

(Company No. 199401022356 (308035 U))

The Bank of Nova Scotia Berhad

(Company No. 199401022356 (308035 U))

(Incorporated in Malaysia)


and its subsidiaries

Basel II Pillar 3 Disclosures

31 October 2019

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. 199401022356 (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 Department 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 11 to the audited financial statements for the year ended 31 October 2019. 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 to support its continuing operations, its future expectations for business growth and to withstand 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 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. 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, 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 2019 RM'000	31 October 2018 RM'000
CET 1 Capital Ratio	72.384%	86.174%
Tier 1 Capital Ratio	72.384%	86.174%
Total Capital Ratio	<u>73.271%</u>	<u>86.731%</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	487,434 75,251 1,122,797 92,391 20,090 51,726	487,434 75,251 1,122,797 92,391 20,090 51,726	- 16,410 1,122,797 51,386 19,588 29,359	- 1,313 89,824 4,111 1,567 2,349
	Total on-balance sheet exposures	1,849,689	1,849,689	1,239,540	99,164
	<i>Off-balance sheet exposures:</i> Credit-related off-balance sheet exposures OTC derivatives	6,887 13,612	6,887 13,612	5,308 12,086	425 967
	Total off-balance sheet exposures	20,499	20,499	17,394	1,392
	Total on and off-balance sheet exposures	1,870,188	1,870,188	1,256,934	100,556
2	Large exposures risk requirement	-	-	-	-
3	<u>Market risk</u> Foreign currency risk Interest rate risk	Long Position 5,767 Short Position -		5,767 13,492	461 1,079
4	Operational risk (Basic Indicator Approach)			127,443	10,195
5	Total RWA and capital requirements			1,403,636	112,291

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Risk weighted assets and capital requirements (contd.)

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	409,532 217,573 832,259 112,041 20,906 53,932	409,532 217,573 832,259 112,041 20,906 53,932	- 45,058 832,260 62,325 20,092 50,455	- 3,605 66,581 4,986 1,607 4,036
	Total on-balance sheet exposures	1,646,243	1,646,243	1,010,190	80,815
	<i>Off-balance sheet exposures:</i> Credit-related off-balance sheet exposures OTC derivatives	7,391 8,404	7,391 3,195	5,120 2,383	410 191
	Total off-balance sheet exposures	15,795	10,586	7,503	601
	Total on and off-balance sheet exposures	1,662,038	1,656,829	1,017,693	81,416
2	Large exposures risk requirement	-	-	-	-
3	<u>Market risk</u> Foreign currency risk Interest rate risk	Long Position 1,845 Short Position (1,334)		1,845 116	148 9
4	Operational risk (Basic Indicator Approach)			134,843	10,787
5	Total RWA and capital requirements			1,154,497	92,360

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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 loss allowances ascribed to non-credit impaired exposures, less investment in subsidiaries.

The breakdown of capital structure components are disclosed in Note 33 to the audited financial statements for the year ended 31 October 2019.

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 35 to the audited financial statements for the year ended 31 October 2019.

(a) Credit Risk

Refer to Note 35(a) to the audited financial statements for the year ended 31 October 2019 for disclosures on credit risk and definitions of past due and impaired loans. The approaches for the determination of impairment are detailed in Note 2(c)(v) to the audited financial statements for the year ended 31 October 2019.

The Group adopted MFRS 9, *Financial Instruments* ("MFRS 9") on 1 November 2019. MFRS 9 introduces a new Expected Credit Loss ("ECL") model for assessment of impairment. Changes to credit risk assessment on adoption of MFRS 9 are disclosed in Note 2(c) and Note 35 to the audited financial statements for the year ended 31 October 2019.

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(a) Credit Risk (contd.)

(i) Geographical distribution of credit risk exposures

Group 31 October 2019	Malaysia RM'000	Others RM'000	Total RM'000
Sovereigns/central banks	487,434	-	487,434
Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	72,568	8,121	80,689
Corporates	1,087,209	83,510	1,170,719
Residential mortgages	92,284	18,972	111,256
Other assets	20,090	-	20,090
Total credit risk exposures	<u>1,759,585</u>	<u>110,603</u>	<u>1,870,188</u>

Group 31 October 2018	Malaysia RM'000	Others RM'000	Total RM'000
Sovereigns/central banks	409,532	-	409,532
Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	206,386	20,248	226,634
Corporates	793,550	83,700	877,250
Residential mortgages	105,281	22,435	127,716
Other assets	20,906	-	20,906
Total credit risk exposures	<u>1,535,655</u>	<u>126,383</u>	<u>1,662,038</u>

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(a) Credit Risk (contd.)

(ii) Distribution of credit risk exposure by sector

Group	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 Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	-	-	-	-	-	-	-	-	-	487,434	487,434
Corporates	395,936	246,119	-	-	8,141	100,000	80,689	49,400	49,700	-	80,689
Residential mortgages	-	-	-	50,000	-	-	271,423	-	111,256	-	1,170,719
Other assets	-	-	-	-	-	-	-	-	-	20,090	20,090
Total credit risk exposures	395,936	246,119	-	50,000	8,141	100,000	352,112	49,400	160,956	507,524	1,870,188
Group											
31 October 2018											
Sovereigns/central banks Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	-	-	-	-	-	-	-	-	-	409,532	409,532
Corporates	217,516	223,549	-	50,000	40,711	80,000	226,634	36,500	49,700	-	226,634
Residential mortgages	-	-	-	-	-	-	179,274	-	127,716	-	877,250
Other assets	-	-	-	-	-	-	-	-	-	20,906	127,716
Total credit risk exposures	217,516	223,549	-	50,000	40,711	80,000	405,908	36,500	177,416	430,438	1,662,038

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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	Over	Total
31 October 2019	6 months	to 1 year	1 year	RM'000
	RM'000	RM'000	RM'000	RM'000
Sovereigns/central banks	325,312	-	162,122	487,434
Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	80,322	200	167	80,689
Corporates	1,052,920	117,799	-	1,170,719
Residential mortgages	1,355	821	109,080	111,256
Other assets	20,090	-	-	20,090
Total credit risk exposures	1,479,999	118,820	271,369	1,870,188

Group	Up to	> 6 months	Over	Total
31 October 2018	6 months	to 1 year	1 year	RM'000
	RM'000	RM'000	RM'000	RM'000
Sovereigns/central banks	368,879	40,653	-	409,532
Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	225,410	1,224	-	226,634
Corporates	876,596	503	151	877,250
Residential mortgages	2,110	504	125,102	127,716
Other assets	20,906	-	-	20,906
Total credit risk exposures	1,493,901	42,884	125,253	1,662,038

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(a) Credit Risk (contd.)

(iv) Geographical distribution of Expected Credit Losses ("ECL") allowance / individual and collective impairment provisions for loans and advances

Group	12 months & Lifetime non-credit impaired ECL as at 31 October 2019 RM'000	Lifetime credit impaired ECL as at 1 November 2018 RM'000	Net lifetime credit impaired ECL made for the period RM'000	Amount written off/ other movements RM'000	Lifetime credit impaired ECL as at 31 October 2019 RM'000
Malaysia	1,328	59,335	20,973	(2,904)	77,404
Others	233	7,763	1,648	-	9,411
	<u>1,561</u>	<u>67,098</u>	<u>22,621</u>	<u>(2,904)</u>	<u>86,815</u>

Group	Collective impairment provisions as at 31 October 2018 RM'000	Individual impairment provisions as at 1 November 2017 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 2018 RM'000
Malaysia	15,167	46,221	19,904	(6,790)	59,335
Others	1,884	5,745	2,179	(161)	7,763
	<u>17,051</u>	<u>51,966</u>	<u>22,083</u>	<u>(6,951)</u>	<u>67,098</u>

(v) Geographical distribution of impaired and past due loans

	Group			
	31 October 2019		31 October 2018	
	Loans and advances past due but not impaired RM'000	Impaired loans and advances RM'000	Loans and advances past due but not impaired RM'000	Impaired loans and advances RM'000
Malaysia	30,749	122,539	56,526	107,919
Others	4,007	15,999	4,691	13,110
	<u>34,756</u>	<u>138,538</u>	<u>61,217</u>	<u>121,029</u>

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(a) Credit Risk (contd.)

(vi) Impaired and past due loans by sector

Group 31 October 2019	Loans and advances past due but not impaired RM'000	Impaired loans and advances RM'000
Agriculture	-	-
Manufacturing	-	97,151
Construction	-	-
Wholesale & retail trade and restaurants & hotels	-	-
Transport, storage and communication	-	-
Finance, insurance and business services	-	-
Education, health and others	-	-
Household	34,756	41,387
Others	-	-
	<u>34,756</u>	<u>138,538</u>
	<u>34,756</u>	<u>138,538</u>

Group 31 October 2018	Loans and advances past due but not impaired RM'000	Impaired loans and advances RM'000
Agriculture	-	-
Manufacturing	-	86,063
Construction	-	-
Wholesale & retail trade and restaurants & hotels	-	-
Transport, storage and communication	-	-
Finance, insurance and business services	25,117	-
Education, health and others	-	-
Household	36,100	34,966
Others	-	-
	<u>61,217</u>	<u>121,029</u>
	<u>61,217</u>	<u>121,029</u>

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(a) Credit Risk (contd.)

(vii) Reconciliation of changes to impairment provisions / ECL allowances for loans and advances

	Group	
	31 October 2019	31 October 2018
	RM'000	RM'000
Collective impairment provisions		
At beginning of financial year, as previously stated	17,051	20,681
Effects of adoption of MFRS 9	<u>(17,051)</u>	<u>-</u>
At beginning of financial year, as restated	-	20,681
Amount written back	-	<u>(3,630)</u>
At end of financial period	<u>-</u>	<u>17,051</u>

	Group	
	31 October 2019	31 October 2018
	RM'000	RM'000
Individual impairment provisions		
At beginning of financial year, as previously stated	67,098	51,966
Effects of adoption of MFRS 9	<u>(67,098)</u>	<u>-</u>
At beginning of financial year, as restated	-	51,966
Impairment made during the financial period	-	26,224
Impairment written back in respect of recoveries	-	(4,141)
Amount written off	-	(2,184)
Unwinding income	-	<u>(4,767)</u>
At end of financial period	<u>-</u>	<u>67,098</u>

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(a) Credit Risk (contd.)

(vii) Reconciliation of changes to impairment provisions / ECL allowances for loans and advances (contd.)

ECL allowances

	12 months ECL (Stage 1) RM'000	Lifetime not Credit Impaired ECL (Stage 2) RM'000	Lifetime Credit Impaired ECL (Stage 3) RM'000	Total RM'000
2019				
Group				
At 1 November 2018, on adoption of MFRS 9	377	861	67,098	68,336
<u>Transfer between stages</u>				
Changes due to change in credit risk:				
- Transfer to Stage 1	1,785	(1,229)	(556)	-
- Transfer to Stage 2	(61)	171	(110)	-
- Transfer to Stage 3	(9)	(540)	549	-
	1,715	(1,598)	(117)	-
Loans derecognised during the period (other than write-offs)	(35)	(29)	(316)	(380)
New loans originated	31	-	-	31
Changes due to change in credit risk ECL allowance (written back)/made	(1,661)	1,900	23,054	23,293
	(1,665)	1,871	22,738	22,944
Other adjustment:				
- Unwinding of discount	-	-	(2,904)	(2,904)
At end of financial period	427	1,134	86,815	88,376

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(a) Credit Risk (contd.)

(viii) Expected credit loss on loans and advances / Impairment provisions by sector

Group	12 months & Lifetime non-credit impaired ECL as at		Lifetime credit impaired ECL as at 1 November 2018 RM'000	Net lifetime credit impaired ECL made for the period RM'000	Amount written off/ other movements RM'000	Lifetime credit impaired ECL as at 31 October 2019 RM'000
	31 October 2019 RM'000	31 October 2019 RM'000				
Agriculture	68	-	-	-	-	-
Manufacturing	39	47,676	19,493	(2,904)	64,265	
Construction	6	-	-	-	-	-
Wholesale & retail trade and restaurants & hotels	-	-	-	-	-	-
Transport, storage and communication	30	-	-	-	-	-
Finance, insurance and business services	86	-	-	-	-	-
Education, health and others	1	-	-	-	-	-
Household	1,331	19,422	3,128	-	22,550	
	1,561	67,098	22,621	(2,904)	86,815	
Group	Collective impairment provisions as at 31 October 2018 RM'000	Individual impairment provisions as at 1 November 2017 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 2018 RM'000	
Agriculture	3,661	-	-	-	-	
Manufacturing	3,791	31,694	20,748	(4,767)	47,675	
Construction	850	-	-	-	-	
Wholesale & retail trade and restaurants & hotels	658	-	-	-	-	
Transport, storage and communication	1,360	-	-	-	-	
Finance, insurance and business services	3,105	-	-	-	-	
Education, health and others	612	-	-	-	-	
Household	3,014	20,272	1,335	(2,184)	19,423	
	17,051	51,966	22,083	(6,951)	67,098	

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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 (contd.)

Group 31 October 2018 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	Other Assets RM'000			
0%	409,532	-	-	-	814	-	410,346	-
20%	-	216,281	-	-	-	-	216,281	43,256
35%	-	-	-	50,180	-	-	50,180	17,563
50%	-	5,144	-	41,149	-	-	46,293	23,146
75%	-	-	-	2,306	-	-	2,306	1,730
100%	-	-	877,250	32,932	20,092	-	930,274	930,274
150%	-	-	-	1,149	-	-	1,149	1,724
Total Exposures	409,532	221,425	877,250	127,716	20,906	-	1,656,829	1,017,693
Risk-Weighted Assets by Exposures	-	45,828	877,250	74,523	20,092	-	1,017,693	-
Average Risk Weight Deduction from Capital Base	0.0%	20.7%	100.0%	58.4%	96.1%	-	61.4%	-

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

Rated and unrated exposures according to ratings by ECAs

Group
31 October 2019

Exposure Class	Ratings of Corporate by Approved ECAs						Unrated	Total
	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 Baa3 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			
On and Off-Balance Sheet Exposures								
Corporates		-	-	-	-		1,170,719	1,170,719
Total (i)		-	-	-	-		1,170,719	1,170,719

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAs						Unrated	Total
	Moodys S&P Fitch	Aaa to Aa3 AAA to AA- AAA to AA-	A1 to A3 A+ to A- A+ to A-	Baa1 to Baa3 BBB+ to BB- BBB+ to BB-	B1 to C B+ to D B+ to D			
On and Off-Balance Sheet Exposures								
Sovereign and Central Banks		-	487,434	-	-		-	487,434
Total (ii)		-	487,434	-	-		-	487,434

Exposure Class	Ratings of Banking Institutions by Approved ECAs						Unrated	Total
	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 Baa3 BBB+ to BBB- BBB+ to BBB- BBB1 to BBB3 BBB+ to BBB-	Ba1 to B3 BB+ to B- BB+ to B- BB1 to B3 BB+ to B-	Caa1 to C CCC+ to D CCC+ to D C1 to D C+ to D		
On and Off-Balance Sheet Exposures								
Banks, MDBs and FDIs		1,975	78,012	295	-	-	407	80,689
Total (iii)		1,975	78,012	295	-	-	407	80,689
Total Exposure (i)+(ii)+(iii)		1,975	565,446	295	-	-	1,171,126	1,738,842
Residential Mortgages		-	-	-	-	-	111,256	111,256
Other Assets		-	-	-	-	-	20,090	20,090
Total Unrated Exposure		-	-	-	-	-	131,346	131,346
Total		1,975	565,446	295	-	-	1,302,472	1,870,188

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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

31 October 2018

Exposure Class	Ratings of Corporate by Approved ECAIs						Unrated	Total
	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 Baa3 BBB+ to BB- BBB+ to BB- BBB1 to BBB3 BBB+ to BB-	B1 to C B+ to D B+ to D B to D B+ to D			
On and Off-Balance Sheet Exposures								
Corporates		-	-	-	-		877,250	877,250
Total (i)		-	-	-	-		877,250	877,250

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						Unrated	Total
	Moodys S&P Fitch	Aaa to Aa3 AAA to AA- AAA to AA-	A1 to A3 A+ to A- A+ to A-	Baa1 to Baa3 BBB+ to BB- BBB+ to BB-	B1 to C B+ to D B+ to D			
On and Off-Balance Sheet Exposures								
Sovereign and Central Banks		-	409,532	-	-		-	409,532
Total (ii)		-	409,532	-	-		-	409,532

Exposure Class	Ratings of Banking Institutions by Approved ECAIs							Unrated	Total
	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 Baa3 BBB+ to BBB- BBB+ to BBB- BBB1 to BBB3 BBB+ to BBB-	Ba1 to B3 BB+ to B- BB+ to B- BB1 to B3 BB+ to B-	Ca1 to C CCC+ to D CCC+ to D C1 to D C+ to D			
On and Off-Balance Sheet Exposures									
Banks, MDBs and FDIs		221,490	4,761	-	-	-	383	226,634	
Total (iii)		221,490	4,761	-	-	-	383	226,634	
Total Exposure (i)+(ii)+(iii)		221,490	414,293	-	-	-	877,633	1,513,416	
Residential Mortgages		-	-	-	-	-	127,716	127,716	
Other Assets		-	-	-	-	-	20,906	20,906	
Total Unrated Exposure		-	-	-	-	-	148,622	148,622	
Total		221,490	414,293	-	-	-	1,026,255	1,662,038	

(Company No. 199401022356 (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. 199401022356 (308035 U))

(a) Credit Risk (contd.)**(x) Credit Risk Mitigation (contd.)**

Exposures before and after credit risk mitigation

Group 31 October 2019	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	487,434	-	-	-
Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	75,251	-	-	-
Corporates	1,122,797	139,206	-	-
Residential mortgages	92,391	-	-	-
Other assets	20,090	-	-	-
Defaulted exposures	51,726	-	-	-
Total on-balance sheet exposures	1,849,689	139,206	-	-
Off-balance sheet exposures				
Credit-related off-balance sheet exposures	6,887	-	-	-
OTC derivatives	13,612	-	-	-
Total off-balance sheet exposures	20,499	-	-	-
Total credit risk exposures	1,870,188	139,206	-	-
Group 31 October 2018	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	409,532	-	-	-
Banks, development financial institutions ("DFI") and multilateral development banks ("MDBs")	217,573	-	-	-
Corporates	832,259	145,561	-	-
Regulatory Retail	-	-	-	-
Residential mortgages	112,041	-	-	-
Other assets	20,906	-	-	-
Defaulted exposures	53,932	-	-	-
Total on-balance sheet exposures	1,646,243	145,561	-	-
Off-balance sheet exposures				
Credit-related off-balance sheet exposures	7,391	-	-	-
OTC derivatives	8,404	-	5,209	-
Total off-balance sheet exposures	15,795	-	5,209	-
Total credit risk exposures	1,662,038	145,561	5,209	-

(Company No. 199401022356 (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 can arise 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 35(a) to the financial statements for the year ended 31 October 2019 .

(ii) Counterparty Credit Risk

Counterparty credit risk ("CCR") is the risk that the Group's counterparty in a foreign exchange and/or 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 by the Group 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 34 to the financial statements for the year ended 31 October 2019.

(c) Liquidity Risk

The Group's liquidity risk management policies and approach are set out in Note 35(b) to the financial statements for the year ended 31 October 2019.

(d) Market Risk

The Group's market risk management policies and approach are set out in Note 35(c) to the financial statements for the year ended 31 October 2019.

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

	Group	
	31 October 2019 RM'000	31 October 2018 RM'000
Capital requirement under standardised approach for		
Foreign exchange risk	461	148
Interest rate risk	1,079	9
	<u>19,259</u>	<u>1,961</u>
Total risk weighted assets equivalent for market risk		
	<u>19,259</u>	<u>1,961</u>

(e) Operational Risk

The Group's operational risk management policies and approach are set out in Note 35(d) to the financial statements for the year ended 31 October 2019.

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(f) Equity Exposures in the Banking Book

Group

31 October 2019

Equity Type	Gross Credit Exposure RM'000	Risk Weighted Assets RM'000
<u>Privately Held</u>		
For socio-economic purposes	2,338	2,338

The privately held equity investments are unquoted and are stated at fair value.

Group

31 October 2018

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

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 2019 RM'000	31 October 2018 RM'000
Realised gains recognised in the income statement	2,145	-
Unrealised gains recognised in the income statement	162	-
Unrealised losses recognised in revaluation reserve	-	-

(Company No. 199401022356 (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 impact 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 what is offered by the earnings perspective.

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(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 movements in yield curves on the annual income and economic value of the balance sheet.

The tables below represent the maximum before tax impact 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 2019**

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	(513)	8,405	7,892	(485)	(4,454)	(4,939)
100 bp decrease	513	(8,405)	(7,892)	491	4,593	5,084

**Group
31 October 2018**

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	148	9,041	9,189	67	(1,627)	(1,560)
100 bp decrease	(148)	(9,041)	(9,189)	(68)	2,134	2,066

Based on a 100 bps parallel rise in yield curves on Malaysian Ringgit and US Dollar, Annual Income is expected to increase by MYR 7.89 million (Oct-18: increase by MYR 9.19 million), or approximately 11.7% of net interest income while the Economic Value is expected to decrease by MYR 4.94 million (Oct-18: decrease by MYR 1.56 million).

The corresponding impact from a 100 bps parallel decrease is an estimated reduction of MYR 7.89 million, or approximately 11.7% of net interest income (Oct-18: reduction MYR 9.19 million), while the Economic Value is expected to increase by MYR 5.08 million (Oct-18: increase by MYR 2.07 million).