AmInvestment Bank Group

RWCAF - Pillar 3 Disclosures

31 March 2015

AmInvestment Bank Berhad Group
RWCAF - Pillar 3 Disclosures
for 31 March 2015

Contents

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 ("CAFIB") – Disclosure Requirements ("Pillar 3") is applicable to all banking institutions licensed under the Financial Services Act 2013 ("FSA") and all Islamic banks licensed under the Islamic Financial Services Act 2013 ("IFSA") . 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.

The following information has been provided in order to highlight the capital adequacy of AmInvestment Bank ("the Bank") and its subsidiaries ("the Group"). The information provided has been verified by the Group internal auditors and certified by the Chief Executive Officer.

Frequency of Disclosure

Full disclosure requirements under the BNM guidelines are made on an annual and semi-annual basis except for disclosures under paragraph 10.1 of the guidelines and all qualitative disclosures which are made on an annual basis if there are no material changes in the interim reporting periods.

Medium and Location of Disclosure

These Pillar 3 disclosures of the Group are available on Group's corporate website at www.ambankgroup.com.

Capital Adequacy Ratios

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) and Capital Adequacy Framework for Islamic Banks (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 banking 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 requirements for 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 AmInvestment Bank comprise the financial statements of the Bank and the financial statements of all its controlled entities (individually referred to as the "group entities") where it is determined that there is a capacity to control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

Type of entity	Accounting treatment	
	Statutory reporting	Basel III regulatory reporting
Subsidiaries licensed under FSA or IFSA 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 FSA or IFSA or engaged in financial activities	Equity accounted	Deducted in calculation of capital
Associates and jointly controlled entities which are not licensed under FSA or IFSA 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.

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 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 statement of financial position, commitments & contingenciesits 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 organisationorganizszation. . Where we operate in other jurisdictions, capital is maintained on the basis of the local regulator's requirements. It is overseen by the Group Chief Executive Officers Committee ("Group CEOs Committee"). The Group CEOs Committee is also 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.

2.0 Capital Management (Contd.)

Group CEOs CommitteeGALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ending 31 March 2015 ("FY 2015"), these ranges are 87.05 per cent to 109.05 per cent for the Common Equity Tier 1 capital ratio, 9.5 per cent to 11.5 per cent for the Tier 1 capital ratio, and 143.05 per cent to 165.05 per cent for the Total Capital ratio. The Group has been operating above these ranges.

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.

Table 2.1: Capital Adequacy Ratios

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

	31 MARCH 2015		31 MARCH 2014 (Restated)	
	Group	Bank	Group	Bank
Before deducting proposed dividends:				
CET 1 Capital Ratio	28.744%	24.196%	20.203%	16.863%
Tier 1 Capital Ratio	28.744%	24.196%	20.203%	16.863%
Total Capital Ratio	28.744%	24.196%	20.203%	16.863%
After deducting proposed dividends:				
CET 1 Capital Ratio	27.534%	22.820%	20.203%	16.863%
Tier 1 Capital Ratio	27.534%	22.820%	20.203%	16.863%
Total Capital Ratio	27.534%	22.820%	20.203%	16.863%

Notes:
The comparative capital adequacy ratios were restated arising from restatement of certain comparative figures. This restatement also affected certain disclosures in Table 2.2, 5.1, 5.3, 5.5, 6.1 and 7.1.

(b) The capital adequacy ratios of the Islamic window of the Bank are as follows:

	31 MARCH 2015 Islamic Window	31 MARCH 2014 Islamic Window
Before deducting proposed dividends:		
CET 1 Capital Ratio	107.696%	75.606%
Tier 1 Capital Ratio	107.696%	75.606%
Total Capital Ratio	107.696%	75.606%
After deducting proposed dividends:		
CET 1 Capital Ratio	107.696%	75.606%
Tier 1 Capital Ratio	107.696%	75.606%
Total Capital Ratio	107.696%	75.606%

Table 2.2 Risk-Weighted Assets and Capital Requirements

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

		31 MARCH 2015				
Exposure class	**RM'000**	**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM") RM'000**	**Net exposures/ EAD after CRM RM'000**	**Risk weighted assets RM'000**	**Total Risk Weighted Assets after effects of PSIA RM'000**	**Minimum capital requirement at 8% RM'000**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		7,767	7,767	-	-	-
Banks, development financial institutions ("DFIs") & multilateral development banks ("MDBs")		956,277	956,277	237,164	237,164	18,973
Corporates		362,880	172,907	97,470	97,470	7,798
Regulatory retail		34,054	4,428	3,321	3,321	266
Higher risk assets		11,894	11,894	17,841	17,841	1,427
Other assets		721,112	721,112	721,109	721,109	57,689
Defaulted exposures		1	1	1	1	-
Total for on balance sheet exposures		2,093,985	1,874,386	1,076,906	1,076,906	86,153
Off balance sheet exposures:						
Off balance sheet exposures other than OTC derivatives or Credit derivatives		145,591	111,831	78,134	78,134	6,251
Total for off balance sheet exposures		145,591	111,831	78,134	78,134	6,251
Total on and off balance sheet exposures		2,239,576	1,986,217	1,155,040	1,155,040	92,404
2. **Large exposures risk requirement**		-	-	438	438	35
3. **Market risk**	**Long Position**	**Short Position**				
Interest rate risk /Rate of return risk						
- General interest rate risk/Rate of return risk	2,317	2,317		-		-
Foreign currency risk	116,485	2		116,485	116,485	9,319
Equity risk						
- General risk	441	458		17	17	1
- Specific risk	441	458		556	556	44
Total	119,684	3,235		117,058	117,058	9,364
4. **Operational risk**				380,922	380,922	30,474
5. **Total RWA and capital requirements**				1,653,458	1,653,458	132,277

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

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

	31 MARCH 2014 (Restated)					
Exposure class		**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")**	**Net exposures/ EAD after CRM**	**Risk weighted assets**	**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**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		567,883	567,883	-	-	-
Banks, DFIs & MDBs		875,054	875,054	175,023	175,023	14,002
Corporates		1,250,580	253,028	177,617	177,617	14,209
Regulatory retail		55,223	18,807	14,105	14,105	1,128
Higher risk assets		14,095	14,095	21,142	21,142	1,691
Other assets		1,195,045	1,195,045	1,195,031	1,195,031	95,602
Equity exposures		-	-	-	-	-
Defaulted exposures		1	1	1	1	-
Total for on balance sheet exposures		3,957,881	2,923,913	1,582,919	1,582,919	126,632
Off balance sheet exposures:						
Off balance sheet exposures other than OTC derivatives or Credit derivatives		192,786	133,916	93,782	93,782	7,503
Total for off balance sheet exposures		192,786	133,916	93,782	93,782	7,503
Total on and off balance sheet exposures		4,150,667	3,057,829	1,676,701	1,676,701	134,135
2. **Large exposures risk requirement**		-	-	875	875	70
3. **Market risk**	**Long Position**	**Short Position**				
Interest rate risk /Rate of return risk						
- General interest rate risk/Rate of return risk	4,540	4,537		-		-
Foreign currency risk	8,536	-		8,536	8,536	683
Equity risk						
- General risk	659	637		22	22	2
- Specific risk	659	637		819	819	65
Option risk	21,375	-		29,391	29,391	2,351
Total	35,769	5,811		38,768	38,768	3,101
4. **Operational risk**				428,605	428,605	34,288
5. **Total RWA and capital requirements**				2,144,949	2,144,949	171,594

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

Table 2.2 Risk-Weighted Assets and Capital Requirements

(b) The breakdown of RWA by exposures in major risk category of the Islamic window of the Bank is as follows:

	31 MARCH 2015					
Exposure class		**Gross exposures/ EAD before CRM**	**Net exposures/ EAD after CRM**	**Risk weighted assets**	**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**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		64	64	-	-	-
Banks, DFIs & MDBs		245,552	245,552	49,111	49,111	3,929
Other assets		22,277	22,277	22,277	22,277	1,782
Total for on balance sheet exposures		267,893	267,893	71,388	71,388	5,711
Off balance sheet exposures:						
Off balance sheet exposures other than OTC derivatives or Credit derivatives		77,650	77,650	56,330	56,330	4,506
Total for off balance sheet exposures		77,650	77,650	56,330	56,330	4,506
Total on and off balance sheet exposures		345,543	345,543	127,718	127,718	10,217
2. **Large exposures risk requirement**		-	-	-	-	-
	Long Position	**Short Position**				
3. **Market risk**	-	-				
4. **Operational risk**				31,531	31,531	2,523
5. **Total RWA and capital requirements**				159,249	159,249	12,740

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

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

	31 MARCH 2014					
Exposure class		**Gross exposures/ EAD before CRM**	**Net exposures/ EAD after CRM**	**Risk weighted assets**	**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**
1. **Credit risk**						
On balance sheet exposures						
Sovereigns/ Central banks		46	46	-	-	-
Banks, DFIs & MDBs		480,387	480,387	96,077	96,077	7,686
Other assets		15,898	15,898	15,898	15,898	1,272
Total for on balance sheet exposures		496,331	496,331	111,975	111,975	8,958
Off balance sheet exposures:						
Off balance sheet exposures other than OTC derivatives or credit derivatives		77,650	77,650	56,330	56,330	4,506
Total for off balance sheet exposures		77,650	77,650	56,330	56,330	4,506
Total on and off balance sheet exposures		573,981	573,981	168,305	168,305	13,464
2. **Large exposures risk requirement**		-	-	-	-	-
	Long Position	**Short Position**				
3. **Market risk**	**-**	**-**				
4. **Operational risk**				42,678	42,678	3,414
5. **Total RWA and capital requirements**				210,983	210,983	16,878

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

3.0 Capital Structure

The consolidated statement of financial position of the banks includes capital under the following headings:
- Common Equity Tier 1 capital;
- Additional Tier 1 capital; and
- Tier 2 Capital

3.1 Common Equity Tier 1 Capital

Common Equity Tier 1 Capital consists of the following:

(a) 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.

(b) Share Premium

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

(c) 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.

(d) Other Disclosed Reserves

Other disclosed reserves comprise the following:

(i) Statutory Reserve

Statutory reserve is maintained in compliance with the provisions of FSA and IFSA and is not distributable as cash dividends.

(ii) Capital Reserve and Merger Reserve

The capital reserve and merger reserve represent reserves arising from the transfer of subsidiaries pursuant to schemes of arrangementunder group restructuring which involved capital reduction and was accounted for using the merger accounting method.

(iii) Foreign Currency Translation Reserve

Exchange gain (foreign currency translation reserve) arise from the translation of the financial statements of foreign operations, whose functional currencies are different from that of the Group's presentation currency.

(iv) Available-for-Sale Reserve/(Deficit)

This account comprises the unrealised fair value gains (available-for-sale reserve) and losses (available-for-sale deficit) on financial investments available-for-sale. Where the available-for-sale reserve is a net gain outstanding balance, the Bank can recognise 45% of the total outstanding balance as part of CET 1 Capital. Where the available-for-sale deficit is a net loss outstanding balance, the entire outstanding balance is deducted in CET 1 Capital.

(v) Profit Equalisation Reserve

Profit equalisation reserve is the amount appropriated out of the total Islamic banking gross income in order to maintain a certain level of return to Investment Account Holders ("IAH") which is as stipulated by BNM's Guidelines on Profit Equalisation Reserve. Profit equalisation reserve is allocated from retained profits and classified as a separate reserve in equity and is non-distributable. The amount of the profit equalisation reserve is derecognised in the calculation of CET1 Capital.

(vi) Regulatory Reserve

Regulatory reserve is maintained in accordance with paragraph 13.1 of the BNM's Policy Document on Classification and Impairment Provisions for Loans/Financing as an additional credit risk absorbent. The amount of the regulatory reserve is derecognised in the calculation of CET1 Capital.

3.2 Additional Tier 1 Capital

The Bank does not have any Additional Tier 1 Capital in issuance.

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 Bank does not have any Tier 2 capital instruments in issuance.

3.0 Capital Structure (Contd.)

Table 3.1: Capital Structure

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

	Group		Bank	
	31 MARCH 15 RM'000	31 MARCH 14 RM'000	31 MARCH 15 RM'000	31 MARCH 14 RM'000
CET1 Capital				
Ordinary shares	200,000	200,000	200,000	200,000
Retained earnings	58,511	38,006	82,533	57,377
Unrealised gains on financial investment available-for-sale ("AFS")	1,076	1,760	1,024	1,707
Foreign exchange translation reserve	37,445	34,517	-	-
Statutory reserve fund	200,000	200,000	200,000	200,000
Regulatory reserve	2,800	-	2,800	-
Capital reserve	2,815	2,815	-	-
Merger reserve	7,656	7,656	-	-
Less : Regulatory adjustments applied on CET1 capital				
Goodwill	-	(11,243)	-	-
Other intangibles	(2,920)	(1,811)	(1,710)	(1,714)
Deferred tax assets	(2,782)	(14,164)	(2,782)	(14,164)
55% of cumulative gains of AFS financial instruments	(592)	(968)	(563)	(939)
Regulatory reserve attributable to loans/ financing	(2,800)	-	(2,800)	-
Investments in ordinary shares of unconsolidated financial and insurance/ takaful entities	(467)	(333)	(40,816)	(20,408)
Deduction in excess of Tier 2*	(25,476)	(22,891)	(86,000)	(103,190)
CET1 Capital	**475,266**	**433,344**	**351,686**	**318,669**
Additional Tier 1 Capital				
Tier 1 Capital	**475,266**	**433,344**	**351,686**	**318,669**
Tier 2 Capital				
Collective impairment provisions and regulatory reserves #	4,110	4,085	4,110	4,085
Less : Regulatory adjustments applied on Tier 2 Capital	(4,110)	(4,085)	(4,110)	(4,085)
Tier 2 Capital	**-**	**-**	**-**	**-**
Total Capital	**475,266**	**433,344**	**351,686**	**318,669**

*The portion of regulatory adjustments not deducted from Tier 2 Capital (as the Bank does not have enough Tier 2 to satisfy the deduction) is deducted from the next higher level of capital; as per paragraph 31.1 of the Bank Negara Malaysia's Capital Adequacy Framework (Capital Components).

#Excludes collective allowance on impaired loans restricted from Tier 2 Capital of the Group and the Bank of NIL for 2015.(31 March 2014 : RM787,973)

3.0 Capital Structure (Contd.)

Table 3.1: Capital Structure (Contd.)

The breakdown of risk weighted assets of the Group and the Bank in the various risk categories are as follows:

	Group		Bank	
	31 MARCH 15	31 MARCH 14 (Restated)	31 MARCH 15	31 MARCH 14 (Restated)
	RM'000	RM'000	RM'000	RM'000
Credit risk	1,155,040	1,676,701	1,122,413	1,483,738
Market risk	117,058	38,768	16,101	38,766
Operational risk	380,922	428,605	314,533	366,407
Large exposure risk RWA for equity holdings	438	875	438	875
Total risk weighted assets	1,653,458	2,144,949	1,453,485	1,889,786

(b) The components of Tier 1 Capital of the Islamic window of the Bank is as follows:

	31 MARCH 15	31 MARCH 14
	RM'000	RM'000
CET1 Capital		
Ordinary shares	30,000	30,000
Retained earnings	141,506	129,810
Less : Regulatory adjustments applied on CET1 Capital		
Other intangibles	(1)	(2)
Deferred tax assets	(1)	(292)
CET1 capital	**171,504**	**159,516**
Tier 2 capital	-	-
Total Capital	**171,504**	**159,516**

The breakdown of risk weighted assets of the Islamic window of the Bank in the various risk categories are as follows:

	31 MARCH 15	31 MARCH 14
	RM'000	RM'000
Credit risk	127,718	168,305
Operational risk	31,531	42,678
Total risk weighted assets	159,249	210,983

4.0 Risk Management Framework

The Risk Management Framework takes its lead from the Board's Approved Risk Appetite Framework which provides the catalyst to setting the risk/reward profile required by the Board, together with the risk appetite statements, 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, Operational Risk and Regulatory Compliance incorporating, inter alia, limit structures for countries, industries, single counterparty group, products, value at risk, stop loss, stable funding ratio, liquidity and operational risk and regulatory compliance triggers.

Board Approved Risk Appetite Statement

The Group strategic goals are to sustain the top quartile ROE, and to maintain the credit rating of BBB+ or better (from international rating agencies) for the next one to two years. This is supported by sustainable asset quality and continued portfolio diversification within retail and non-retail businesses, with greater contribution from non-interest income, complemented by robust management of liquidity, disciplined execution of interest rate risk/rate of return risk in the balance sheet, and with support from strong level of capital.

The Group intends to maintain sufficient quantity and quality of capital in excess of Basel III requirement for Common Equity Tier 1, Tier 1 Capital, and Total Capital. Our capital requirements are robustly tested over a three year period.

We adopt a conservative approach to liquidity management, maintaining stable and diversified funding base consistent with Basel III liquidity matrix (Net Stable Funds Ratio, and Liquidity Coverage Ratios). Our targeted Unadjusted Loan Deposit Ratio is up to maximum 100% with continually improving current account and savings account ("CASA") deposit composition and market share.

The Group manages operational risk by setting the operational risk appetite statements and measurements that the Group is willing to tolerate to support its business strategies and objectives. The Group manages its reputational risk by not engaging in any activity that has potential to result in a material event or loss that would be outside the expectations of its stakeholders. The Group also manages its regulatory compliance risk by setting positive compliance culture and ensuring that the letter and spirit of regulatory requirements, applicable laws, rules, and standards in the respective jurisdictions are complied with.

The Group manages Shariah risk by ensuring that its operations, business, affairs and activities are in compliance with rulings of the BNM's Shariah Advisory Council ("SAC") and the bank's Shariah Committee.

The Group manages trading and sales activities by instituting appropriate governance, culture, and controls to promote acceptable behaviour.

Risk Management Governance

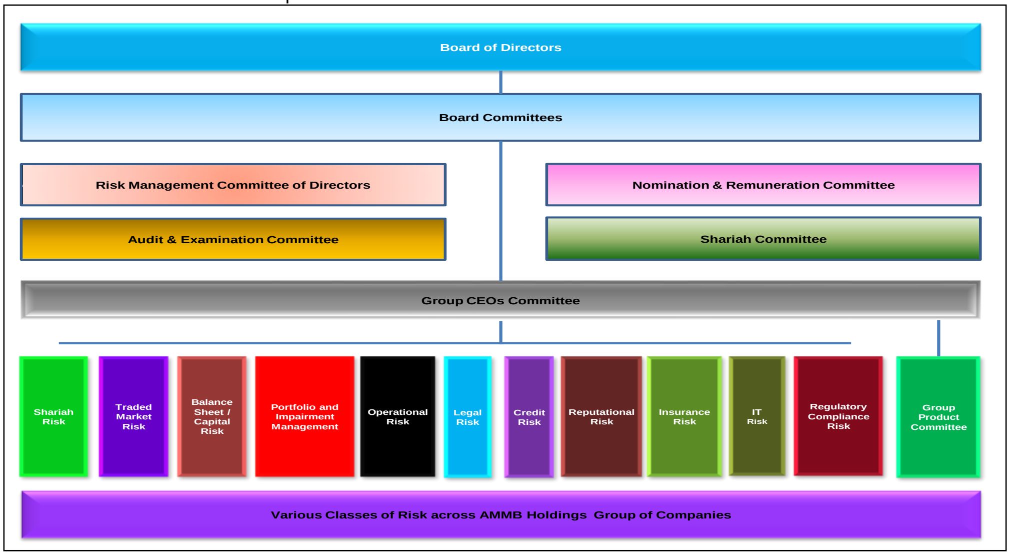
The Board is ultimately responsible for the management of risks within the Group. The RMCD is formed to assist the Board in discharging its duties in overseeing the overall management of all risks covering market risk, liquidity risk, credit risk, operational risk and regulatory compliance risk.

The Board has also established the Group CEOs Committee to assist it in managing the risks and businesses of the Group. The committee addresses all classes of risk within its Board delegated mandate: balance sheet risk, credit risk, legal risk, operational risk, market risk, Shariah risk, compliance risk, reputational risk, product risk and business and IT risk.

In July 2013, the Group Product Committee ("GPC") was re-established as a sub-committee of the Group CEOs Committee. The GPC is to oversee activities in managing products for the Group; and to advise and report to the Group CEOs Committee on product related matters.

4.0 Risk Management Framework (Contd.)

The following chart sets out the organisational structure of the Group CEOs Committee and an overview of the Group CEOs Committee's roles and responsibilities.



Business/ Strategic Risk
Business risk is the risk of loss arising from the inability to adapt cost structures, products, pricing, or activities in response to lower than expected revenues, or higher than expected costs (excluding risks elsewhere defined), caused by an unexpected adverse change in the economy and general business conditions/ operating environment.

Reputational Risk
Reputation risk is the risk that a company will lose current and future business and/ or incur substantial financial penalties because its character or quality has been called into question.

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 Bank'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.

4.0 Risk Management Framework (Contd.)

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.

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.

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

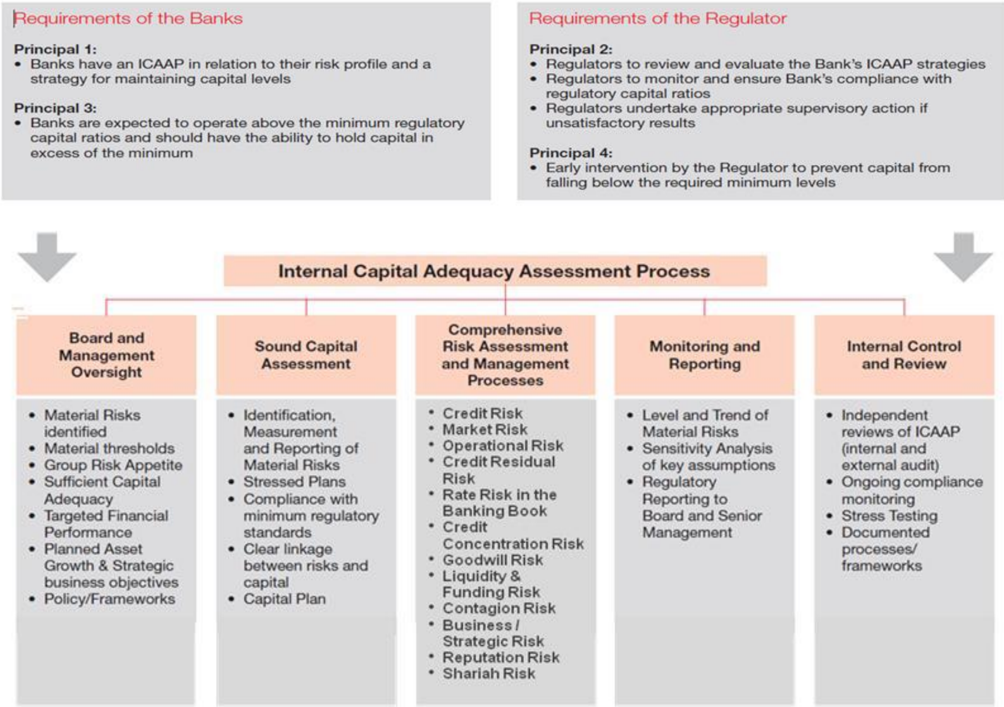
- The Group must have clearly articulated definitions of each material risk type to be included in the ICAAP; and
- Processes to identify and determine the materiality of current risk types, change to existing risk types and new risk types must be established.

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.

4.0 Risk Management Framework (Contd.)

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 • Selection of 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 protfolio mix • Review customer under Classified Account • 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 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 Bank’s Risk Appetite Framework and related credit policies.

Lending/financing activities are guided by internal credit policies and Risk Appetite Framework that are approved by the Board. 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 on single counterparty credit;
- Setting Loan to Value limits for asset backed loans/ financing (i.e. exchange traded shares & other collateral); and
- Classified Account processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers.

Individual credit risk exposure exceeding certain Credit Approval Delegation (“CAD”) thresholds/exceptions to Group Risk Appetite Framework (“GRAF”) are escalated to Credit and Commitments Committee (“CACC”) for approval. In the event such exposure requires Executive Committee of Directors’ (“EXCO”) review and endorsement, it will be escalated. Portfolio credit risk is reported to the relevant management and board committees.

The 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, and review the portfolio risk profile against the Group Risk Appetite Framework (“GRAF”).

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 Standardized Approach to determine the regulatory capital charge related to credit risk exposure.

5.0 Credit Risk Management (Contd.)

5.1 Impairment

5.1.1 Definition of past due and impaired loans and advances

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) due under the contractual terms are received late or missed.

A loan is classified as impaired under the following circumstances:

(a) When the principal or interest or both is past due[1] or the amount outstanding is in excess of approved limit (for revolving facilities), each for more than 90 days or 3 months on any material[2] ; or

(b) For loans/financing where repayments are scheduled on intervals of 3 months or longer, the loan/financing is to be classified as impaired 1+30 days or 1day+1 month past due (the 30-days grace period is to allow for exclusion of administrative default[3] .

(c) For trade bills/facilities, an account is deemed default and impaired when the past due is 90 days from due date of the bill.

(d) A loan/financing may also be classified as impaired:
   i. As deemed appropriate by the Watch and Control Committee where it is determined the loans/financing have a high probability of default; or
   ii. Cross-default occurs when:
      - a default of a loan/financing obligation of a borrower triggers a default of another loan/financing obligation of the same borrower or
      - a default of a loan/financing obligation of a borrower triggers a default of a loan/financing obligation of other borrowers within the same borrower group.

   The Credit and Commitments Committee (CACC) is allowed to waive the declaration of cross-default across all accounts of the same borrower or accounts of all borrowers within the same borrower group.

(e) Debt instruments (for example, fixed income securities, debt converted instrument etc.) shall be classified as impaired when the coupon or interest payment is 1 day past due.

(f) In the case of stock broking and futures broking:
   i. For margin lending, it is impaired when there is a shortfall to carrying value i.e. difference between the collateral value (if any) and the outstanding balance.
   ii. For contra losses, it is impaired when the facility is overdue by 30 days.

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[1] 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.

[2] Material obligation as determined by Management.

[3] Administrative defaults include cases where exposures become overdue because of oversight on the part of the obligor and/or the banking institution. Instances of administrative defaults may be excluded from the historical default count, subject to appropriate policies and procedures established by the banking institution to evaluate and approve such cases.

5.1.2 Methodology for Determination of Individual and Collective Allowances

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

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

(a) Trigger management
In trigger management, financial assets which are above the pre-set individual assessment threshold are assessed using the relevant impairment triggers for objective evidence of impairment.

(b) Valuation of assets
Financial assets which are triggered by the impairment triggers will be measured for evidence of high likelihood of impairment i.e. estimated recoveries (based on the discounted cash flow projection method and taking into account economic conditions) is less than carrying value or fair value is less than the carrying value.

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 are computed after making the necessary adjustments to reflect current economic conditions.

Table 5.1: Distribution of gross credit exposures by sector

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

	31 MARCH 2015													
	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurant and Hotel RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On balance sheet exposures														
Sovereigns/ Central banks	-	-	-	-	-	-	-	7,767	-	-	-	-	-	7,767
Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Banks, DFIs and MDBs	-	-	-	-	-	-	-	956,277	-	-	-	-	-	956,277
Insurance companies, securities firms & fund managers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporates	860	-	-	-	-	-	-	76,140	5,527	1,074	61,192	217,744	343	362,880
Regulatory retail	-	-	-	-	-	-	-	-	-	-	-	34,054	-	34,054
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	-	11,894	11,894
Other assets	-	-	-	-	-	-	-	31,346	-	-	-	515,170	174,596	721,112
Specialised Financing/	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Defaulted exposures	-	-	-	-	-	-	-	-	-	-	-	1	-	1
Total for on balance sheet exposures	860	-	-	-	-	-	-	1,071,530	5,527	1,074	61,192	766,969	186,833	2,093,985
Off balance sheet exposures														
Off balance sheet exposures other than OTC derivatives or Credit derivatives	-	-	-	-	50,064	-	-	100	1,590	51,900	9,744	32,193	-	145,591
Total for off balance sheet exposures	-	-	-	-	50,064	-	-	100	1,590	51,900	9,744	32,193	-	145,591
Total on and off balance sheet exposures	**860**	-	**-**	**-**	**50,064**	**-**	**-**	**1,071,630**	**7,117**	**52,974**	**70,936**	**799,162**	**186,833**	**2,239,576**

Table 5.1: Distribution of gross credit exposures by sector (Contd.)

	31 MARCH 2014 (Restated)												
	Agriculture RM'000	**Manufacturing RM'000**	**Electricity, Gas and Water RM'000**	**Construction RM'000**	**Wholesale, Retail Trade, Restaurant and Hotel RM'000**	**Transport, Storage and Communication RM'000**	**Finance and Insurance RM'000**	**Real Estate RM'000**	**Business Activities RM'000**	**Education and Health RM'000**	**Household RM'000**	**Others RM'000**	**Total RM'000**
On balance sheet exposures													
Sovereigns/ Central banks	-	-	-	-	-	-	567,883	-	-	-	-	-	567,883
Banks, DFIs and MDBs	-	-	-	-	-	-	875,054	-	-	-	-	-	875,054
Corporates	11,302	12,838	-	-	1,093	-	-	18,631	49,123	401	1,154,875	2,317	1,250,580
Regulatory retail	-	-	-	-	-	-	-	-	-	-	55,223	-	55,223
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	14,095	14,095
Other assets	129	286	-	1,956	83	367	42,402	315	162,581	-	976,925	10,001	1,195,045
Defaulted exposures	-	-	-	-	-	-	-	-	-	-	1	-	1
Total for on balance sheet exposures	11,431	13,124	-	1,956	1,176	367	1,485,339	18,946	211,704	401	2,187,024	26,413	3,957,881
Off balance sheet exposures													
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,027	1,822	327	37,297	85	-	100	26,650	51,400	13,996	59,718	364	192,786
Total for off balance sheet exposures	1,027	1,822	327	37,297	85	-	100	26,650	51,400	13,996	59,718	364	192,786
Total on and off balance sheet exposures	**12,458**	**14,946**	**327**	**39,253**	**1,261**	**367**	**1,485,439**	**45,596**	**263,104**	**14,397**	**2,246,742**	**26,777**	**4,150,667**

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

The 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:

	31 MARCH 2015			
	Business Activities RM'000	Household RM'000	Not allocated RM'000	Total RM'000
Impaired loans, advances and financing	2,291	-	-	**2,291**
Past due loans / financing				**-**
Individual allowances	2,291	-	-	**2,291**
Collective allowances	-	-	1,311	**1,311**
Charges for individual allowances	115	792	-	**907**

	31 MARCH 2014			
	Business Activities RM'000	Household RM'000	Not allocated RM'000	Total RM'000
Impaired loans, advances and financing	3,194	18,484	-	**21,678**
Individual allowances	2,407	11,920	-	**14,327**
Collective allowances	-	-	4,872	**4,872**
Charges for individual allowances	305	(11,624)	-	**(11,319)**

Table 5.3: Geographical distribution of credit exposures

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

	31 March 2015		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	7,767	-	7,767
Banks, DFIs and MDBs	839,022	117,255	956,277
Corporates	362,880	-	362,880
Regulatory retail	34,054	-	34,054
Higher risk assets	11,888	6	11,894
Other assets	720,588	524	721,112
Defaulted exposures	1	-	1
Total for on balance sheet exposures	1,976,200	117,785	2,093,985
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or credit derivatives	145,591	-	145,591
Total for off balance sheet exposures	145,591	-	145,591
Total on and off balance sheet exposures	**2,121,791**	**117,785**	**2,239,576**

	31 March 2014 (Restated)		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/ Central banks	567,883	-	567,883
Banks, DFIs and MDBs	763,797	111,257	875,054
Corporates	1,250,580	-	1,250,580
Regulatory retail	55,223	-	55,223
Higher risk assets	14,089	6	14,095
Other assets	1,009,345	185,700	1,195,045
Defaulted exposures	1	-	1
Total for on balance sheet exposures	3,660,918	296,963	3,957,881
Off balance sheet exposures			
Off balance sheet exposures other than OTC derivatives or Credit derivatives	192,786	-	192,786
Total for off balance sheet exposures	192,786	-	192,786
Total on and off balance sheet exposures	**3,853,704**	**296,963**	**4,150,667**

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

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

	31 MARCH 2015		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans, advances & financing	2,291	-	2,291
Individual allowances	2,291	-	2,291
Collective allowances	1,311	-	1,311

	31 MARCH 2014		
	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans, advances & financing	3,194	18,484	21,678
Individual allowances	2,407	11,920	14,327
Collective allowances	4,872	-	4,872

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

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

	31 MARCH 2015								
	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	284	-	-	-	-	-	7,483	-	7,767
Banks, DFIs & MDBs	956,277	-	-	-	-	-	-	-	956,277
Corporates	348	2,930	-	2,124	357,478	-	-	-	362,880
Regulatory retail	-	73	116	339	657	32,869	-	-	34,054
Higher risk assets	-	-	-	-	-	-	-	11,894	11,894
Other assets	698,626	-	-	-	-	-	-	22,486	721,112
Defaulted exposures	-	-	-	-	-	1	-	-	1
Total for on balance sheet exposures	1,655,535	3,003	116	2,463	358,135	32,870	7,483	34,380	2,093,985
Off balance sheet exposures									
Off balance sheet exposures other than OTC derivatives or credit derivatives	51,000	3,551	2,340	2,647	22,005	26,672	37,376	-	145,591
Defaulted exposures									
Total for off balance sheet exposures	51,000	3,551	2,340	2,647	22,005	26,672	37,376	-	145,591
Total on and off balance sheet exposures	**1,706,535**	**6,554**	**2,456**	**5,110**	**380,140**	**59,542**	**44,859**	**34,380**	**2,239,576**

	31 MARCH 2014 (Restated)								
	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	-	547,165	-	-	-	-	-	20,718	567,883
Banks, DFIs & MDBs	847,207	-	-	-	-	-	4,437	23,410	875,054
Corporates	346,044	235,756	535,903	48,748	46,683	33,645	2,142	1,659	1,250,580
Regulatory retail	-	-	333	547	781	53,562	-	-	55,223
Higher risk assets	-	-	-	-	-	-	2,076	12,019	14,095
Other assets	1,170,598	-	-	-	-	-	-	24,447	1,195,045
Defaulted exposures	-	-	-	-	-	1	-	-	1
Total for on balance sheet exposures	2,363,849	782,921	536,236	49,295	47,464	87,208	8,655	82,253	3,957,881
Off balance sheet exposures									
Off balance sheet exposures other than OTC derivatives or Credit derivatives	54,642	8,180	17,859	1,230	787	110,088	-	-	192,786
Defaulted exposures									
Total for off balance sheet exposures	54,642	8,180	17,859	1,230	787	110,088	-	-	192,786
Total on and off balance sheet exposures	**2,418,491**	**791,101**	**554,095**	**50,525**	**48,251**	**197,296**	**8,655**	**82,253**	**4,150,667**

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

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

	31 MARCH 2015	
	Individual impairment allowances RM'000	**Collective impairment allowances RM'000**
Balance at beginning of financial year	14,327	4,872
Charge for the year – net	(907)	(2,730)
Amount written-off	(1,676)	(788)
Disposal of a subsidiary	(9,906)	-
Exchange differences	453	(43)
Balance at end of financial year	2,291	1,311

	(Charge off)/recoveries RM'000
Bad debts written off during the year	(1,075)
Bad debt recoveries during the year	-
	(1,075)

	31 MARCH 2014	
	Individual impairment allowances RM'000	**Collective impairment allowances RM'000**
Balance at beginning of financial year	2,831	3,664
Charge for the year – net	11,319	1,208
Exchange differences	177	-
Balance at end of financial year	14,327	4,872

	(Charge off)/recoveries RM'000
Bad debts written off during the year	-
Bad debt recoveries during the year	1
	1

6.0 Credit Risk Exposure under Standardised Approach

The Group adopts the list of eligible External Credit Assessment Institutions (‘ECAIs”) that are used by the Group 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 used by the Group:

- Standard & Poor’s Rating Services ("S&P")
- Moody’s Investors Service ("Moody’s")
- Fitch Rating ("Fitch")
- RAM Rating Services Berhad ("RAM")
- Malaysian Rating Corporation Berhad ("MARC")

The table below provides the External Credit Assessment Institutions (ECAIs) rating that broadly corresponds to the broad internal credit quality categories. The mapping is based on 1 year average cumulative default rates as per corporate default studies undertaken by Fitch (1990-2012), Standard & Poor’s (1981-2012), Moody’s (1983-2012), RAM (1992-2012) and MARC (1998-2012); and is incorporated in the Credit Risk Rating Policy.

Credit Quality Classification	Moody's	S & P	Fitch	RAM	MARC
Very Strong	AAA to Baa3	AAA to BBB-	AAA to BBB-	AAA to AA3	AAA to AA
Strong	Ba1 to Ba3	BB+ to BB-	BB+ to BB-	A1 to BBB3	AA- to A+
Satisfactory	B1 to B3	B+ to B-	B+ to B-	BB1 to B1	A to BBB-
Substandard	Caa1 to C	CCC+ to C	CCC to C	B2 to C3	BB+ to C
Impaired	D	D	D	D	D

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

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

	31 MARCH 2015								
	Exposures after netting and credit risk mitigation								
Risk Weights	Sovereigns & Central banks RM'000	Banks, DFIs and MDBs RM'000	Corporates RM'000	Regulatory retail RM'000	Higher risk assets RM'000	Other assets RM'000	Equity exposures RM'000	Total Exposures after Netting & CRM RM'000	Total Risk Weighted Assets RM'000
0%	7,767	-	75,436	-	-	3	-	83,206	-
20%	-	803,249	26,650	-	-	-	-	829,899	165,980
50%	-	153,028	23,414	-	-	-	-	176,442	88,221
75%	-	-	-	7,112	-	-	-	7,112	5,334
100%	-	-	156,554	-	-	721,109	-	877,663	877,663
150%	-	-	-	1	11,893	-	-	11,895	17,842
Total	7,767	956,277	282,054	7,113	11,893	721,112	-	1,986,217	1,155,040
Deduction from Capital Base	-	-	-	-	-	-	-	-	

	31 MARCH 2014 (Restated)								
	Exposures after netting and credit risk mitigation								
Risk Weights	Sovereigns & Central banks RM'000	Banks, DFIs and MDBs RM'000	Corporates RM'000	Regulatory retail RM'000	Higher risk assets RM'000	Other assets RM'000	Equity exposures RM'000	Total Exposures after Netting & CRM RM'000	Total Risk Weighted Assets RM'000
0%	567,883	-	75,411	-	-	14	-	643,308	-
20%	-	875,013	26,650	-	-	-	-	901,663	180,332
50%	-	41	37,297	-	-	-	-	37,338	18,669
75%	-	-	-	19,469	-	-	-	19,469	14,602
100%	-	-	246,924	-	-	1,195,031	-	1,441,955	1,055,722
150%	-	-	-	1	14,095	-	-	14,096	21,143
Total	567,883	875,054	386,282	19,470	14,095	1,195,045	-	3,057,829	1,290,468
Deduction from Capital Base	-	-	-	-	-	-	-	-	

Table 6.2: Rated Exposures according to Ratings by ECAIs

	31 MARCH 2015					
	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
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Corporates	495,785	-	-	-	-	495,785
Total	495,785	-	-	-	-	495,785

	31 MARCH 2014					
	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)						
Corporates	1,430,779	-	-	-	-	1,430,779
Total	1,430,779	-	-	-	-	1,430,779

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

	31 MARCH 2015						
	Ratings of Sovereigns and Central Banks by Approved ECAIs						
Exposure Class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central banks	7,767	-	7,767	-	-	-	-
Total	**7,767**	-	**7,767**	-	-	-	-

	31 MARCH 2014						
	Ratings of Sovereigns and Central Banks by Approved ECAIs						
Exposure Class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Information Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central banks	567,883	-	567,883	-	-	-	-
Total	**567,883**	-	**567,883**	-	-	-	-

	31 MARCH 2015						
	Ratings of Banking Institutions by Approved ECAIs						
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures							
Banks, DFIs and MDBs	956,277	-	13,306	537,152	-	-	405,819
Total	**956,277**	-	**13,306**	**537,152**	-	-	**405,819**

	31 MARCH 2014						
	Ratings of Banking Institutions by Approved ECAIs						
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Information Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures							
Banks, DFIs and MDBs	875,054	-	-	-	-	-	875,054
Total	**875,054**	-	**-**	**-**	-	-	**875,054**

7.0 Credit Risk Mitigation

Main types of collateral taken by the Bank

Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations. Types of collateral typically taken by the Bank 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)

Where the customer risk profile is considered very sound, a transaction may be provided on an “unsecured” basis, i.e., not supported by collateral.

The Bank has internal policy to determine the criteria for acceptable financial asset as collateral. This is to ensure the collateral can be liquidated in a timely manner if required.

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 Bank has standard collateral instruments, and where applicable, security interests are registered.

Guarantee Support

Currently, the Bank does not use guarantee support for risk mitigation.

Use of credit derivatives and netting for risk mitigation

Currently, the Bank 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 is extended, amortisation schedules and loan covenants. These assist in managing credit risk and in providing early warning signals, whereby should loan covenants be breached, the Bank and the customer can work together to address the underlying causes and as appropriate, restructure facilities.

Concentrations of credit risk mitigation

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

The main types of collateral undertaken by the Bank are exchange traded shares and unit trusts.

Table 7.1: Credit Risk Mitigation

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

	31 MARCH 2015	
Exposures	**Exposures before CRM RM'000**	**Exposures covered by Eligible Financial Collateral RM'000**
Credit risk		
On balance sheet exposures		
Sovereigns/ Central banks	7,767	-
Banks, DFIs And MDBs	956,277	-
Corporates	362,880	220,511
Regulatory retail	34,054	30,188
Higher risk assets	11,894	-
Other assets	721,112	-
Defaulted exposures	1	-
Total for on balance sheet exposures	2,093,985	250,699
Off balance sheet exposures		
Off balance sheet exposures other than OTC derivatives or Credit derivatives	145,591	35,379
Total for off balance sheet exposures	145,591	35,379
Total on and off balance sheet exposures	**2,239,576**	**286,078**

	31 MARCH 2014 (Restated)	
Exposures	**Exposures before CRM RM'000**	**Exposures covered by Eligible Financial Collateral RM'000**
Credit risk		
On balance sheet exposures		
Sovereigns/ Central banks	567,883	-
Banks, DFIs And MDBs	875,054	-
Corporates	1,250,580	1,060,108
Regulatory retail	55,223	36,736
Higher risk assets	14,095	-
Other assets	1,195,045	-
Defaulted exposures	1	-
Total for on balance sheet exposures	3,957,881	1,096,844
Off balance sheet exposures		
Off balance sheet exposures other than OTC derivatives or Credit derivatives	192,786	63,162
Total for off balance sheet exposures	192,786	63,162
Total on and off balance sheet exposures	**4,150,667**	**1,160,006**

8.0 Off Balance Sheet exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

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

(1) Credit related exposures, e.g. guarantees given on behalf of customers, underwriting liabilities and irrevocable commitment to extend credit.

(2) Derivatives Financial Instruments, e.g. foreign exchange related contract (forwards exchange contracts), equity related contracts (futures and contract for differences).

(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 Bank's exposure. The markets covered by this treatment for transactions entered by the Bank includes 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 marked-to-market (MTM) value of exposure, plus the notional principal multiplied by the potential credit risk exposure (PCRE) factor for the exposure; 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 mark-to-market 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 recognize 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 Bank'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 off balance sheet and counterparty credit risk of the Group are as follows:

Description	31 MARCH 2015			
	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	99,447	-	99,447	67,228
Assets sold with recourse	100		100	100
Obligations under underwriting agreements	-		-	-
Foreign exchange related contracts				
One year or less	2,321	-	-	-
Equity and commodity related contracts		1		
One year or less	457	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	19		9	7
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	230,174		46,035	10,799
Total	**332,518**	**1**	**145,591**	**78,134**

Description	31 MARCH 2014			
	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	114,947	-	114,947	74,979
Assets sold with recourse	100		100	100
Obligations under underwriting agreements	21,375		-	-
Foreign exchange related contracts				
One year or less	4,537	-	-	-
Equity and commodity related contracts				
One year or less	642	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	19		259	257
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	387,900		77,480	18,446
Total	**529,520**	**-**	**192,786**	**93,782**

Table 8.2 : Credit Derivatives Counterparty Credit Risk (“CCR”)

As at the balance sheet date, the Group does not have any credit derivatives.

9.0 Securitisation

The Group and the Bank do not have any securitisation exposure in its trading and banking books nor did it undertake any securitisation activities during the current financial period and for year ended 31 March 2015.

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 • Key Control Testing • Risk Treatment Plan
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 and entity, reporting of operational risk board and management trigger, risk profile status,key risk indicator breaches and key control testing exceptions. • 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 Chapter 14 for discussion on Shariah Governance). It excludes strategic, systemic and reputational risk.

Operational Risk Appetite ("ORA") is integral part of the Group's operational risk management framework, which sets the acceptable tolerance levels for operational risk. The ORA statements and measurements are classified based on operational risk loss event types, which are grouped into five (5) categories as below and monitored via Incident Management and Data Collection, Key Risk Indicator and Key Control Testing.

- Fraud (internal & external);
- Employment Practices and Workplace Safety;
- Client, Products and Business Practices;
- Business Disruption, System Failures and Damage to Physical Assets; and
- Execution, Delivery and Process Management.

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 responsible for the management of operational risk in order that accountability and ownership is as close as possible to the activity that creates the risk and ensuring that effective action is taken to manage them. Enhanced First Line of Defence provides a business specific focus on the implementation of operational risk management activities and supports more effective day-to-day monitoring of operational risks.
- 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 CEOs Committee ("GCC"), Risk Management Committee of Directors ("RMCD") and Board.
- 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 Businesses, 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 fall within one of the seven Event Types as stated in Basel II. IMDC also serves as a centralised database of operational risk incidents to model the potential exposure to operational risks 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.
- The Key Control Testing ("KCT") is the test steps or assessment performed periodically to assure that the key controls are in place and they are operating as intended or effective in managing the operational risks.
- The Risk Treatment Plan is required to be developed to ensure all risks identified are resolved or mitigated sufficiently.

  The Group CEOs Committee, RMCD and Board the Group CEOs are the main reporting and escalation committees for operational risk matters including outsourcing risk, information technology risk, shariah risk, legal risk and business continuity management.

10.0 Operational Risk (Contd.)

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
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 and conduct periodical testing 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 Group CEOs Committee, upon advice by internal legal counsel and, where necessary, in consultation with external legal counsel to ensure that such risk is appropriately managed.

10.3 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. 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 staffs keeps abreast of banking, insurance, capital markets and anti-money laundering laws 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.

Regulatory 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, regulatory compliance facilitates briefings, disseminates information and leads coordination efforts.

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 Bank differentiates between two types of market risk: Traded Market Risk ("TMR") and Non-Traded Market Risk ("NTMR"). Assessment, control and monitoring of these risks are the responsibility of Investment Banking and Markets Risk ("IBMR").

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.

Identification	• Identify market risks within existing and new products • Review market-related information such as market trends and economic data
Assessment/ Measurement	• Value-at-Risk ("VaR") • Annual Loss Limit ("ALL") • Historical Stress Loss ("HSL") • Other Detailed Management Controls
Control/ Mitigation	• VaR Limits • HSL Limits • Loss Limits/Triggers (Annual/ Monthly/Daily) • Concentration Limits • Greek Limits (Delta/ Gamma/ Delta-Gamma/ Vega/ Theta) • Present Value of One Basis Point Limits ("PV01") • Stealth Limits • Position Size Limits • Maximum Tenor Limits • Maximum Holding Period • Minimum Holding Period • Approved Instruments/ Currencies/ Countries • Other Detailed Management Limits
Monitoring/ Review	• Monitoring of limits • Periodical review and reporting

TMR arises from transactions in which the Bank 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 Group CEOs Committee approved limit structures and risk appetite. This is done via robust traded market risk measurement, limit setting, limit monitoring, and collaboration and agreement with Business Units.

VaR, ALL, HSL 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. Loss limits serve to alert management on the need to take relevant and appropriate action once they are triggered.

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

Apart from VaR, ALL and HSL, 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.

IBMR monitors and reports risk exposures against limits on a daily basis. Portfolio market risk positions are also reported to 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 Bank adopts the Standardised Approach for market risk capital charge computation. The capital charge serves as a buffer against losses from potential adverse market movements.

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

11.0 Market Risk Management (Contd.)

11.2 Non-Traded Market Risk

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 such as market trend and economic data
Assessment/ Measurement	• Value-at-Risk ("VaR") • Earnings-at-Risk ("EaR") • Present Value of One Basis Point ("PV01") • Other Detailed Management Controls
Control/ Mitigation	• VaR Limits • EaR Limits • PV01 Limits • Minimum Holding Period
Monitoring/ Review	•Monitor ing 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 and deposit taking activities) creates interest/profit rate-sensitive positions in the Bank'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 economic value of Bank's capital.

The Board's oversight of IRR/RORBB is supported by the Group CEOs Committee. Group CEOs Committee is responsible for the alignment of Bank-wide risk appetite and funding needs, taking into consideration Bank-wide business strategies. Group CEOs Committee consistently oversees the Bank'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 Bank 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 Bank'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 Bank 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 economic value, at a certain confidence level and over a specified holding period.

The Bank 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 and loans/financings.

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 Bank's exposure to a specified event.

The Bank'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 MFRS 139-compliant interest/profit rate hedging activities using interest/profit rate swaps and other derivatives. These approaches are governed by Bank'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 Group CEOs Committee, RMCD and the Board.

11.0 Market Risk Management (Contd.)

Table 11.1 : Market Risk Sensitivity-Interest Rate Risk / Rate of Return Risk in the Banking Book (IRR / RORBB)

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

Impact on Profit or Loss

	31 MARCH 2015		31 MARCH 2014	
Currency	Interest Rate + 100 bps (RM'000)	Interest Rate - 100 bps (RM'000)	Interest Rate + 100 bps (RM'000)	Interest Rate - 100 bps (RM'000)
MYR	3,851	(3,851)	3,712	(3,712)

Impact on Equity

	31 MARCH 2015		31 MARCH 2014	
Currency	Interest Rate + 100 bps (RM'000)	Interest Rate - 100 bps (RM'000)	Interest Rate + 100 bps (RM'000)	Interest Rate - 100 bps (RM'000)
MYR	(2,369)	2,821	(1,423)	1,832

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

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

	31 MARCH 2015	31 MARCH 2014
Non traded equity investments	**RM'000**	**RM'000**
Value of quoted (publicly traded) equities	-	-
Value of unquoted (privately held) equities	11,794	13,995
Total	11,794	13,995
Net realised and unrealised gains/ (losses)		
Cumulative realised gains/ (losses) from sales and liquidations	-	152
Total unrealised gains/ (losses)	(683)	(1,403)
Total	(683)	(1,251)
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	-	-
Equity investments subject to a 150% risk weight	17,691	20,993
Total	17,691	20,993
Total minimum capital requirement (8%)	1,415	1,679

13.0 Liquidity Risk and Funding Management

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 process is depicted in the table below:

Identification	•Identify liquidity risk within existing and new business activities •Review market-related information such as market trend and economic data •Keep abreast with regulatory requirements
Assessment/ Measurement	•Liquidity Coverage Ratio ("LCR") •New Liquidity Framework ("NLF") •Other Detailed Management Controls
Control/ Mitigation	•LCR Limits •NLF Limits •Other Detailed Management Limits
Monitoring/ Review	•Monitor limits •Periodical review and reporting

The liquidity risk management of the Bank is aligned with both BNM's Liquidity Coverage Ratio ("LCR") and the New Liquidity Framework issued by BNM. The primary objective of the Bank'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.

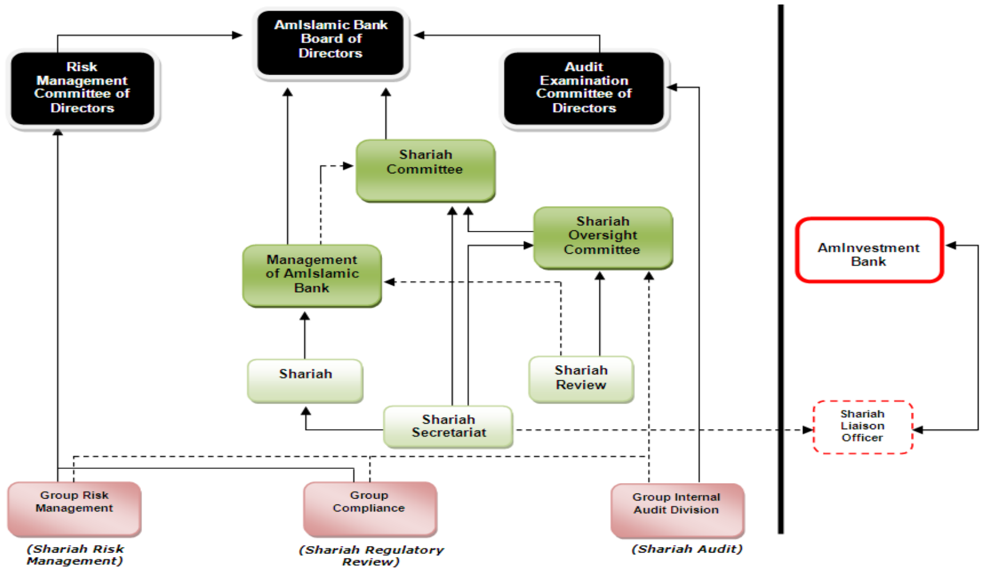
The Board provides the liquidity risk management oversight while the Group CEOs Committee is the responsible governing body that approves the Bank's liquidity management and strategies policies, and is responsible for setting liquidity limits, proposing liquidity risk policies and contingency funding plan, and practices to be in compliance with local regulatory requirements, and monitor liquidity on an ongoing basis. The Capital and Balance Sheet Management Department 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 Bank's liquidity at risk. The stress testing output contributes to the development of the liquidity risk limits and the Group's Contingency Funding Plan.

In preparation to the impending implementation of BNM Basel III Net Stable Funding Ratio ("NSFR"), the Bank is already monitoring the NSFR and continues to pursue strategies to ensure the availability of cost effective liquidity.

14.0 Shariah Governance Structure



A Shariah governance framework is put in place in the organizational structure of the Group for its Islamic banking operations, which includes establishment of the Shariah Committee in line with the requirement of Section 3(5)(b) of The IBA and BNM's "Shariah Governance Framework for Islamic Financial Institutions". The Bank's Shariah Governance Structure leverages on the Group's shared platforms such as Group Risk Management Department, Group Compliance Department, and Group Internal Audit Division for key Shariah functions.

AmInvestment Bank through its Islamic window i.e. Islamic Markets Department ("IMD") leverages on AmIslamic Bank/ AmBank Group Shariah Governance Structure, including the Shariah Committee and the Shariah Secretariat of AmIslamic Bank. Alternatively, they may also opt for independent external Shariah advisors as approved by the Securities Commission (SC) of Malaysia when necessary and will be on ad-hoc basis.

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

Board of Directors
The Board of Directors of AmIslamic Bank 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 of Directors in ensuring Islamic Banking operations of AmBank Group is Shariah compliant through oversight of the Shariah Audit function perfomed by Group Internal Audit Division.

Risk Management Committee of Directors
RMCD is a Board committee responsible for assisting the Board in ensuring risk management and control process is in place and functioning, including Shariah risk management through Group Risk Management Department and Shariah regulatory review through Group Compliance Department.

Shariah Committee
The Shariah Committee is responsible and accountable on matters related to Shariah. This includes advising Board of Directors 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 Liaison Officer
IMD, through the appointed Shariah Liaison Officer will communicate with the Shariah Secretariat on escalation of Shariah matters/issues to the Shariah Committee, if any. IMD will become a one-stop centre and point-of-reference for the relevant LOBs under AmInvestment Bank with regards to Islamic products and services.

14.0 Shariah Governance Structure (Contd.)

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; Shariah review, Shariah Audit, and Shariah Risk Management.

Chief Executive Officer/ Management
The CEO / management of AmIslamic Bank is responsible to make reference to the Shariah Committee on Shariah issues and to take necessary measures for implementation of Shariah Committee's advice and decisions. The 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 mitigate Shariah risk.

Shariah Department
The Shariah 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 research, and as Secretariat to the Shariah Committee and Shariah Oversight Committee. In addition, the Shariah Department also perform 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 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 requ irements and effectiveness of the self-assessment performed.

Group Risk Management Department
Shariah risk management leverages on existing infrastructure within Group Risk Management Department (GRMD) in managing the Shariah risk. GRMD engages Group Islamic banking operations to review and ensure that Islamic products and financing proposals are Shariah compliant by referring to available Shariah guides.

14.1 Non-Shariah Compliant Income

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