policies and approach are set out in Note 33(d) to the financial statements for the year ended 31 October 2017.

(Company No. 308035 U)

(f) Equity Exposures in the Banking Book**Group****31 October 2017**

Equity Type	Gross Credit Exposure RM'000	Risk Weighted Assets RM'000
<u>Privately Held</u> For socio-economic purposes	1,754	1,667

Group**31 October 2016**

Equity Type	Gross Credit Exposure RM'000	Risk Weighted Assets RM'000
<u>Privately Held</u> For socio-economic purposes	1,754	1,667

The privately held equity investments are unquoted and stated at cost adjusted for impairment loss, if any.

Gains and Losses on Equity Exposures in the Banking Book

	Group	
	31 October 2017 RM'000	31 October 2016 RM'000
Realised gains recognised in the income statement	-	-
Unrealised losses recognised in revaluation reserve	-	-

(Company No. 308035 U)

(g) Interest Rate Risk/Rate of Return Risk in the Banking Book

Interest Rate Risk in the banking book is a non-pillar 1 risk and considers the impact of interest rate fluctuations on yields and earnings and is created when cash flows from principal and interest on assets and liabilities are not perfectly matched.

In addition, changes in interest rate can have adverse effects both on earnings and its economic value. This has given rise to two separate, but complementary perspectives for assessing interest rate risk exposure in the banking book :

- i. Earnings Perspective (Annual Income Limit) - where analysis focuses on the impact of changes in interest rates on reported earnings. Variations in earnings is an important focal point for interest rate analysis because reduced earnings or outright losses may affect the financial stability of an institution by undermining its capital adequacy and by reducing market confidence; and
- ii. Economic Value Perspective (Economic Value Limit) - where the analysis focuses on how variations in market interest rates affect the economic value of the Group's assets, liabilities and off-balance sheet positions. The economic value of the Group can be viewed as the present value of the Group's expected cash flows on liabilities, plus the expected net cash flows on off-balance sheet positions. Since the economic value perspective considers the potential impact of interest rate changes on the present value of all future cash flows, it provides a more comprehensive view of the potential long term effects of changes in interest rates than is offered by the earnings perspective.

(Company No. 308035 U)

(g) Interest Rate Risk/Rate of Return Risk in the Banking Book (contd.)

The Group simulates and reports to the Asset and Liability Committee ("ALCO") the impact of yield curves moves on the annual income and economic value of the balance sheet.

The tables below represents the maximum before tax effect of a +/- 100 basis point parallel shift in the yield curves on the net present value of the Group's assets and liabilities.

**Group
31 October 2017**

Impact to	Annual Income			Economic Value		
	USD	MYR	Total	USD	MYR	Total
Parallel Shift	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
100 bp increase	(3)	8,463	8,460	(174)	(2,674)	(2,848)
100 bp decrease	1	(8,463)	(8,462)	176	2,752	2,928

**Group
31 October 2016**

Impact to	Annual Income			Economic Value		
	USD	MYR	Total	USD	MYR	Total
Parallel Shift	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
100 bp increase	419	8,352	8,771	(224)	(3,236)	(3,460)
100 bp decrease	(105)	(8,352)	(8,457)	226	3,364	3,590

Based on a 100 bps parallel rise in yield curves on Malaysian Ringgit and US Dollar, Annual Income is expected to increase by MYR 8.46 million (Oct-16: increase MYR 8.77 million), while the Economic Value is expected to decrease by MYR 2.85 million (Oct-16: decrease MYR 3.46 million).

The corresponding impact from a 100 bps parallel decrease is an estimated reduction of MYR 8.46 million (Oct-16: reduction MYR 8.46 million), while the Economic Value is expected to increase by MYR 2.93 million (Oct-16: increase MYR 3.59 million).