

RWCAF - Pillar 3 Disclosures

(Applicable to the regulated banking subsidiaries of the Group)

31 March 2011

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1.0 Scope of Application

The Bank Negara Malaysia's ("BNM") Risk Weighted Capital Adequacy Framework-Basel II and Capital Adequacy Framework for Islamic Banks ("RWCAF") – Disclosure Requirement ("Pillar 3") is applicable to all banking institutions licensed under the Banking and Financial Institutions Act 1989 ("BAFIA") and all Islamic banks licensed under section 3(4) of the Islamic Banking Act 1983 ("IBA"). The Pillar 3 disclosure requirements aim to enhance transparency on the risk management practices and capital adequacy of banking institutions.

The banking subsidiaries of AMMB Holdings Berhad ("AMMB") to which the RWCAF framework apply are AmBank (M) Berhad ("AmBank"), AmInvestment Bank Berhad ("AmInvestment Bank") and AmIslamic Bank Berhad ("AmIslamic Bank") – which offers Islamic banking services.

AmBank has provided explicit guarantee against the liabilities of its wholly owned Labuan offshore banking subsidiary, AmInternational (L) Ltd. ("AMIL"), a Labuan company licensed under the Labuan Financial Services and Securities Act to carry out Labuan banking business. In accordance with the RWCAF, the capital position and risk weighted assets ("RWA") of AmBank refers to the combined capital base and RWA of AmBank and AMIL.

The following information has been provided in order to highlight the capital adequacy of our regulated banking subsidiaries and a pro-forma view of the Group position on an **aggregated** basis. The information provided has been verified by the Group internal auditors and certified by the Group Managing Director.

BNM guidelines on capital adequacy require regulated banking subsidiaries to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations. Each of these entities is independently held by AMMB as a regulated banking institution – there are no cross-shareholdings within or between these entities. Each entity's standalone and consolidated capital adequacy position and more detailed quantitative disclosures are provided within their respective published financial statements that are available via our website at www.ambankgroup.com.

The capital adequacy ratios are computed in accordance with BNM's Risk Weighted Capital Adequacy Framework or Risk Weighted Capital Adequacy Framework for Islamic Banks (as applicable), which are based on the Basel II capital accord. Each entity has adopted the Standardised Approach for Credit and Market Risks and the Basic Indicator Approach for Operational Risk.

The minimum regulatory capital adequacy requirement is 8.0% for the risk weighted capital ratio.

1.1 Basis of Consolidation

For statutory accounting purposes, the consolidated financial statements of AMMB comprise the financial statements of the Company and the financial statements of all its controlled entities (individually referred to as "group entities") where it is determined that there is a capacity to control. Control means the power to govern directly or indirectly the financial and operating policies of an entity so as to obtain benefits from its activities.

For purposes of this Pillar 3 Report, the consolidation basis used is the same as that used for regulatory capital adequacy purposes. The following table shows the differences between the scope of statutory and regulatory consolidation.

Type of entity	Accounting Treatment	
	Statutory reporting	Basel II regulatory reporting
Subsidiaries licensed under BAFIA ¹ or IBA ² or engaged in financial activities	Fully consolidated	Fully consolidated
Subsidiaries engaged in non-financial activities	Fully consolidated	Deducted from capital base
Associates and jointly controlled entities which are licensed under BAFIA or IBA	Equity accounted	Pro-rata consolidated
Associates and jointly controlled entities which are not licensed under BAFIA or IBA	Equity accounted	Reported as investment and risk weighted

¹ BAFIA denotes the Banking and Financial institutions Act 1989.

² IBA denotes the Islamic Banking Act 1983.

Apart from regulatory requirements and statutory constraints, there is no current or foreseen material, practical or legal impediments to the transfer of funds or regulatory capital within the Group.

Any such transfers would require the approvals of the respective Boards of Directors, as well as the concurrence of BNM.

2.0 Capital Management

The capital and risk management of the banking subsidiaries of AMMB are managed collectively at Group level. The Group's capital management approach is driven by its desire to maintain a strong capital base to support the development of its businesses, to meet regulatory capital requirements at all times and to maintain good credit ratings.

Strategic, business and capital plans are drawn up annually covering a 5 year horizon and approved by the Board of Directors. The capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained by the Group to support its strategy.

The capital plan takes the following into account:

- (a) Regulatory capital requirements:
 - forecast demand for capital to support the credit ratings; and
 - increases in demand for capital due to business growth and market shocks.
- (b) Or stresses:
 - available supply of capital and capital raising options; and
 - internal controls and governance for managing the Group's risk, performance and capital.

The Group uses internal models and other quantitative techniques in its internal risk and capital assessment. The models help to estimate potential future losses arising from credit, market and other risks, and using regulatory formulae the amount of capital required to support them. In addition, the models enable the Group to gain a deeper understanding of its risk profile, e.g., by identifying potential concentrations, assessing the impact of portfolio management actions and performing what-if analysis.

Stress testing and scenario analysis are used to ensure that the Group's internal capital assessment considers the impact of extreme but plausible scenarios on its risk profile and capital position. They provide an insight into the potential impact of significant adverse events on the Group and how these events could be mitigated. The Group's target capital levels are set taking into account its risk appetite and its risk profile under future expected and stressed economic scenarios.

The Group's assessment of risk appetite is closely integrated with the Group's strategy, business planning and capital assessment processes, and is used to inform senior management's views on the level of capital required to support the Group's business activities.

The Group uses a capital model to assess the capital demand for material risks, and support its internal capital adequacy assessment. Each material risk is assessed, relevant mitigants considered, and appropriate levels of capital determined. The capital modelling process is a key part of the Group's management disciplines.

The capital that the Group is required to hold is determined by its balance sheet, off-balance sheet, counterparty and other risk exposures after applying collateral and other mitigants, based on the Group's risk rating methodologies and systems. We discuss these outcomes with BNM on a regular basis as part of our normal regulatory liaison activities. BNM has the right to impose further capital requirements on Malaysian Financial Institutions via its Financial Market Supervision remit.

The Group operates processes and controls to monitor and manage capital adequacy across the organisation. Where we operate in other jurisdictions, capital is maintained on the basis of the local regulator's requirements. It is overseen by the Group Asset and Liability Committee ("GALCO"), which is responsible for managing the Group's statement of financial position, capital and liquidity.

A strong governance and process framework is embedded in the capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Board of Directors. The Risk Management Committee of Directors ("RMCD") is specifically delegated the task of reviewing all risk management issues including oversight of the Group's capital position and any actions impacting the capital levels. The Audit and Examination Committee ("AEC") reviews specific risk areas and the issues discussed at the key capital management committees.

GALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. These ranges are 7.5 per cent to 8.5 per cent for the Tier 1 capital ratio and 11.5 per cent to 12.5 per cent for the total capital ratio. The Group has been (knowingly) operating in excess of these ranges for the last 3 years as the Group was conservatively positioned for any repercussions from the Global Financial Crisis.

A dedicated team, the Capital and Balance Sheet Management Department, is responsible for the ongoing assessment of the demand for capital and the updating of the Group's capital plan.

In light of the uncertain economic environment and the evolving global regulatory debate on banking institutions' capital structures, we believe it is appropriate to remain strongly capitalised above our target ranges.

Appropriate policies are also in place governing the transfer of capital within the Group. These ensure that capital is remitted as appropriate, subject to complying with regulatory requirements and statutory and contractual restrictions.

There are no current material, practical or legal impediments to the prompt transfer of capital resources in excess of those required for regulatory purposes or repayment of liabilities between the parent company, AMMB and its group entities when due.

2.0 Capital Management (cont'd)

Table 2.1: Capital Adequacy Ratio

The capital adequacy ratios of our regulated banking subsidiaries and a pro-forma Group view are as follows:

2011	AmBank	AmIslamic Bank	AmInvestment Bank	Group
Before deducting proposed dividends:				
Core capital ratio	10.0%	8.0%	24.7%	10.2%
Risk weighted capital ratio	14.8%	12.5%	24.7%	14.4%
After deducting proposed dividends:				
Core capital ratio	9.5%	8.0%	21.7%	9.8%
Risk weighted capital ratio	14.4%	12.5%	21.7%	14.0%

2010	AmBank	AmIslamic Bank	AmInvestment Bank	Group
Before deducting proposed dividends:				
Core capital ratio	11.0%	10.5%	28.3%	10.3%
Risk weighted capital ratio	15.3%	15.3%	30.1%	15.8%
After deducting proposed dividends:				
Core capital ratio	10.4%	10.5%	25.5%	9.8%
Risk weighted capital ratio	14.8%	15.3%	27.3%	15.3%

Notes:

- 1) Group figures presented in this Report represent an **aggregation** of the consolidated capital positions and RWA of our regulated banking institutions – as noted above, the consolidated positions of each entity are published at www.ambankgroup.com.
- 2) The capital position and RWA of AmBank refers to the combined capital base and RWA of AmBank and AMIL its wholly-owned offshore banking subsidiary.

2.0 Capital Management (cont'd)

Table 2.2: Risk Weighted Assets and Capital Requirements

The aggregated breakdown of RWA by exposures in major risk category of the Group is as follows:

Exposure Class	2011			
	Gross Exposures/EAD before Credit Risk Mitigation ("CRM") RM'000	Net Exposures/EAD after CRM RM'000	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
1. Credit Risk				
On Balance Sheet Exposures				
Sovereigns/Central Banks	13,292,208	13,006,651	-	-
Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDB")	9,529,996	9,529,996	2,168,461	173,476
Insurance Companies, Securities Firms & Fund Managers	54,968	54,968	31,732	2,539
Corporates	30,800,739	28,113,558	26,198,897	2,095,912
Regulatory Retail	33,170,998	32,984,359	24,762,011	1,980,960
Residential Mortgages	7,037,115	7,025,654	2,817,062	225,365
Higher Risk Assets	233,347	233,347	350,021	28,001
Other Assets	2,698,609	2,698,608	2,367,130	189,371
Securitisation	137,943	137,943	26,895	2,152
Equity	62,374	62,374	62,374	4,990
Defaulted Exposures	2,494,671	2,425,519	3,320,085	265,607
Total for On Balance Sheet Exposures	99,512,968	96,272,977	62,104,668	4,968,373
Off-Balance Sheet Exposures				
Over the counter ("OTC") Derivatives	1,493,487	1,493,487	750,687	60,054
Credit Derivatives	1,045	1,044	522	42
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	10,172,954	9,736,937	8,745,244	699,620
Defaulted Exposures	98,255	96,501	144,236	11,539
Total for Off-Balance Sheet Exposures	11,765,741	11,327,969	9,640,689	771,255
Total On and Off-Balance Sheet Exposures	111,278,709	107,600,946	71,745,357	5,739,628
2. Large Exposure Risk Requirement	-	-	-	-
3. Market Risk	Long Position	Short Position		
Interest Rate Risk				
- General interest rate risk	54,783,946	51,162,700	1,361,322	108,905
- Specific interest rate risk	5,821,845	2,010,658	475,129	38,011
Foreign Currency Risk	10,536	17,927	19,695	1,575
Equity Risk				
- General risk	357,053	27,932	329,121	26,329
- Specific risk	357,053	27,932	529,706	42,377
Option Risk	294,367	302,792	3,931	315
Total	61,624,800	53,549,941	2,718,904	217,512
4. Operational Risk			6,890,899	551,271
5. Total RWA and Capital Requirements			81,355,160	6,508,411

The Group does not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent.

2.0 Capital Management (cont'd)

Table 2.2: Risk Weighted Assets and Capital Requirements (cont'd)

Exposure Class	2010				Minimum Capital Requirement at 8% RM'000
	RM'000	Gross Exposures/EAD before Credit Risk Mitigation ("CRM") RM'000	Net Exposures/ EAD after CRM RM'000	Risk Weighted Assets RM'000	
1. Credit Risk					
On Balance Sheet Exposures					
Sovereigns/Central Banks		11,956,160	11,956,160	-	
Public Sector Entities		79,464	79,464	15,893	1,272
Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDB")		6,013,270	6,013,270	1,271,586	101,727
Insurance Companies, Securities Firms & Fund Managers		800,523	800,523	800,523	64,042
Corporates		23,252,974	21,776,056	19,544,419	1,563,554
Regulatory Retail		33,520,188	33,358,800	24,946,606	1,995,729
Residential Mortgages		6,879,999	6,870,606	2,909,190	232,736
Higher Risk Assets		225,754	225,754	338,631	27,090
Other Assets		2,452,746	2,452,746	2,106,934	168,555
Securitisation		326,731	326,730	95,256	7,620
Equity		70,620	70,620	70,620	5,650
Defaulted Exposures		5,100,676	4,182,241	5,970,715	477,657
Total for On Balance Sheet Exposures		90,679,105	88,112,970	58,070,373	4,645,632
Off-Balance Sheet Exposures					
Over the counter ("OTC") Derivatives		1,176,143	1,176,143	523,626	41,890
Credit Derivatives		-	-	-	-
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		5,053,745	4,724,286	4,399,069	351,926
Defaulted Exposures		-	-	-	-
Total for Off-Balance Sheet Exposures		6,229,888	5,900,429	4,922,695	393,816
Total On and Off-Balance Sheet Exposures		96,908,993	94,013,399	62,993,068	5,039,448
2. Large Exposure Risk Requirement		-	-	5,203	416
3. Market Risk					
	Long Position	Short Position			
Interest Rate Risk					
-General interest rate risk	29,457,508	27,208,078		1,037,283	82,983
-Specific interest rate risk	3,230,626	1,011,669		230,851	18,468
Foreign Currency Risk	729,299	276		729,299	58,344
Equity Risk					
-General risk	94,965	-		94,965	7,597
-Specific risk	94,965	-		83,717	6,697
Option Risk	290,074	220,852		13,798	1,104
Total	33,897,437	28,440,875		2,189,913	175,193
4. Operational Risk				5,305,721	424,457
5. Total RWA and Capital Requirements				70,493,905	5,639,514

The Group does not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent.

3.0 Capital Structure

Table 3.1 Capital Structure summarises the aggregated capital position of the Group. The capital structure includes capital under the following headings:

- paid-up ordinary share capital, irredeemable non-cumulative convertible preference shares, and eligible reserves;
- innovative Tier 1 capital and qualifying subordinated liabilities; and
- collective allowance (netted against loans, advances and financing).

All capital instruments included in the capital base have been issued in accordance with the BNM rules and guidelines.

For regulatory purposes, capital is categorised into two main categories, or tiers, depending on the degree of permanency and loss absorbency exhibited. These are Tier 1 and Tier 2 capital which are described below.

3.1 Tier 1 Capital

Tier 1 capital comprises paid-up ordinary share capital, irredeemable non-cumulative convertible preference shares, retained earnings, eligible reserves and innovative and non-innovative Tier 1 capital, after the deduction of certain regulatory adjustments.

Paid-up Ordinary Share Capital

Paid-up ordinary share capital is an item of capital issued by an entity to an investor, which is fully paid-up and where the proceeds of issue are immediately and fully available. There is no obligation to pay a coupon or dividend to the equity holder of ordinary shares. The capital is available for unrestricted and immediate use to cover risks and losses, and enable the entity to continue trading. It can only be redeemed on the winding-up of the entity.

Irredeemable Non-cumulative Convertible Preference Shares

Irredeemable non-cumulative convertible preference shares are permanent holdings for which there are no obligation to pay a dividend, and the dividend payment is not cumulative. Such shares do not generally carry voting rights, but rank higher than ordinary shares for dividend payments and in the event of a winding-up or other return of capital.

In the financial year 2008, AmBank issued RM150 million Irredeemable Non-Cumulative Convertible Preference Shares ("INCPS") to its holding company, AMFB Holdings Berhad. The INCPS are convertible into new ordinary shares of AmBank on the basis of one (1) new ordinary share for every one (1) INCPS held.

Retained Earnings

Retained earnings at the end of the financial year and eligible reserves are accumulated resources included in the shareholders' funds in an entity's statement of financial position, with certain regulatory adjustments applied.

Eligible Reserves

Eligible reserves comprise the following:

- **Share Premium**
Share premium is used to record premium arising from new shares issued in the group entity.
- **Statutory Reserve**
Statutory reserve is maintained in compliance with the provisions of BAFIA and IBA and is not distributable as cash dividends.
- **Capital Reserve and Merger Reserve**
The capital reserve and merger reserve represent reserves arising from the transfer of subsidiaries pursuant to schemes of arrangement under group restructuring which involved capital reduction and was accounted for using the merger accounting method.
- **Exchange Fluctuation Reserve**
Exchange fluctuation reserve is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging.

3.0 Capital Structure (cont'd)

3.1 Tier 1 Capital (cont'd)

Innovative Tier 1 Capital

Innovative Tier 1 capital comprises deeply subordinated debt instruments which despite their legal form, have loss absorbency qualities and can therefore be included as Tier 1 capital. The Innovative Tier 1 securities in issue and their primary terms are as follows:

(a) Non-cumulative Non-voting Guaranteed Preference Shares

On 27 January 2006, AMBB Capital (L) Ltd, a wholly-owned subsidiary of AmBank issued United States Dollar ("USD") 200,000,000 Innovative Hybrid Tier 1 Capital comprising 2,000 preference shares of USD100,000 each ("Hybrid Securities"). The Hybrid Securities are subordinated and guaranteed by AmBank. The gross proceeds from the issuance was on-lent to AmBank in the form of a subordinated term loan on 27 January 2006 for the purpose of supplementing AmBank's working capital requirements.

The salient features of the Hybrid Securities are as follows:

- (i) The Hybrid Securities bear non-cumulative dividends from the issue date to (but excluding) 27 January 2016 at 6.77% per annum and thereafter, a floating rate per annum equal to three (3) month USD LIBOR plus 2.90 percent if not redeemed on 27 January 2016. The non-cumulative dividends are payable on a semi-annual basis.
- (ii) The Hybrid Securities are perpetual securities and have no fixed final redemption date. The Hybrid Securities may be redeemed in whole but not in part at the option of the issuer (but not the holders) in certain circumstances. In each case, not less than 30 nor more than 60 days' notice (which notice shall be irrevocable) must be given.

The Hybrid Securities are listed on both the Labuan International Financial Exchange Inc. and the Singapore Exchange Securities Trading Limited and are offered to international institutional investors outside Malaysia.

(b) Innovative Tier 1 Capital Securities

On 18 August 2009, AmBank issued up to RM485 million Innovative Tier 1 Capital Securities under its RM500 million Innovative Tier 1 Capital Securities ("ITICS") Programme. The ITICS bears a fixed interest (non-cumulative) rate at issuance date (interest rate is 8.25% per annum) and step up 100 basis points after the First Call Date (10 years after issuance date) and interest is payable semi annually in arrears. The maturity date is 30 years from the issue date. The ITICS facility is for a tenor of 60 years from the First Issue date and has a principal stock settlement mechanism to redeem the ITICS via cash through the issuance of AmBank's ordinary shares. Upon BNM's approval, AmBank may redeem in whole but not in part the relevant tranche of the ITICS at any time on the 10th anniversary of the issue date of that tranche or on any interest payment date thereafter.

Non-innovative Tier 1 Capital

In the financial year 2009, AmBank issued RM500 million Non-Innovative Tier 1 Capital ("NIT1") in nominal value comprising:

- Non-Cumulative Perpetual Capital Securities ("NCPCS"), which are issued by AmBank and stapled to the Subordinated Notes described below; and
- Subordinated Notes ("SubNotes"), which are issued by AmPremier Capital Berhad ("AmPremier"), a wholly-owned subsidiary of AmBank (collectively known as "Stapled Capital Securities").

The proceeds from the NIT1 programme were used as working capital. The Stapled Capital Securities cannot be traded separately until the occurrence of certain assignment events. Upon occurrence of an assignment event, the Stapled Capital Securities will "unstaple", leaving the investors to hold only the NCPCS while ownership of the SubNotes will be assigned to AmBank pursuant to the forward purchase contract entered into by AmBank unless there is an earlier occurrence of any other events stated under the terms of the Stapled Capital Securities. If none of the assignment events as stipulated under the terms of the Stapled Capital Securities occur, the Stapled Capital Securities will unstaple on the 20th interest payment date or 10 years from the issuance date of the SubNotes.

The SubNotes have a fixed interest rate of 9.0% per annum. However, the NCPCS distribution will not begin to accrue until the SubNotes are re-assigned to AmBank as referred to above.

The NCPCS are issued in perpetuity unless redeemed under the terms of the NCPCS. The NCPCS are redeemable at the option of AmBank on the 20th interest payment date or 10 years from the issuance date of the SubNotes, or any NCPCS distribution date thereafter, subject to redemption conditions being satisfied. The SubNotes have a tenure of 30 years unless redeemed earlier under the terms of the SubNotes. The SubNotes are redeemable at the option of AmPremier on any interest payment date, which cannot be earlier than the occurrence of assignment events as stipulated under the terms of the Stapled Capital Securities.

The Stapled Capital Securities comply with BNM's Guidelines on Non-Innovative Tier 1 capital instruments. They constitute unsecured and subordinated obligations of AmBank. Claims in respect of the NCPCS rank pari passu and without preference among themselves and with the most junior class of preference shares of AmBank but in priority to the rights and claims of the ordinary shareholders of AmBank. The SubNotes rank pari passu and without preference among themselves and with the most junior class of notes or preference shares of AmPremier.

3.0 Capital Structure (cont'd)

3.2 Tier 2 Capital

The main components of Tier 2 capital are collective allowance for bad and doubtful debts and subordinated debt instruments as follows:

Medium Term Notes

In the financial year 2008, AmBank implemented a RM2.0 billion nominal value Medium Term Notes ("MTN") Programme. The proceeds raised from the MTN Programme had been utilised for the refinancing of existing subordinated debts and for general working capital requirements.

The MTN Programme has a tenor of up to 20 years from the date of the first issuance under the MTN Programme. The MTN shall be issued for a maturity of up to 20 years as the Issuer may select at the point of issuance provided that no MTN shall mature after expiration of the MTN Programme.

The MTNs issued under the MTN Programme was included as Tier 2 capital in compliance with the RWCAF issued by BNM.

The salient features of the MTNs issued are as follows:

- (i) Tranche 1 amounting to RM500 million was issued on 4 February 2008 and is for a tenor of 10 years Non-Callable 5 years and bears interest at 5.23% per annum.
- (ii) Tranche 2 and 3 totalling RM240 million was issued on 14 March 2008 as follows:
 - Tranche 2 amounting to RM165 million is for a tenor of 10 years Non-Callable 5 years and bears interest at 5.2% per annum.
 - Tranche 3 amounting to RM75 million is for a tenor of 12 years Non-Callable 7 years and bears interest at 5.4% per annum.
- (iii) Tranche 4 and 5 totalling RM120 million was issued on 28 March 2008 as follows:
 - Tranche 4 amounting to RM45 million is for a tenor of 10 years Non-Callable 5 years and bears interest at 5.2% per annum.
 - Tranche 5 amounting to RM75 million is for a tenor of 12 years Non-Callable 7 years and bears interest at 5.4% per annum.
- (iv) Tranche 6 amounting to RM600 million issued on 9 April 2008 is for a tenor of 15 years Non-Callable 10 years and bears interest at 6.25% per annum.
- (v) Tranche 7 amounting to RM97.8 million issued on 10 December 2009 is for a tenor of 10 years Non-Callable 5 years and bears interest at 5.75% per annum.

The interest rate of the MTN will step up by 0.5% per annum as follows:

- (i) Tranche 1 – at the beginning of the 5th year
- (ii) Tranche 2 – at the beginning of the 6th year
- (iii) Tranche 3 – at the beginning of the 8th year
- (iv) Tranche 4 – at the beginning of the 6th year
- (v) Tranche 5 – at the beginning of the 8th year
- (vi) Tranche 6 – at the beginning of the 11th year
- (vii) Tranche 7 – at the beginning of the 6th year

and every anniversary thereafter, preceding the maturity date of the MTN.

Subordinated Sukuk Musyarakah

On 21 December 2006, Amlslamic Bank issued RM400,000,000 Subordinated Sukuk Musyarakah ("Sukuk Musyarakah") for the purpose of increasing Amlslamic Bank's capital funds.

The salient features of the Sukuk Musyarakah are as follows:

- (i) The Sukuk Musyarakah carries a profit rate of 4.80% per annum for the first 5 years and shall be stepped up by 0.5% per annum for every subsequent year to maturity date. The profit is payable on a semi-annual basis.
- (ii) The Sukuk Musyarakah is for a period of 10 years. Amlslamic Bank may exercise its call option and redeem in whole (but not in part) the Sukuk Musyarakah on the 5th anniversary of the issue date or on any anniversary date thereafter at 100% of the principal amount together with the expected profit payments.

On 28 February 2011, Amlslamic Bank was transferred to AMMB.

3.0 Capital Structure (cont'd)

3.2 Tier 2 Capital (cont'd)

Exchangeable Bonds

In the financial year 2008, AmBank issued RM575,000,000 Exchangeable Bonds ("EB") to ANZ Funds Pty Ltd ("ANZ Funds"). The EB will mature on the 10th anniversary from the date of issue. Interest will accrue on the EB at a rate of 5% per annum for the first five years and 5.5% for the next five years. The EB are exchangeable into 188,524,590 new ordinary shares in the ultimate holding company, AMMB at an exchange price of RM3.05 per share. Pursuant to the completion of AMMB's Rights Issue on 15 January 2008, the EB conversion price was adjusted from RM3.05 per share to RM2.95 per share. BNM has approved the EB as Tier 2 capital of AmBank under BNM's capital adequacy framework.

On 3 August 2009, pursuant to ANZ Fund's notice to exchange its entire holdings of the EB into new AMMB shares, AMMB has allotted 194,915,254 new AMMB shares to ANZ Funds ("the Exchange"). Arising from the Exchange, AMMB became the holder of the EB.

The EB was redeemed on 28 February 2011.

Redeemable Unsecured Subordinated Bonds

Pursuant to a Trust Deed dated 27 October 2005, AmInvestment Bank issued RM200,000,000 nominal amount of Redeemable Unsecured Subordinated Bonds ("SubBonds III") for the purpose of redemption of RM200,000,000 nominal amount of unsecured subordinated certificates of deposits. The unsecured subordinated certificates of deposits were redeemed on 1 March 2006.

The salient features of the SubBonds III are as follows:

- (i) The SubBonds III bear interest at 4.75% per annum for the first five years and at 5.25% to 7.25% per annum between years 6 to 10. The interest is payable on a semi-annual basis.
- (ii) The SubBonds III are redeemable on 31 October 2010 or on each anniversary date thereafter at nominal value together with interest accrued to the date of redemption.
- (iii) The SubBonds III are for a period of 10 years maturing on 31 October 2015. However, subject to the prior approval of BNM, AmInvestment Bank may redeem the SubBonds III on 31 October 2010 or on each anniversary date thereafter.

The SubBonds III were redeemed on 29 October 2010.

Innovative and Non-innovative Tier 1 Capital Securities

Please refer to Section 3.1 for details of the innovative and non-innovative Tier 1 capital securities in issue.

3.0 Capital Structure (cont'd)

3.2 Tier 2 capital (cont'd)

Table 3.1: Capital Structure

The aggregated components of Tier 1 and Tier 2 Capital of the Group are as follows:

	2011			
	AmBank RM'000	AmIslamic Bank RM'000	AmInvestment Bank RM'000	Group RM'000
Tier 1 Capital				
Paid-up ordinary share capital	670,364	403,038	200,000	1,273,402
Share premium	942,844	534,068	-	1,476,912
Statutory reserve	680,459	304,316	200,000	1,184,775
Capital reserve	-	-	-	2,815
Merger reserve	48,516	-	-	56,172
Exchange fluctuation reserve	(709)	-	-	25,998
Irredeemable non-cumulative convertible preference shares	150,000	-	-	150,000
Innovative Tier 1 capital	925,373	-	-	1,235,100
Non-innovative Tier 1 capital	500,000	-	-	500,000
Retained earnings at end of year	2,684,567	162,515	130,227	2,988,249
Minority interests	-	-	-	50
Total	6,601,414	1,403,937	530,227	8,893,473
Less: Goodwill	-	-	-	(11,243)
Deferred tax assets, net	(432,260)	(116,298)	(19,477)	(568,228)
Total Tier 1 Capital	6,169,154	1,287,639	510,750	8,314,002
Less: Deduction in excess of allowable Tier 2 capital	-	-	(103,707)	(15,476)
Maximum Allowable Tier 1 Capital	6,169,154	1,287,639	407,043	8,298,526
Tier 2 Capital				
Medium term notes	1,557,800	-	-	1,557,800
Subordinated bonds	-	400,000	-	400,000
Exchangeable bonds	-	-	-	-
Redeemable unsecured bonds	-	-	-	-
Innovative Tier 1 capital	309,727	-	-	-
Collective allowance for bad and doubtful debts [#]	1,161,406	324,004	8,362	1,498,773
Total Tier 2 Capital	3,028,933	724,004	8,362	3,456,573
Total Capital Funds	9,198,087	2,011,643	415,405	11,755,099
Less: Investment in subsidiaries	(32,780)	-	(88,231)	(32,769)
Investment in capital of related financial institutions and other deduction	(18,672)	-	(23,838)	(42,510)
Add: Deduction in excess of allowable Tier 2 capital made against Tier 1 capital	-	-	103,707	15,476
Capital Base	9,146,635	2,011,643	407,043	11,695,296

[#] Excludes collective allowance on impaired loans/financing restricted from Tier 2 capital of the Group of RM636,830,000.

The risk weighted assets of the Group are derived by aggregating the risk weighted assets of the banking subsidiaries. The breakdown of risk weighted assets of the Group in the various risk categories is as follows:

Credit risk	55,732,987	14,379,718	1,219,262	71,745,357
Market risk	2,242,197	459,864	9,729	2,718,904
Operational risk	3,997,167	1,209,490	416,225	6,890,899
Total Risk Weighted Assets	61,972,351	16,049,072	1,645,216	81,355,160

3.0 Capital Structure (cont'd)

3.2 Tier 2 Capital (cont'd)

Table 3.1: Capital Structure (cont'd)

	2010			
	AmBank RM'000	AmIslamic Bank RM'000	AmInvestment Bank RM'000	Group RM'000
Tier 1 Capital				
Paid-up ordinary share capital	670,364	403,038	200,000	870,364
Share premium	942,844	534,068	-	942,844
Statutory reserve	680,459	265,169	200,000	1,145,628
Capital reserve	-	-	-	380,307
Merger reserve	-	-	-	405,222
Exchange fluctuation reserve	9,470	-	-	24,232
Irredeemable non-cumulative convertible preference shares	150,000	-	-	150,000
Innovative Tier 1 capital	921,431	-	-	1,011,446
Non-innovative Tier 1 capital	500,000	-	-	500,000
Retained earnings at end of year	2,498,526	133,719	113,874	2,136,056
Total	6,373,094	1,335,994	513,874	7,566,099
Less: Goodwill	-	-	-	(11,243)
Deferred tax assets, net	(231,088)	(42,218)	(4,556)	(278,176)
Total Tier 1 Capital	6,142,006	1,293,776	509,318	7,276,680
Tier 2 Capital				
Medium term notes	1,557,800	-	-	1,557,800
Subordinated bonds	-	400,000	135,000	535,000
Exchangeable bonds	575,000	-	-	575,000
Innovative Tier 1 capital	313,669	-	-	223,654
General allowance for bad and doubtful debts	808,631	184,803	9,768	1,007,509
Total Tier 2 Capital	3,255,100	584,803	144,768	3,898,963
Total Capital Funds	9,397,106	1,878,579	654,086	11,175,643
Less: Investment in subsidiaries	(816,850)	-	(88,231)	(32,779)
Investment in capital of related financial institutions and other deduction	(50)	-	(24,448)	(24,498)
Capital Base	8,580,206	1,878,579	541,407	11,118,366

The risk weighted assets of the Group are derived by aggregating the risk weighted assets of the banking subsidiaries. The breakdown of risk weighted assets of the Group in the various risk categories is as follows:

Credit risk	50,564,550	10,740,202	1,287,199	62,993,068
Market risk	1,584,871	456,330	148,564	2,189,913
Operational risk	3,783,839	1,090,009	364,560	5,305,721
Large exposure risk requirements for equity holdings	5,203	-	-	5,203
Total Risk Weighted Assets	55,938,463	12,286,541	1,800,323	70,493,905

4.0 Risk Management Framework

The Risk Management Framework takes its lead from the Board of Directors' Approved Risk Appetite Framework which provides the catalyst to setting the risk/reward profile required by the Board of Directors, together with the related business strategies, limit framework and policies required to enable successful execution.

The Risk Appetite Framework is approved annually by the Board of Directors taking into account the Group's desired external rating and targeted profitability/return on equity ("ROE") and is reviewed periodically throughout the financial year by both the executive management and the Board of Directors to consider any fine tuning/amendments taking into account prevailing or expected changes to the operational environment.

The Risk Appetite Framework provides portfolio parameters for Credit Risk, Traded Market Risk, Non-Traded Market Risk and Operational Risk incorporating, inter alia, limit structures for countries, industries, single counterparty's, value at risk, capital at risk, earnings at risk, stop loss, stable funding ratio and liquidity. Each Business Unit has asset writing strategies which tie into the overall Risk Appetite Framework providing detailed strategies of how the Business Units will execute their business plans in compliance with the Risk Appetite Framework.

Board Approved Risk Appetite Statement

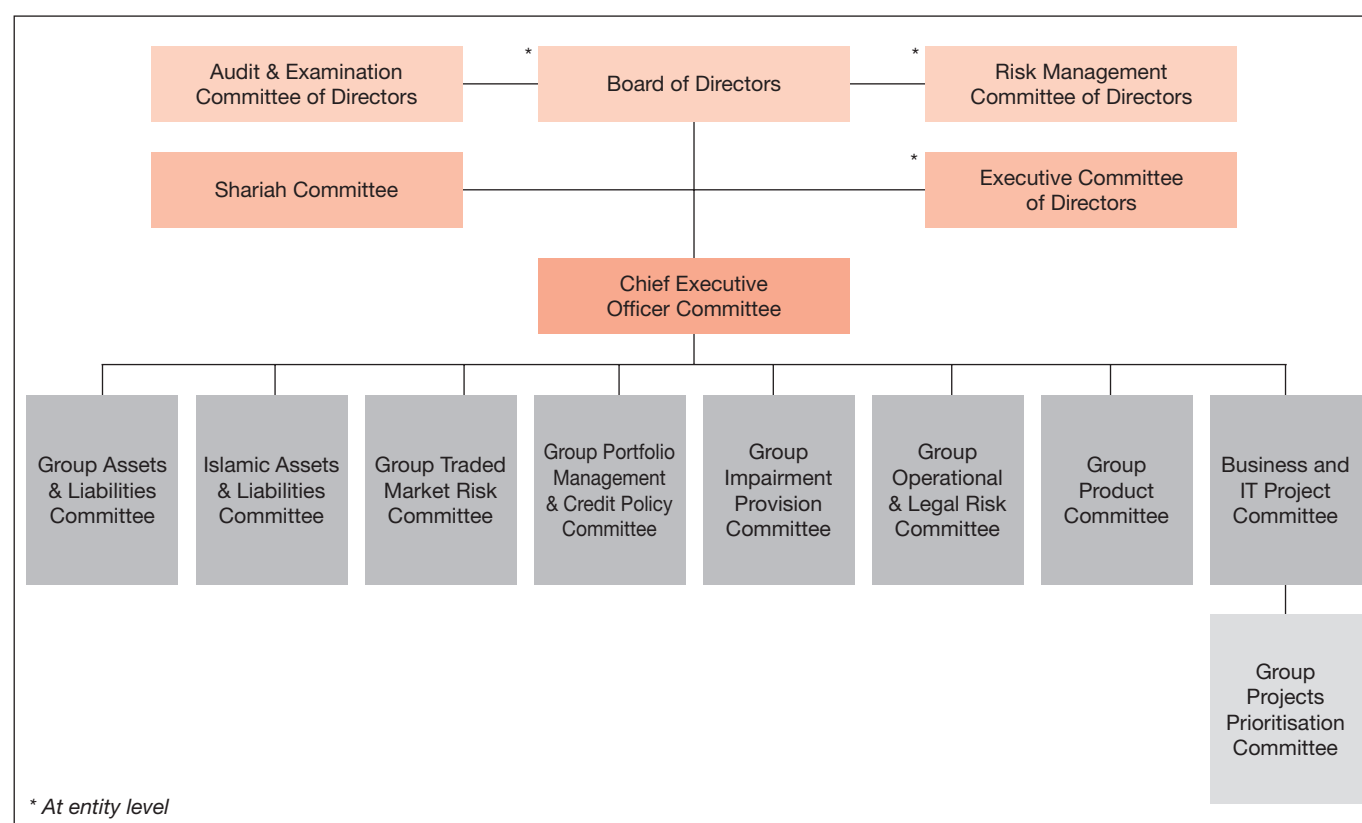
The Group's strategic goals are for top quartile shareholder returns and target ROE which will be progressively developed over a three year period wherein the Group will DeRisk, further Diversify and have a differentiated growth strategy within its various business lines.

The Group targets an improved credit rating of BBB+ (from international rating agencies) to be achieved within one to two years, supported by continued improvement in overall asset quality and portfolio diversification, continued growth and diversification of its Funding and Treasury & Markets businesses and strong management of liquidity and interest rate risk in the balance sheet.

Risk Management Governance

The Board of Directors is ultimately responsible for the management of risks within the Group. The Risk Management Committee of Directors is formed to assist the Board of Directors in discharging its duties in overseeing the overall management of all risks covering market risk management, liquidity risk management, credit risk management and operational risk management.

The Board of Directors has also established various Management Committees at the Group level to assist it in managing the risks and businesses of the Group. The following chart sets out the organisational structure of the risk management committees and an overview of the respective committee's roles and responsibilities:



4.0 Risk Management Framework (cont'd)

Committee	Roles and Responsibilities
Risk Management Committee of Directors ("RMCD")	<ul style="list-style-type: none"> - Oversee senior management activities in managing risk (covering credit, market, funding, operational, legal, regulatory capital and strategic risk) and to ensure that the risk management process is in place and functioning. - Report and advise the Board of Directors on risk issues.
Audit & Examination Committee of Directors ("AEC")	<ul style="list-style-type: none"> - Provide assistance to the Board in relation to fulfilling fiduciary responsibilities and monitoring of the accounting and financial reporting practices of the Group. - Provide assistance to Board of Directors in ensuring the Islamic Banking operations of the Group are Shariah compliant.
Shariah Committee	<ul style="list-style-type: none"> - Responsible and accountable on matters related to Shariah, which includes advising Board of Directors and management on Shariah matters and endorsing and validating products and services, and the relevant documentations in relation to Islamic Banking operations of the Group.
Executive Committee of Directors ("EXCO")	<ul style="list-style-type: none"> - Responsible to consider and approve credit facilities and commitment that are not in accordance with the policies approved by the Board for which EXCO has been granted powers to exempt. - Review credit facilities and commitment that exceeds certain thresholds.
Chief Executive Officer Committee ("CEO Committee")	<ul style="list-style-type: none"> - Responsible for overall day to day operations of the Group such as oversee management's activities in managing risk, review high level risk exposures, portfolio composition and risk strategies; and evaluate the existence and effectiveness of the control and risk management infrastructure. - Report and advise the Board of Directors on risk issues.
Group Assets and Liabilities Committee (Conventional and Islamic) ("GALCO")	<ul style="list-style-type: none"> - Responsible for the development of capital and balance sheet management policy, approve and oversee non-traded interest/profit rate risk exposures, liquidity and funding framework and hedging and management of structural foreign exposure. Ensure fund transfer pricing are effective and fair and capital is managed.
Islamic Assets and Liabilities Committee	<ul style="list-style-type: none"> - Responsible for the development of Islamic capital and balance sheet management policy, approve and oversee rate of return risk exposures, liquidity and funding framework and hedging and management of structural foreign exposure. Ensure fund transfer pricing are effective and fair and capital is managed.
Group Traded Market Risk Committee ("GTMR")	<ul style="list-style-type: none"> - Responsible for development of traded market risk policy framework, oversee the trading book portfolio, approve new trading products and ensure the compliance with the internal and regulatory requirements throughout the Group.
Group Portfolio Management and Credit Policy Committee ("GPMCP")	<ul style="list-style-type: none"> - Responsible for development for credit policy framework, oversee credit portfolio, endorse asset writing strategies, review credit provisioning policies and process and ensure the compliance with the internal and regulatory requirements throughout the Group.
Group Impairment Provision Committee	<ul style="list-style-type: none"> - Responsible for the development of key policies relating to impairment provisions, ensure provision are assessed and made in accordance with Board approved policies and FRS 139 and 137 standards and establish adequate management governance for the determination of provisions.
Group Operational and Legal Risk Committee ("GOLRC")	<ul style="list-style-type: none"> - Responsible for endorsing operational risk, legal risk and regulatory compliance framework, oversee operational risk and legal risk management and reviews regulatory actions or any incidences that may give rise to operational and legal risk along with the actions taken to mitigate such risks.
Group Product Committee ("GPC")	<ul style="list-style-type: none"> - Responsible for ensuring adequate infrastructure and resources are in place for product management, endorse proposal for new product and product launching strategies, approve proposal for product variation and reactivation of dormant product and review post implementation activities and product performance.
Business and IT Project Committee ("BITPC")	<ul style="list-style-type: none"> - Responsible to review and approve (or where required recommend for approval) requests relating to the Group's major Business and IT investments. - To ensure all projects are aligned to the Business and IT plans, appropriate prioritisation of Business and IT projects, and the allocation of resources.
Group Projects Prioritisation Committee	<ul style="list-style-type: none"> - Responsible to optimise the allocation of shared resources and change capacity to programmes, projects and initiatives across the Group.

4.0 Risk Management Framework (cont'd)

Strategic Risk

Strategic risk is the risk of not achieving the Group's corporate strategic goals. The Group's overall strategic planning reflects the Group's vision and mission, taking into consideration the Group's internal capabilities and external factors.

The Board is actively involved in setting of strategic goals, and is regularly updated on matters affecting corporate strategy implementation and corporate projects/initiatives.

Reputational Risk

The Group recognise that maintaining its reputation among clients, investors, regulators and the general public is an important aspect of minimising legal and operational risk. Maintaining our reputation depends on a large number of factors, including the selection of our clients and business partners and the conduct of our business activities.

The Group seek to maintain its reputation by screening potential clients and business partners and by conducting our business activities in accordance with high ethical standards and regulatory requirements.

Regulatory Compliance Risk

A proactive regulatory risk monitoring and control process is essential for any financial group to provide assurance that its products and services are offered in a manner consistent with regulatory requirements and industry best practice. Group Compliance undertakes the task by ensuring that appropriate measures are introduced and applied accordingly, whilst inculcating a compliance culture across all levels of staff. Amongst the measures introduced are monitoring and reporting, training, providing advice and disseminating information. A process is in place to standardise compliance practices across the Group.

The compliance monitoring and reporting system is essentially a mechanism through which businesses monitor their compliance to rules and regulations as well as provide monthly, quarterly and exception reporting that is carried out online. This reaffirms our commitment to a centralised compliance infrastructure that embraces regular self-assessment by staff, thus providing management the assurance that staff are aware and comply with internal and external requirements.

Compliance awareness is performed on a regular basis to ensure staff keeps abreast of banking, insurance, securities and anti-money laundering law as well as other regulatory developments. The awareness helps staff develop their skills to identify compliance issues as well as cultivate good corporate ethics. In addition to the training provided, the Compliance Repository, an online resource tool, continues to provide staff with easy access to rules and regulations to various search modes.

Group Compliance also provides advice on regulatory matters and measures to be implemented by the Group to facilitate compliance with rules and regulations. To further promote understanding, the department facilitates briefings, disseminates information and leads coordination efforts.

4.1 Internal Capital Adequacy Assessment Process ("ICAAP")

The core objectives of the Group's ICAAP Policy are to:

- Protect the interests of depositors, creditors and shareholders;
- Ensure the safety and soundness of the Group's capital position; and
- Ensure that the capital base supports the Group's Risk Appetite, and strategic business objectives, in an efficient and effective manner.

The requirements of the ICAAP Policy are consistent and calibrated with the Group's Risk Appetite as set and approved by the Board.

The following key principles underpin the ICAAP.

- 4.1.1 The Group must maintain an approved, documented, risk based and auditable ICAAP. The aim is to ensure the Group maintains, on a continuous basis, an adequate level of capitalisation which is sized following the identification, measurement, monitoring, and effective management and oversight of material risks across the Group, consistent with:
- Group Risk Appetite, including the Group's target credit rating category;
 - Regulatory Capital requirements (basic Economic Capital methodologies to be introduced in FY 2013);
 - The Board and Management's targeted financial performance, and
 - The Group's planned asset growth and strategic business objectives.

4.1.2 Management Oversight

The ICAAP must be subject to Board and senior management oversight, form an integral part of the Group's capital management and decision making processes, and will:

- Undergo regular, effective and comprehensive review;
- Satisfy regulatory requirements;
- Be capable of independent assessment and validation;
- Be incorporated into the Group's overall risk management strategy and governance frameworks.

4.0 Risk Management Framework (cont'd)

4.1 Internal Capital Adequacy Assessment Process ("ICAAP") (cont'd)

4.1.3 Capital Management Plan and Framework

The ICAAP must include an approved Capital Management Framework and Plan including:

- A strategy for maintaining capital resources over time;
- Measures that would be taken in the event capital falls below a targeted level;
- Measures to ensure that the Group is in compliance with minimum regulatory standards; and
- Stressed capital plans with clearly documented assumptions consistent with the Group's strategic planning cycles.

4.1.4 The Group's quality and level of capital must be commensurate with the level of risks in the business. Sufficient capital should be maintained to:

- Meet minimum prudential requirements in all jurisdictions in which the Group operates, also any ratings agency requirements, including maintaining appropriate buffers over minimum capital levels;
- Be consistent with the Group's overall risk profile and financial positions, taking into account its strategic focus and business plan; and
- Ensure there is sufficient capital to support the regulatory capital requirements of the business, including those resulting from the outcomes of stress testing.

The Group will have appropriately established capital targets for each major capital type including:

- Minimums;
- Triggers; and
- Target operating ranges.

The relationship between regulatory targets and economic capital will be clearly articulated and documented as part of the Group's Economic Capital initiatives, targeted for basic introduction in FY 2013.

4.1.5 Capital allocation:

- The Group's capital, excluding any amount held centrally for strategic contingencies (e.g. acquisitions) should be allocated to individual business units using regulatory capital allocation principles (basic Economic Capital methodologies to be introduced in FY 2013);
- Capital allocation should be consistent with the Group's Regulatory Capital measurement framework (basic Economic Capital methodologies to be introduced in FY 2013) and risk adjusted performance requirements; and
- The Group should only retain capital that is required to meet its economic, operational, prudential and strategic requirements. Consideration should be given to returning capital in excess of that required to shareholders.

4.1.6 Material Risks

- The Group must have clearly articulated definitions of each material risk type to be included in the ICAAP; and
- Processes to identify and determine the materiality of current risk types, change to existing risk types and new risk types must be established.

4.1.7 Economic Capital Model

- The Group will develop a fully documented, Board approved comprehensive and credible internal economic capital model, targeted for basic introduction in FY 2013;
- In advance of the introduction of an economic capital model, regulatory capital will be used as a proxy in order to ease the transition process;
- While capital may not be required for every material risk, the economic capital framework must consider the capital required for each material risk type. The reason for the inclusion or exclusion of any material risk types from the economic capital model must be documented.

4.1.8 The Board must be notified and the regulator advised as soon as practicable of any:

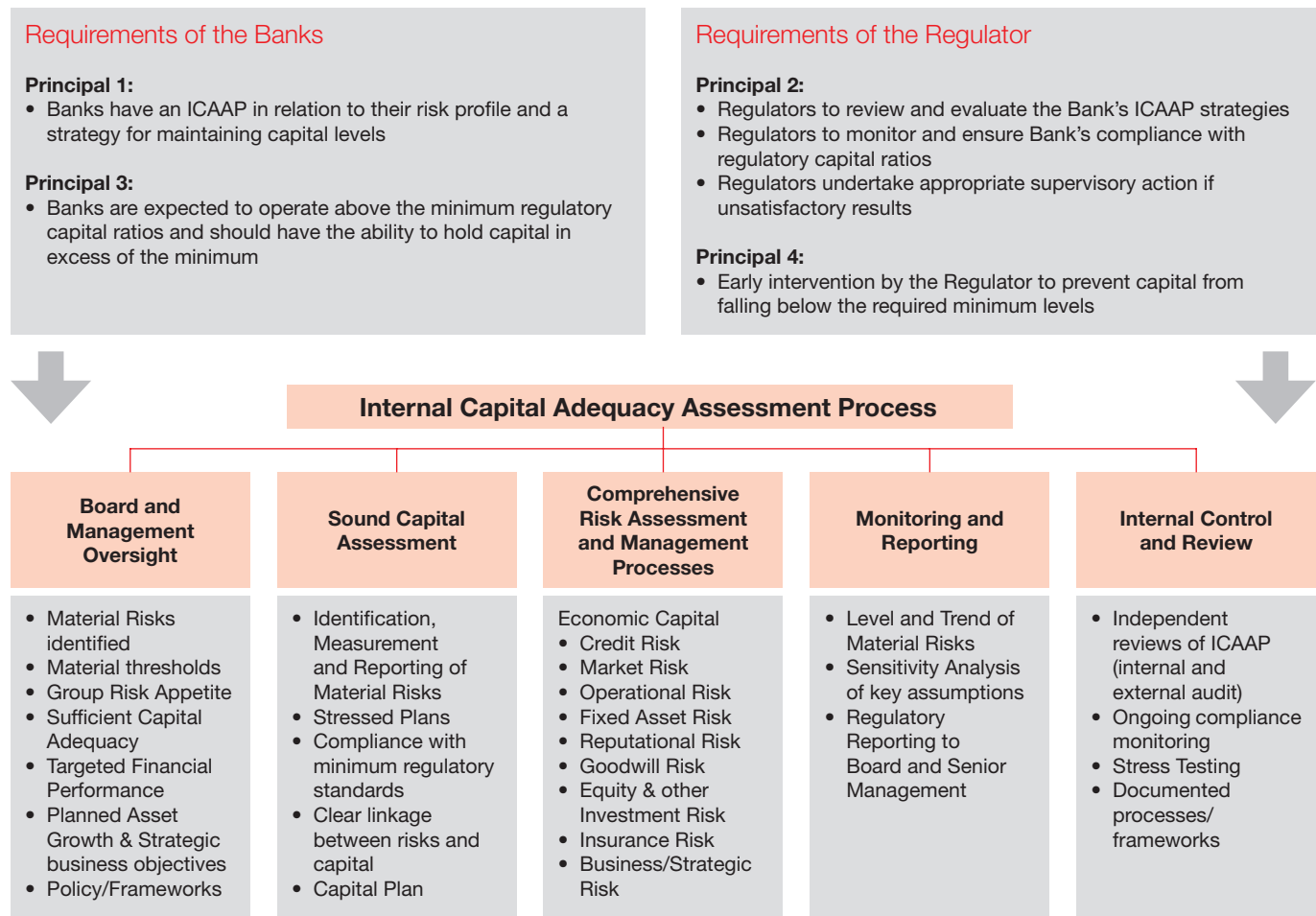
- Significant departure from its ICAAP;
- Concerns that the Board has about its capital adequacy along with proposed measures to address those concerns; and
- Significant changes in its capital.

4.1.9 The cost of capital should be reviewed annually. The cost of capital should be set with reference to the Group's long term ROE objectives.

4.0 Risk Management Framework (cont'd)

4.1 Internal Capital Adequacy Assessment Process ("ICAAP") (cont'd)

ICAAP Framework



Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

The credit risk management process is depicted in the table below:

Identification	<ul style="list-style-type: none"> • Accurate identification/recognition of credit risk on transactions and/or positions • Selection of asset and portfolio mix
Assessment/Measurement	<ul style="list-style-type: none"> • Internal credit rating system • Probability of default ("PD") • Loss given default ("LGD") • Exposure at default ("EAD")
Control/Mitigation	<ul style="list-style-type: none"> • Portfolio Limits, Counterparty Limits, Benchmark Returns • Collateral & tailored facility structures
Monitoring/Review	<ul style="list-style-type: none"> • Monitoring of portfolio and reporting • Watchlist review • Post mortem review

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations. Exposure to credit risk arises from lending, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Group transactions and/or positions.

The primary objective of credit risk management is to maintain accurate risk recognition - identification and measurement, to ensure that credit risk exposure is in line with the Group's Risk Appetite Framework and related credit policies.

For non-retail credits, risk recognition begins with an assessment of the financial standing of the borrower or counterparty using an internally developed credit rating model. The model consists of quantitative and qualitative scores that are then translated into a rating grade, ranging from "AAA" (representing the lowest risk grade) to "C" (i.e., the highest risk grade). The assigned credit rating grade forms a crucial part of the credit analysis undertaken for each of the Group's credit exposures.

To support credit risk management's observation of disciplines governed by the Basel II Framework and Financial Reporting Standards ("FRS"), our rating models pertaining to credit risk (obligor's PD, LGD and EAD) are in the process of being upgraded. These new models are scheduled to be operational during 2012 and will:

- improve the accuracy of individual obligor risk ratings and calculation of expected loss;
- enhance pricing models;
- facilitate loan/financing loss provision calculation;
- automate stress-testing; and
- enhance portfolio management.

For retail credits, third generation credit-scoring systems to better differentiate the quality of borrowers are being used to complement the credit assessment and approval processes. New LGD and EAD models have also been recently developed which will also become operational during 2012.

Lending/financing activities are guided by internal credit policies and Risk Appetite Framework that are approved by the Board of Directors. The Group's Risk Appetite Framework is refreshed at least annually and with regard to credit risk, provides direction as to portfolio management strategies and objectives designed to deliver the Group's optimal portfolio mix. Credit Risk portfolio management strategies include, amongst others:

- concentration limits:
 - single counterparty credit;
 - industry sector;
 - country; and
 - portfolio composition (by risk grade).
- Asset writing strategies for industry sectors and individual customers;
- Setting Loan/Financing to Value limits for asset backed loans/financing (i.e., property exposures and other collateral);
- Watchlist processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers; and
- Setting Benchmark Returns which serve as a guide to the minimum returns the Group requires for the risk undertaken, taking into account operating expenses and cost of capital.

Individual credit risk exposure is reported to Credit and Commitment Committee ("CACC"). In the event such exposure exceeds CACC authority, it will be reported to EXCO. Portfolio credit risk is reported to the relevant management and board committees.

5.0 Credit Risk Management (cont'd)

The GPMCP regularly meets to review the quality and diversification of the Group's loan/financing portfolio, approve new and amended credit risk policy, review watchlist reports and post mortem review of loan/financing (to extract lessons learned for facilitating credit training and refinement of credit policies or guidelines, towards enhancing risk identification and control).

Group Risk prepares monthly Risk Reports which detail important portfolio composition and trend analysis incorporating asset growth, asset quality, impairments, flow rates of loan/financing delinquency buckets and exposures by industry sectors are reported monthly by Group Risk to executive management and to all meetings of the Board.

The Group applies the Standardised Approach to determine the regulatory capital charge related to credit risk exposure.

The Group Islamic banking operations determine a list of all types of applicable and approved Shariah transactions and financing. The approved list includes formal exclusions from any engagement by the Group Islamic banking operations in certain prohibited industries, such as pork meat, alcohol, gambling, etc. The approved list is kept up to date and communicated to the relevant personnel within the Group.

The Group had engaged appropriate experts, including a Shariah advisors to review and ensure that new financing proposals that have not been proposed before or amendments to existing contracts are Shariah-compliant at all times.

5.1 Impairment

5.1.1 Definition of Past Due and Impaired Loans and Financing

All loans, financing and advances are categorised as either:

- Neither past due nor impaired;
- Past due but not impaired; or
- Impaired

An asset is considered past due when any payment (whether principal and/or interest/rate of return) due under the contractual terms are received late or missed.

A loan/financing is classified as impaired under the following circumstances:

- (a) where the principal or interest/profit or both³ is past due or the amount outstanding is in excess of approved limit (for revolving facilities), each for more than 90 days or 3 months; or
- (b) the loan/financing exhibits weaknesses that render a classification appropriate to the Group's Credit Risk Rating Framework, which requires it to fall under the "unlikelihood to repay" category under the Group's Watchlist Policy.
- (c) for loans/financing with repayment schedules on quarterly basis or longer intervals to be classified as impaired as soon as default⁴ occurs, unless it does not exhibit any weakness that would render it classified according to the Group's Credit Risk Rating Framework. Notwithstanding that, these loans/financing shall be classified as impaired when the principal or interest/profit or both is past due for more than 90 days or 3 months.
- (d) for distressed rescheduled and restructured ("R/R") facilities, these loans/financing are categorised as "unlikelihood to repay" and classified as impaired. Non-performing R/R facilities remain impaired until re-aged.

5.1.2 Methodology for Determination of Individual and Collective Allowances

An assessment is performed to determine whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant or not individually impaired.

Individual Assessment

Individual assessment is divided into 2 main processes – detection of an event(s) and an assessment of impairment:

- (a) Trigger management
In trigger management, financial assets which are above the pre-set individual assessment threshold are assessed using the relevant impairment triggers for objective evidence of impairment.
- (b) Valuation of assets
Financial assets which are triggered by the impairment triggers will be measured for evidence of high likelihood of impairment i.e. estimated recoveries (based on the discounted cash flow projection method and taking into account economic conditions) is less than carrying value or fair value is less than the carrying value.

³ For credit card facilities, an account is "past due" when the cardmember fails to settle the minimum monthly repayment due before the next billing date.

⁴ "Default" is defined for loans/financing with repayment schedules on a quarterly basis or longer as 1-day past due + 30 days.

5.0 Credit Risk Management (cont'd)

5.1 Impairment (cont'd)

5.1.2 Methodology for Determination of Individual and Collective Allowances (cont'd)

Collective Assessment

All financial assets below the significant threshold and those not assessed to be individually impaired, will be subject to collective assessment and a collective allowance will be computed accordingly.

As a transitional arrangement up to 2012, BNM has given banking institutions the choice of applying either one of the following approaches in computing the required collective assessment:

- Transitional approach – where, banking institutions may maintain an allowance of at least 1.5 per cent of total outstanding loans net of individual impairment provision; or
- Full FRS 139 compliance approach – where collective allowances are computed using models based on the banking institutions' history of experience.

The Group has opted for the transitional approach and has modified it to reflect its historical loss experience.

Table 5.1: Distribution of gross credit exposures by sector

The aggregated distribution of credit exposures by sector of the Group is as follows:

	2011											
	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurant and Hotel RM'000	Transport, Storage and Communication RM'000	Finance, Insurance, Real Estate and Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On Balance Sheet Exposures												
Sovereigns/ Central Banks	-	-	-	-	-	-	-	13,292,208	-	-	-	13,292,208
Banks, Development Financial Institutions & Multilateral Development Banks	-	-	-	539	-	-	-	9,463,269	-	9,371	56,817	9,529,996
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	8,496	-	-	46,472	-	-	-	54,968
Corporates	1,932,736	1,108,368	5,651,161	2,848,070	2,960,297	3,064,995	2,689,252	7,500,186	578,307	1,109,494	1,357,873	30,800,739
Regulatory Retail	186,366	24,812	50,434	13,599	358,609	75,930	352,472	206,562	172,819	31,713,499	15,896	33,170,998
Residential Mortgages	-	-	-	-	368	-	-	3	-	7,036,744	-	7,037,115
Higher Risk Assets	-	-	-	-	-	-	-	-	95,504	34,309	103,534	233,347
Other Assets	44	-	219	42	372	10	872	612,103	20	383,707	1,701,220	2,698,609
Securitisation	68,184	-	-	-	-	-	-	64,302	-	-	5,457	137,943
Equity	-	-	-	-	-	-	-	-	32,857	7	29,510	62,374
Defaulted Exposures	9,075	22	236,858	118,338	247,766	455,087	75,128	377,408	36,337	911,377	27,275	2,494,671
Total for On Balance Sheet Exposures	2,196,405	1,133,202	5,938,672	2,980,588	3,575,907	3,596,022	3,117,724	31,562,514	915,844	41,198,508	3,297,582	99,512,968

5.0 Credit Risk Management (cont'd)

Table 5.1: Distribution of gross credit exposures by sector (cont'd)

2011												
	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurant and Hotel RM'000	Transport, Storage and Communication RM'000	Finance, Insurance, Real Estate and Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
Off-Balance Sheet Exposures												
OTC Derivatives	319	9,646	24,161	-	509	6,226	16,507	1,323,040	3	-	113,076	1,493,487
Credit Derivatives	-	-	-	-	-	-	-	1,045	-	-	-	1,045
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	196,973	107,609	928,973	247,624	2,499,173	586,316	484,008	1,527,246	54,489	2,844,100	696,442	10,172,954
Defaulted Exposures	285	3,511	5,127	-	30,567	7,244	43,260	4,508	16	3,402	335	98,255
Total for Off-Balance Sheet Exposures	197,577	120,766	958,261	247,624	2,530,249	599,786	543,776	2,855,839	54,508	2,847,502	809,853	11,765,741
Total On and Off-Balance Sheet Exposures	2,393,983	1,253,967	6,896,933	3,228,212	6,106,156	4,195,808	3,661,500	34,418,353	970,352	44,046,010	4,107,435	111,278,709

Table 5.2: Impaired and past due loans, advances and financing, individual and collective allowances by sector

The aggregated amounts of impaired and past due loans, advances and financing, individual and collective allowances, charges for individual impairment allowances and write offs during the year by sector of the Group are as follows:

2011												
	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurant and Hotel RM'000	Transport, Storage and Communication RM'000	Finance, Insurance, Real Estate and Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
Impaired loans, advances and financing	38,785	461	273,295	288,509	289,257	82,308	21,276	119,704	43,171	1,275,779	17,040	2,449,585
Past due loans/ financing	87,927	13,073	342,665	4,548	446,694	300,638	117,175	287,013	113,547	15,149,401	16,449	16,879,130
Individual allowances	25,239	-	60,808	170,190	70,920	11,550	8,870	9,070	2,681	1,891	10,211	371,430
Collective allowances	-	-	-	-	-	-	-	-	-	-	2,135,602	2,135,602
Charges for individual allowances	1,213	-	23,947	(3,536)	61,111	21,986	8,744	(6,103)	3,197	1,825	4,733	117,117
Write-offs against individual allowances	-	-	17,459	-	105,920	9,727	175	6,674	11,188	48,925	2,938	203,006

5.0 Credit Risk Management (cont'd)

Table 5.3: Geographical distribution of credit exposures

The aggregated geographic distribution of credit exposures of the Group is as follows:

	2011		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On Balance Sheet Exposures			
Sovereigns/Central Banks	13,292,208	-	13,292,208
Banks, Development Financial Institutions & Multilateral Development Banks	8,279,362	1,250,634	9,529,996
Insurance Companies, Securities Firms & Fund Managers	54,968	-	54,968
Corporates	30,105,997	694,742	30,800,739
Regulatory Retail	33,170,998	-	33,170,998
Residential Mortgages	7,037,115	-	7,037,115
Higher Risk Assets	231,412	1,935	233,347
Other Assets	2,698,609	-	2,698,609
Securitisation	137,943	-	137,943
Equity	62,374	-	62,374
Defaulted Exposures	2,494,671	-	2,494,671
Total for On Balance Sheet Exposures	97,565,657	1,947,311	99,512,968
Off-Balance Sheet Exposures			
OTC Derivatives	1,493,487	-	1,493,487
Credit Derivatives	1,045	-	1,045
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	10,127,415	45,539	10,172,954
Defaulted Exposures	98,255	-	98,255
Total for Off-Balance Sheet Exposures	11,720,202	45,539	11,765,741
Total On and Off-Balance Sheet Exposures	109,285,860	1,992,850	111,278,710

Table 5.4: Geographical distribution of impaired and past due loans, advances and financing, individual and collective allowances

The aggregated amounts of impaired and past due loans, advances and financing, individual and collective allowances by geographic distribution of the Group are as follows:

	2011		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans, advances and financing	2,449,585	-	2,449,585
Past due loan financing	16,879,130	-	16,879,130
Individual allowances	371,430	-	371,430
Collective allowances	2,132,108	3,494	2,135,602

5.0 Credit Risk Management (cont'd)

Table 5.5: Residual contractual maturity by major types of credit exposure

The aggregated residual contractual maturity by major types of gross credit exposures of the Group is as follows:

	2011								
	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 to 3 years RM'000	>3 to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On Balance Sheet Exposures									
Sovereigns/ Central Banks	10,753,762	2,000,308	-	-	50,992	165,337	175,847	145,961	13,292,208
Banks, Development Financial Institutions & Multilateral Development Banks	4,793,328	3,316,651	291,907	10,814	140,749	752,534	111,900	112,113	9,529,996
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	18,968	36,000	-	-	54,968
Corporates	6,553,146	2,120,888	1,815,283	1,689,733	6,089,457	4,075,265	8,456,967	-	30,800,739
Regulatory Retail	1,818,269	59,696	91,446	356,550	2,531,296	6,951,318	21,362,423	-	33,170,998
Residential Mortgages	3,034	899	4,277	7,955	40,492	83,783	6,896,675	-	7,037,115
Higher Risk Assets	18,490	-	4	50,862	8,360	27,570	39,061	89,000	233,347
Other Assets	1,164,051	709	73,587	2,836	52,958	27,593	403	1,376,472	2,698,609
Securitisation	42	-	-	-	-	108,710	29,191	-	137,943
Equity	6,801	-	-	-	18,887	-	-	36,686	62,374
Defaulted Exposures	871,074	42,180	32,781	21,605	196,826	277,725	1,052,427	53	2,494,671
Total for On Balance Sheet Exposures	25,981,996	7,541,331	2,309,285	2,140,355	9,148,985	12,505,835	38,124,894	1,760,285	99,512,968
Off-Balance Sheet Exposures									
OTC Derivatives	106,677	96,509	32,116	35,233	388,969	503,042	330,941	-	1,493,487
Credit Derivatives	-	-	50	-	995	-	-	-	1,045
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,906,006	792,965	1,188,875	1,950,771	1,202,472	713,118	2,418,747	-	10,172,954
Defaulted Exposures	20,093	23,345	5,742	12,480	9,301	21,614	5,681	-	98,255
Total for Off-Balance Sheet Exposures	2,032,776	912,819	1,226,782	1,998,484	1,601,737	1,237,774	2,755,369	-	11,765,741
Total On and Off-Balance Sheet Exposures	28,014,772	8,454,150	3,536,068	4,138,839	10,750,722	13,743,609	40,880,263	1,760,285	111,278,709

5.0 Credit Risk Management (cont'd)

Table 5.6: Reconciliation of changes to loans/financing impairment allowances

The reconciliation of changes to aggregated loans/financing impairment allowances of the Group are as follows:

	2011	
	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at 1 April	459,310	2,091,639
Charge for the year – net	116,323	1,068,597
Amount written off	(203,007)	(562,672)
Repurchase of loans/financing	-	4,142
Transfer from debt converted instrument	12,356	-
Arising from disposal of subsidiary	(13,552)	(465,603)
Exchange differences	-	(501)
Balance at 31 March	371,430	2,135,602

	(Charge off)/ Recoveries RM'000
Bad debts written off during the year	(121,142)
Bad debt recoveries during the year	604,150

6.0 Credit Risk Exposure under the Standardised Approach

The Group adopts the list of eligible External Credit Assessment Institutions ("ECAIs") that is allowed by BNM for the following exposure classes:

- Sovereigns and Central Banks
- Banking Institutions
- Corporate
- Securitisations

Depending on the exposure class, the following ratings by the following ECAIs are allowed:

- Standard & Poor's Rating Services ("S&P")
- Moody's Investors Service ("Moody's")
- Fitch Rating ("Fitch")
- Rating and Investment Information, Inc
- RAM Rating Services Berhad ("RAM")
- Malaysian Rating Corporation Berhad ("MARC")

Table 6.1: Credit exposures by risk weights under the Standardised Approach

The aggregated credit risk exposures by risk weights of the Group are as follows:

2011													
Risk Weights	Exposures after Netting and Credit Risk Mitigation												Total Risk Weighted Assets
	Sovereigns & Central Banks RM'000	Public Sector Entities RM'000	Banks, MDBs and FDIs RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Securitisation RM'000	Equity RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	
0%	13,011,168	-	-	-	200,000	-	-	-	324,224	-	-	13,535,392	-
20%	-	-	9,167,108	-	1,964,041	10,248	-	-	9,068	109,134	-	11,259,598	2,251,920
35%	-	-	-	-	-	-	4,647,783	-	-	-	-	4,647,783	1,626,724
50%	-	-	1,692,637	46,472	689,781	257,541	2,389,840	-	-	10,137	-	5,086,408	2,543,204
75%	-	-	-	-	-	35,445,228	380	-	-	-	-	35,445,608	26,584,206
100%	77,948	-	7,588	94,596	32,242,217	303,891	189,921	-	2,365,314	-	62,374	35,343,849	35,343,850
150%	-	-	-	-	1,444,628	584,061	-	234,947	-	-	-	2,263,636	3,395,454
1250%	-	-	-	-	-	-	-	-	-	18,672	-	18,672	-
Total	13,089,116	-	10,867,333	141,068	36,540,666	36,600,969	7,227,923	234,947	2,698,606	137,943	62,374	107,600,946	71,745,357
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	18,672	-	18,672	

2010													
Risk Weights	Exposures after Netting and Credit Risk Mitigation												Total Risk Weighted Assets
	Sovereigns & Central Banks RM'000	Public Sector Entities RM'000	Banks, MDBs and FDI RM'000	Insurance Companies, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Securitisation RM'000	Equity RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	
0%	12,093,492	-	-	-	-	-	-	-	323,188	50	-	12,416,730	-
20%	-	83,064	5,860,158	-	2,355,901	16,710	-	-	28,280	292,072	-	8,636,185	1,727,237
35%	-	-	-	-	-	-	3,508,930	-	-	-	-	3,508,930	1,228,126
50%	-	-	1,158,746	-	685,864	232,118	3,362,006	-	-	15,073	-	5,453,807	2,726,904
75%	-	-	-	-	-	34,611,982	444	-	-	-	-	34,612,426	25,959,320
100%	-	-	3,254	800,826	22,222,886	53,043	201,092	-	2,101,278	-	70,620	25,452,999	25,452,999
150%	-	-	-	-	2,922,607	760,098	-	230,080	-	19,536	-	3,932,321	5,898,482
Total	12,093,492	83,064	7,022,158	800,826	28,187,258	35,673,951	7,072,472	230,080	2,452,746	326,731	70,620	94,013,398	62,993,068
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	50	-	50	

6.0 Credit Risk Exposure under Standardised Approach (cont'd)

Table 6.2: Rated exposures according to Ratings by ECAs

Exposure Class	2011					
	Ratings of Corporate by Approved ECAs					
	Moody's	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	A to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Information, Inc.	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
	On and Off-Balance Sheet Exposures					
Credit Exposures (using Corporate Risk Weights)						
Insurance Companies, Securities Firms & Fund Managers	141,068	-	46,472	8,496	-	86,100
Corporates	36,540,666	1,454,109	637,138	134,977	5,446	34,308,994
Total	36,681,733	1,454,109	683,610	143,473	5,446	34,395,094

Exposure Class	2011						
	Ratings of Sovereigns and Central Banks by Approved ECAs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated	
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
	Rating & Investment Information, Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
	On and Off-Balance Sheet Exposures						
	Sovereigns and Central Banks	13,089,116	4,500	-	-	-	13,084,616
	Total	13,089,116	4,500	-	-	-	13,084,616

6.0 Credit Risk Exposure under Standardised Approach (cont'd)

Table 6.2: Rated exposures according to Ratings by ECAs (cont'd)

Exposure Class	2011					
	Ratings of Banking Institutions by Approved ECAs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Rating & Investment Information, Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
	On and Off-Balance Sheet Exposures					
Banks, MDBs and FDIs	10,867,332	1,844,368	145,358	914,713	68	7,962,825
Total	10,867,332	1,844,368	145,358	914,713	68	7,962,825

Table 6.3: Securitisation according to Ratings by ECAs

Exposure Class	2011			
	Ratings of Securitisation by Approved ECAs			
	Moody's	Aaa to Aa3	A1 to A3	Unrated
	S&P	AAA to AA-	A+ to A-	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
	RAM	AAA to AA3	A1 to A3	Unrated
	MARC	AAA to AA-	A+ to A-	Unrated
	Rating & Investment Information, Inc.	AAA to AA-	A+ to A-	Unrated
	RM'000	RM'000	RM'000	RM'000
	On and Off-Balance Sheet Exposures			
Securitisation	137,943	109,134	10,137	18,672
Total	137,943	109,134	10,137	18,672

Note: All securitisations are for periods exceeding 12 months.

7.0 Credit Risk Mitigation

Main types of collateral taken by the Group

Collateral is generally taken as security for credit exposures as a secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations from cash flow generation. Types of collateral typically taken by the Group include:

- Cash and term deposits
- Exchange traded shares, bonds, sukuk, convertible bonds and marketable securities
- Non-exchange traded debt securities/sukuk
- Unit trusts (including Amanah Saham Nasional, Amanah Saham Bumiputera and mutual funds)
- Non-exchange traded shares
- Residential and non-residential property
- Plantation land, mining land, quarry land and vacant land
- Passenger vehicle, commercial vehicle, construction vehicle and vessel
- Plant and machineries

In the case of the Group Islamic Banking operations, only Shariah approved assets can be accepted as permissible collateral.

Where the customer risk profile is considered very sound (or by nature of the product, for instance small limit products such as credit cards), a transaction may be provided on an “unsecured” basis, i.e., not be supported by collateral.

In addition to rating customer’s probability of default via an internal risk rating system, the Group uses Security Indicators (“SIs”) in its non-retail portfolio to assess the strength of collateral supporting its exposures. Thus both the PD and LGD estimates are used in assessing and monitoring exposures.

Processes for collateral management

To support the development of processes around collateral valuation and management, the concept of legal enforceability and certainty are central to collateral management. In order to achieve legal enforceability and certainty, the Group has standard collateral instruments, and where applicable, security interests are registered.

Guarantee Support

Guarantee support for lending proposals are an integral component in transaction structuring for the Group. The guarantee of a financially strong party can help improve the PD of a transaction through its explicit support of the borrower, where borrower’s risk grade will be replaced with guarantor’s risk grade.

Guarantees that are recognised for risk grading purposes may be provided by parties that include associated entities, banks or sovereigns. Credit policy provides threshold parameters to determine acceptable counterparties in achieving risk grade enhancement of the transaction. Guarantee by a counterparty with lower rating than the Borrower is not recognised as part of the risk grade enhancement.

Use of credit derivatives and netting for risk mitigation

Currently, the Group does not use credit derivatives and netting for risk mitigation.

Transaction structuring to mitigate credit risk

Besides tangible security and guarantee support described above, credit risk mitigation techniques are used in structuring transactions. These include duration limits managing the number of years the loan/financing is extended, amortisation schedules and loan/financing covenants. These assist in managing credit risk and in providing early warning signals, whereby should loan/financing covenants be breached, the Group and the customer can work together to address the underlying causes and as appropriate, restructure facilities.

Concentrations of credit risk mitigation

The Group carefully monitors collateral concentrations via portfolio management reporting and amendments as necessary to its Risk Appetite Framework and related policies governing Loan/Financing to Value metrics.

The main types of collateral undertaken by the Group are properties, motor vehicles and exchange traded shares.

7.0 Credit Risk Mitigation (cont'd)

Table 7.1: Credit Risk Mitigation

The aggregated exposures and eligible guarantees, credit derivatives and collateral of the Group are as follows:

Exposures	2011		
	Exposures before Credit Risk Mitigation ("CRM") RM'000	Exposures covered by Guarantees/ Credit Derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit Risk			
On Balance Sheet Exposures			
Sovereigns/Central Banks	13,292,208	-	285,557
Banks, Development Financial Institutions & Multilateral Development Banks	9,529,996	-	-
Insurance Companies, Securities Firms & Fund Managers	54,968	-	-
Corporates	30,800,739	246,025	2,753,536
Regulatory Retail	33,170,998	191,841	200,933
Residential Mortgages	7,037,115	-	11,461
Higher Risk Assets	233,347	-	-
Other Assets	2,698,608	-	-
Securitisation	137,943	-	-
Equity	62,374	-	-
Defaulted Exposures	2,494,671	22,238	69,241
Total for On Balance Sheet Exposures	99,512,968	460,104	3,320,728
Off-Balance Sheet Exposures			
OTC Derivatives	1,493,487	-	-
Credit Derivatives	1,045	-	-
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	10,172,954	3,287	384,260
Defaulted Exposures	98,255	-	1,754
Total for Off-Balance Sheet Exposures	11,765,740	3,287	386,014
Total On and Off-Balance Sheet Exposures	111,278,708	463,391	3,706,742

8.0 Off-Balance Sheet Exposures and Counterparty Credit Risk

8.1 Off-Balance Sheet Exposures

The Group off-balance sheet exposures consist of 3 main categories as follows:

- (1) Credit related exposures, e.g. guarantees given on behalf of customers, certain transaction-related contingent items, obligation under underwriting agreement, short term self liquidating trade-related contingencies, Islamic financing sold to Cagamas, irrevocable commitment to extend credit and unutilised credit card line.
- (2) Derivatives Financial Instruments, e.g. forward exchange contracts (forward exchange contracts and cross currency swaps) interest/profit rate related contracts (interest/profit rates futures and interest/profit rates swap), equity related contracts (option and futures) and commodity related contract (option).
- (3) Other treasury-related exposures, e.g. forward purchase commitment.

Off-balance sheet exposure is mitigated by setting of credit limit for the respective counterparty and exposure limit for industry sectors which are governed under the Group Risk Appetite Framework.

8.2 Counterparty Credit Risk

Market related credit risk is present in market instruments (derivatives and forward contracts), and comprises counterparty risk (default at the end of contract) and pre-settlement risk (default at any time during the life of contract). Market related credit risk requires a different method in calculating the pre-settlement risk because actual and potential market movements impact the Group's exposure. The markets covered by this treatment for transactions entered by the Group include interest/profit rates, foreign exchange and equities.

For each individual contract, the pre-settlement risk exposure is normally calculated based on the sum of the mark-to-market ("MTM") value of the exposure, plus the notional principal multiplied by the potential credit risk exposure ("PCRE") factor; if the sum of each individual contract is negative, the pre-settlement risk exposure for this contract is deemed to be zero.

Pre-settlement risk exposure = MTM + PCRE factor (or known as add-on factor) x Notional Principal

- The MTM is essentially the current replacement cost of the contract, and can be positive or negative. Where it is positive, i.e. in the money, the Group has credit exposure against the counterparty; if it is negative, i.e. out of the money, the negative value will be used.
- The PCRE factors recognise that prices change over the remaining period to maturity, and that risk increases with time. The PCRE factors are mandated for regulatory capital purposes.

Maximum pay out method is used for back to back and structured products where the underlying instrument structures are dynamic i.e. not confine to a standardised underlying instruments. Where the maximum payout is known, it is taken as the pre-settlement risk amount. However, in situations where the maximum payout is not observable, a Monte Carlo simulation method is used.

Exposure to the counterparty is governed by the counterparty credit limit under the Group Risk Appetite Framework.

Other than credit limit setting and related duration setting of such limits, the Group's primary tool to mitigate counterparty credit risk is by taking collateral.

For derivative exposures, collateral is generally managed via standard market documentation which governs the amount of collateral required and the re-margining frequency between counterparties, including the impact on collateral requirements should either the banking subsidiary's or the counterparty's credit risk rating be upgraded or downgraded.

8.0 Off-Balance Sheet Exposures and Counterparty Credit Risk (cont'd)

Table 8.1: Off-Balance Sheet Exposures

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

Description	2011			
	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct Credit Substitutes	2,717,125		2,635,986	2,330,587
Transaction related contingent Items	2,283,260		1,182,199	1,088,464
Short Term Self Liquidating trade related contingencies	764,769		152,954	153,515
Assets sold with recourse	1,589,790		1,588,126	1,193,405
Forward Asset Purchases	569,427		19,471	8,463
Obligations under an on-going underwriting agreement	452,500		-	-
Foreign exchange related contracts				
One year or less	28,586,641	83,235	214,374	154,875
Over one year to five years	929,849	23,831	125,379	78,059
Over five years	151,265	-	-	-
Interest/Profit rate related contracts				
One year or less	5,870,000	6,171	17,327	6,556
Over one year to five years	27,256,982	203,205	740,086	334,006
Over five years	3,900,759	39,882	330,941	143,257
Equity related contracts				
One year or less	604,233	26,137	21,074	10,473
Over one year to five years	595,894	10,172	33,630	19,549
Over five years	13,480	303	-	-
Other Commodity Contracts				
Over one year to five years	147,704	1,812	10,674	3,911
Credit Derivative Contracts				
One year or less	76,473	132	50	25
Over one year to five years	252,433	5,364	995	497
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	6,026,270		1,194,170	1,066,971
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	13,629,979		2,740,790	2,481,636
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness and others	46,210		200	200
Unutilised credit card lines	3,786,573		757,314	566,239
Total	100,251,616	400,244	11,765,740	9,640,688

8.0 Off-Balance Sheet Exposures and Counterparty Credit Risk (cont'd)

Table 8.1: Off-Balance Sheet Exposures (cont'd)

Description	2010			
	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct Credit Substitutes	2,455,921		2,396,791	2,181,702
Transaction related contingent Items	1,812,955		936,042	879,324
Short Term Self Liquidating trade related contingencies	473,429		94,686	95,417
Assets sold with recourse	335,852		335,852	253,809
Forward Asset Purchases	912,542		28,996	14,880
Obligations under an on-going underwriting agreement	696,115		-	-
Foreign exchange related contracts				
One year or less	3,792,088	40,382	57,734	31,628
Over one year to five years	481,496	6,726	48,830	31,328
Interest/Profit rate related contracts				
One year or less	4,300,000	6,183	15,660	7,722
Over one year to five years	23,727,526	171,816	669,377	259,890
Over five years	3,305,524	105,727	353,144	177,025
Equity related contracts				
One year or less	58,694	-	-	-
Over one year to five years	237,162	9,348	21,897	14,133
Other Commodity Contracts				
Over one year to five years	75,500	3,461	9,501	1,900
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,954,602		422,678	346,698
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	13,408,721		-	-
Unutilised credit card lines	4,192,748		838,550	627,089
Others	39,798		150	150
Total	62,260,673	343,643	6,229,888	4,922,695

Table 8.2: Credit Derivatives Counterparty Credit Risk

Credit derivatives that create exposures to counterparty credit risk are as follows:

No.	2011						
	Transaction Date	Usage	Name of Product	Counterparty	Notional Exposure RM'000	Protection	Remark
1	1 June 2010	Intermediation	Credit Linked Note ("CLN") - First to Default	UBS	252,433	Seller	AmBank is the protection seller, and the risk is passed through to customer through CLN issuance. Overall, AmBank is not taking the credit risk of the underlying asset. Only counterparty risk.
2	6 August 2010	Intermediation	CLN - Morgan Stanley	UBS	76,473	Seller	AmBank is the protection seller, and the risk is passed through to customer through CLN issuance. Overall, AmBank is not taking the credit risk of the underlying asset. Only counterparty risk.

9.0 Securitisation

9.1 Definition of Securitisation

Securitisation is a financial technique where the cash flow from an asset or a pool of assets is used to service obligations to, typically, at least 2 different classes or tranches of creditors, who are holders of debt securities with each class or tranche reflecting a different degree of credit risk.

Securitisation takes many forms and may be categorised as traditional or synthetic, depending on legal ownership of the pool of assets.

- Traditional securitisations involve the transfer of ownership via equitable assignment of the underlying asset pool into a Special Purpose Vehicle ("SPV") which finances the purchase by issuing debt instruments to investors. The debt securities are commonly referred to as Asset-Backed Securities ("ABS").
- Synthetic securitisations also transfer the credit risk of an underlying pool of assets to third parties. However, legal ownership of the assets remains with the originator.

9.2 Objectives, roles and involvement

The Group's objectives in relation to securitisation activity include the following:

- increase the availability of different sources of funding;
- facilitate prudential balance sheet management;
- transfer of credit risk;
- obtain regulatory relief;
- earn management fees on assets under management;
- earn other fees for products and services provided, e.g., liquidity, funding and credit support, structuring, arranging and underwriting services.

The Group is involved in the following types of securitisation activities:

- Securitisation of assets originated by the Group. Such transactions provide diversity in the funding base for the Group entities and may be traditional or synthetic. Such securitisations may or may not involve the transfer of credit risk and as such, may or may not provide regulatory capital relief.
- Securitisation of third party-originated assets.
- Facilities and services provided to securitisations – the Group provides various facilities to securitisations which include liquidity, funding and credit support as well as services such as structuring and arranging.
- Investment in securities – the Group underwrites bonds issued from securitisation programmes and also purchases such bonds in the secondary markets.

9.2.1 Regulatory capital approaches used in the Group's securitisation activities

For securitisation exposures held in the trading books, the Group applies the Standardised Approach to determine the regulatory capital charge related to banking book securitisation exposures.

9.2.2 Governance

The Group's Debt Capital Markets team is tasked with the structuring of securitisation transactions whilst the governance of these securitisation activities is overseen by the Board and Executive Committees, and managed in accordance with the credit risk and market risk frameworks.

Securitisation exposures held in banking books and trading books are governed under the limits set for the banking book and trading book respectively.

9.2.3 Risk measurement and reporting of securitisation exposures

The Group relies on the external ratings assigned by recognised external credit assessment institutions in determining the capital charge requirement for rated securitisation exposures. The Group also assesses the performance information of the underlying pools on an ongoing basis e.g. 30/60/90 day past due, default rates, prepayment rates & etc to gauge the stability of the model parameters to determine sufficiency of the buffers. The reporting for such exposures is dependent on the Group's ultimate position, whether acting as a third party investor to both on or off-balance sheet exposures.

9.2.4 SPV used in securitisation exercises

For all traditional securitisation transactions where the Group entity acts as the sponsor⁵, such transactions will be structured to comply with the Securities Commission's Guidelines on the Offering of Asset-Backed Securities ("ABS Guidelines") and, where applicable, the BNM's Prudential Standards on Securitisation Transactions. The SPVs used and to be used by the Group entity complies with the requirements of the ABS Guidelines.

Third party exposures that have been securitised via SPVs include civil servant and government-linked companies' staff housing loans and unsecured personal loan/financing granted to members of co-operatives.

⁵ per BNM's clarification, a banking institution is considered a sponsor if it in fact or in substance manages or advises the programme, places securities into the market or provides liquidity and/or credit enhancements. This is applicable if the Group entity acts as a sponsor to an ABCP (CP with maturity of one year or less) conduit or similar programmes.

9.0 Securitisation (cont'd)

9.2.5 Accounting Policies for Securitisation

Securitisation of the Group originated assets - For accounting purposes, the Group consolidates SPVs when the substance of the relationship indicates that the Group controls them. In assessing control, all relevant factors are considered, including qualitative and quantitative aspects. For example:

Qualitative factors – in substance:

- the activities of the SPV are being conducted on behalf of the Group according to the Group's specific business needs so that it obtains benefit from the SPV's operation. This might be evidenced, for example, by the Group providing a significant level of support to the SPV; and
- the Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPV.

Quantitative factors – hereinafter referred to as 'the majority of risks and rewards of ownership'. In substance:

- the Group has rights to obtain the majority of the benefits of the SPV and therefore may be exposed to risks incidental to the activities of the SPV; and
- the Group retains the majority of the residual or ownership risks related to the SPV or its assets in order to obtain benefits from its activities.

The Group reassesses the required consolidation accounting tests whenever there is a change in the substance of the relationship between the Group entity and an SPV, for example, when the nature of the Group entity's involvement or the governing rules, contractual arrangements or capital structure of the SPV change.

The transfer of assets to an SPV may give rise to the full or partial derecognition of the financial assets concerned. Only in the event that derecognition is achieved are sales and any resultant gains on sales recognised in the financial statements. In a traditional securitisation, assets are sold to an SPV and no gain or loss on sale is recognised at inception.

Full derecognition occurs when the Group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the assets, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks.

Partial derecognition occurs when the Group sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of the Group's continuing involvement.

Loans/Financing, credit cards, debt securities and trade receivables that have been securitised under arrangements by which the Group retains a continuing involvement in such transferred assets do not generally qualify for derecognition. Continuing involvement may entail retaining the rights to future cash flows arising from the assets after investors have received their contractual terms (for example, interest rate strips); providing subordinated interest; liquidity support; continuing to service the underlying asset; or entering into derivative transactions with the securitisation vehicles. As such, the Group continues to be exposed to risks associated with these transactions.

Where assets have been derecognised in whole or in part, the rights and obligations that the Group retains from its continuing involvement in securitisations are initially recorded as an allocation of the fair value of the financial asset between the part that is derecognised and the part that continues to be recognised on the date of transfer.

Securitisation in the management of the Group's credit portfolio – For risk mitigation using synthetic securitisation, the underlying assets remain on the Group's balance sheet for accounting purposes. The accounting treatment of the assets will depend on their nature. They could include loans/financing and receivables, available for sale securities or derivatives. The most common form of synthetic securitisation is via a credit default swap, which is treated as a derivative and recognised in the profit and loss statement at fair value.

For investment in securitisation exposures, if the instrument includes a credit default swap, the exposure will be fair valued through the profit and loss statement. Other securitisation exposures will be fair valued through the balance sheet unless the Group makes an election at the time of purchase to fair value through profit or loss.

Provision of securitisation services including funding and management of conduit vehicles – In general, facilities provided to securitisations are treated the same way as facilities to any other borrower or counterparty. Fee income from these services is recognised on an accrual basis. Liquidity and funding facilities are treated as commitments to provide finance, with fee and margin income recognised on an accrual basis. Warehouse and term funding facilities are treated as loans/financing.

9.2.6 Use of external rating agencies

The Group uses the services of both RAM Rating Services Berhad and Malaysian Rating Corporation Berhad for securitisation transactions purposes.

9.0 Securitisation (cont'd)

Table 9.1: Securitisation (Trading and Banking Book)

The aggregated securitised exposures of the Group are as follows:

Underlying Asset	2011			
	Total Exposures Securitised RM'000	Past Due RM'000	Impaired RM'000	Gains/(Losses) recognised during the year RM'000
Traditional Securitisation				
Originated by the Group				
Banking Book				
Corporate loans	1,245,892	-	1,220,345	-
Mortgage loans	540,350	-	205,500	-
Total Traditional Securitisation	1,786,241	-	1,425,844	-
Total Synthetic Securitisation	-	-	-	-
Total Traditional & Synthetic Securitisation	1,786,241	-	1,425,844	-

For the financial year ended 31 March 2011, there were no securitisation activities for the Trading and Banking Books.

Table 9.2: Securitisation under the Standardised Approach for Banking Book Exposures

Securitisation Exposures by Exposure Type	Exposure Value of Positions Purchased or Retained RM'000			Distribution of Exposures after CRM according to Applicable Risk Weights			
				Rated Securitisation Exposures or Risk weights of Guarantees/ Credit Derivatives		Unrated (Look-Through)	
				20% RM'000	50% RM'000	Exposure Amount RM'000	Risk Weighted Assets RM'000
Traditional Securitisation							
Originated by Third Party							
On Balance Sheet Exposures	119,271	119,271	-	109,134	10,137	-	26,895
Originated by the Group							
On Balance Sheet Exposures	18,672	18,672	18,672	-	-	-	-
Total Traditional Securitisation	137,943	137,943	18,672	109,134	10,137	-	26,895
Total Synthetic Securitisation	-	-	-	-	-	-	-
Total Traditional & Synthetic Securitisation	137,943	137,943	18,672	109,134	10,137	-	26,895

For the financial year ended 31 March 2011, there were no securitisation under the Standardised Approach for Trading Book Exposures.

10.0 Operational Risk

The operational risk management process is depicted in the table below:

Identification	<ul style="list-style-type: none"> Identify and analyse risks in key processes/activities within Line of Business (including new products)
Assessment/Measurement	<ul style="list-style-type: none"> Incident Management and Data Collection Risk and Control Self Assessment Key Risk Indicators
Control/Mitigation	<ul style="list-style-type: none"> Policies addressing control & governance requirements to mitigate specific operational risk Advisory on the establishment of internal controls Contingency planning
Monitoring/Review	<ul style="list-style-type: none"> Monitoring and reporting of loss incidents by Event Type, Portfolio and Line of Business Periodical review of risk profile within Line of Business

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external incidents which includes legal risk and Shariah compliance risk (Please refer to Section 14 for discussion on Shariah Governance). It excludes strategic, systemic and reputational risk.

The strategy for managing operational risk in the Group is anchored on the three lines of defence concept which are as follows:

- The first line of defence is accountable for implementing the operational risk framework and policies, embedding appropriate internal controls into processes and maintaining business resilience for key activities. The responsibility for managing day-to-day operational risk rests with each Organisational Unit.
- In the second line, Group Operational Risk is responsible for exercising governance over operational risk through the management of the operational risk framework, policy development, quality assurance of internal controls, operational risk measurement and capital allocation, fraud strategy and reporting of operational risk issues to GOLRC, CEO Committee and RMCD.
- Group Internal Audit acts as the third and final line of defence by providing independent assurance on the internal control effectiveness through periodic audit programme.

Group Operational Risk maintains close working relationships with all Organisational Units, continually assisting in the identification of operational risks inherent in their respective business activities, assessing the impact and significance of these risks and ensuring that satisfactory risk mitigation measures and controls are in place. Various tools and methods are employed to identify, measure, control and monitor/report operational risk issues within the Group. The Operational Risk Management System ("ORMS") contains the following modules:

- The Incident Management and Data Collection ("IMDC") module provides a common platform for reporting an operational risk incident that falls within one of the seven Event Types as stated in Basel II. IMDC also serves as a centralised database of operational risk incidents to model the potential exposure to future operational risks and estimate the amount of economic capital charge.
- The Risk and Control Self Assessment ("RCSA") is a process of continual assessment of risks and controls effectiveness. By using structured questionnaires to assess and measure key risk and its corresponding controls effectiveness, RCSA provides risk profiling across the Group.
- The Key Risk Indicators ("KRI") module provides early warning of increasing risk and/or control failures by monitoring the changes of the underlying risk measurements.

As part of the risk transfer strategy, the Group obtains third party insurance cover to cover major operational risks where cost-effective premiums can be obtained. In addition, a comprehensive Business Continuity Management is established to ensure critical business functions can be maintained, or restored in a timely manner, in the event of material disruptions from internal or external events.

The ultimate authority for all operational risk management matters is delegated by the Board of Directors to the CEO Committee. It is in turn, supported by the GOLRC, comprising senior management members of various business divisions and support units. The RMCD, CEO Committee and the GOLRC are the main reporting and escalation committees for operational risk matters. These matters include significant operational risk incidences or findings, deliberations on regulatory and supervisory changes and their impact on operational risk and deliberation and endorsement of operational risk mitigation measures and risk management strategies.

The Group adopts the Basic Indicator Approach for the operational risk capital charge computation.

10.0 Operational Risk (cont'd)

10.1 Business Continuity Management

The Business Continuity Management ("BCM") process is depicted in the table below:

Identification	<ul style="list-style-type: none">Identify events that potentially threaten the business operations and areas of criticality.
Assessment/M Measurement	<ul style="list-style-type: none">Business Impact AnalysisThreat Assessment
Control/ Mitigation	<ul style="list-style-type: none">Policies governing the BCM implementationBCM methodologies controlling the process flowImplementing the Business Continuity Plan
Monitoring/ Review	<ul style="list-style-type: none">BCM Plan testing and exerciseReview of BCM PlanPlan maintenance

The BCM function forms an integral part of Operational Risk Management. It places the importance of maintaining a BCM framework and policies to identify events that could potentially threaten the Group's operations and establishment of critical functions recovery against downtimes. BCM builds the resilience and recovery capability to safeguard the interest of Group's stakeholders by protecting our brand and reputation.

The BCM process complements the effort of the recovery team and specialist units to ensure the Group has the required critical capabilities and resources, such as IT system disaster recovery, alternate workspace and effective communication during interruptions.

The Group is continuously reviewing the level of business operations resiliency as to enhance the BCM capability throughout all department and branches across the region. Training is an on-going agenda to heighten the BCM awareness and inculcate a business resilience culture.

10.2 Legal Risk

In all the jurisdictions that the Group conducts its business, it is subject to legal risks arising from potential breaches of applicable laws, unenforceability of contracts, lawsuits, or adverse judgment, which may lead to incurrence of losses, disrupt or otherwise impact on the Group's financials or reputation.

Legal risk is managed by internal legal counsel as well as the GOLRC and, where necessary, in consultation with external legal counsel to ensure that such risk is minimised.

11.0 Market Risk Management

Market risk is the risk of losses due to adverse changes in the level or volatility of market rates or prices, such as interest/profit rates, credit spreads, equity prices and foreign exchange rates. The Group differentiates between two types of market risk: Traded Market Risk ("TMR") and Interest Rate Risk/Rate of Return Risk in the Banking Book ("IRR/RORBB"). Assessment, control and monitoring of these risks are the responsibility of the Market Risk Unit ("MRU").

11.1 Traded Market Risk ("TMR")

The Traded Market Risk ("TMR") management process is depicted in the table below. Please refer to Section 8 for off-balance sheet exposures and counterparty credit risk arising from market risk.

Identification	<ul style="list-style-type: none"> Identify market risks within existing and new products. Review market-related information such as market trend and economic data.
Assessment/Measurement	<ul style="list-style-type: none"> Recommend/validate methodologies to calculate: <ul style="list-style-type: none"> Value-at-Risk ("VaR") Profit-at-Risk ("PaR") Capital-at-Risk ("CaR")
Control/Mitigation	<ul style="list-style-type: none"> Recommend: <ul style="list-style-type: none"> VaR limits PaR limits CaR limits Annual and Monthly Loss limits Greeks (Delta/Gamma/Vega/Theta) limits Dollar Value of One Basis Point ("DV01") Position Size Maximum Tenor Maximum Holding Period Stealth Concentration
Monitoring/Review	<ul style="list-style-type: none"> Monitor limits Periodical review and reporting

TMR arises from transactions in which the Group acts as principal with clients or the market. It involves taking positions in fixed income, equity or foreign exchange. The objectives of TMR management are to understand, accurately measure and to work with the business to ensure exposures are managed within Board and Executive Management approved limit structures. This is done via robust measurement, setting of limits, limit monitoring and collaboration and agreement with business units on business strategies.

VaR, PaR, CaR and sensitivity analysis are used to measure, monitor and control TMR exposures. VaR is a quantitative measure which applies recent historic market conditions to estimate potential losses in market value, at a certain confidence level and over a specified holding period. PaR comprises VaR and a loss limit threshold. Loss limit thresholds are intended to trigger management discussion on appropriate mitigation measures to be taken, once certain loss levels are reached.

To complement VaR, CaR is used as a measure of the potential impact on portfolio values of more extreme, albeit plausible, market movements. In addition, CaR is used to gauge and ensure that the Group is able to absorb extreme, unanticipated market movements.

Apart from VaR, PaR and CaR, additional sensitivity analysis limits (i.e., Greeks/DV01) and indicators are used to monitor changes in portfolio value under potential market conditions such as shifts in currency rates, equity prices and interest/profit rates.

MRU monitors and reports risk exposures against limits on a daily basis. Portfolio market risk positions are also reported to GTMRC, RMCD and the Board of Directors. Furthermore, policies and procedures are in place to ensure prompt action is taken in the event of limit breaches. Business Units exposed to traded market risk are required to maintain risk exposures within their respective thresholds. When risk limits are exceeded, Business Units are required to reduce their exposures immediately to a level below the thresholds unless senior management are consulted and approve alternative strategies to minimise potential losses.

The Group adopts the Standardised Approach for market risk capital charge computation. This serves as a financial buffer to withstand adverse market movements.

MRU is committed to on-going improvements in market risk processes and systems, and allocates substantial resources to this endeavour.

12.0 Equities (Banking Book Positions)

Equity risk is the potential loss that may be incurred on equity investments in the banking book. The Group's equity exposures in the banking book are primarily categorised as follows:

- Equity investments that are taken for strategic and other objectives – Where an equity investment is undertaken for a strategic purpose, such investment will be made only after extensive analysis and due diligence. Equity investments undertaken for other business objectives are principally in conjunction with initiatives or measures promoted by the relevant regulatory authorities or trade bodies in which the Group will jointly with other financial institutions invest in such entities to attain various objectives, such as socio-economic development, promoting the further development of the financial market, the provision of facilities to improve customer service, and support for human capital development for the betterment of the Malaysian banking industry. The Board of Directors' approvals are required prior to committing to all forms of equity investment under this category and, where relevant, the necessary regulatory approval or notification will be obtained or met.
- Equity investments on which capital gains are expected – These transactions are originated and managed by dedicated equity finance teams. These transactions represent funding solutions for known customers of the Group and are governed by specific policies. The Group ensures that the investment in these entities does not constitute a controlling interest in the relevant business.
- Equity investments made as the result of a work out of a problem exposure – From time to time, the Group will take an equity stake in a customer as part of a work out arrangement for problem exposures. These investments are made only where there is no other viable option available and form an immaterial part of the Group's equity exposures.

12.1 Valuation for and accounting of equity investments in the banking book

Measurement of equity securities – Equity securities that have a quoted market price are carried at their fair value. Fair value is determined based upon current bid prices. If a market for a financial asset is not active, fair value is determined based upon a valuation technique. This includes the use of recent arms-length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants to price similar instruments. Where fair value is not determined based upon an actively traded market price, judgement is required to take into consideration the impact of liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. In the event that the fair value of an unlisted security cannot be measured reliably, these investments are measured at cost.

Where the investment is held for long term strategic purposes, these investments are accounted for either as available for sale, with changes in fair value being recognised in equity, or at fair value through profit or loss.

For the periods reported the book value of certain unlisted investments are measured at cost because the fair value cannot be reliably measured. These investments represent minority interests in companies for which active markets do not exist and quote prices are not available. For all other equity exposures book value equals fair value.

Fair value should not differ to the quoted share price. Should a quoted share price not be available, it is estimated using the techniques referred to above.

Table 12.1: Equity investments and capital requirement

An analysis of aggregated equity investments by appropriate equity groupings and risk weighted assets of the Group are as follows:

	2011 RM'000
Non Traded Equity Investments	
Value of quoted (publicly traded) equities	61,418
Value of unquoted (privately held) equities	102,811
Total	164,229
Net Realised and Unrealised Gains/(Losses)	
Cumulative realised gains/(losses) from sales and liquidations	4,829
Total unrealised gains/(losses)	5,344
Total	10,173
Risk Weighted Assets	
Equity investments subject to a 100% risk weight	60,104
Equity investments subject to a 150% risk weight	157,260
Total	217,364
Total Minimum Capital Requirement (8%)	17,389

13.0 Non-Traded Market Risk

13.1 Interest Rate Risk/Rate of Return Risk in the Banking Book (“IRR/RORBB”)

The IRR/RORBB risk management process is depicted in the table below:

Identification	<ul style="list-style-type: none"> Identify interest rate/rate of return risks within existing and new products Review market-related information such as market trend and economic data.
Assessment/Measurement	<ul style="list-style-type: none"> Non-Traded Value-at-Risk (“VaR”) Earnings-at-Risk (“EaR”)
Control/Mitigation	<ul style="list-style-type: none"> Establish non-traded VaR limit and EaR limit.
Monitoring/Review	<ul style="list-style-type: none"> Monitor limits Periodical review and reporting

IRR/RORBB arises from changes in market interest/profit rates that impact core net interest/profit income, future cash flows or fair values of financial instruments. This risk arises from mismatches between repricing dates of assets and liabilities, changes in yield curves, volatilities in interest/profit margin and implied volatilities on interest/profit rate options. The provision of retail and wholesale banking products and services (primarily lending and deposit taking activities) creates interest/profit rate-sensitive positions in the Group’s statement of financial position.

The principal objectives of balance sheet risk management are to manage interest/profit income sensitivity while maintaining acceptable levels of interest/profit rate and funding risk, and to manage the market value of Group’s capital.

The Board’s oversight of IRR/RORBB is supported by GALCO. GALCO is responsible for the alignment of Group-wide risk appetite and funding needs, taking into consideration Group-wide business strategies. GALCO consistently manages the Group’s gapping positions, asset growth and liability mix against the interest/profit rate outlook. It also reviews strategies to ensure a comfortable level of interest/profit rate risk is maintained. The Group has successfully engaged long-term borrowings and written interest/profit rate swaps to reduce longer tenor interest/profit rate risk, and maintained a comfortable gapping profile as a result. In accordance with the Group’s policy, positions are monitored on a monthly basis and hedging strategies are used to ensure risk exposures are maintained within board-established limits.

The Group measures the risk of losses arising from potential adverse movements in market interest/profit rates and volatilities using VaR. VaR is a quantitative measure of interest/profit rate risk which applies recent historic market conditions to estimate the potential loss in market value, at a certain confidence level and over a specified holding period.

The Group complements VaR by stress testing interest/profit rate risk exposures to highlight potential risk that may arise from extreme market events that are rare but plausible.

Key assumptions in the gap and sensitivity analysis relate to the behaviour of interest/profit rates and spreads, changes in loan/financing and deposit product balances due to behavioural characteristics under different interest/profit rate environments. Material assumptions include the repricing characteristics and the stickiness of indeterminate or non-maturity deposits.

The rate scenarios may include rapid ramping of interest/profit rates, gradual ramping of interest/profit rates, and narrowing or widening of spreads. Usually each analysis incorporates what management deems the most appropriate assumptions about customer behaviour in an interest/profit rate scenario. However, in certain cases, assumptions are deliberately changed to test the Group’s exposure to a specified event.

The Group’s strategy seeks to optimise exposure to interest/profit rate risk within Board-approved limits. This is achieved through the ability to reposition the interest/profit rate exposure of the balance sheet using dynamic product and funding strategies, supported by FRS 139-compliant interest/profit rate hedging activities using interest/profit rate swaps and other derivatives. These approaches are governed by the Group’s policies in the areas of product and liquidity management as well as the banking book policy statements and hedging policies.

IRR/RORBB is calculated monthly and reported to GALCO.

13.0 Non-Traded Market Risk (cont'd)

Table 13.1: Market Risk Sensitivity – Interest Rate Risk/Rate of Return Risk in the Banking Book

The aggregated IRR/RORBB sensitivity for the Group is as follows:

Impact on Profit Before Taxation

	2011	
	Interest Rate/ Rate of Return + 100 bps '000	Interest Rate/ Rate of Return - 100 bps '000
Currency		
MYR	161,508	(161,508)

Impact on Equity

	2011	
	Interest Rate/ Rate of Return + 100 bps '000	Interest Rate/ Rate of Return - 100 bps '000
Currency		
MYR	51,383	(50,256)

The sensitivity above excluded non interest sensitive items. The Group manages interest/profit rate risk in the banking book by including all assets and liabilities, adjusted by internal Fund Transfer Pricing ("FTP") practices.

13.2 Liquidity and Funding Risk

Liquidity risk is the risk that the organisation either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can only access these financial resources at an unreasonable cost. Liquidity risk exposure arises mainly from the deposit taking and borrowing activities, and to a lesser extent, significant drawdown of funds from previously contracted financing and purchase commitments.

The primary objective of the Group's liquidity risk management is to ensure the availability of sufficient funds at a reasonable cost to honour all financial commitments when they fall due. The secondary objective is to ensure an optimal funding structure and to balance the key liquidity risk management objectives, which includes diversification of funding sources, customer base and maturity period.

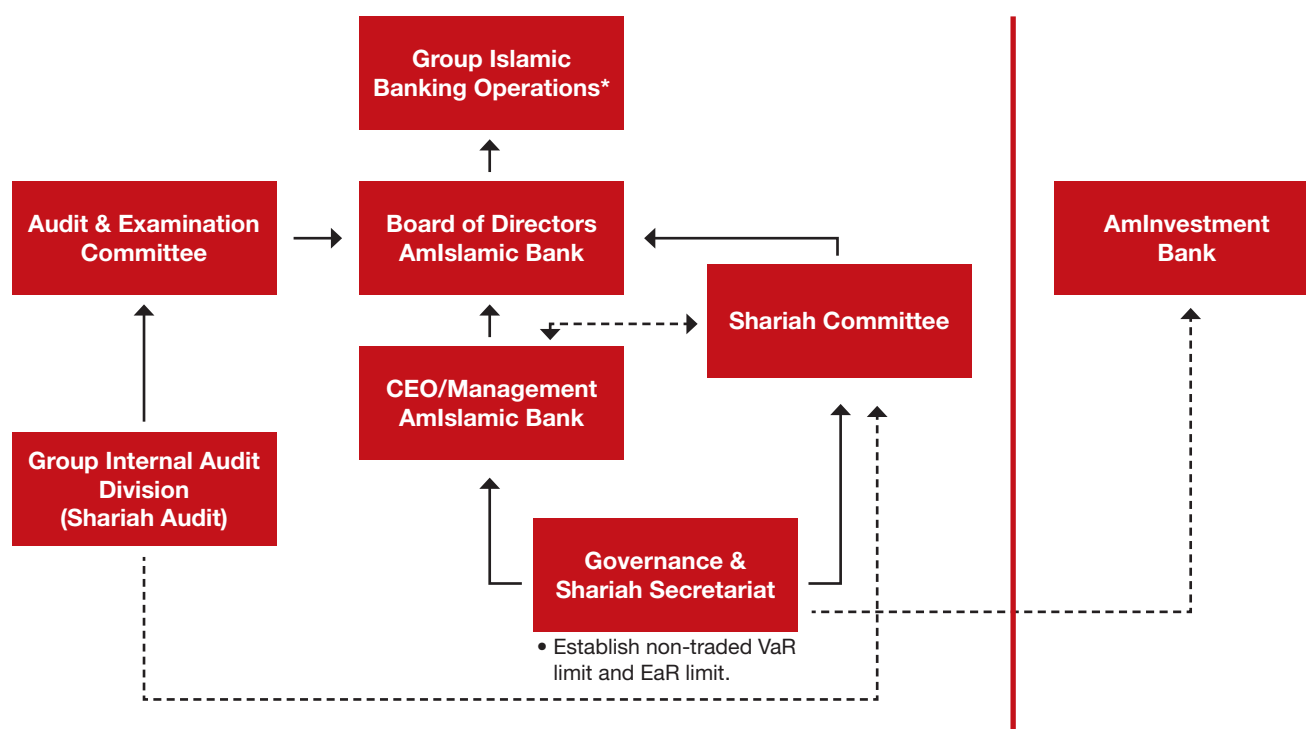
GALCO is the responsible governing body that approves the Group's liquidity management and strategies policies, and is responsible for setting liquidity limits, proposing liquidity risk policies and contingency funding plan, and practices to be in compliance with local regulatory requirements, and monitor liquidity on an ongoing basis. The Capital and Balance Sheet Management division and Group Risk functions propose and oversee the implementation of policies and other controls relating to the above risks.

In the event of actual liquidity crisis occurring, a Contingency Funding Plan provides a formal process to identify a liquidity crisis and detailing responsibilities among the relevant departments to ensure orderly execution of procedures to restore the liquidity position and confidence in the organisation.

Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Group's liquidity at risk. The stress testing output contributes to the development of the liquidity risk limits and the Group's contingency funding plan.

The Group stresses the importance of customer deposit accounts as a source of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans, financing and advances to customers as a percentage of customer deposit accounts, together with term funding with a remaining term to maturity in excess of one year.

14.0 Shariah Governance Structure



* refers to Islamic banking operations of group entities.

A Shariah governance framework is put in place in the organisational structure of the Group for its Islamic banking operations, which includes establishment of the Shariah Committee in line with the requirement of Section 3(5)(b) of The IBA and BNM's "Shariah Governance Framework for Islamic Financial Institutions".

AmlInvestment Bank leverages on AmlIslamic Bank's infrastructure on Shariah governance, including the Shariah Committee and the Shariah Secretariat.

Board of Directors

The Board of Directors is accountable and responsible for the overall oversight on Shariah governance structure, including the appointment of Shariah Committee members. The Board performs its oversight through various committees such as Audit & AEC and Shariah Committee.

Audit Examination Committee

The AEC is a Board committee responsible for assisting the Board in discharging its responsibilities for the integrity of the Group's financial statements, assessment of the effectiveness of the systems of internal controls and monitoring the effectiveness and objectivity of the internal and external auditors. The AEC, upon consultation with the Shariah Committee shall determine the deliverables of the Shariah audit function.

Shariah Committee

The Shariah Committee has been established to advise the Group on Shariah matters in business operations in order to ensure compliance with Shariah. The Shariah Committee reports functionally to AmlIslamic Bank's Board of Directors and this provides for the independence of the Shariah Committee in exercising their duties. The main duties and responsibilities of the Shariah Committee are:

- to advise Board of Directors on Shariah matters and provide input to the Group Islamic banking operations in order to ensure that the Islamic business operations comply with the Shariah principles at all times;
- to endorse and validate the Group Islamic banking operations products and relevant documentation to ensure compliance with Shariah principles;
- to advise the Group Islamic banking operations on matters to be referred to the Shariah Advisory Council of BNM; and
- to advise the Group Islamic banking operations on business zakat, charity and other social programs.

14.0 Shariah Governance Structure (cont'd)

Management

The management is responsible to make reference to the Shariah Committee on Shariah issues and to take necessary measures for implementation of Shariah Committee's advice and decisions. The management is also responsible to put in place adequate systems and controls in order to ensure compliance with Shariah.

Management shall:

- (i) take into account Shariah compliance considerations whenever the Group Islamic banking operations accept deposits and investment funds, provide financing and carry out investment services for customers;
- (ii) ensure that contract documentation complies with Shariah principles;
- (iii) ensure that Shariah review and Shariah audit are undertaken periodically; and
- (iv) keep track of income not recognised arising out of Shariah non-compliance and assess the probability of similar cases arising in the future.

The Group Islamic banking operations practice first-level check on Shariah requirements by Business Units through Shariah guides and awareness programs. Each department at AmlIslamic Bank is also designed to interface with Business Units and shared services of the Group. These departments function to bridge the understanding of Shariah requirements and are the frontline to disseminate Shariah requirements as advised by the Shariah Committee. References are made from existing Shariah guides issued by the Shariah Governance section and endorsed by the Shariah Committee.

Shariah Governance Section

The Shariah Governance section operates as Secretariat to the Shariah Committee and shall be responsible to ensure all Shariah requirements are met. Amongst the functions of the Shariah Governance section are as follows:

- (i) acting under the supervision and guidance of the Shariah Committee, to advice on Shariah compliance in the Group Islamic banking operations;
- (ii) to conduct review and provide day-to-day Shariah advice and consultancy to relevant parties;
- (iii) to help formulate relevant Shariah guidelines and policies needed to support/guide the Group Islamic banking operations;
- (iv) to conduct research on Shariah matters; and
- (v) to provide and assist in Shariah awareness programs.

Group Internal Audit Division

A designated team within the Group Internal Audit Division is responsible to conduct independent assessment on the level of Shariah compliance of Islamic banking operations as follows:

- (i) documents utilised are Shariah compliant and in line with the relevant Shariah concepts applied to a deposit or financing facility;
- (ii) Shariah concepts are fully complied with and assets are identifiable, carry adequate value, owned by the Group Islamic banking operations, free from encumbrance and permissible; and
- (iii) marketing and customer support staff are competent with the products and corresponding Shariah concepts applied.

The Shariah Committee is responsible to advise the designated audit team on all Shariah audit processes and activities.

14.1 Non-Shariah Compliant Income

All business activities, products and services offered, and legal documentations are implemented and executed based on legal provisions and Shariah requirements to ensure no occurrence of non-Shariah compliant income. However, should such non-Shariah compliant income exist, it will be channelled to specific charitable bodies. The Shariah Committee is responsible to oversee the management and distribution of the charity fund.