AMMB Banking Group

Pillar 3 Disclosures

AmBank Group

Group Finance

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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 Requirements ("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.

With effect from 1 January 2013, the capital adequacy ratios are computed in accordance to BNM's guidelines on Capital Adequacy Framework (Capital Components) issued by the Prudential Financial Policy Department on 28 November 2012, which is based on the Basel III capital accord. Prior to that, the capital adequacy ratios of the banking subsidiaries of AMMB were computed in accordance to BNM's Risk-Weighted Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components) (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, based on BNM's Guidelines on Risk-Weighted Capital Adequacy Framework (Basel II – Risk-Weighted Assets).

The minimum regulatory capital adequacy requirementsfor the risk weighted capital ratios are as follows:

Calendar year	Common Equity Tier 1 ("CET1") Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
2013	3.5%	4.5%	8.0%
2014	4.0%	5.5%	8.0%
2015	4.5%	6.0%	8.0%

The minimum regulatory capital adequacy requirements as stipulated in the above table have not factored in capital buffers that will be introduced in calendar year 2016 onwards.

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.

	Accounting Treatment	
Type of entity	**Statutory reporting**	**Basel III regulatory reporting**
Subsidiaries licensed under BAFIA[1] or IBA[2] or engaged in financial activities	Fully consolidated	Deducted from capital at the banking subsidiary entity level; Fully consolidated in the calculation of capital adequacy at the banking subsidiary consolidated level
Subsidiaries engaged in non-financial activities	Fully consolidated	Risk-weighted at the banking subsidiary entity level; Consolidated in calculation of capital adequacy at the banking subsidiary consolidated level
Associates and jointly controlled entities which are licensed under BAFIA or IBA or engaged in financial activities	Equity accounted	Deducted in calculation of capital
Associates and jointly controlled entities which are not licensed under BAFIA or IBA and not engaged in financial activities	Equity accounted	Reported as investment and risk weighted

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.

[1] BAFIA denotes the Banking and Financial institutions Act 1989.

[2] IBA denotes the Islamic Banking Act 1983.

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 3 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 to simulate 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. For the current financial year ending 31 March 2013 ("FY 2013"), these ranges are 7.33 per cent to 9.33 per cent for the Common Equity Tier 1 capital ratio, 9.33 per cent to 11.33 per cent for the Tier 1 capital ratio, and 13.33 per cent to 15.33 per cent for the Total Capital ratio.The Group has been operating within these ranges.

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.

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.

Table 2.1: Capital Adequacy Ratio

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

MARCH 2013	AmBank	AmIslamic Bank	AmInvestment Bank	Group
Before deducting proposed dividends:				
Common Equity Tier 1 ("CET1") Capital	8.6%	9.5%	25.7%	9.3%
Tier 1 capital Ratio	10.9%	9.5%	25.7%	11.0%
Total capital Ratio	14.3%	14.6%	25.7%	14.8%
After deducting proposed dividends:				
Common Equity Tier 1 ("CET1") Capital	8.0%	9.5%	25.7%	8.9%
Tier 1 capital Ratio	10.3%	9.5%	25.7%	10.6%
Total capital Ratio	13.7%	14.6%	25.7%	14.3%

The comparative capital adequacy ratios of our regulated banking subsidiaries and a pro-forma Group view are as follows. The comparative is based on the Basel II accord and has not been restated based on Basel III accord as the Basel III is implemented on a prospective basis with effect from 1 January 2013.

MARCH 2012	AmBank	AmIslamic Bank	AmInvestment Bank	Group
Before deducting proposed dividends:				
Core capital ratio	11.1%	9.0%	21.5%	11.2%
Risk weighted capital ratio	15.2%	15.0%	21.5%	15.4%
After deducting proposed dividends:				
Core capital ratio	10.0%	9.0%	20.1%	10.4%
Risk weighted capital ratio	14.2%	15.0%	20.1%	14.7%

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 (M) Bhd and its wholly-owned offshore banking subsidiary company, AmInternational (L) Ltd ("AMIL")

3. The comparatives have been restated for the effects of the change in accounting policy on collective assessment allowance for loans, advances and financing during the financial year. Details of the restatement are as set out in Note 57 to the financial statements.

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:

	MARCH 2013						
Exposure class		Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")	Net exposures/ EAD after CRM	Risk weighted assets	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Minimum capital requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. **Credit risk**							
On balance sheet exposures							
Sovereigns/ central banks		16,761,345	16,761,345	-	-	-	-
Banks, development financial institutions ("DFI") & multilateral development banks ("MDB")		6,414,034	6,414,034	1,394,806	-	1,394,806	111,584
Insurance companies, securities firms & fund managers		24,380	24,380	24,380	-	24,380	1,950
Corporates		41,934,786	39,378,319	35,168,301	500,866	34,667,435	2,773,395
Regulatory retail		35,207,273	35,003,491	26,450,858	-	26,450,858	2,116,069
Residential mortgages		9,683,796	9,667,984	3,537,080	-	3,537,080	282,966
Higher risk assets		124,934	124,934	187,401	-	187,401	14,992
Other assets		2,982,362	2,982,362	2,434,597	-	2,434,597	194,768
Securitisation		84,001	84,001	64,746	-	64,746	5,180
Equity		208,239	208,239	208,239	-	208,239	16,659
Defaulted exposures		1,389,312	1,243,382	1,427,557	-	1,427,557	114,205
Total for on balance sheet exposures		114,814,462	111,892,471	70,897,965	500,866	70,397,099	5,631,768
Off balance sheet exposures:							
Over the counter ("OTC") derivatives		2,289,966	2,289,966	1,245,518	-	1,245,518	99,641
Credit Derivatives		68	68	20	-	20	2
Off balance sheet exposures other than OTC derivatives or credit derivatives		187,895	139,363	9,934,799	-	9,934,799	794,784
Defaulted exposures		94,437	90,479	135,718	-	135,718	10,857
Total for off balance sheet exposures		2,572,366	2,519,876	11,316,055	-	11,316,055	905,284
Total on and off balance sheet exposures		117,386,828	114,412,347	82,214,020	500,866	81,713,154	6,537,052
2. **Large exposures risk requirement**				713	-	-	57
3. **Market risk**	**Long**	**Short**					
Interest rate risk /Rate of return risk							
- General interest rate risk/Rate of return risk	60,092,692	54,648,113		2,591,305	-	2,591,305	207,304
- Specific interest rate risk/Rate of return risk	5,565,859	79,756		964,789	-	964,789	77,183
Foreign currency risk	243,427	61,055		243,427	-	243,427	19,474
Equity risk							
- General risk	242,949	34,574		212,393	-	212,393	16,991
- Specific risk	242,949	34,574		235,462	-	235,462	18,837
Option risk	1,038,718	2,398,407		71,071	-	71,071	5,686
Total	67,426,594	57,256,479		4,318,447	-	4,318,447	345,476
4. **Operational risk**				5,927,979	-	5,927,979	474,238
5. **Total RWA and capital requirements**				93,635,041	500,866	93,134,175	7,450,734

On 28 December 2012, as part of an arrangement between AmBank and AmIslamic Bank in relation to a Restricted Profit Sharing Investment Account ("RPSIA") agreement, AmBank records as 'deposits and placements with banks and other financial institutions' its exposure in the arrangement, whereas AmIslamic Bank records its exposure as 'financing and advances'. The RPSIA is a contract based on Shariah concept of Mudharabah between AmBank and AmIslamic to finance a specific business venture where AmBank solely provides capital and the business ventures are managed solely by AmIslamic as the entrepreneur. The RPSIA exposes AmBank to the risks and rewards of the financing, and accordingly AmBank accounts for all impairment allowances and risk-weighted assets arising from the RPSIA financing.

As at 31 March 2013, the gross exposure and collective allowance relating to the RPSIA financing were RM500.9 million and RM2.1 million respectively. There was no individual allowance provided for the RPSIA financing. RPSIA assets excluded from the risk-weighted capital adequacy computation of AmIslamic amounted to RM500.9 million and the risk-weight on these RPSIA assets are accounted for in the computation of capital adequacy of AmBank.

Table 2.2: Risk Weighted Assets and Capital Requirements (Contd.)

Exposure class		Gross exposures/ EAD before CRM	Net exposures/ EAD after CRM	Risk weighted assets	Minimum capital requirement at 8%
	MARCH 2012				
	RM '000	RM '000	RM '000	RM '000	RM '000
1. **Credit risk**					
On balance sheet exposures					
Sovereigns/ central banks		9,291,109	8,909,046	-	-
Banks, DFIs and MDBs		7,349,631	7,349,631	1,730,365	138,429
Insurance companies, securities firms & fund managers		30,666	30,666	30,666	2,453
Corporates		34,214,395	32,028,000	29,666,426	2,373,313
Regulatory retail		33,523,816	33,350,597	25,069,920	2,005,594
Residential mortgages		9,092,629	9,077,791	3,425,584	274,047
Higher risk assets		145,559	145,559	218,338	17,467
Other assets		3,333,752	3,333,753	2,625,182	210,015
Securitisation		97,462	97,462	20,692	1,655
Equity		60,656	60,656	60,656	4,853
Defaulted exposures		2,399,070	2,089,916	2,792,511	223,401
Total for on balance sheet exposures		99,538,745	96,473,077	65,640,340	5,251,227
Off balance sheet exposures:					
Over the counter ("OTC") derivatives		2,009,106	2,009,106	1,020,210	81,617
Credit Derivatives		69	69	28	2
Off balance sheet exposures other than OTC derivatives or credit derivatives		10,489,824	9,660,636	8,845,958	707,676
Defaulted exposures		242,369	223,825	335,736	26,859
Total for off balance sheet exposures		12,741,368	11,893,636	10,201,932	816,154
Total on and off balance sheet exposures		112,280,113	108,366,713	75,842,272	6,067,381
2. **Large exposures risk requirement**				3,298	264
3. **Market risk**	**Long**	**Short**			
Interest rate risk /Rate of return risk					
- General interest rate risk/Rate of return risk	65,424,971	54,752,927		3,186,347	254,908
- Specific interest rate risk/Rate of return risk	11,007,468	55,154		737,122	58,970
Foreign currency risk	149,865	55,040		149,865	11,989
Equity risk					
- General risk	379,886	71,230		308,657	24,692
- Specific risk	379,886	71,230		514,097	41,128
Option risk	1,286,590	1,853,397		227,408	18,193
Total	78,628,666	56,858,978		5,123,496	409,880
4. **Operational risk**				6,045,547	581,686
5. **Total RWA and capital requirements**				87,014,613	7,059,211

The Group did not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent during the comparative period.

3.0 Capital Structure

Table 3.3 Capital Structure summarises the aggregated capital position of the Group. The capital structure includes capital under the following headings:

- Common Equity Tier 1 capital;
- Additional Tier 1 capital; and
- Tier 2 capital

All capital instruments included in the capital base have been issued in accordance with the BNM rules and guidelines. The existing Additional Tier 1 and Tier 2 Capital instruments of the Group do not meet all qualifying criteria for full recognition of capital instruments under the Basel III accord, on the requirements for loss absorbency at the point of non-viability, and write-off or conversion mechanisms for achieving principal loss absorption and/or loss absorbency at the point of non-viability. All the Group's Additional Tier 1 and Tier 2 Capital instruments qualify for the gradual phase-out treatment under the transitional arrangements of the Basel III accord. Under this treatment, the amount of capital instruments that can be recognized for each banking entity (and its consolidated group level) shall be capped at 90% of the base in 2013 (as counted separately for Additional Tier 1 Capital and Tier 2 Capital respectively), with the cap reducing by 10% in each subsequent year. To the extent that an instrument is redeemed or derecognized after 1 January 2013, the amount serving as the base is not reduced.

3.1 Common Equity Tier 1 Capital

Common Equity Tier 1 Capital consists of the following:

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.

On 27 December 2012, AmIslamic implemented a rights issue of shares on the following basis:

(a) issue of 34,884,000 new ordinary shares of RM1.00 each by AmIslamic allotted to AMMB Holdings Berhad on the basis of 1,000,000 new ordinary shares for every 12,270,325 existing ordinary shares held; and
(b) the issue price of the new ordinary shares was RM4.30 per share, determined with reference to the net asset value per share of AmIslamic as at 30 September 2012 of RM4.30 (with a 3.3% premium thereon).

The Rights Issue has raised RM150.0 million ordinary capital for AmIslamic and AMMB Holdings Berhad fully subscribed for its entitlement to the Rights Issue with its own cash resources.

Share Premium
Share premium is used to record premium arising from new shares issued in the group entity.

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. The retained earnings is included in Common Equity Tier 1 net of any interim and/or final dividend declared, and net of any interim losses. Quarterly interim profits have been included in Common Equity Tier 1 subject to review/audit by the external auditors.

Other Disclosed Reserves
Other disclosed reserves comprise the following:

- **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.

- **Foreign Exchange Translation 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.

- **Unrealised Gains on Available-for-Sale Financial Instruments**
  This comprises the unrealized gains arising from changes in fair value of financial instruments (other than loans / financing and receivables) classified as 'available-for-sale'. Where the available-for-sale reserve is a net gain outstanding balance, the banking subsidiary can recognize 45 per cent of the total outstanding balance as part of Common Equity Tier 1. Where the available-for-sale reserve is a net loss outstanding balance, the entire outstanding balance is deducted in Common Equity Tier 1.

3.2 Additional Tier 1 Capital

The amount of Additional Tier 1 Capital that can be recognized in the computation of the capital adequacy ratios of the banking subsidiaries, at both the entity and consolidated level for 2013, has been capped at 90% of the total qualifying Additional Tier 1 balance outstanding as at 1 January 2013. This is in accordance to the transitional gradual phase-out treatment under the Basel III regime. As at 1 January 2013 and at present, only AmBank has Additional Tier 1 capital instrument in issuance, Table 3.1 outlines the application of the grandfathering provisions in respect of the Additional Tier 1 capital instruments of AmBank. Details of the Additional Tier 1 capital instruments are outlined below.

Table 3.1 Additional Tier 1 Capital Instruments of AmBank and the Basel III Gradual Phase-Out Treatment

Base for Additional Tier 1 capital instruments outstanding on 1 January 2013	
Instruments	**RM'000**
Non-cumulative Non-voting Guaranteed Preference Shares	750,100
Innovative Tier 1 Capital- Tranche 1	300,000
Innovative Tier 1 Capital - Tranche 2	185,000
Non-Innovative Tier 1 Capital - Tranche 1	200,000
Non-Innovative Tier 1 Capital - Tranche 2	300,000
Total qualifying base	**1,735,100**

Calendar year	**Cap on Additional Tier 1 capital instruments that can be recognized in capital adequacy computation each year**	
	Cap %	**Cap, RM'000**
2013	90%	1,561,590
2014	80%	1,388,080
2015	70%	1,214,570
2016	60%	1,041,060
2017	50%	867,550
2018	40%	694,040
2019	30%	520,530
2020	20%	347,020
2021	10%	173,510
2022	0%	0

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 or 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 I Capital Securities under its RM500 million Innovative Tier I 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 paripassu 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 paripassu and without preference among themselves and with the most junior class of notes or preference shares of AmPremier.

3.3 Tier 2 Capital

The main components of Tier 2 capital are collective impairment provisions and regulatory reserves (subject to a maximum of 1.25% of total credit risk-weighted assets determined under the Standardised Approach) and subordinated debt instruments.

The amount of Tier 2 Capital that can be recognized in the computation of the capital adequacy ratios of the banking subsidiaries, at both the entity and consolidated level for 2013, has been capped at 90% of the total qualifying Tier 2 balance outstanding as at 1 January 2013. This is in accordance to the transitional gradual phase-out treatment under the Basel III regime. Tables 3.2(a) and 3.2(b) outline the application of the grandfathering provisions in respect of the Tier 2 capital instruments for AmBank and AmIslamic respectively. AmInvestment does not have any Tier 2 capital instruments in issuance as at 1 January 2013 and at present, Details of the Tier 2 capital instruments are outlined below.

Table 3.2(a) Tier 2 Capital Instruments of AmBank and the Basel III Gradual Phase-Out Treatment

Base for Tier 2 capital instruments outstanding on 1 January 2013	
Instruments	**RM'000**
Medium Term Notes ("MTN") - Tranche 1	200,000
MTN – Tranche 2	165,000
MTN – Tranche 3	75,000
MTN – Tranche 4	45,000
MTN – Tranche 5	75,000
MTN – Tranche 6	600,000
MTN – Tranche 7	97,800
MTN – Tranche 8	710,000
Total qualifying base	**1,967,800**

Calendar year	**Cap on Tier 2 capital instruments that can be recognized in capital adequacy computation each year**	
	Cap %	**Cap, RM'000**
2013	90%	1,771,020
2014	80%	1,574,240
2015	70%	1,377,460
2016	60%	1,180,680
2017	50%	983,900
2018	40%	787,120
2019	30%	590,340
2020	20%	393,560
2021	10%	196,780
2022	0%	0

Table 3.2(b) Tier 2 Capital Instruments of AmIslamic and the Basel III Gradual Phase-Out Treatment

Base for Tier 2 capital instruments outstanding on 1 January 2013	
Instruments	**RM'000**
Subordinated Sukuk Musyarakah – Tranche 1	600,000
Subordinated Sukuk Musyarakah – Tranche 2	200,000
Subordinated Sukuk Musyarakah – Tranche 3	200,000
Total qualifying base	**1,000,000**

Calendar year	**Cap on Tier 2 capital instruments that can be recognized in capital adequacy computation each year**	
	Cap %	**Cap, RM'000**
2013	90%	900,000
2014	80%	800,000
2015	70%	700,000
2016	60%	600,000
2017	50%	500,000
2018	40%	400,000
2019	30%	300,000
2020	20%	200,000
2021	10%	100,000
2022	0%	0

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.
RM300 million of Tranche 1 was early redeemed on 8 October 2012. The remaining RM200 million of Tranche 1 was called and cancelled on its first call date of 4 February 2013.

(ii) Tranche 2 and 3 totaling 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.

Tranche 2 of RM165 million was fully called and cancelled on its first call date of 14 March 2013.

(iii) Tranche 4 and 5 totaling 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.

Tranche 4 of RM45 million was fully called and cancelled on its first call date of 28 March 2013.

(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.

(vi) Tranche 8 amounting to RM710.0 million issued on 16 October 2012 is for a tenor of 10 years Non-Callable 5 years and bears interest at 4.45% 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 6th 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. The step-up feature does not apply to Tranche 8.

Total MTN in issuance post the completion of these transactions has amounted to RM1,557.8 million.

Subordinated Sukuk Musyarakah

On 30 September 2011, AmIslamic Bank implemented a new Subordinated Sukuk Musharakah programme (“Sukuk Musharakah”) of up to RM2.0 billion. The purpose of the programme is to increase AmIslamic Bank’s Tier 2 capital.

On the same date, RM600.0 million subordinated securities were issued under this programme.The first tranche of the Sukuk Musharakah carries a profit rate of 4.40% per annum and is payable on a semi-annual basis.

On 31 January 2012, AmIslamic issued the second tranche of the Sukuk Musharakah of RM200.0 million. The second tranche carries a profit rate of 4.35% per annum, and is payable on a semi-annual basis.

On 24 December 2012, AmIslamic issued the third tranche of the Sukuk Musharakah of RM200.0 million. The third tranche carries a profit rate of 4.45% per annum, and is payable on a semi-annual basis.

The Subordinated Sukuk Musharakah is for a period of ten (10) years. AmIslamic may exercise its call option and redeem in whole (but not in part) the SukukMusharakah 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.

Table 3.3 Capital Structure

The aggregated components of Common Equity Tier 1, Additional Tier 1, Tier 2, and Total Capital of the Group are as follows:

	31.03.13			
	AmBank RM'000	AmIslamic Bank RM'000	Investment Bank RM'000	Group * RM'000
Common Equity Tier 1 ("CET1") Capital				
Ordinary shares	820,364	462,922	200,000	1,483,286
Share premium	942,844	724,185	-	1,667,029
Retained earnings	3,501,590	521,327	118,308	4,155,650
Less: proposed dividend - final	(400,338)	-	-	(400,338)
Unrealised gains and losses on available-for-sale ("AFS") financial instruments	(8,402)	(7,256)	3,110	(13,268)
Foreign exchange translation reserve	(14,760)	-	-	15,228
Statutory reserve fund	980,969	424,266	200,000	1,605,235
Capital reserve	-	-	-	2,815
Merger reserve	48,516	-	-	56,172
Cash flow hedging reserve	(12,644)	-	-	(12,644)
Less: Regulatory adjustments applied on CET1 capital				
Goodwill				(11,243)
Intangible assets	(234,687)	(50)	(2,347)	(237,140)
Deferred tax assets	(120,523)	-	(11,512)	(135,531)
Cash flow hedging reserve	12,644	-	-	12,644
55% of cumulative gains of AFS financial instruments	-	-	(1,711)	(1,739)
Regulatory adjustments applied on CET1 due to insufficient Additional Tier 1 and Tier 2 Capital	-	-	(110,010)	(23,267)
CET1 capital	**5,515,573**	**2,125,394**	**395,837**	**8,162,889**
Additional Tier 1 ("T1") capital				
Additional Tier 1 capital instruments (subject to gradual phase-out treatment)	1,561,590	-	-	1,561,590
T1 capital	**7,077,163**	**2,125,394**	**395,837**	**9,724,479**
Tier 2 ("T2") capital				
Tier 2 capital instruments (subject to gradual phase-out treatment)	1,557,800	900,000	-	2,457,800
Collective impairment provisions and regulatory reserves	751,584	255,665	2,789	1,005,607
Less: Regulatory adjustments applied on Tier 2 capital	(133)	-	(2,789)	(3,681)
Tier 2 capital	**2,309,251**	**1,155,665**	**-**	**3,459,726**
Total Capital	**9,386,414**	**3,281,059**	**395,837**	**13,184,205**
Credit RWA	60,126,718	20,954,069	1,118,859	82,214,020
Less: Credit RWA absorbed by Profit Sharing Investment Account	-	(500,866)	-	(500,866)
Total Credit RWA	60,126,718	20,453,203	1,118,859	81,713,154
Market RWA	3,722,181	583,120	9,366	4,318,447
Operational RWA	4,816,169	1,406,226	409,052	5,927,979
Large exposure risk RWA for equity holdings	713	-	-	713
Total Risk Weighted Assets	**68,665,781**	**22,442,549**	**1,537,277**	**91,960,293**

Table 3.3 Capital Structure (Contd.)

	31.03.12			
	AmBank	**AmIslamic Bank**	**Investment Bank**	**Group ***
	RM'000	**RM'000**	**RM'000**	**RM'000**
Tier 1 Capital				
Paid-up ordinary share capital	820,364	428,038	200,000	1,448,402
Share premium	942,844	609,068	-	1,551,912
Statutory reserve	980,969	359,716	200,000	1,540,685
Capital reserve	-	-	-	2,815
Merger reserve	48,516	-	-	56,172
Exchange fluctuation reserve	2,077	-	-	30,143
Innovative Tier 1 capital	1,105,762	-	-	1,235,100
Non-innovative Tier 1 capital	500,000	-	-	500,000
Retained earnings at end of year	3,133,023	327,970	107,003	3,590,004
Non-controlling interests	-	-	-	50
Total	7,533,555	1,724,792	507,003	9,955,283
Less: Goodwill	-	-	-	(11,243)
Deferred tax assets, net	(161,806)	(33,087)	(16,824)	(216,354)
Total Tier 1 Capital	7,371,749	1,691,705	490,179	9,727,686
Less: Deduction in excess of allowable Tier 2 capital	-	-	(107,395)	(19,164)
Maximum Allowable Tier 1 Capital	7,371,749	1,691,705	382,784	9,708,522
Tier 2 Capital				
Medium term notes	1,557,800	-	-	1,557,800
Subordinated bonds	-	800,000	-	800,000
Innovative Tier 1 capital	129,338	-	-	-
Collective allowance for loans and financing#	1,074,356	328,333	3,914	1,406,322
Total Tier 2 Capital	2,761,494	1,128,333	3,914	3,764,122
Maximum Allowable Tier 2 Capital	2,761,494	1,128,333	3,914	3,764,122
Total Capital Funds	10,133,243	2,820,038	386,698	13,472,644
Less: Investment in subsidiaries	(32,780)	-	(88,231)	(32,769)
Investment in capital of related financial institutions and other deduction	(9,446)	-	(23,078)	(32,524)
Add: Deduction in excess of allowable Tier 2 capital made against Tier 1 capital	-	-	107,395	19,164
Capital Base	10,091,017	2,820,038	382,784	13,426,515

Excludes collective allowance on impaired loans/financing restricted from Tier 2 capital of the Group of RM429,497,000.

The risk weighted assets of the Group are derived by aggregating the consolidated risk weighted assets of the banking subsidiaries. The aggregated Operational risk weighted assets of the Group has been adjusted to reflect the disposal of AmIslamic Bank by AmBank to the Company on 28 February 2011. The breakdown of risk weighted assets of the Group in the various risk categories is as follows:

	AmBank	AmIslamic Bank	Investment Bank	Group *
Credit risk	57,235,055	17,095,915	1,060,041	75,779,082
Market risk	4,494,813	384,044	244,709	5,123,496
Operational risk	4,570,067	1,327,826	478,318	6,045,547
Large exposure risk requirements for equity holdin	3,298	-	-	3,298
Total risk weighted assets	66,303,233	18,807,785	1,783,068	86,951,423

The comparatives for the components of capital base have been restated for the effects of the change in accounting policy on collective assessment allowance for loans, advances and financing during the financial year. Details of the restatement are as set out in Note 57 to the financial statements.

Table 3.2 (a): Capital Instruments of AmBank and the Basel III Gradual Phase-Out Treatment

Base for Additional Tier 1 capital instruments outstanding on 1 January 2013		Base for Tier 2 capital instruments outstanding on 1 January 2013	
Instruments	**RM'000**	**Instruments**	**RM'000**
Non-cumulative Non-voting Guaranteed Preference Shares	750,100	Medium Term Notes ("MTN") - Tranche 1	200,000
Innovative Tier 1 Capital- Tranche 1	200,000	MTN – Tranche 2	165,000
Innovative Tier 1 Capital - Tranche 2	300,000	MTN – Tranche 3	75,000
Non-Innovative Tier 1 Capital - Tranche 1	300,000	MTN – Tranche 4	45,000
Non-Innovative Tier 1 Capital - Tranche 2	185,000	MTN – Tranche 5	75,000
		MTN – Tranche 6	600,000
		MTN – Tranche 7	97,800
		MTN – Tranche 8	710,000
Total qualifying base	**1,735,100**	Total qualifying base	**1,967,800**

Calendar year	Additional Tier 1 capital instruments		Tier 2 capital instruments	
	Cap %	**Cap, RM'000**	**Cap %**	**Cap, RM'000**
2013	90%	1,561,590	90%	1,771,020
2014	80%	1,388,080	80%	1,574,240
2015	70%	1,214,570	70%	1,377,460
2016	60%	1,041,060	60%	1,180,680
2017	50%	867,550	50%	983,900
2018	40%	694,040	40%	787,120
2019	30%	520,530	30%	590,340
2020	20%	347,020	20%	393,560
2021	10%	173,510	10%	196,780
2022	0%	0	0%	0

Capital Instruments of AmIslamic and the Basel III Gradual Phase-Out Treatment

Base for Tier 2 capital instrumentsoutstanding on 1 January 2013	
Instruments	**RM'000**
Subordinated SukukMusyarakah – Tranche 1	600,000
Subordinated SukukMusyarakah – Tranche 2	200,000
Subordinated SukukMusyarakah – Tranche 3	200,000
Total qualifying base	**1,000,000**

Calendar year	Tier 2 capital instruments	
	Cap %	**Cap, RM'000**
2013	90%	900,000
2014	80%	800,000
2015	70%	700,000
2016	60%	600,000
2017	50%	500,000
2018	40%	400,000
2019	30%	300,000
2020	20%	200,000
2021	10%	100,000
2022	0%	0

4.0 General Risk Management

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, 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

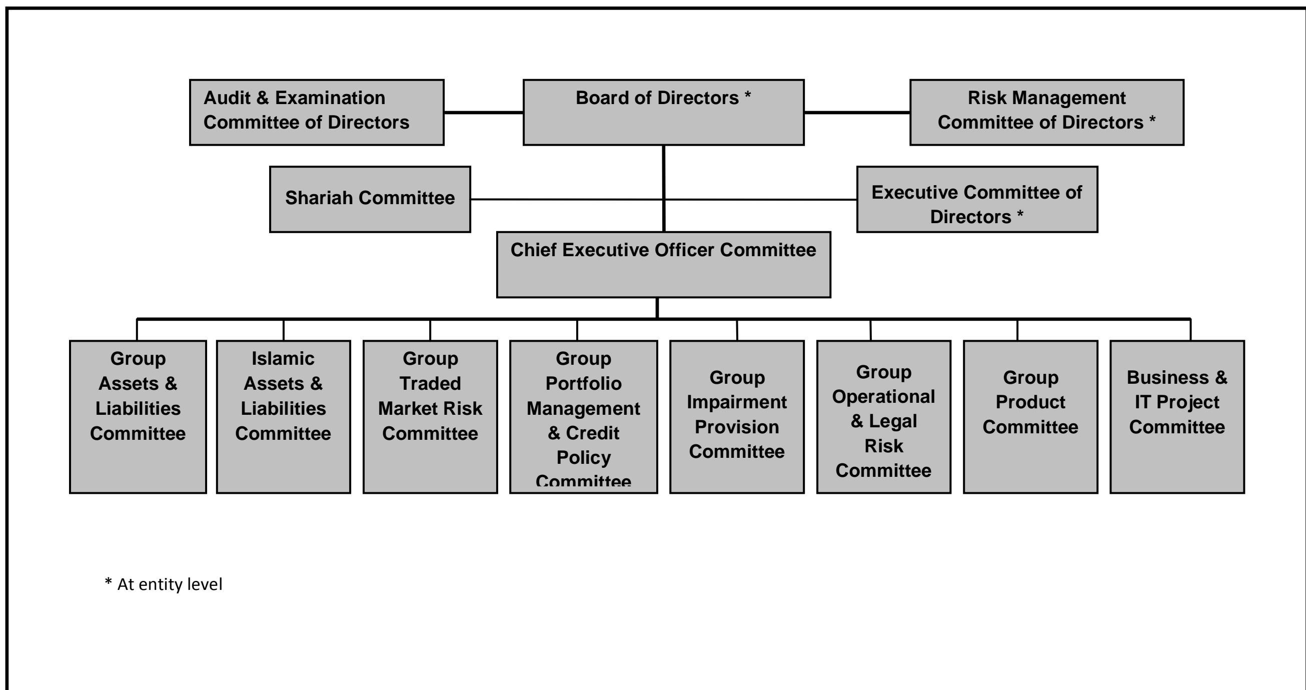
The Group's strategic goals are for top quartile shareholder returns and target ROE which will be progressively developed over a three year period wherein the Group will DeRisk, further Diversify and have a differentiated growth strategy within its various business lines.

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/ rate of return 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 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 up to end of March 2013 i.e. for FYE 2013:



Committee	Roles and Responsibilities
Risk Management Committee of Directors ("**RMCD**")	• 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 ("Board") on risk issues.
Audit & Examination Committee of Directors ("**AEC**")	• 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 the Board in ensuring the Islamic banking operations of the Group are Shariah compliant.
Shariah Committee	• Responsible and accountable on matters related to Shariah, which includes advising the Board 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. • The Shariah Oversight Committee, which is a sub-committee to the Shariah committee performs an oversight function for the key Shariah functions; Shariah review, Shariah audit, and Shariah Risk Management.
Executive Committee of Directors ("**EXCO**")	• 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**")	• 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 advice the Board on risk issues.
Group Assets and Liabilities Committee (Conventional and Islamic) ("**GALCO**")	• 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	• 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 ("**GTMRC**")	• Responsible for development of traded market risk policy framework, oversee the trading book portfolio, approve new trading products and ensure the compliance with internal and regulatory requirements throughout the Group.
Group Portfolio Management and Credit Policy Committee("**GPMCP**")	• 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 internal and regulatory requirements throughout the Group.
Group Impairment Provision Committee ("**GIPC**')	• Responsible for the development of key policies relating to impairment provisions, ensure provision are assessed and made in accordance with the Board's approved policies and MFRS 139 and 137 standards and establish adequate management governance for the determination of provisions.
Group Operational and Legal Risk Committee ("**GOLRC**")	• 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")**	• 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")**	• 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. • Responsible to optimise the allocation of shared resources and change capacity to programmes, projects and initiatives across the Group.

Effective April 2013, the Bank has decided to consolidate the various management committees into one single committee namely, Group CEOs Committee in order to streamline and centralise the management of risk.

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 recognizes that maintaining its reputation among clients, investors, regulators and the general public is an important aspect of minimizing 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 seeks 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 Regulatory 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

The core objectives of the Group's Internal Capital Adequacy Assessment Process ("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;
- 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.

4.1.3 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.

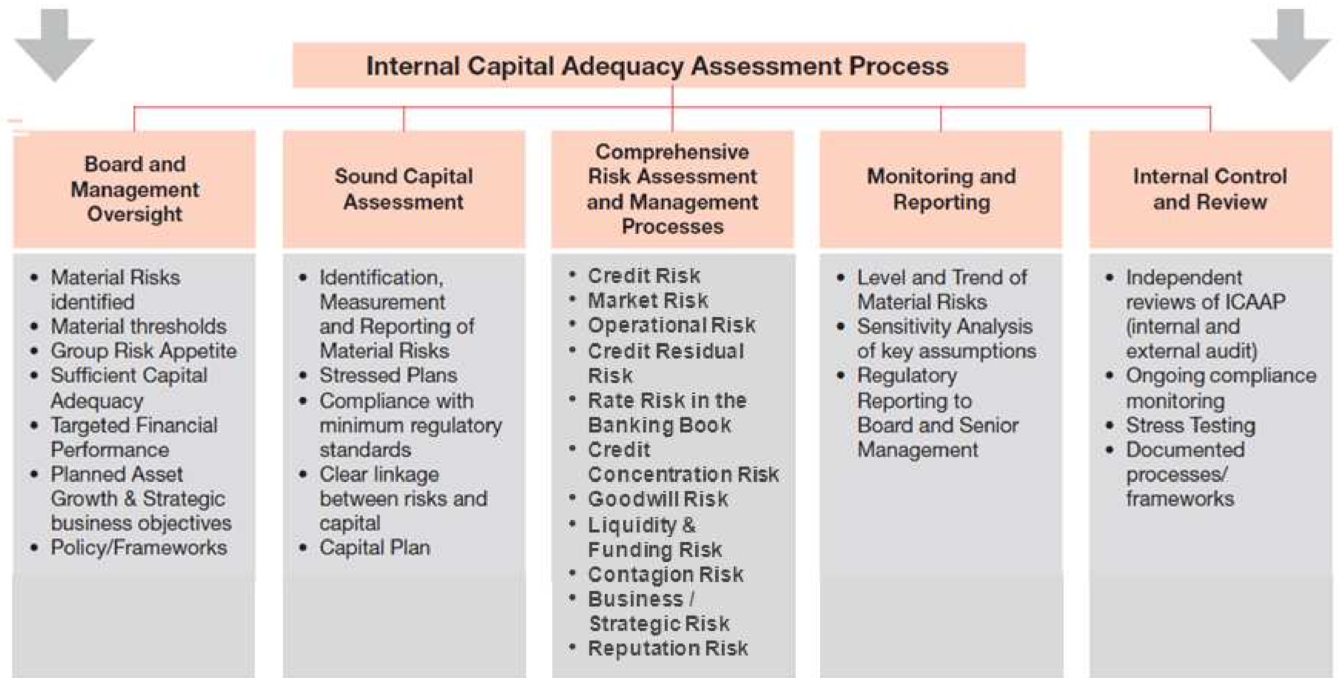
4.1.5 Capital allocation:
- The Group's capital, excluding any amount held centrally for strategic contingencies (e.g. acquisitions) should be allocated to individual business units using regulatory capital allocation principles;
- Capital allocation should be consistent with the Group's Regulatory Capital measurement framework 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 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.

4.1.8 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.

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	• Identify/recognise credit risk on transactions and/or positions • Select asset and portfolio mix
Assessment/ Measurement	• Internal credit rating system • Probability of default ("PD") • Loss given default ("LGD") • Exposure at default ("EAD")
Control/ Mitigation	• Portfolio Limits, Counterparty Limits, Benchmark Returns • Collateral & tailored facility structures
Monitoring/ Review	• Monitor and report portfolio mix • Review customer under Watchlist • Undertake 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's transactions and/or positions as well as Shariah compliance risk (please refer to Section 14 for discussion on Shariah Governance).

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 credit rating model. The model consists of quantitative and qualitative scores that are then translated into rating grades. The assigned credit rating grade forms a crucial part of the credit analysis undertaken for each of the Group's credit exposures.

For retail credits, credit-scoring systems to better differentiate the quality of borrowers are being used to complement the credit assessment and approval processes.

To support credit risk management, our rating models for major portfolios have been upgraded to facilitate:

- improvement in the accuracy of individual obligor risk ratings;
- enhancement to pricing models;
- loan loss provision calculation;
- stress-testing; and
- enhancement to portfolio management.

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 threshold/ review trigger:
  - single counterparty credit;
  - industry sector; and
  - country.
- Asset writing strategies for industry sectors and portfolio composition (by Risk Grade and Security Indicator);
- 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.

The GPMCP/ Group CEOs Committee 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.

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 both[3] 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 "unlikeliness 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 default 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 "unlikeliness to repay" and classified as impaired. Non-performing R/ R facilities remain impaired until re-aged.

5.2.2 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.

Collective Assessment
Loans and advances, and commitments and contingencies 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. The collective impairment assessment and provisioning methodology uses historical loss data to derive the level of provisions. The collective provisions is computed after making the necessary adjustments to reflect current economic conditions.

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

Table 5.3: Distribution of Gross Credit Exposures by Sector

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

	MARCH 2013													
	Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction	Wholesale, Retail Trade, Restaurant and Hotel	Transport, Storage and Communication	Finance and Insurance	Real Estate	Business Activities	Education and Health	Household	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On balance sheet exposures														
Sovereigns/ central banks	-	-	-	-	-	-	-	15,117,194	-	-	1,095,199	-	548,952	16,761,345
Banks, DFIs and MDBs	-	-	-	-	-	28	-	6,389,528	-	22,153	-	-	2,325	6,414,034
Insurance companies, securities firms & fund managers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporates	3,174,861	2,044,789	7,270,234	1,003,781	4,996,655	5,025,676	2,490,064	4,569,978	6,968,632	1,223,747	1,326,450	1,402,198	437,721	41,934,786
Regulatory retail	119,843	30,533	318,774	7,547	320,652	469,516	187,984	274,231	39,936	183,704	116,841	33,132,010	5,702	35,207,273
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	9,683,796	-	9,683,796
Higher risk assets	-	-	27	-	-	-	-	869	1,331	-	-	20,150	102,557	124,934
Other assets	185	82	213	31	382	309	56	208,616	312	339,036	-	492,727	1,940,413	2,982,362
Securitisation	53,958	-	-	-	-	-	-	24,176	-	-	5,867	-	-	84,001
Equity	-	-	42	-	124	240	1,550	4,060	3,903	38	-	-	198,282	208,239
Defaulted exposures	9,721	9,218	235,035	311	71,173	50,284	155,852	23,394	60,457	11,521	31,726	728,373	2,247	1,389,312
Total for on balance sheet exposures	3,358,568	2,084,622	7,824,325	1,011,670	5,388,986	5,546,053	2,835,506	26,612,046	7,074,571	1,780,199	2,576,083	45,459,254	3,238,199	114,790,082
Off balance sheet exposures														
OTC derivatives	2,966	6,780	46,990	-	9,169	12,843	61,998	2,079,624	485	18,688	-	-	50,423	2,289,966
Credit derivatives	-	-	-	-	-	-	-	-	-	-	-	-	68	68
Off balance sheet exposures other than OTC derivatives or credit derivatives	371,598	225,716	2,366,528	209,327	2,547,355	953,400	356,368	524,600	1,280,865	302,996	171,310	2,455,807	26,047	11,791,917
Defaulted exposures	30	4,000	31,987	-	41,672	12,188	815	1,088	2,300	44	-	287	26	94,437
Total for off balance sheet exposures	374,594	236,496	2,445,505	209,327	2,598,196	978,431	419,181	2,605,312	1,283,650	321,728	171,310	2,456,094	76,564	14,176,388
Total on and off balance sheet exposures	**3,733,162**	**2,321,118**	**10,269,830**	**1,220,997**	**7,987,182**	**6,524,484**	**3,254,687**	**29,217,358**	**8,358,221**	**2,101,927**	**2,747,393**	**47,915,348**	**3,314,763**	**128,966,470**

Table 5.3: Distribution of gross credit exposures by sector (Contd.)

	MARCH 2012													
	Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction	Wholesale, Retail Trade, Restaurant and Hotel	Transport, Storage and Communication	Finance and Insurance	Real Estate	Business Activities	Education and Health	Household	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On balance sheet exposures														
Sovereigns/ central banks	-	-	-	-	-	-	-	8,224,182	-	50	66,435	-	1,000,442	9,291,109
Banks, DFIs and MDBs	-	-	-	-	-	36	-	7,349,564	-	-	31	-	-	7,349,631
Insurance companies, securities firms & fund managers	-	-	-	-	-	-	-	30,666	-	-	-	-	-	30,666
Corporates	2,296,837	1,751,350	6,947,237	2,196,850	3,029,357	3,884,471	2,563,976	3,324,065	5,305,883	963,448	756,388	1,004,326	190,207	34,214,395
Regulatory retail	121,594	30,514	348,950	9,385	343,192	522,105	207,912	19,183	33,072	229,408	136,328	31,514,092	8,081	33,523,817
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	9,092,629	-	9,092,629
Higher risk assets	-	-	4,817	-	-	-	9,209	861	4,853	-	-	23,239	102,580	145,559
Other assets	284	-	2,350	103	170	864	-	705,888	-	295,037	46	213,380	2,115,630	3,333,752
Securitisation	61,741	-	-	-	-	-	-	35,721	-	-	-	-	-	97,462
Equity	-	-	41	-	9	480	6,982	7,224	4,249	42	-	-	41,629	60,656
Defaulted exposures	9,749	154,459	193,126	100,038	364,521	256,372	271,769	36,011	123,502	29,694	36,395	817,032	6,402	2,399,069
Total for on balance sheet exposures	2,490,205	1,936,323	7,496,521	2,306,376	3,737,249	4,664,328	3,059,848	19,733,365	5,471,559	1,517,679	995,623	42,664,698	3,464,971	99,538,745
Off balance sheet exposures														
OTC derivatives	5,608	9,878	44,928	-	15,006	26,552	57,349	1,812,560	-	332	-	-	36,893	2,009,106
Credit derivatives	-	-	-	-	-	-	-	69	-	-	-	-	-	69
Off balance sheet exposures other than OTC derivatives or credit derivatives	260,347	159,178	1,704,507	126,099	2,722,084	1,016,466	473,324	504,673	896,392	321,877	142,379	2,118,108	44,390	10,489,823
Defaulted exposures	30	-	182,535	-	41,808	4,037	100	954	3,426	111	461	8,907	-	242,369
Total for off balance sheet exposures	265,985	169,056	1,931,970	126,099	2,778,898	1,047,055	530,773	2,318,256	899,818	322,320	142,840	2,127,015	81,283	12,741,367
Total on and off balance sheet exposures	**2,756,190**	**2,105,379**	**9,428,491**	**2,432,475**	**6,516,147**	**5,711,383**	**3,590,621**	**22,051,621**	**6,371,377**	**1,839,999**	**1,138,463**	**44,791,713**	**3,546,254**	**112,280,112**

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:

	MARCH 2013														
	Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction	Wholesale, Retail Trade, Restaurant and Hotel	Transport, Storage and Communication	Finance and Insurance	Real Estate	Business Activities	Education and Health	Household	Others	Not allocated	Total
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Impaired loans, advances and financing	20,598	17,888	254,786	25,906	51,111	49,908	18,593	28,287	18,244	18,898	56,066	1,097,427	10,963	-	**1,668,675**
Past due loans / financing	95,204	24,238	362,739	26,315	177,364	163,568	127,191	28,900	146,782	79,861	278,567	14,232,674	11,706	-	**15,755,109**
Individual allowances	5,172	14,686	98,525	24,489	14,292	1,698	6,086	-	5,478	4,215	3,345	2,368	5,768	-	**186,122**
Collective allowances	-	-	-	-	-	-	-	-	-	-	-	-	-	1,948,313	**1,948,313**
Charges for individual allowances	(6,356)	162,567	102,835	(4,775)	17,297	3,986	7,262	855	1,792	344	1,952	(895)	2,313	-	**289,177**
Write-offs against individual allowances	-	147,881	30,859	168	34,903	5,222	2,270	898	9,737	-	2,431	68	1,517	-	**235,954**

	MARCH 2012														
	Agriculture	Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction	Wholesale, Retail Trade, Restaurant and Hotel	Transport, Storage and Communication	Finance and Insurance	Real Estate	Business Activities	Education and Health	Household	Others	Not allocated	Total
	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000	RM '000
Impaired loans, advances and financing	24,406	154,760	208,863	132,208	96,582	46,138	4,600	37,628	26,200	16,501	58,870	1,089,006	10,413	-	**1,906,175**
Past due loans / financing	61,625	169,639	291,125	135,230	303,917	203,402	60,910	40,260	194,792	63,279	351,267	14,417,250	11,423	-	**16,304,119**
Individual allowances	11,528	-	26,549	29,432	31,898	2,934	1,094	43	13,423	4,611	3,824	4,051	4,972	-	**134,359**
Collective allowances	-	-	-	-	-	-	-	-	-	-	-	-	-	2,049,217	**2,049,217**
Charges for individual allowances	(6,502)	227,490	46,217	13,113	13,096	1,322	1,020	977	16,454	2,354	6,255	4,297	(2)	-	**326,091**
Write-offs against individual allowances	7,209	227,490	80,476	153,871	52,118	9,938	8,796	3,275	9,760	-	5,112	1,362	1,329	-	**560,736**

The comparatives for collective assessment allowance have been restated for the effects of the change in accounting policy on collective assessment allowance for loans, advances and financing during the financial year. Details of the restatement are as set out in Note 57 to the financial statements.

Table 5.3: Geographical Distribution of Credit Exposures

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

	MARCH 2013		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ central banks	16,761,345	-	16,761,345
Banks, DFIs and MDBs	6,391,795	22,239	6,414,034
Insurance companies, securities firms & fund managers	4	24,376	24,380
Corporates	41,909,043	25,743	41,934,786
Regulatory retail	35,207,273	-	35,207,273
Residential mortgages	9,683,796	-	9,683,796
Higher risk assets	123,942	992	124,934
Other assets	2,631,562	350,800	2,982,362
Securitisation	84,001	-	84,001
Equity	208,201	38	208,239
Defaulted exposures	1,389,312	-	1,389,312
Total for on balance sheet exposures	114,390,274	424,188	114,814,462
Off balance sheet exposures			
OTC derivatives	2,289,966	-	2,289,966
Credit derivatives	68	-	68
Off balance sheet exposures other than OTC derivatives or credit derivatives	11,790,599	1,318	11,791,917
Defaulted exposures	94,437	-	94,437
Total for off balance sheet exposures	14,175,070	1,318	14,176,388
Total on and off balance sheet exposures	**128,565,344**	**425,506**	**128,990,850**

	MARCH 2012		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ central banks	9,291,109	-	9,291,109
Banks, DFIs and MDBs	6,189,758	1,159,873	7,349,631
Insurance companies, securities firms & fund managers	-	30,666	30,666
Corporates	33,043,953	1,170,442	34,214,395
Regulatory retail	33,523,816	-	33,523,816
Residential mortgages	9,092,479	150	9,092,629
Higher risk assets	141,881	3,678	145,559
Other assets	3,320,929	12,823	3,333,752
Securitisation	97,462	-	97,462
Equity	60,656	-	60,656
Defaulted exposures	2,399,070	-	2,399,070
Total for on balance sheet exposures	97,161,113	2,377,632	99,538,745
Off balance sheet exposures			
OTC derivatives	2,009,106	-	2,009,106
Credit derivatives	69	-	69
Off balance sheet exposures other than OTC derivatives or credit derivatives	10,402,601	87,223	10,489,824
Defaulted exposures	242,369	-	242,369
Total for off balance sheet exposures	12,654,145	87,223	12,741,368
Total on and off balance sheet exposures	**109,815,258**	**2,464,855**	**112,280,113**

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:

	MARCH 2013		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans, advances & financing	1,668,675	-	1,668,675
Past due loans / financing	15,755,109	-	15,755,109
Individual allowances	186,122	-	186,122
Collective allowances	1,934,455	13,858	1,948,313

	MARCH 2012		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans, advances & financing	1,906,175	-	1,906,175
Past due loans / financing	16,304,119	-	16,304,119
Individual allowances	134,359	-	134,359
Collective allowances	2,047,281	4,936	2,052,217

The comparatives for collective assessment allowance have been restated for the effects of the change in accounting policy on collective assessment allowance for loans, advances and financing during the financial year. Details of the restatement are as set out in Note 57 to the financial statements.

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:

	MARCH 2013								
	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	9,621,137	3,137,478	-	-	15,272	426,115	2,776,200	785,143	16,761,345
Banks, development financial institutions & multilateral development banks	3,396,765	1,516,201	518,316	300,261	380,798	20,467	273,356	7,870	6,414,034
Insurance companies, securities firms & fund managers	5	-	24,375	-	-	-	-	-	24,380
Corporates	10,832,789	3,204,293	3,814,582	1,514,419	4,733,823	5,329,753	12,418,938	86,189	41,934,786
Regulatory retail	1,900,825	46,001	98,378	252,862	3,322,940	5,837,492	23,493,517	255,258	35,207,273
Residential mortgages	16,420	995	1,114	4,244	46,530	122,851	9,491,642	-	9,683,796
Higher risk assets	462	16	16	58	421	688	22,916	100,357	124,934
Other assets	1,373,540	-	-	-	-	-	28,123	1,580,699	2,982,362
Securitisation	65	-	-	-	-	-	71,905	12,031	84,001
Equity	38,224	-	-	-	-	-	4,502	165,513	208,239
Defaulted exposures	260,878	105,042	72,259	91,567	124,320	127,156	608,090	-	1,389,312
Total for on balance sheet exposures	27,441,110	8,010,026	4,529,040	2,163,411	8,624,104	11,864,522	49,189,189	2,993,060	114,814,462
Off balance sheet exposures									
OTC derivatives	101,393	86,477	38,267	84,880	351,884	688,270	938,795	-	2,289,966
Credit derivatives	68	-	-	-	-	-	-	-	68
Off balance sheet exposures other than OTC derivatives or credit derivatives	1,839,367	836,707	1,460,088	1,989,462	1,856,390	671,691	3,137,768	444	11,791,917
Defaulted exposures	21,807	11,934	3,382	30,297	23,988	945	2,084	-	94,437
Total for off balance sheet exposures	1,962,635	935,118	1,501,737	2,104,639	2,232,262	1,360,906	4,078,647	444	14,176,388
Total on and off balance sheet exposures	**29,403,745**	**8,945,144**	**6,030,777**	**4,268,050**	**10,856,366**	**13,225,428**	**53,267,836**	**2,993,504**	**128,990,850**

Table 5.5: Residual contractual maturity by major types of credit exposure (Contd.)

	MARCH 2012								
	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	5,391,611	250,043	-	-	45,528	-	3,591,688	12,239	9,291,110
Banks, development financial institutions & multilateral development banks	3,510,111	2,464,885	363,649	822	676,957	279,412	23,737	30,058	7,349,632
Insurance companies, securities firms & fund managers	-	-	30,666	-	-	-	-	-	30,666
Corporates	6,793,107	2,929,988	1,884,272	1,607,104	6,369,983	3,588,413	11,008,646	32,882	34,214,395
Regulatory retail	1,888,344	55,531	81,129	203,130	3,389,757	6,224,884	21,681,041	-	33,523,817
Residential mortgages	10,689	862	876	6,164	48,963	114,495	8,910,580	-	9,092,628
Higher risk assets	3,766	81	30	269	9,776	5,064	27,053	99,520	145,559
Other assets	1,352,108	-	-	8,230	-	166,664	21,166	1,785,584	3,333,752
Securitisation	3,601	-	-	-	-	-	93,861	-	97,462
Equity	-	-	-	-	8,202	-	10,957	41,497	60,656
Defaulted exposures	588,497	55,581	295,247	16,669	401,628	199,870	841,578	-	2,399,069
Total for on balance sheet exposures	19,541,834	5,756,971	2,655,869	1,842,388	10,950,794	10,578,802	46,210,307	2,001,780	99,538,746
Off balance sheet exposures									
OTC derivatives	102,580	95,126	68,437	93,670	240,180	722,535	686,578	-	2,009,106
Credit derivatives	-	1	-	-	39	19	10	-	69
Off balance sheet exposures other than OTC derivatives or credit derivatives	1,907,047	603,352	1,156,941	2,218,000	1,358,425	623,983	2,622,076	-	10,489,824
Defaulted exposures	29,229	10,443	4,593	113,786	64,433	5,371	14,514	-	242,369
Total for off balance sheet exposures	2,038,856	708,922	1,229,971	2,425,456	1,663,077	1,351,908	3,323,178	-	12,741,368
Total on and off balance sheet exposures	**21,580,690**	**6,465,893**	**3,885,840**	**4,267,844**	**12,613,871**	**11,930,710**	**49,533,485**	**2,001,780**	**112,280,114**

Table 5.6: Reconciliation of Changes to Loans/ Financing Impairment Allowances

The reconciliation of changes to aggregated loan/ financing impairment allowances of the Group is as follows:

	MARCH 2013	
	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at 1 April	134,359	2,049,217
Charge for the year – net	287,717	441,992
Amount written-off	(235,954)	(548,105)
Amount written-off	-	-
Amount transferred from AmIslamic Bank	-	1,871
Amount transferred to AmBank	-	(1,871)
Exchange differences	-	5,209
Balance at 31 March	186,122	1,948,313

	(Charge off)/recoveries RM'000
Bad debts written off during the year	(81,613)
Bad debt recoveries during the year	631,562

	MARCH 2012	
	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at 1 April	371,430	2,216,502
Charge for the year – net	323,665	569,875
Amount written-off	(560,736)	(737,177)
Exchange differences	-	17
Balance at 31 March	134,359	2,049,217

	(Charge off)/recoveries RM'000
Bad debts written off during the year	(111,810)
Bad debt recoveries during the year	615,931

* as at 31 March 2013, the gross exposure and collective allowance relating to the RPSIA financing are RM500.9 million and
There was no individu allowance provided for the RPSIA financing.

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:

MARCH 2013

	Exposures after netting and credit risk mitigation											
Risk Weights	Sovereigns & Central Banks RM'000	Banks, MDBs and FDIs RM'000	Insurance Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residental 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	Total Risk Weighted Assets RM'000
0%	16,761,345	34,782	-	2,793,494	-	-	-	527,677	-	-	20,117,298	-
20%	40,448	6,505,926	-	1,900,834	88,775	-	-	25,111	69,963	-	8,631,057	1,726,211
35%	-	-	-	-	-	8,658,936	-	-	-	-	8,658,936	3,030,628
50%	-	1,881,671	-	413,604	45,382	1,129,526	-	-	10,394	-	3,480,577	1,740,287
75%	-	-	-	-	36,352,054	-	-	-	-	-	36,352,054	27,264,040
100%	313	9,063	65,062	43,088,639	1,271,275	119,603	-	2,429,575	-	208,239	47,191,769	47,191,769
150%	-	-	-	496,485	170,814	-	143,053	-	-	-	810,352	1,215,529
1250%	-	-	-	-	-	-	-	-	3,644	-	3,644	45,556
Total	16,802,106	8,431,442	65,062	48,693,056	37,928,300	9,908,065	143,053	2,982,363	84,001	208,239	125,245,687	82,214,020
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	

MARCH 2012

	Exposures after netting and credit risk mitigation											
Risk Weights	Sovereigns & Central Banks RM'000	Banks, MDBs and FDIs RM'000	Insurance Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residental 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	Total Risk Weighted Assets RM'000
0%	8,909,046	-	-	985,852	-	-	-	458,241	-	-	10,353,139	-
20%	63,530	7,037,288	-	1,559,023	159,004	-	-	312,913	77,720	-	9,209,478	1,841,896
35%	-	-	-	-	-	7,432,161	-	-	-	-	7,432,161	2,601,256
50%	-	2,025,756	-	688,542	80,329	1,670,163	-	-	10,296	-	4,475,086	2,237,544
75%	-	-	-	-	34,768,301	-	-	-	-	-	34,768,301	26,076,226
100%	-	14	107,325	36,646,382	596,076	213,554	-	2,562,598	-	60,656	40,186,605	40,186,605
150%	-	-	-	1,321,136	453,211	-	158,150	-	-	-	1,932,497	2,898,746
1250%	-	-	-	-	-	-	-	-	9,446	-	9,446	-
Total	8,972,576	9,063,058	107,325	41,200,935	36,056,921	9,315,878	158,150	3,333,752	97,462	60,656	108,366,713	75,842,272
Deduction from Capital Base	-	-	-	-	-	-	-	-	9,446	-	9,446	

Table 6.2: Rated Exposures According to Ratings by ECAIs

	MARCH 2013					
	Ratings of Corporate by Approved ECAIs					
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	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 cos., securities firms & fund managers	65,062	-	-	-	-	65,062
Corporates	52,100,273	1,218,565	300,208	107,971	-	50,473,529
Total	52,165,335	1,218,565	300,208	107,971	-	50,538,591

	MARCH 2012					
	Ratings of Corporate by Approved ECAIs					
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	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 cos., securities firms & fund managers	107,325	-	-	-	-	107,325
Corporates	41,200,934	1,077,887	504,568	109,022	3,617	39,505,841
Total	41,308,259	1,077,887	504,568	109,022	3,617	39,613,166

Table 6.2: Rated Exposures According to Ratings by ECAIs (Contd.)

Exposure class	MARCH 2013					
	Short term Ratings of Banking Institutions and Corporate by Approved ECAIs					
	Moodys	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+ F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3-	MARC-4	Unrated
	Rating & Investment Inc.	a-1+,a-1	a-2	a-3	b,c	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Banks, MDBs and FDIs	133,446	133,446	-	-	-	-

Exposure class	MARCH 2012					
	Short term Ratings of Banking Institutions and Corporate by Approved ECAIs					
	Moodys	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+ F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3-	MARC-4	Unrated
	Rating & Investment Inc.	a-1+,a-1	a-2	a-3	b,c	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Banks, MDBs and FDIs	135,459	135,459	-	-	-	-

Table 6.2: Rated Exposures According to Ratings by ECAIs (Contd.)

	MARCH 2013					
	Ratings of Sovereigns and Central Banks by Approved ECAIs					
Exposure Class	Moodys	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	**16,802,106**	-	16,552,975	-	-	249,131
Total	**16,802,106**	**-**	**16,552,975**	**-**	**-**	**249,131**

	MARCH 2012					
	Ratings of Sovereigns and Central Banks by Approved ECAIs					
Exposure Class	Moodys	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	**8,972,576**	-	8,972,576	-	-	-
Total	**8,972,576**	**-**	**8,972,576**	**-**	**-**	**-**

Table 6.2: Rated Exposures According to Ratings by ECAIs (Contd.)

	MARCH 2013					
	Ratings of Banking Institutions by Approved ECAIs					
Exposure class	Moodys	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	**8,297,996**	2,116,024	1,090,982	2,455,735	61	2,635,194
Total	**8,297,996**	**2,116,024**	**1,090,982**	**2,455,735**	**61**	**2,635,194**

	MARCH 2012					
	Ratings of Banking Institutions by Approved ECAIs					
Exposure class	Moodys	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	**8,927,598**	2,894,132	444,000	1,766,958	14	3,822,494
Total	**8,927,598**	**2,894,132**	**444,000**	**1,766,958**	**14**	**3,822,494**

Table 6.3: Securitisation According to Ratings by ECAIs

	MARCH 2013			
	Ratings of Securitisation by Approved ECAIs			
Exposure class	Moodys	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	**84,001**	69,963	10,394	3,644
Total	84,001	69,963	10,394	3,644

	MARCH 2012			
	Ratings of Securitisation by Approved ECAIs			
Exposure class	Moodys	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 &	AAA to AA-	A+ to A-	Unrated
	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures				
Securitisation	**97,462**	77,720	10,296	9,446
Total	97,462	77,720	10,296	9,446

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's 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.

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/ financing proposals are an integral component in transaction structuring for the Group. The guarantee of a financially strong party can help improve the risk grade of a transaction through its explicit support of the borrower/ customer, where borrower's/ customer's risk grade will be enhanced 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/customer 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.

Table 7.1: Credit Risk Mitigation

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

	MARCH 2013		
Exposures	Exposures before CRM RM'000	Exposures covered by Guarantees RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit risk			
On balance sheet exposures			
Sovereigns/ central banks	16,761,345	-	-
Banks, development financial institutions & MDBs	6,414,034	-	-
Insurance cos, securities firms & fund managers	-	-	-
Corporates	10,949,627	515,950	1,866,951
Regulatory retail	44,197,697	33,675	5,660,519
Residential mortgages	22,166,333	76,484	335,558
Higher risk assets	9,550,789	-	60,432
Other assets	351,055	-	-
Specialised Financing/ Investment	1,715,922	-	-
Securitisation	84,001	-	-
Equity	1,234,347	-	-
Defaulted exposures	1,389,312	13,219	161,403
Total for on balance sheet exposures	114,814,462	639,328	8,084,863
Off balance sheet exposures			
OTC derivatives	2,289,966	-	-
Credit derivatives	68	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	11,791,917	9,492	1,768,930
Defaulted exposures	94,437	1	8,571
Total for off balance sheet exposures	14,176,388	9,493	1,777,501
Total on and off balance sheet exposures	**128,990,850**	**648,821**	**9,862,364**

	MARCH 2012		
Exposures	Exposures before CRM RM'000	Exposures covered by Guarantees RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit risk			
On balance sheet exposures			
Sovereigns/ central banks	9,291,109	-	384,570
Banks, development financial institutions & MDBs	7,349,631	-	-
Insurance cos, securities firms & fund managers	30,666	-	-
Corporates	34,214,395	138,738	6,723,344
Regulatory retail	33,523,816	132,160	324,733
Residential mortgages	9,092,629	-	51,298
Higher risk assets	145,559	-	-
Other assets	3,333,752	-	-
Securitisation	97,462	-	-
Equity	60,656	-	-
Defaulted exposures	2,399,070	28,415	626,196
Total for on balance sheet exposures	99,538,745	299,313	8,110,141
Off balance sheet exposures			
OTC derivatives	2,009,106	-	-
Credit derivatives	69	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	10,489,824	4,563	1,519,297
Defaulted exposures	242,369	-	98,064
Total for off balance sheet exposures	12,741,368	4,563	1,617,361
Total on and off balance sheet exposures	**112,280,113**	**303,876**	**9,727,502**

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.
- Variation to the above generic methodology is allowed for specific product.

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.

Table 8.1: Off Balance Sheet Exposures

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

	MARCH 2013			
Description	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	1,505,669		1,393,584	1,194,032
Transaction related contingent Items	4,393,242		2,252,662	1,645,676
Short Term Self Liquidating trade related contingencies	676,656		135,308	100,384
Assets sold with recourse	100		100	100
Forward Asset Purchases	108,266		10,072	7,114
Obligations under underwriting agreements	330,000		-	-
Foreign exchange related contracts				
One year or less	23,212,269	82,917	241,875	133,707
Over one year to five years	3,440,503	39,238	328,167	246,358
Over five years	837,446	32,439	212,963	164,560
Interest/Profit rate related contracts				
One year or less	4,548,404	5,343	13,907	4,760
Over one year to five years	22,110,386	96,743	694,104	271,428
Over five years	9,682,407	112,921	725,832	383,716
Equity related contracts				
One year or less	328,613	1,528	5,732	2,686
Over one year to five years	612,629	5,268	36,936	16,703
Over five years	21	2	-	-
Other Commodity Contracts				
One year or less	159,844	419	8,411	4,206
Over one year to five years	355,892	1,428	22,781	11,390
Credit Derivative Contracts				
One year or less	267,510	-	39	8
Over one year to five years	298,274	1,978	18	7
Over five years	297,752	10,952	11	5
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	6,925,080		3,478,927	3,039,849
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	19,859,798		3,975,392	3,612,292
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	100		200	200
Unutilised credit card lines	3,196,835		639,367	476,873
Total	**103,147,696**	**391,176**	**14,176,388**	**11,316,054**

Table 8.1: Off Balance Sheet Exposures (Contd.)

Description	MARCH 2012			
	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Direct Credit Substitutes	1,925,356		1,925,355	1,707,892
Transaction related contingent Items	3,608,457		1,804,229	1,311,315
Short Term Self Liquidating trade related contingencies	694,637		138,654	126,369
Assets sold with recourse	-		-	-
Forward Asset Purchases	486,724		18,373	6,792
Obligations under underwriting agreements	513,100		-	-
Foreign exchange related contracts				
One year or less	20,376,729	117,097	290,030	149,459
Over one year to five years	3,145,654	26,001	325,855	240,346
Over five years	58,532	-	11,706	5,854
Interest/Profit rate related contracts				
One year or less	14,448,655	19,931	55,617	33,130
Over one year to five years	18,849,399	94,269	587,236	217,854
Over five years	8,042,138	93,824	674,872	338,101
Equity related contracts				
One year or less	514,710	2,132	10,251	10,216
Over one year to five years	433,732	12,763	32,414	15,885
Over five years	20	-	-	-
Other Commodity Contracts				
One year or less	78,630	-	3,932	786
Over one year to five years	224,619	3,731	17,208	8,604
Credit Derivative Contracts				
One year or less	61,290	140	1	-
Over one year to five years	549,473	14,974	58	25
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	5,640,166		2,820,087	2,405,709
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	16,690,364		3,338,126	3,110,261
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	100		200	200
Unutilised credit card lines	3,435,769		687,154	513,133
Total	100,071,037	391,047	12,741,368	10,201,933

Table 8.2: Credit Derivatives Counterparty Credit Risk ("CCR")

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

		31 MARCH 2013		31 MARCH 2012	
		Sell Leg	Buy Leg	Sell Leg	Buy Leg
Usage	Product	Notional Exposure for Protection Sold RM'000	Notional Exposure for Protection Bought RM'000	Notional Exposure for Protection Sold RM'000	Notional Exposure for Protection Bought RM'000
Intermediation	Credit default swap	425,088	438,448	451,749	468,693

* Out of the total notional exposure for protection bought as at 30 September 2012, RM421,948,000 (31 March 2012: RM452,193,000) has no counterpart credit risk exposure because it is on a fully funded basis.

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

Securitisation exposures held in the trading books of the Group are subjected to market risk capital charge using the Standardised Approach.

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

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 pool 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 asa 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 sponsor[4], 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.

9.2.5 Accounting Policies for Securitisation

[4] 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.

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 and where applicable, international rating agency for securitisation transactions purposes.

Table 9.1: Securitisation (Trading and Banking Book)

The aggregated securitised exposures of the Group are as follows:

Underlying Asset (Banking Book)	MARCH 2013			
	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	235,946	-	144,021	-
Mortgage loans	701,729	-	693,572	-
Total Traditional Securitisation	937,675	-	837,593	-
Total Synthetic Securitisation	**-**	**-**	**-**	**-**
Total Traditional & Synthetic Securitisation	**937,675**	**-**	**837,593**	**-**

Underlying Asset (Banking Book)	MARCH 2012			
	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	2,000,836	-	1,837,878	-
Mortgage loans	993,780	-	397,334	-
Total Traditional Securitisation	2,994,616	-	2,235,212	-
Total Synthetic Securitisation	**-**	**-**	**-**	**-**
Total Traditional & Synthetic Securitisation	**2,994,616**	**-**	**2,235,212**	**-**

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

	MARCH 2013					
Securitisation Exposures by Exposure Type	**Exposure Value of Positions Purchased or Retained RM'000**	**Exposure after CRM RM'000**	**Exposures subject to deduction RM'000**	**Distribution of Exposures after CRM according to Appplicable Risk Weights Rated Securitisation Exposures or Risk weights of Guarantees/ Credit Derivatives 20% RM'000**	**50% RM'000**	**Risk Weighted Assets RM'000**
Traditional Securitisation						
Originated by Third Party						
On-Balance Sheet	80,357	80,357	-	69,963	10,394	19,190
Originated by the Group						
On-Balance Sheet	3,644	3,644	-	-	-	45,556
Total Traditional Securitisation	84,001	84,001	-	69,963	10,394	64,746
Total Synthetic	-	-	-	-	-	-
Total Traditional & Synthetic Securitisation	**84,001**	**84,001**	**-**	**69,963**	**10,394**	**64,746**

	MARCH 2012					
Securitisation Exposures by Exposure Type	**Exposure Value of Positions Purchased or Retained RM'000**	**Exposure after CRM RM'000**	**Exposures subject to deduction RM'000**	**Distribution of Exposures after CRM according to Appplicable Risk Weights Rated Securitisation Exposures or Risk weights of Guarantees/ Credit Derivatives 20% RM'000**	**50% RM'000**	**Risk Weighted Assets RM'000**
Traditional Securitisation						
Originated by Third Party						
On-Balance Sheet	176,032	176,032	-	155,438	20,592	41,384
Originated by the Group						
On-Balance Sheet	97,462	97,462	9,446	77,719	10,296	20,692
Total Traditional Securitisation	273,494	273,494	9,446	233,157	30,888	62,076
Total Synthetic	-	-	-	-	-	-
Total Traditional & Synthetic Securitisation	**273,494**	**273,494**	**9,446**	**233,157**	**30,888**	**62,076**

Table 9.3: Securitisation under the Standardised Approach for Banking Book Exposures

	MARCH 2013				
Securitisation Exposures by Exposure Type	**Exposures Value of Positions Purchased or Retained RM'000**	**Exposures subject to deduction RM'000**	**General Risk Charge RM'000**	**Specific Risk Charge RM'000**	**Risk Weighted Assets RM'000**
Traditional Securitisation					
Originated by Third Party					
On-Balance Sheet by Exposure Type - others	111,335	-	2,966	2,227	64,913
Total Traditional Securitisation	111,335	-	2,966	2,227	64,913
Total Synthetic Securitisation	-	-	-	-	-
Total Traditional & Synthetic Securitisation	111,335	-	2,966	2,227	64,913

	MARCH 2012				
Securitisation Exposures by Exposure Type	**Exposures Value of Positions Purchased or Retained RM'000**	**Exposures subject to deduction RM'000**	**General Risk Charge RM'000**	**Specific Risk Charge RM'000**	**Risk Weighted Assets RM'000**
Traditional Securitisation					
Originated by Third Party					
On-Balance Sheet by Exposure Type - others	20,922	-	168	210	4,726
Total Traditional Securitisation	20,922	-	168	210	4,726
Total Synthetic Securitisation	-	-	-	-	-
Total Traditional & Synthetic Securitisation	20,922	-	168	210	4,726

10.0 Operational Risk

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

Identification	• Identify and analyse risks in key processes/activities within Line of Business (including new products)
Assessment/Measurement	• Incident Management and Data Collection • Risk and Control Self Assessment • Key Risk Indicators
Control/ Mitigation	• Policies addressing control & governance requirements to mitigate specific operational risk • Advisory on the establishment of internal controls • Contingency planning
Monitoring/ Review	• 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 but is not limited to 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 Line of Business.
- 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 Group Operational and Legal Risk Management Committee ("GOLRC")/ Group CEOs Committee, Chief Executive Officer Committee ("CEO Committee") and Risk Management Committee of Directors ("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 Line of Business, 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 operational risk incidents 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 operational risks exposure in future 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 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/ Group CEOs Committee an executive committee which comprises senior management members of various business divisions and support units, Group Chief Risk Officer and Head of Operational Risk. The RMCD, CEO Committee and the GOLRC/ Group CEOs Committee 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.

10.1 Business Continuity Management

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

Identification	• Identify events that potentially threaten the business operations and areas of criticality.
Assessment/Measurement	• Business Impact Analysis • Threat Assessment
Control/ Mitigation	• Policies governing the BCM implementation • BCM methodologies controlling the process flow • Implementing the Business Continuity Plan
Monitoring/ Review	• BCM Plan testing and exercise • Review of BCM Plan • Plan 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 to enhance the BCM capability throughout all critical departments 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.

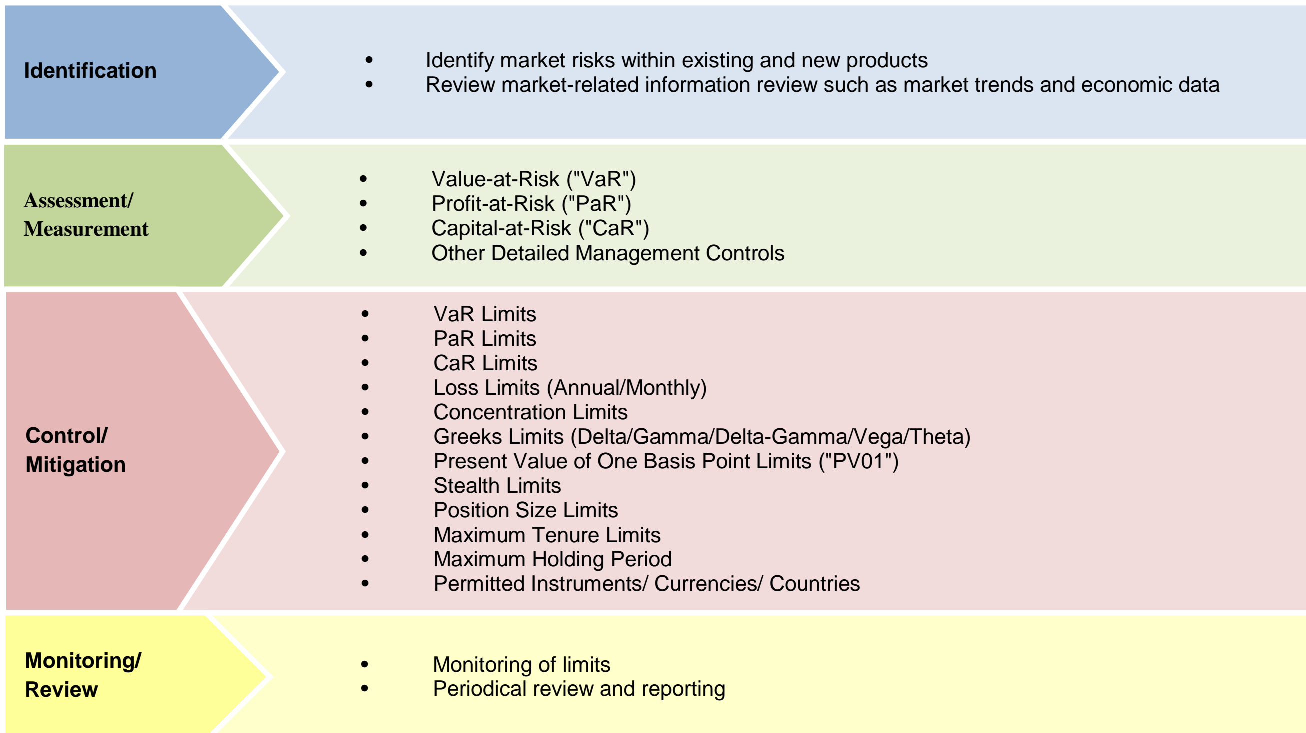
Legal risk is overseen by GOLRC/ Group CEOs Committee, upon advice by internal legal counsel and, where necessary, in consultation with external legal counsel to ensure that such risk is minimised.

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 Group Market Risk ("GMR"). For Islamic products and activities, the Shariah compliance risk is also assessed and monitored (please refer to Section 14 for discussion on Shariah Governance).

11.1 Traded Market Risk

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.



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

VaR, PaR, CaR and other detailed management controls 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 (i.e. Annual Loss Limit). 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 due to 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 controls (e.g. Greek Limits/ PV01) and indicators are used to monitor changes in portfolio value due to changes in risk factors under different market conditions.

GMR monitors and reports risk exposures against limits on a daily basis. Portfolio market risk positions are also reported to GTMRC/ Group CEOs Committee, RMCD and the Board. Furthermore, policies and procedures are in place to ensure prompt action is taken in the event of non-adherence to limits. Business Units exposed to traded market risk are required to maintain risk exposures within approved risk limits. Business Units are required to provide an action plan to address any non-adherence to limits. The action plan must be approved by Senior Management.

The Group adopts the Standardised Approach for market risk capital charge computation. The capital charge serves as a buffer against losses from potential adverse market movements.

GMR 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 for proprietary trading.

- 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. Investments in unlisted securities are measured at cost less impairment loss (if any).

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

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:

	MARCH 2013	MARCH 2012
Non traded equity investments	**RM'000**	**RM'000**
Value of quoted (publicly traded) equities	233,680	113,344
Value of unquoted (privately held) equities	102,467	102,381
Total	336,147	215,725
Net realised and unrealised gains/ (losses)		
Cumulative realised gains/ (losses) from sales and liquidations	259	4,113
Total unrealised gains/ (losses)	(3,573)	(403)
Total	(3,314)	3,710
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	232,784	112,228
Equity investments subject to a 150% risk weight	155,045	155,246
Total	387,829	267,474
Total minimum capital requirement (8%)	31,026	21,398

13.0 Non-Traded Market Risk

13.1 Interest Rate Risk/ Rate of Return Risk in the Banking Book

The interest rate risk/ rate of return risk in the banking book ("IRR/ RORBB") risk management process is depicted in the table below:

Identification	• Identify IRR/ RORBB within existing and new products. • Review market-related information review such as market trend and economic data.
Assessment/ Measurement	• Value-at-Risk ("VaR") • Earnings-at-Risk ("EaR")
Control/ Mitigation	• VaR Limits • EaR Limits
Monitoring/ Review	• Monitoring of 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 margins and implied volatilities on interest/ profit rate options. The provision of retail and wholesale banking products and services (primarily lending/ financing 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 IRR/ RORBB and funding risk, and to manage the market value of Group's capital.

The Board's oversight of IRR/ RORBB is supported by the GALCO/ Group CEOs Committee. GALCO/ Group CEOs Committee is responsible for the alignment of Group-wide risk appetite and funding needs, taking into consideration Group-wide business strategies. GALCO/ Group CEOs Committee consistently oversees 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 IRR/ RORBB is maintained. The Group has successfully engaged long-term borrowings and written interest/ profit rate swaps to manage IRR/ RORBB, and maintained an acceptable gapping profile as a result. In accordance with the Group's policy, positions are monitored on a daily basis and hedging strategies are employed 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 IRR/ RORBB 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 IRR/ RORBB 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 incorporate 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 IRR/ RORBB within Board-approved limits. This is achieved through the ability to reposition the interest/profit rate exposure of the statement of financial position 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 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 daily and reported to GALCO/ Group CEOs Committee.

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 market disruption, and to a lesser extent, significant drawdown of funds from previously contracted financing and purchase commitments. Funding risk is the risk of ongoing ability to raise sufficient funds to finance actual and proposed business activities at a reasonable cost. Funding and liquidity risk are interrelated as improper funding risk management may lead to liquidity problem while insufficient liquidity risk management may also give rise to funding risk.

The liquidity risk management of the Group is aligned with the New Liquidity Framework issued by Bank Negara Malaysia. 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. This objective is partly managed through maintenance of a portfolio of high-quality liquid assets to protect against adverse funding conditions and support day-to-day operations. 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.

The GALCO/ Group CEOs Committee 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 Management propose and oversee the implementation of policies and other controls relating to the above risks.

The Group has put in place a Contingency Funding Plan to identify early warning signals of possible liquidity problem. The Contingency Funding Plan also sets out the detailed responsibilities among the relevant departments in the event of actual liquidity crises occurring 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/ financing to customers. They are monitored using the adjusted loans/ financing to deposit ratio, which compares loans/ financing and advances to customers as a percentage of customer deposit accounts, together with term funding with original term of maturity in excess of three years.

As conservative liquidity management practice, part of the Group's medium term assets is funded by medium term liabilities. Medium term is defined by the Group as remaining term to maturity in excess of one year.

In preparation to the impending implementation of Basel III liquidity metrics, the Group is putting in place the measurement mechanism and strategizing for ensuring availability of cost effective liquidity. Subject to finalisation of the detailed regulations, the Group is confident of meeting Bank Negara Malaysia's requirements on Basel III liquidity metrics in accordance with its recently approved timetable for implementation.

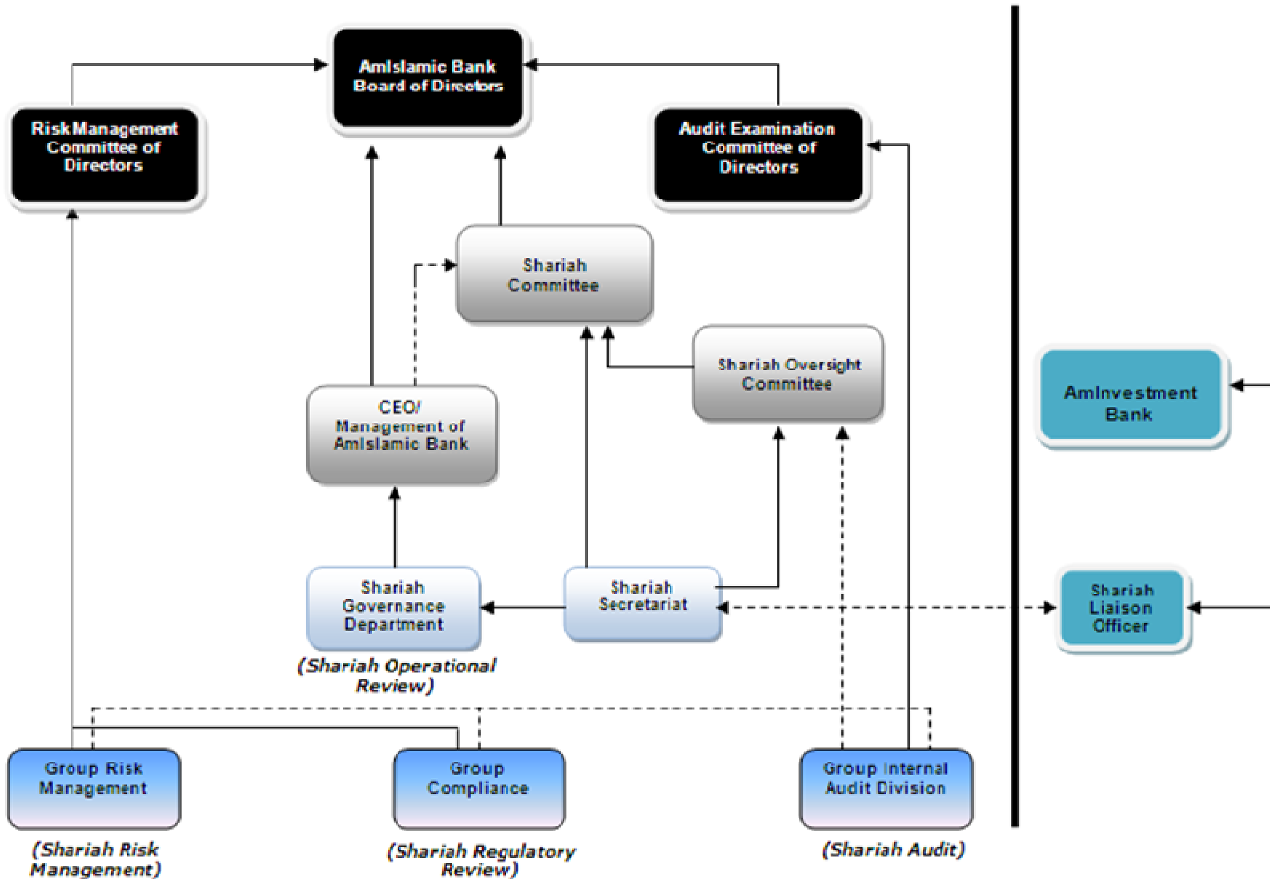
Table 13.1: Market Risk Sensitivity – Interest Rate Risk/ Rate of Return Risk in the Banking Book

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

Impact On Profit Before Taxation	**MARCH 2013**	
Currency	**Interest Rate / Rate of Return + 100 bps RM'000**	**Interest Rate / Rate of Return - 100 bps RM'000**
MYR	97,968	(97,968)
Impact on Equity		
Currency	**Interest Rate / Rate of Return + 100 bps RM'000**	**Interest Rate / Rate of Return - 100 bps RM'000**
MYR	(551,226)	612,058

Impact On Profit Before Taxation	**MARCH 2012**	
Currency	**Interest Rate / Rate of Return + 100 bps RM'000**	**Interest Rate / Rate of Return - 100 bps RM'000**
MYR	73,348	(73,348)
Impact on Equity		
Currency	**Interest Rate / Rate of Return + 100 bps RM'000**	**Interest Rate / Rate of Return - 100 bps RM'000**
MYR	(229,846)	258,155

14.0 Shariah Governance Structure



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 for AmIslamic Bank ("The Bank") in line with the requirement of Bank Negara Malaysia's "Shariah Governance Framework for Islamic Financial Institutions". The Bank has continued to enhance its overall Shariah governance in line with the regulatory policies as a prudential measure.

AmInvestment Bank Berhad leverages on the Bank's infrastructure on Shariah governance, including the Shariah Committee / Shariah Oversight 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 Examination Committee of Directors (AEC), Risk Management Committee of Directors (RMCD) and Shariah Committee.

Audit Examination Committee

AEC is a Board committee responsible for assisting the Board in ensuring Islamic Banking operations of the Group is Shariah compliant through oversight of the Shariah Audit function.

Risk Management Committee of Directors

RMCD is a Board committee responsible for assisting the Board in ensuring risk management and control processes are in place and functioning, including Shariah risk management and Shariah regulatory review.

Shariah Committee

The Shariah Committee is responsible and accountable on matters related to Shariah. This includes advising the Board and Management on Shariah matters and endorsing and validating products and services, and the operations in relation to Islamic Banking. The Shariah Committee reports functionally to AmIslamic Bank's Board of Directors and this provides for the independence of the Shariah Committee in exercising their duties.

Shariah Oversight Committee

The Shariah Oversight Committee, which is a sub-committee to the Shariah Committee performs an oversight function for the key Shariah functions of Shariah review, Shariah audit, and Shariah risk management. Shariah Oversight Committee shall provide guidance and advice on matters pertaining to Shariah non-compliant incidents as well as treatment of Shariah non-compliant income (if any).

Chief Executive Officer / Management

The Chief Executive Officer (CEO) / Management is responsible to make reference to the Shariah Committee / Shariah Oversight Committee on Shariah issues and to take necessary measures for implementation of Shariah Committee/ Shariah Oversight Committee's advice and decisions. The CEO / Management is also responsible in setting the infrastructure and providing the environment and adequate resources to support the Shariah governance framework. This includes putting in place adequate systems and controls in order to ensure compliance with Shariah and to mitigate Shariah risk.

Shariah Governance Department

The Shariah Governance Department operates as a one-stop centre for all Shariah related operational issues of Islamic businesses. This includes providing day-to-day Shariah advisory and support function, Shariah operational review, Shariah research, and as Secretariat to the Shariah Committee and Shariah Oversight Committee. In addition, the Shariah Governance Department also performs the zakat and charity management.

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 through Shariah audit function. Areas of audit include documentation, adequacy of internal controls, systems and computation, and staff competency.

Group Compliance Department

Group Compliance Department undertakes the Shariah compliance review from a regulatory perspective. This will be executed based on the Shariah Regulatory Review Framework, which consists of the Compliance Monitoring & Reporting (CMR) and Shariah Compliance Review. CMR is a periodical self-assessment by the Departments via a structured process and Compliance Review is performed to review on department's compliance with Shariah requirements and effectiveness of the self-assessment performed.

Group Risk Management Department

Group Risk Management Department provides the infrastructure and platform to facilitate Shariah risk management function within the Group. This includes identification, measurement, monitoring, and control of Shariah risk to mitigate any occurrence of Shariah non-compliance incidences.

14.1 Shariah non-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 Shariah non-compliant incidents. In the event of any Shariah non-compliant incident, the Shariah Oversight Committee will deliberate and make recommendation for the Shariah Committee's approval. The Shariah Committee is responsible to oversee the management and distribution of the charity fund.