AmBank (M) Berhad

Pillar 3 Disclosures

31 March 2015

RWCAF - Pillar 3 Disclosures
31 March 2015

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1.0 Scope of Application

The Pillar 3 Disclosure Framework

The Bank Negara Malaysia's ("BNM") Risk Weighted Capital Adequacy Framework - (Basel II) ("RWCAF") - Disclosure Requirements ("Pillar 3") is applicable to all banking institutions licensed under the Financial Services Act 2013 ("FSA"). The Pillar 3 disclosure requirements aim to enhance transparency on the risk management practices and capital adequacy of banking institutions.

AmBank Group Pillar 3 Disclosure

The banking entity at AmBank (M) Berhad Group level to which the RWCAF applies is AmBank (M) Berhad ("the Bank").

Up until 31 December 2014, the Bank had provided explicit guarantee against the liabilities of its wholly owned Labuan offshore banking subsidiary, AmLabuan Holdings (L) Ltd (formerly known as AmInternational (L) Ltd. ("AmLabuan"), a Labuan company licensed under the Labuan Financial Services and Securities Act to carry out Labuan banking business. On 31 December 2014, AmLabuan surrendered its banking licence and subsequently changed its principal activity to that of investment holding.

The Pillar 3 information has been provided in order to highlight the capital adequacy of the Group and the Bank. The information provided has been verified by the Group internal auditors and certified by the Acting 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 the 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.

With effect from 1 January 2013, the capital adequacy ratios are computed in accordance to BNM's guidelines on Capital Adequacy Framework (Capital Components) issued by the Prudential Financial Policy Department on 28 November 2012, which is based on the Basel III capital accord. Prior to that, the capital adequacy ratios of the Bank and its Group were computed in accordance to BNM's Risk Weighted Capital Adequacy Framework (General Requirements and Capital Components) (as applicable), which are based on the Basel II capital accord. The Bank has adopted the Standardised Approach for Credit and Market Risks and the Basic Indicator Approach for Operational Risk, based on BNM's Guidelines on Capital Adequacy Framework (Basel II - Risk Weighted Assets).

1.0 Scope of Application (Cont'd.)

Capital Adequacy Ratios (Cont'd.)

The minimum regulatory capital adequacy requirements under transitional arrangements for the risk weighted capital ratios are as follows:

Calendar year	Common Equity Tier 1 ("CET 1") 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 the Bank comprise the financial statements of the Bank and the financial statements of all its controlled entities (individually referred to as “group entities”) where it is determined that there is a capacity to control. 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 Disclosure, 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 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 which are licensed under FSA or engaged in financial activities	Equity accounted	Deducted in the calculation of capital.
Associates which are not licensed under FSA or 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 approval of the Board of Directors ("Board"), as well as the concurrence of BNM.

2.0 Capital Management

The capital and risk management of the banking subsidiaries of AMMB Holdings Berhad (“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. The capital plan ensures that adequate levels of capital and an optimum mix of different components of capital are maintained by the Group to support its strategy.

The capital plan takes the following into account:

(a) Regulatory capital requirements:
- forecast demand for capital to support the credit ratings; and
- increases in demand for capital due to business growth and market shocks.

(b) Or stresses:
- available supply of capital and capital raising options; and
- internal controls and governance for managing the Group’s risk, performance and capital.

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

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

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

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

The capital that the Group is required to hold is determined by its statement of financial position, commitments & contingencies, counterparty and other risk exposures after applying collateral and other mitigants, based on the Group’s risk rating methodologies and systems. BNM has the right to impose further capital requirements on Malaysian Financial Institutions.

The Group operates processes and controls to monitor and manage capital adequacy across the organisation. 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. 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 (Cont'd.)

Group CEOs Committee proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ended 31 March 2015 (“FY 2015”), these ranges are 8.0% to 10.0% for the CET 1 Capital ratio, 9.5% to 11.5% for the Tier 1 Capital ratio, and 14.0% to 16.0% for the Total Capital ratio. The Group has been operating within 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 Ratio

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

	Group		Bank	
	2015	2014 (Restated)	2015	2014 (Restated)
Before deducting proposed dividends:				
CET 1 Capital ratio	11.228%	9.863%	10.653%	9.451%
Tier 1 Capital ratio	13.021%	11.830%	12.446%	11.416%
Total Capital ratio	16.649%	15.709%	16.020%	14.913%
After deducting proposed dividends:				
CET 1 Capital ratio	10.599%	9.556%	10.023%	9.145%
Tier 1 Capital ratio	12.391%	11.523%	11.816%	11.110%
Total Capital ratio	16.019%	15.401%	15.390%	14.607%

Notes:
For 2014, the capital position and RWA of the Bank refers to the combined capital base and RWA of the Bank and its wholly-owned offshore banking subsidiary company, AmLabuan.

The comparative capital adequacy ratios were restated arising from restatement of certain comparative figures. This restatement also affected certain disclosure in Table 2.2 and 3.3.

(b) The capital adequacy ratios of AmLabuan for capital compliance on a standalone basis as reported by the subsidiary are computed in accordance with the BNM guidelines of RWCAF based on the Basel II capital accord. As at 31 March 2014, AmLabuan's core capital ratio and risk weighted capital ratio was 86.773% and 87.019% respectively.

As part of Restricted Profit Sharing Investment Accounts ("RPSIA") arrangements with AmBank Islamic Berhad (formerly known as AmIslamic Bank Berhad) ("AmBank Islamic"), the Bank records the amount it provides as financing under the arrangement as deposits and placements with banks and other financial institutions. The financing to external parties made by AmBank Islamic is recorded by AmBank Islamic as financing and advances. As losses from the business venture is borne solely by the Bank, the related collective allowance is recorded by the Bank.

As at 31 March 2015, the gross exposure and collective allowance relating to the RPSIA financing for the Group and the Bank amounted to RM1,363,811,000 and RM1,553,000 (2014: RM450,133,000 and RM2,479,000) respectively.

Table 2.2 : Risk-Weighted Assets and Capital Requirements

The breakdown of risk weighted assets (“RWA”) by exposures in major risk category of the Group is as follows:

2015 Exposure class	Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")		Net exposures/ EAD after CRM	Risk weighted assets	Minimum capital requirement at 8%
	RM'000		RM'000	RM'000	RM'000
1. **Credit risk**					
On balance sheet exposures					
Sovereigns/Central banks	6,443,021		6,443,021	-	-
Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs")	7,853,681		7,853,681	1,588,258	127,061
Insurance companies, Securities firms and Fund managers	35,068		35,068	35,068	2,805
Corporates	35,633,673		32,953,612	28,020,500	2,241,640
Regulatory retail	18,651,391		18,503,150	13,918,235	1,113,459
Residential mortgages	10,841,769		10,818,697	3,848,069	307,846
Higher risk assets	108,339		108,339	162,508	13,001
Other assets	3,086,190		3,086,190	2,686,930	214,954
Securitisation exposures	54,626		54,626	27,088	2,167
Equity exposures	5,395		5,395	5,395	432
Defaulted exposures	689,566		678,740	732,557	58,605
Total on balance sheet exposures	**83,402,719**		**80,540,519**	**51,024,608**	**4,081,970**
Off balance sheet exposures					
Over the counter ("OTC") derivatives	3,706,971		3,706,971	1,586,235	126,899
Credit derivatives	16		16	8	1
Off balance sheet exposures other than OTC derivatives or Credit derivatives	8,891,650		8,205,668	7,320,458	585,637
Defaulted exposures	34,631		31,881	47,777	3,822
Total off balance sheet exposures	**12,633,268**		**11,944,536**	**8,954,478**	**716,359**
Total on and off balance sheet exposures	**96,035,987**		**92,485,055**	**59,979,086**	**4,798,329**
2. **Large exposure risk requirement**	-		-	1,036	83
3. **Market risk**	**Long position**	**Short position**			
Interest rate risk					
- General interest rate risk	84,724,264	82,729,152		1,819,070	145,526
- Specific interest rate risk	2,971,911	909,130		146,730	11,738
Foreign currency risk	378,458	28,795		378,458	30,277
Equity risk					
- General risk	170,601	4,855		165,746	13,260
- Specific risk	170,601	4,855		257,840	20,627
Option risk	549,005	306,933		7,112	569
Total	**88,964,840**	**83,983,720**		**2,774,956**	**221,997**
4. **Operational risk**				5,012,317	400,985
5. **Total RWA and capital requirements**				**67,767,395**	**5,421,394**

Table 2.2 : Risk-Weighted Assets and Capital Requirements (Cont'd.)

The breakdown of risk weighted assets (“RWA”) by exposures in major risk category of the Group is as follows:

2014 (Restated) **Exposure class**	**Gross exposures/ Exposure at default ("EAD") before credit risk mitigation ("CRM")**		**Net exposures/ EAD after CRM**	**Risk weighted assets**	**Minimum capital requirement at 8%**
	RM'000		**RM'000**	**RM'000**	**RM'000**
1. **Credit risk**					
On balance sheet exposures					
Sovereigns/Central banks	9,910,054		9,910,054	-	-
Banks, development financial institutions ("DFIs") and multilateral development banks ("MDBs")	5,208,851		5,208,851	1,120,688	89,655
Insurance companies, Securities firms and Fund managers	32,857		32,857	32,857	2,629
Corporates	33,581,695		31,540,951	28,534,338	2,282,747
Regulatory retail	21,980,477		21,835,871	16,451,961	1,316,157
Residential mortgages	10,370,131		10,349,003	3,678,252	294,260
Higher risk assets	112,185		112,185	168,278	13,462
Other assets	2,494,888		2,494,888	2,079,453	166,356
Securitisation exposures	171,382		171,382	113,723	9,098
Equity exposures	9,386		9,386	9,386	751
Defaulted exposures	954,587		945,155	1,016,560	81,325
Total on balance sheet exposures	**84,826,493**		**82,610,583**	**53,205,496**	**4,256,440**
Off balance sheet exposures					
Over the counter ("OTC") derivatives	2,272,990		2,272,990	1,297,888	103,831
Credit derivatives	16		16	8	1
Off balance sheet exposures other than OTC derivatives or Credit derivatives	9,531,656		8,826,398	7,863,839	629,107
Defaulted exposures	35,944		31,148	46,657	3,733
Total off balance sheet exposures	**11,840,606**		**11,130,552**	**9,208,392**	**736,672**
Total on and off balance sheet exposures	**96,667,099**		**93,741,135**	**62,413,888**	**4,993,112**
2. **Large exposure risk requirement**	-		-	143,864	11,509
3. **Market risk**	**Long position**	**Short position**			
Interest rate risk					
- General interest rate risk	62,182,420	60,291,040		1,602,686	128,215
- Specific interest rate risk	2,401,052	323,439		321,237	25,699
Foreign currency risk	242,079	58,505		242,079	19,366
Equity risk					
- General risk	209,669	1,485		208,184	16,655
- Specific risk	209,669	1,485		301,755	24,140
Option risk	1,262,074	2,147,956		163,182	13,055
Total	**66,506,963**	**62,823,910**		**2,839,123**	**227,130**
4. **Operational risk**				5,140,776	411,262
5. **Total RWA and capital requirements**				**70,537,651**	**5,643,013**

For 2015 and 2014, the Group does not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent.

3.0 Capital Structure

The capital structure of the Group and the Bank includes capital under the following headings:

- Common Equity Tier 1 ("CET 1") Capital;
- Additional Tier 1 Capital; and
- Tier 2 Capital.

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

3.1 CET 1 Capital

CET 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 Bank to continue trading. It can only be redeemed on the winding up of the Bank.

b) Share Premium

Share premium is used to record premium arising from new shares issued by the Bank.

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 CET 1 Capital net of any interim and/or final dividend declared, and net of any interim losses. Quarterly interim profits have been included in CET 1 Capital subject to review/audit by the external auditors.

3.1 CET 1 Capital (Cont'd.)

d) Other Disclosed Reserves

Other disclosed reserves comprise the following:

i) Statutory Reserve

Statutory reserve is maintained in compliance with Section 47(2) f of the FSA and is not distributable as cash dividends.

ii) Merger Reserve

The merger reserve represent reserves arising from the transfer of subsidiaries pursuant to schemes of arrangement under group restructuring and was accounted for using the merger accounting method.

iii) Foreign Currency Translation Reserve/(Deficit)

Exchange gain (foreign currency translation reserve) and exchange losses (foreign currency translation deficit) 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) Cash Flow Hedging Reserve/(Deficit)

This account relates to the amount of the hedging of the items that are not fair valued in the statement of financial position (including projected cash flows). Cash flow hedging gain as at the reporting period is classified as cash flow hedging reserve and cash flow hedging losses is classified as cash flow hedging deficit. The amount of the cash flow hedging reserve/(deficit) is derecognised in the calculation of CET 1 Capital.

3.2 Additional Tier 1 Capital

The amount of Additional Tier 1 Capital that can be recognised in the computation of the capital adequacy ratios of the Group and the Bank for 2013, has been capped at 90% of the total qualifying Additional Tier 1 balance outstanding as at 1 January 2013. For 2015, the amount of Additional Tier 1 Capital that can be recognised in the computation of the capital adequacy ratios are capped at 70% of the total qualifying Additional Tier 1 balance outstanding as at 1 January 2013. This is in accordance to the transitional gradual phase-out treatment under the Basel III regime. Table 3.1 outlines the application of the grandfathering provisions in respect of the Additional Tier 1 Capital Instruments of the Group and the Bank. Details of the Additional Tier 1 Capital Instruments are outlined below.

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

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

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

3.2 Additional Tier 1 Capital (Cont'd.)

Innovative Tier 1 Capital

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

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

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

The salient features of the Hybrid Securities are as follows:

(i) The Hybrid Securities bear non-cumulative dividends from the issue date to (but excluding) 27 January 2016 at 6.77% per annum and thereafter, a floating rate per annum equal to three (3) month USD LIBOR plus 2.90%, if not redeemed on 27 January 2016. The non-cumulative dividends are payable on a semi-annual basis.

(ii) The Hybrid Securities are perpetual securities and have no fixed final redemption date. The Hybrid Securities may be redeemed in whole but not in part at the option of the issuer (but not the holders) in certain circumstances. In each case, not less than 30 nor more than 60 days' notice (which notice shall be irrevocable) must be given.

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

(b) Innovative Tier 1 Capital Securities

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

3.2 Additional Tier 1 Capital (Cont'd.)

Non-innovative Tier 1 Capital

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

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

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

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

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

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

3.3 Tier 2 Capital

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

The amount of Tier 2 Capital issued prior to 2013 that can be recognised in the computation of the capital adequacy ratios of the Group and the Bank for 2013, has been capped at 90% of the total qualifying Tier 2 Capital balance outstanding as at 1 January 2013. For 2015, the amount of such Tier 2 Capital that can be recognised in the computation of the capital adequacy ratios is capped at 70% of the total qualifying Tier 2 Capital balance outstanding as at 1 January 2013. This is in accordance to the transitional gradual phase-out treatment under the Basel III regime. Table 3.2 outlines the application of the grandfathering provisions in respect of the Tier 2 Capital Instruments for the Group and the Bank. Details of the Tier 2 Capital Instruments are outlined below.

Table 3.2: Tier 2 Capital Instruments of the Group and the Bank and the Basel III Gradual Phase-Out Treatment

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

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

Medium Term Notes

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

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

3.3 Tier 2 Capital (Cont'd.)

Medium Term Notes (Cont'd.)

The MTNs issued under the MTN Programme was included as Tier 2 Capital under BNM's capital adequacy framework. Effective 1 January 2013, the MTNs are eligible for gradual phase-out treatment under the transitional arrangement of the Basel III accord, for recognition as Tier 2 Capital for capital adequacy calculation.

The salient features of the MTNs issued under this programme and outstanding as at 31 March 2015 are as follows:

Issue Date	First Call Date	Tenor	Interest Rate	Nominal value outstanding (RM million)
9 April 2008	9 April 2018	15 years Non-Callable 10 years	6.25% per annum (step up by 0.5% per annum after its first call date).	600
16 October 2012	16 October 2017	10 years Non-Callable 5 years	4.45% per annum	710
Total				**1,310**

Basel III Subordinated Notes

On 30 December 2013, the Bank established a new Subordinated Notes programme of RM4.0 billion. The objective of the programme is to enable the issuance of Tier 2 Capital from time to time, for the purpose of enhancing the Bank's total capital position. The programme is set up in accordance to the requirements spelt out in the Capital Adequacy Framework (Capital Components) issued by BNM. Securities issued under this programme are fully Basel III compliant and qualified for recognition as Tier 2 Capital for the purpose of capital adequacy ratio computation.

The programme has a tenor of 30 years from the date of the first issuance under the programme. Each issuance of Tier 2 Subordinated Notes under this programme shall have a tenor of at least 5 years from the issue date, and is callable on any coupon payment date after a minimum period of 5 years from the date of issuance of each tranche.

The salient features of the Subordinated Notes issued under this programme and outstanding as at 31 March 2015 are as follows:

Issue Date	First Call Date	Tenor	Interest Rate	Nominal value outstanding (RM million)
30 December 2013	30 December 2018	10 years Non-Callable 5 years	5.20% per annum	400
Total				**400**

Table 3.3: Capital Structure

The components of CET 1, Additional Tier 1, Tier 2, and Total Capital of the Group and the Bank are as follows:

	Group		Bank	
	2015	**2014**	**2015**	**2014**
	RM'000	**RM'000**	**RM'000**	**RM'000**
CET 1 Capital				
Ordinary shares	820,364	820,364	820,364	820,364
Share premium	942,844	942,844	942,844	942,844
Retained earnings	5,147,900	4,607,531	4,874,087	4,408,666
Available-for-sale reserve/(deficit)	1,207	(71,094)	1,323	(72,241)
Foreign currency translation reserve/(deficit)	50,537	(1,990)	50,585	(1,990)
Statutory reserve	980,969	980,969	980,969	980,969
Merger reserve	104,149	104,149	-	48,516
Cash flow hedging (deficit)/reserve	(481)	3,029	(481)	3,029
Less: Regulatory adjustments applied on CET 1 Capital				
Intangible assets	(334,749)	(334,857)	(327,689)	(330,679)
Deferred tax assets	(102,546)	(90,488)	(98,869)	(51,825)
55% of cumulative gains of available-for-sale financial instruments	(664)	-	(728)	-
Cash flow hedging (deficit)/reserve	481	(3,029)	481	(3,029)
Investment in ordinary shares of unconsolidated financial and insurance/takaful entities	(825)	(613)	(28,652)	(67,722)
Total CET 1 Capital	**7,609,186**	**6,956,815**	**7,214,234**	**6,676,902**
Additional Tier 1 Capital				
Additional Tier 1 Capital instruments (subject to gradual phase-out treatment)	1,214,570	1,388,080	1,214,570	1,388,080
Total Tier 1 Capital	**8,823,756**	**8,344,895**	**8,428,804**	**8,064,982**
Tier 2 Capital				
Tier 2 Capital instruments meeting all relevant criteria for inclusion	400,000	400,000	400,000	400,000
Tier 2 Capital instruments (subject to gradual phase-out treatment)	1,310,000	1,557,800	1,310,000	1,557,800
Collective allowance and regulatory reserves	749,739	780,174	753,172	783,541
Less: Regulatory adjustments applied on Tier 2 Capital	(1,237)	(2,450)	(42,978)	(270,888)
Total Tier 2 Capital	**2,458,502**	**2,735,524**	**2,420,194**	**2,470,453**
Total Capital	**11,282,258**	**11,080,419**	**10,848,998**	**10,535,435**

The breakdown of the risk weighed assets ("RWA") in various categories of risk are as follows:

	Group		Bank	
	2015	**2014 (Restated)**	**2015**	**2014 (Restated)**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Credit RWA	59,979,086	62,413,888	60,253,770	62,683,302
Market RWA	2,774,956	2,839,123	2,774,466	2,839,123
Operational RWA	5,012,317	5,140,776	4,694,931	4,977,955
Large exposure risk RWA for equity holdings	1,036	143,864	-	143,864
Total RWA	**67,767,395**	**70,537,651**	**67,723,167**	**70,644,244**

4.0 General Risk Management

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 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 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 CET 1 Capital, 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 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.

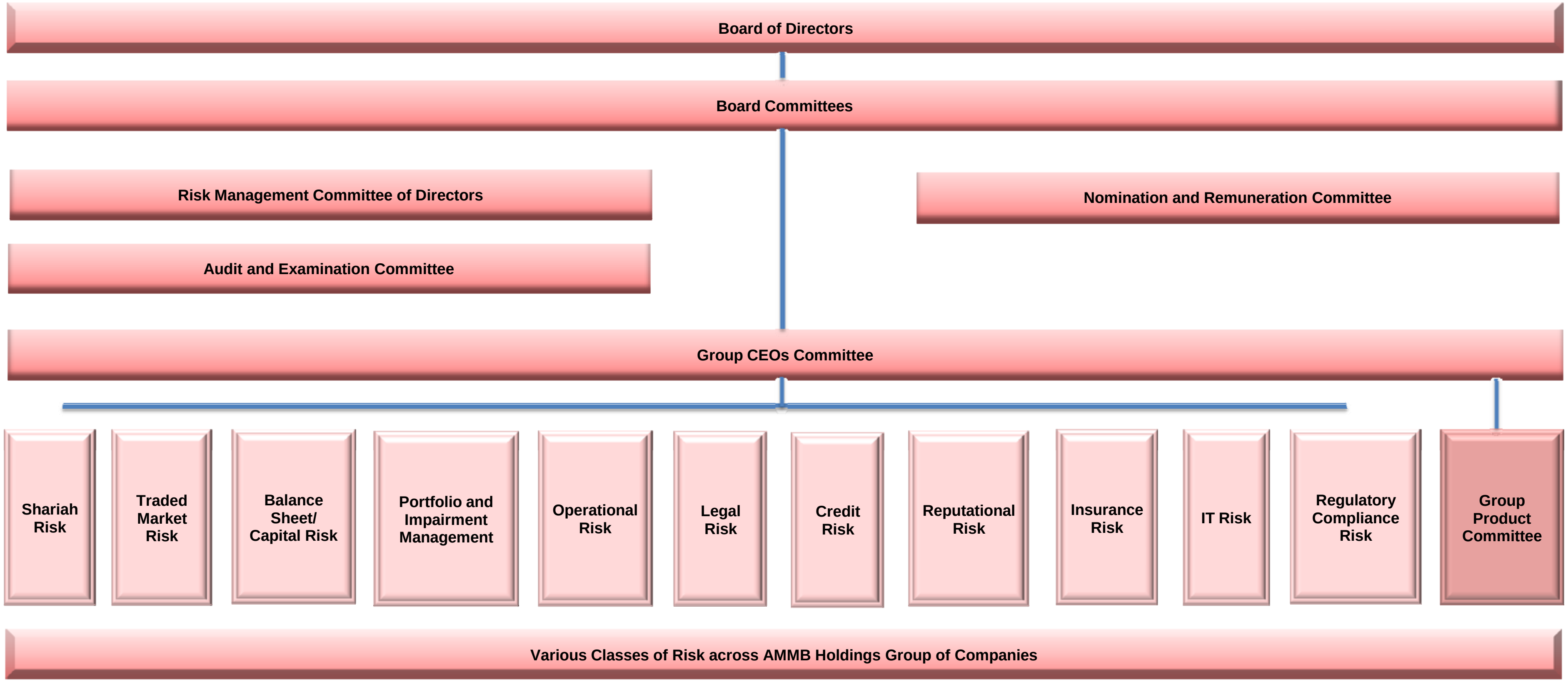
The Board has also established the Group CEOs Committee to assist it in managing the risks and businesses of the Group. The committee addresses all classes of risk within its Board delegated mandate: balance sheet risk, credit risk, legal risk, operational risk, market risk, Shariah risk, compliance risk, reputational risk, product risk and business and IT project 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 oversees activities in managing products for the Group; and to advise and report to the Group CEOs Committee on product related matters.

4.0 General Risk Management (Contd.)

Risk Management Governance (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.



4.0 General Risk Management (Cont'd.)

Risk Management Governance (Cont'd.)

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; and
- be incorporated into the Group's overall risk management strategy and governance frameworks.

4.1 Internal Capital Adequacy Assessment Process (Cont'd.)

4.1.3 Capital Management Plan and Framework

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

- a strategy for maintaining capital resources over time;
- measures that would be taken in the event capital falls below a targeted level; and
- 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 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 rating agencies' requirements, including maintaining appropriate buffers over minimum capital levels; and
- 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

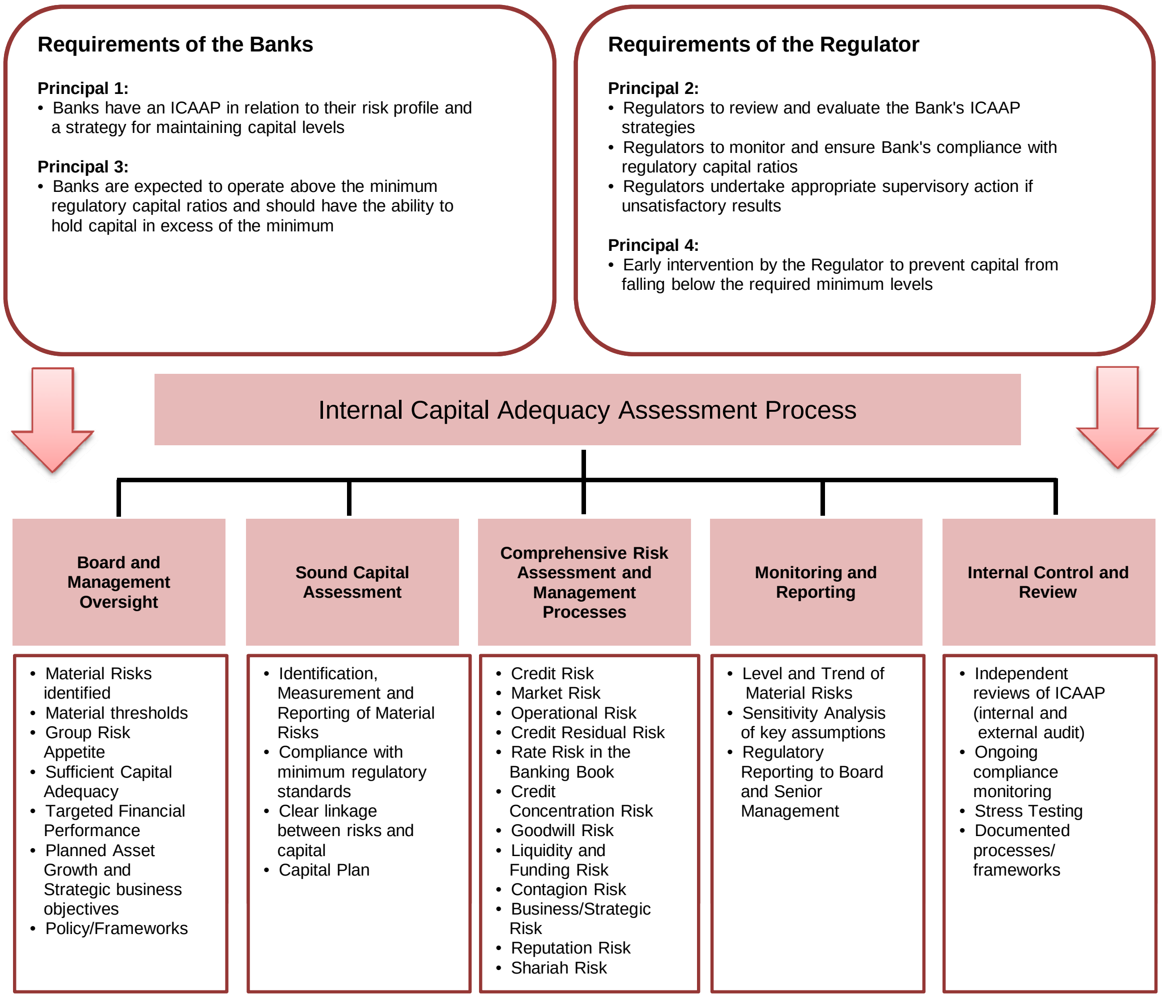
- The Group must have clearly articulated definitions of each material risk type to be included in the ICAAP; and
- processes to identify and determine the materiality of current risk types, change to existing risk types and new risk types must be established.

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

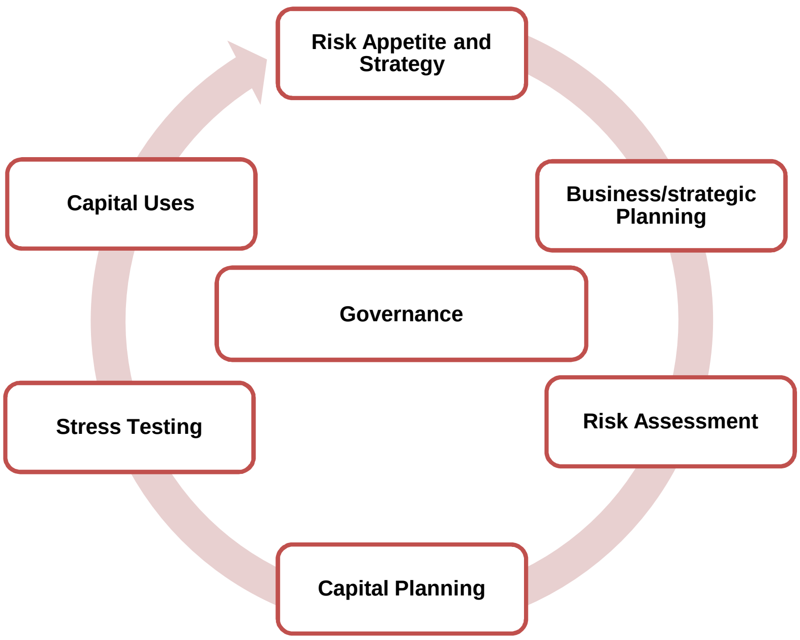
- significant departure from its ICAAP;
- concerns that the Board has about its capital adequacy along with proposed measures to address those concerns; and
- significant changes in its capital.

4.1 Internal Capital Adequacy Assessment Process (Cont'd.)

ICAAP Framework



Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

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

Identification	• Identify/recognise credit risk on transactions and/or positions • Select asset and portfolio mix
Assessment/ Measurement	• Internal credit rating system • Probability of default ("PD") • Loss given default ("LGD") • Exposure at default ("EAD")
Control/ Mitigation	• Portfolio Limits, Counterparty Limits, Benchmark Returns • Collateral and tailored facility structures
Monitoring/ Review	• Monitor and report portfolio 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's transactions and/or positions.

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

For non-retail credits, risk recognition begins with an assessment of the financial standing of the borrower or counterparty using credit rating model. The model consists of quantitative and qualitative scores that are then translated into rating grades. The assigned credit rating grade forms a crucial part of the credit analysis undertaken for each of the Group's credit exposures.

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

To support credit risk management, our rating models for major portfolios have been upgraded to facilitate:
- improvement in the accuracy of individual obligor risk ratings;
- enhancement to pricing models;
- loan loss provision calculation;
- stress-testing; and
- enhancement to portfolio management.

Lending 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:
  - single counterparty credit;
  - industry sector; and
  - country.
- setting Loan to Value limits for asset backed loans (i.e., property exposures and other collateral);
- Classified Account processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers; and
- setting Benchmark Returns which serve as a guide to the minimum returns the Group requires for the risk undertaken, taking into account operating expenses and cost of capital.

5.0 Credit Risk Management (Cont'd.)

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 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 delinquency buckets and exposures by industry sectors are reported monthly by Group Risk to executive management and to all meetings of the Board.

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

5.1 Impairment

5.1.1 Definition of past due and impaired loans and advances

All loans 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) where 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 obligation[2]; or

(b) for loans where repayments are scheduled on intervals of 3 months or longer, the loan 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.

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

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 Impairment (Cont'd)

5.1.1 Definition of past due and impaired loans and advances (Cont'd.)

(d) a loan may also be classified as impaired:

i. as deemed appropriate by the Watch and Control Committee where it is determined the loans have a high probability of default; or

ii. cross-default occurs when:

- a default of a loan obligation of a borrower triggers a default of another loan obligation of the same borrower or
- a default of a loan obligation of a borrower triggers a default of a loan obligation of other borrowers within the same borrower group.

The 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.

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 is as follows:

2015	Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail trade and hotels and restaurants	Transport, storage and communication	Finance and insurance	Real estate	Business activities	Education and health	Household	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On balance sheet exposures														
Sovereigns/Central banks	-	-	-	-	96,036	-	-	5,057,083	-	-	1,289,902	-	-	6,443,021
Banks, DFIs and MDBs	-	-	-	-	-	-	-	7,727,009	-	-	71,389	-	55,283	7,853,681
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	35,068	-	-	-	-	-	35,068
Corporates	2,460,675	1,548,624	6,046,116	1,269,253	3,445,741	3,895,351	1,479,358	4,552,583	5,479,681	860,617	2,129,663	2,356,251	109,760	35,633,673
Regulatory retail	52,503	12,496	170,765	2,431	153,223	216,655	60,231	222,068	77,698	81,611	89,677	17,476,113	35,920	18,651,391
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	10,841,769	-	10,841,769
Higher risk assets	-	-	-	-	-	-	-	-	-	-	-	18,868	89,471	108,339
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	3,086,190	3,086,190
Securitisation exposures	-	-	-	-	-	-	-	23,669	-	-	30,957	-	-	54,626
Equity exposures	-	-	7	-	-	-	-	5,227	-	-	-	-	161	5,395
Defaulted exposures	7,975	297	43,549	117	22,755	28,285	8,637	7,821	48,277	5,930	7,407	503,303	5,213	689,566
Total for on balance sheet exposures	2,521,153	1,561,417	6,260,437	1,271,801	3,717,755	4,140,291	1,548,226	17,630,528	5,605,656	948,158	3,618,995	31,196,304	3,381,998	83,402,719
Off balance sheet exposures														
OTC derivatives	3,161	185,794	125,565	-	6,474	4,125	68,813	3,259,513	8,953	41,354	629	-	2,590	3,706,971
Credit derivatives	-	-	-	-	-	-	-	16	-	-	-	-	-	16
Off balance sheet exposures other than OTC derivatives or Credit derivatitives	161,327	515,681	1,416,233	173,741	1,835,231	631,725	223,814	619,903	883,965	123,555	292,832	2,001,447	12,196	8,891,650
Defaulted exposures	-	1,134	1,990	-	22,559	2,419	652	5,146	-	332	15	259	125	34,631
Total for off balance sheet exposures	164,488	702,609	1,543,788	173,741	1,864,264	638,269	293,279	3,884,578	892,918	165,241	293,476	2,001,706	14,911	12,633,268
Total on and off balance sheet exposures	**2,685,641**	**2,264,026**	**7,804,225**	**1,445,542**	**5,582,019**	**4,778,560**	**1,841,505**	**21,515,106**	**6,498,574**	**1,113,399**	**3,912,471**	**33,198,010**	**3,396,909**	**96,035,987**

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

The distribution of credit exposures by sector of the Group is as follows (Cont'd.):

2014	Agriculture	Mining and quarrying	Manufacturing	Electricity, gas and water	Construction	Wholesale and retail trade and hotels and restaurants	Transport, storage and communication	Finance and insurance	Real estate	Business activities	Education and health	Household	Others	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On balance sheet exposures														
Sovereigns/Central banks	-	-	-	-	63,114	-	-	7,661,588	-	-	2,185,352	-	-	9,910,054
Banks, DFIs and MDBs	-	-	-	-	-	-	-	5,128,339	-	798	69,627	-	10,087	5,208,851
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	32,857	-	-	-	-	-	32,857
Corporates	2,925,699	3,077,946	5,920,444	1,369,545	3,985,242	3,371,951	2,055,762	3,172,887	4,834,558	1,109,240	1,061,660	470,450	226,311	33,581,695
Regulatory retail	80,415	18,092	195,804	2,837	206,883	283,546	91,940	244,852	77,816	96,470	115,065	20,522,974	43,783	21,980,477
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	10,370,131	-	10,370,131
Higher risk assets	-	-	-	-	-	-	-	918	417	-	-	22,439	88,411	112,185
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	2,494,888	2,494,888
Securitisation exposures	-	-	-	-	-	-	91,586	74,397	-	-	5,399	-	-	171,382
Equity exposures	-	-	18	-	-	-	1,860	5,642	1,650	36	-	-	180	9,386
Defaulted exposures	11,144	570	97,011	276	87,876	29,809	41,425	8,457	6,489	4,587	10,237	643,676	13,030	954,587
Total for on balance sheet exposures	3,017,258	3,096,608	6,213,277	1,372,658	4,343,115	3,685,306	2,282,573	16,329,937	4,920,930	1,211,131	3,447,340	32,029,670	2,876,690	84,826,493
Off balance sheet exposures														
OTC derivatives	4,450	9,672	60,514	-	9,338	6,197	45,270	2,102,887	2,671	26,132	-	-	5,859	2,272,990
Credit derivatives	-	-	-	-	-	-	-	16	-	-	-	-	-	16
Off balance sheet exposures other than OTC derivatives or Credit derivatitives	250,538	184,432	1,655,272	192,670	1,881,639	756,911	361,858	536,365	944,233	133,447	342,595	2,271,181	20,515	9,531,656
Defaulted exposures	-	-	4,072	-	17,686	4,166	500	5,156	-	4,183	12	47	122	35,944
Total for off balance sheet exposures	254,988	194,104	1,719,858	192,670	1,908,663	767,274	407,628	2,644,424	946,904	163,762	342,607	2,271,228	26,496	11,840,606
Total on and off balance sheet exposures	**3,272,246**	**3,290,712**	**7,933,135**	**1,565,328**	**6,251,778**	**4,452,580**	**2,690,201**	**18,974,361**	**5,867,834**	**1,374,893**	**3,789,947**	**34,300,898**	**2,903,186**	**96,667,099**

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

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

2015	Agriculture RM'000	Mining and quarrying RM'000	Manufacturing RM'000	Electricity, gas and water RM'000	Construction RM'000	Wholesale and retail trade and hotels and restaurants 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	Unallocated RM'000	Total RM'000
Impaired loans and advances	8,788	7,034	172,735	261	12,095	36,526	12,201	418	76,276	9,419	6,434	609,513	12,285	-	**963,985**
Past due loans	11,750	9,175	155,982	760	50,769	92,569	79,059	7,078	98,224	26,234	33,744	6,954,151	29,059	-	**7,548,554**
Individual allowance	-	5,949	110,001	-	2,410	8,146	2,318	-	25,046	3,808	978	8,801	-	-	**167,457**
Collective allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	953,660	**953,660**
Charges/(writeback) for individual allowance	(11)	2,959	24,703	(21,240)	(64)	8,146	(3,319)	-	24,958	3,719	978	4,471	-	-	**45,300**
Write-offs against individual allowance	-	137	5,862	-	112	-	2,687	-	-	-	-	2,800	-	-	**11,598**

2014	Agriculture RM'000	Mining and quarrying RM'000	Manufacturing RM'000	Electricity, gas and water RM'000	Construction RM'000	Wholesale and retail trade and hotels and restaurants 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	Unallocated RM'000	Total RM'000
Impaired loans and advances	16,075	4,005	202,207	24,320	21,919	26,880	55,868	1,856	4,103	11,124	8,704	902,064	19,386	-	**1,298,511**
Past due loans	32,865	15,492	229,420	24,193	112,961	117,742	171,600	5,476	133,268	72,433	47,147	9,229,636	5,560	-	**10,197,793**
Individual allowance	11	3,127	91,160	21,240	2,586	-	8,324	-	88	89	-	7,130	-	-	**133,755**
Collective allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	1,411,219	**1,411,219**
Charges/(writeback) for individual allowance	(5,161)	4,059	82,817	(3,249)	3,078	4,348	37,290	-	606	2,666	26,020	4,881	(5,523)	-	**151,832**
Write-offs against individual allowance	-	15,618	84,115	-	14,784	6,046	35,052	-	567	4,080	26,410	-	245	-	**186,917**

Table 5.3 : Geographical distribution of credit exposures

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

2015	**In Malaysia RM'000**	**Outside Malaysia RM'000**	**Total RM'000**
On balance sheet exposures			
Sovereigns/Central banks	5,924,535	518,486	6,443,021
Banks, DFIs and MDBs	6,940,256	913,425	7,853,681
Insurance companies, Securities firms and Fund managers	35,068	-	35,068
Corporates	32,889,890	2,743,783	35,633,673
Regulatory retail	18,644,431	6,960	18,651,391
Residential mortgages	10,841,769	-	10,841,769
Higher risk assets	107,262	1,077	108,339
Other assets	2,881,212	204,978	3,086,190
Securitisation exposures	54,626	-	54,626
Equity exposures	5,395	-	5,395
Defaulted exposures	689,409	157	689,566
Total for on balance sheet exposures	**79,013,853**	**4,388,866**	**83,402,719**
Off balance sheet exposures			
OTC derivatives	3,706,966	5	3,706,971
Credit derivatives	16	-	16
Off balance sheet exposures other than OTC derivatives or Credit derivative	8,189,026	702,624	8,891,650
Defaulted exposures	34,631	-	34,631
Total for off balance sheet exposures	**11,930,639**	**702,629**	**12,633,268**
Total on and off balance sheet exposures	**90,944,492**	**5,091,495**	**96,035,987**

Table 5.3 : Geographical distribution of credit exposures (Cont'd.)

The geographic distribution of credit exposures of the Group is as follows (Cont'd.):

2014	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On balance sheet exposures			
Sovereigns/Central banks	9,387,649	522,405	9,910,054
Banks, DFIs and MDBs	4,170,009	1,038,842	5,208,851
Insurance companies, Securities firms and Fund managers	155	32,702	32,857
Corporates	32,189,501	1,392,194	33,581,695
Regulatory retail	21,980,477	-	21,980,477
Residential mortgages	10,370,131	-	10,370,131
Higher risk assets	111,267	918	112,185
Other assets	2,494,158	730	2,494,888
Securitisation exposures	171,382	-	171,382
Equity exposures	9,350	36	9,386
Defaulted exposures	954,587	-	954,587
Total for on balance sheet exposures	**81,838,666**	**2,987,827**	**84,826,493**
Off balance sheet exposures			
OTC derivatives	2,272,990	-	2,272,990
Credit derivatives	16	-	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	9,292,879	238,777	9,531,656
Defaulted exposures	35,944	-	35,944
Total for off balance sheet exposures	**11,601,829**	**238,777**	**11,840,606**
Total on and off balance sheet exposures	**93,440,495**	**3,226,604**	**96,667,099**

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

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

2015	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	963,985	-	963,985
Past due loans	7,548,554	-	7,548,554
Individual allowance	167,457	-	167,457
Collective allowance	939,685	13,975	953,660

2014	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	1,298,511	-	1,298,511
Past due loans	10,197,793	-	10,197,793
Individual allowance	133,755	-	133,755
Collective allowance	1,396,448	14,771	1,411,219

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 is as follows:

2015	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On balance sheet exposures									
Sovereigns/Central banks	2,894,975	518,486	39,691	-	-	111,715	2,878,154	-	6,443,021
Banks, DFIs and MDBs	3,496,105	3,850,032	202,669	41,929	25,205	95,456	137,071	5,214	7,853,681
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	35,068	-	35,068
Corporates	8,923,385	2,251,727	1,377,906	1,991,449	3,983,711	3,614,180	13,491,315	-	35,633,673
Regulatory retail	1,325,324	61,134	102,687	218,663	1,922,213	3,575,152	11,446,218	-	18,651,391
Residential mortgages	711	279	1,062	3,697	56,218	126,460	10,653,342	-	10,841,769
Higher risk assets	1	25	14	59	479	1,444	16,846	89,471	108,339
Other assets	544,944	7,473	8,999	18,329	325,450	203,050	-	1,977,945	3,086,190
Securitisation exposures	6	-	-	-	-	-	54,620	-	54,626
Equity exposures	5,226	-	-	-	-	-	8	161	5,395
Defaulted exposures	65,930	7,662	8,745	11,612	71,348	98,102	426,167	-	689,566
Total for on balance sheet exposures	**17,256,607**	**6,696,818**	**1,741,773**	**2,285,738**	**6,384,624**	**7,825,559**	**39,138,809**	**2,072,791**	**83,402,719**
Off balance sheet exposures									
OTC derivatives	301,996	250,729	264,208	383,479	644,305	555,126	1,307,128	-	3,706,971
Credit derivatives	-	-	-	-	10	-	6	-	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,146,875	945,570	981,657	1,601,580	1,608,007	743,789	1,864,172	-	8,891,650
Defaulted exposures	3,734	8,497	806	18,598	300	-	2,696	-	34,631
Total for off balance sheet exposures	**1,452,605**	**1,204,796**	**1,246,671**	**2,003,657**	**2,252,622**	**1,298,915**	**3,174,002**	**-**	**12,633,268**
Total on and off balance sheet exposures	**18,709,212**	**7,901,614**	**2,988,444**	**4,289,395**	**8,637,246**	**9,124,474**	**42,312,811**	**2,072,791**	**96,035,987**

Table 5.5 : Residual contractual maturity by major types of credit exposure (Cont'd.)

The residual contractual maturity by major types of gross credit exposures of the Group is as follows (Cont'd.):

2014	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On balance sheet exposures									
Sovereigns/Central banks	4,751,818	1,024,994	217,140	394,031	-	264,850	3,257,221	-	9,910,054
Banks, DFIs and MDBs	3,476,350	768,201	696,008	-	51,671	114,844	95,475	6,302	5,208,851
Insurance companies, Securities firms and Fund managers	156	-	-	-	-	-	32,701	-	32,857
Corporates	9,277,340	2,649,973	2,089,322	1,124,366	2,707,638	4,576,016	11,157,040	-	33,581,695
Regulatory retail	1,638,985	78,334	118,378	249,678	2,163,202	4,057,957	13,673,943	-	21,980,477
Residential mortgages	1,338	389	1,489	3,904	62,469	133,082	10,167,460	-	10,370,131
Higher risk assets	462	26	62	119	607	1,373	21,125	88,411	112,185
Other assets	564,742	2,864	3,277	6,684	-	230,201	-	1,687,120	2,494,888
Securitisation exposures	4,040	-	-	-	-	-	167,342	-	171,382
Equity exposures	5,641	-	-	-	-	-	3,565	180	9,386
Defaulted exposures	139,537	12,502	15,179	28,629	114,132	130,670	513,938	-	954,587
Total for on balance sheet exposures	**19,860,409**	**4,537,283**	**3,140,855**	**1,807,411**	**5,099,719**	**9,508,993**	**39,089,810**	**1,782,013**	**84,826,493**
Off balance sheet exposures									
OTC derivatives	48,620	53,943	40,875	100,438	557,388	721,878	749,848	-	2,272,990
Credit derivatives	-	-	-	-	10	-	6	-	16
Off balance sheet exposures other than OTC derivatives or Credit derivatives	1,194,506	901,202	1,028,835	1,652,562	1,386,236	824,042	2,544,273	-	9,531,656
Defaulted exposures	13,214	1,360	5,186	6,114	6,124	193	3,753	-	35,944
Total for off balance sheet exposures	**1,256,340**	**956,505**	**1,074,896**	**1,759,114**	**1,949,758**	**1,546,113**	**3,297,880**	**-**	**11,840,606**
Total on and off balance sheet exposures	**21,116,749**	**5,493,788**	**4,215,751**	**3,566,525**	**7,049,477**	**11,055,106**	**42,387,690**	**1,782,013**	**96,667,099**

Table 5.6 : Reconciliation of changes to loans impairment allowances

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

	Collective impairment allowance		Individual impairment allowances	
	2015	2014	2015	2014
	RM'000	RM'000	RM'000	RM'000
Balance at beginning of the financial year	1,411,219	1,492,899	133,755	168,840
Charge to income statement, net	282,957	360,079	45,300	151,832
Amount transferred to AmBank Islamic*	(2,463)	-	-	-
Amount written-off and others	(740,094)	(443,170)	(11,598)	(186,917)
Foreign exchange differences	2,041	1,411	-	-
Balance at end of the financial year **	**953,660**	**1,411,219**	**167,457**	**133,755**

* On 2 May 2014, upon expiry of the RPSIA contract entered into with AmBank Islamic in the financial year ended 31 March 2013, the Bank had derecognised the collective allowance previously recognised in its financial statements. Accordingly, AmBank Islamic now accounts for the collective allowance in its financial statements.

** As at 31 March 2015, the gross exposure and collective allowance relating to the RPSIA financing for the Group and the Bank amounted to RM1,363,811,000 and RM1,553,000 (2014: RM450,133,000 and RM2,479,000) respectively.

There was no individual allowance provided for the RPSIA financing for 2015 and 2014.

	(Charge offs)/ recoveries	
	2015	2014
	RM'000	RM'000
Bad debts written off during the financial year	(79,780)	(68,396)
Bad debt recoveries during the financial year	563,750	730,944

6.0 Credit Risk Exposure under the Standardised Approach

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

- Sovereigns and Central Banks
- Banking Insitutions
- 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 is as follows:

2015	Exposures after netting and credit risk mitigation											
Risk weights	Sovereigns and Central banks	Banks, DFIs and MDBs	Insurance companies, Securities firms and Fund managers	Corporates	Regulatory retail	Residental mortgages	Higher risk assets	Other assets	Securitisation exposures	Equity exposures	Total exposures after netting and credit risk mitigation	Total risk weighted assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	6,443,021	5,101	-	2,627,395	-	-	-	399,260	-	-	9,474,777	-
20%	-	9,279,532	-	3,628,603	3,248	-	-	-	53,312	-	12,964,695	2,592,939
35%	-	-	-	-	-	10,417,502	-	-	-	-	10,417,502	3,646,126
50%	-	1,592,307	-	259,888	18,011	454,579	-	-	-	-	2,324,785	1,162,392
75%	-	-	-	-	19,764,726	-	-	-	-	-	19,764,726	14,823,544
100%	-	553	86,303	33,847,048	287,329	222,891	-	2,686,930	-	5,395	37,136,449	37,136,449
150%	-	-	-	165,464	114,132	-	121,211	-	-	-	400,807	601,210
1250%	-	-	-	-	-	-	-	-	1,314	-	1,314	16,426
Total	**6,443,021**	**10,877,493**	**86,303**	**40,528,398**	**20,187,446**	**11,094,972**	**121,211**	**3,086,190**	**54,626**	**5,395**	**92,485,055**	**59,979,086**
Deduction from capital base									-		-	

2014	Exposures after netting and credit risk mitigation											
Risk weights	Sovereigns and Central banks	Banks, DFIs and MDBs	Insurance companies, Securities firms and Fund managers	Corporates	Regulatory retail	Residental mortgages	Higher risk assets	Other assets	Securitisation exposures	Equity exposures	Total exposures after netting and credit risk mitigation	Total risk weighted assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	9,910,054	-	-	1,354,331	-	-	-	410,276	-	-	11,674,661	-
20%	200	5,372,868	-	2,232,102	11,436	-	-	6,449	164,923	-	7,787,978	1,557,595
35%	-	-	-	-	-	9,986,815	-	-	-	-	9,986,815	3,495,385
50%	-	1,836,476	-	288,222	23,684	534,120	-	-	-	-	2,682,502	1,341,251
75%	-	-	-	-	23,799,318	-	-	-	-	-	23,799,318	17,849,488
100%	-	66	53,410	34,592,191	379,746	118,386	-	2,078,163	-	9,386	37,231,348	37,231,348
150%	-	-	-	241,145	204,510	-	126,399	-	-	-	572,054	858,082
1250%	-	-	-	-	-	-	-	-	6,459	-	6,459	80,739
Total	**9,910,254**	**7,209,410**	**53,410**	**38,707,991**	**24,418,694**	**10,639,321**	**126,399**	**2,494,888**	**171,382**	**9,386**	**93,741,135**	**62,413,888**
Deduction from capital base									-		-	

Table 6.2: Rated exposures according to ratings by ECAIs

2015		Ratings of corporate by approved ECAIs				
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
Exposure class	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Insurance companies, Securities firms and Fund managers	86,303	-	-	-	-	86,303
Corporates	43,874,508	2,179,264	179,884	134	56	41,515,170
Total	**43,960,811**	**2,179,264**	**179,884**	**134**	**56**	**41,601,473**

2014		Ratings of corporate by approved ECAIs				
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
Exposure class	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating and 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
On and off balance sheet exposures						
Credit exposures (using corporate risk weights)						
Insurance companies, Securities firms and Fund managers	53,410	-	-	-	-	53,410
Corporates	41,423,922	1,899,110	193,743	-	33	39,331,036
Total	**41,477,332**	**1,899,110**	**193,743**	**-**	**33**	**39,384,446**

Table 6.2: Rated exposures according to ratings by ECAIs (Cont'd.)

2015	Short term ratings of banking institutions and corporate by approved ECAIs					
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
Exposure class	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Banks, DFIs and MDBs	-	-	-	-	-	-
Total	**-**	**-**	-	-	-	**-**

2014	Short term ratings of banking institutions and corporate by approved ECAIs					
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
Exposure class	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	Rating and Investment Information, Inc.	a-1+, a-1	a-2	a-3	b,c	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and off balance sheet exposures						
Banks, DFIs and MDBs	104,813	104,813	-	-	-	-
Total	**104,813**	**104,813**	-	-	-	**-**

Table 6.2: Rated exposures according to ratings by ECAIs (Cont'd.)

2015	**Ratings of sovereigns and central banks by approved ECAIs**					
	Moody's	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
Exposure class	**Fitch**	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Sovereigns and Central banks	6,443,021	518,486	5,924,535	-	-	-
Total	**6,443,021**	**518,486**	5,924,535	-	-	**-**

2014	**Ratings of sovereigns and central banks by approved ECAIs**					
	Moody's	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
Exposure class	**Fitch**	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	Rating and Investment Information, Inc.	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Sovereigns and Central banks	9,910,254	522,405	9,387,849	-	-	-
Total	**9,910,254**	**522,405**	9,387,849	-	-	**-**

Table 6.2: Rated exposures according to ratings by ECAIs (Cont'd.)

2015	Ratings of banking institutions by approved ECAIs					
	Moody's	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	RAM	**AAA to AA3**	**A1 to A3**	**BBB1 to BBB3**	**BB1 to B3**	**Unrated**
Exposure class	**MARC**	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Banks, DFIs and MDBs	10,877,493	4,136,402	2,560,872	845,387	49	3,334,783
Total	**10,877,493**	**4,136,402**	**2,560,872**	**845,387**	**49**	**3,334,783**

2014	Ratings of banking institutions by approved ECAIs					
	Moody's	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Ba1 to B3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	RAM	**AAA to AA3**	**A1 to A3**	**BBB1 to BBB3**	**BB1 to B3**	**Unrated**
Exposure class	**MARC**	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
	Rating and Investment Information, Inc.	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and off balance sheet exposures						
Banks, DFIs and MDBs	7,104,597	1,046,138	914,704	925,132	62	4,218,561
Total	**7,104,597**	**1,046,138**	**914,704**	**925,132**	**62**	**4,218,561**

Table 6.3: Securitisation according to ratings by ECAIs

2015				
	Ratings of securitisation by approved ECAIs			
Exposure class	**Moody's**	**Aaa to Aa3**	**A1 to A3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**Unrated**
	RAM	**AAA to AA3**	**A1 to A3**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**Unrated**
		RM'000	**RM'000**	**RM'000**
<u>On and off balance sheet exposures</u>				
Securitisation exposures	54,626	53,312	-	1,314
Total	**54,626**	**53,312**	**-**	**1,314**

2014				
	Ratings of securitisation by approved ECAIs			
Exposure class	**Moody's**	**Aaa to Aa3**	**A1 to A3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**Unrated**
	RAM	**AAA to AA3**	**A1 to A3**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**Unrated**
	Rating and Investment Information, Inc.	**AAA to AA-**	**A+ to A-**	**Unrated**
		RM'000	**RM'000**	**RM'000**
<u>On and off balance sheet exposures</u>				
Securitisation exposures	171,382	164,923	-	6,459
Total	**171,382**	**164,923**	**-**	**6,459**

7.0 Credit Risk Mitigation

Main types of collateral taken by the Group

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

- cash and term deposits
- exchange traded shares, bonds, sukuk, convertible bonds and marketable securities
- non-exchange traded debt securities/sukuk
- unit trusts (including Amanah Saham Nasional, Amanah Saham Bumiputera and mutual funds)
- non-exchange traded shares
- residential and non-residential property
- plantation land, mining land, quarry land and vacant land
- passenger vehicle, commercial vehicle, construction vehicle and vessel
- plant and machineries

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

In addition to rating customer’s probability of default via an internal risk rating system, the Group uses Security Indicators (“SIs”) in its non-retail portfolio to assess the strength of collateral supporting its exposures.

Processes for collateral management

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

Guarantee Support

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

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

Use of credit derivatives and netting for risk mitigation

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

Transaction structuring to mitigate credit risk

Besides tangible security and guarantee support described above, credit risk mitigation techniques are used in structuring transactions. These include duration limits managing the number of years the loan 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 Group and the customer can work together to address the underlying causes and as appropriate, restructure facilities.

Concentrations of credit risk mitigation

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

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

Table 7.1 : Credit Risk Mitigation

The total exposures and eligible guarantees and collateral of the Group are as follows:

2015 **Exposures**	**Exposures before CRM RM'000**	**Exposures covered by guarantees RM'000**	**Exposures covered by eligible financial collateral RM'000**
Credit risk			
On balance sheet exposures			
Sovereigns/Central banks	6,443,021	-	-
Banks, DFIs and MDBs	7,853,681	-	-
Insurance companies, Securities firms and Fund managers	35,068	-	-
Corporates	35,633,673	91,241	6,256,551
Regulatory retail	18,651,391	2,423	279,967
Residential mortgages	10,841,769	-	125,998
Higher risk assets	108,339	-	-
Other assets	3,086,190	-	-
Securitisation exposures	54,626	-	-
Equity exposures	5,395	-	-
Defaulted exposures	689,566	1,943	64,298
Total for on balance sheet exposures	83,402,719	95,607	6,726,814
Off balance sheet exposures			
OTC derivatives	3,706,971	-	-
Credit derivatives	16	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	8,891,650	4,402	1,305,010
Defaulted exposures	34,631	35	6,685
Total for off balance sheet exposures	12,633,268	4,437	1,311,695
Total on and off balance sheet exposures	**96,035,987**	**100,044**	**8,038,509**

Table 7.1 : Credit Risk Mitigation (Cont'd.)

The total exposures and eligible guarantees and collateral of the Group are as follows (Cont'd.):

2014 Exposures	Exposures before CRM RM'000	Exposures covered by guarantees RM'000	Exposures covered by eligible financial collateral RM'000
Credit risk			
On balance sheet exposures			
Sovereigns/Central banks	9,910,054	-	-
Banks, DFIs and MDBs	5,208,851	-	-
Insurance companies, Securities firms and Fund managers	32,857	-	-
Corporates	33,581,695	28,791	5,456,996
Regulatory retail	21,980,477	9,262	306,585
Residential mortgages	10,370,131	-	98,531
Higher risk assets	112,185	-	-
Other assets	2,494,888	-	-
Securitisation exposures	171,382	-	-
Equity exposures	9,386	-	-
Defaulted exposures	954,587	5,897	36,149
Total for on balance sheet exposures	84,826,493	43,950	5,898,261
Off balance sheet exposures			
OTC derivatives	2,272,990	-	-
Credit derivatives	16	-	-
Off balance sheet exposures other than OTC derivatives or Credit derivatives	9,531,656	1,845	1,410,492
Defaulted exposures	35,944	50	11,836
Total for off balance sheet exposures	11,840,606	1,895	1,422,328
Total on and off balance sheet exposures	**96,667,099**	**45,845**	**7,320,589**

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, certain transaction-related contingent items, obligation under underwriting agreement, short term self liquidating trade-related contingencies, irrevocable commitment to extend credit and unutilised credit card line.
2) Derivatives Financial Instruments, e.g. forward exchange contracts (forward exchange contracts and cross currency swaps) interest rate related contracts (interest rate futures and interest rate swaps), equity related contracts (option and futures) and commodity related contract (option).
3) Other treasury-related exposures, e.g. forward purchase commitment.

Off balance sheet exposure is mitigated by setting of credit limit for the respective counterparty and exposure limit for industry sectors which are governed under the GRAF.

8.2 Counterparty Credit Risk

Market related credit risk is present in market instruments (derivatives and forward contracts), and comprises counterparty risk (default at the end of contract) and pre-settlement risk (default at any time during the life of contract). Market related credit risk requires a different method in calculating the pre-settlement risk because actual and potential market movements impact the Group's exposure. The markets covered by this treatment for transactions entered by the Group include interest 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 the 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 MTM is essentially the current replacement cost of the contract, and can be positive or negative. Where it is positive, i.e. in the money, the Group has credit exposure against the counterparty; if it is negative, i.e. out of the money, the negative value will be used.
- The PCRE factors recognise that prices change over the remaining period to maturity, and that risk increases with time. The PCRE factors are mandated for regulatory capital purposes.
- Variation to the above generic methodology is allowed for specific product.

Maximum pay out method is used for back to back and structured products where the underlying instrument structures are dynamic, i.e. not confined to a standardised underlying instrument. 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 GRAF.

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 Group's or the counterparty's credit risk rating be upgraded or downgraded.

Table 8.1: Off Balance Sheet Exposures

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

2015	Principal/ Notional amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Direct credit substitutes	788,743		788,743	708,022
Transaction related contingent items	5,609,010		2,804,505	2,016,836
Short term self liquidating trade related contingencies	634,176		126,835	99,942
Assets sold with recourse	200		200	200
Forward asset purchases	824,066		55,226	25,761
Obligations under an on-going underwriting agreement	250,000		-	-
Foreign exchange related contracts				
One year or less	33,934,956	784,769	1,160,541	618,669
Over one year to five years	2,500,277	203,211	350,443	104,415
Over five years	1,950,414	228,324	616,206	340,259
Interest rate related contracts				
One year or less	4,922,516	1,988	10,347	3,796
Over one year to five years	30,856,561	114,312	835,984	275,939
Over five years	8,433,307	68,173	644,172	195,048
Equity and commodity related contracts				
One year or less	606,219	1,504	29,503	20,073
Over one year to five years	69,830	1,757	4,549	2,275
Credit derivative contracts				
Over one year to five years	327,515	7,572	10	5
Over five years	326,889	33,133	6	3
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	3,993,436		2,022,254	1,824,186
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	12,491,550		2,511,436	2,218,208
Unutilised credit card lines	3,361,539		672,308	500,841
Total	**111,881,204**	**1,444,743**	**12,633,268**	**8,954,478**

Table 8.1: Off Balance Sheet Exposures (Cont'd.)

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

2014	Principal/ Notional amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Direct credit substitutes	1,092,935		964,135	865,605
Transaction related contingent items	4,663,740		2,396,271	1,682,429
Short term self liquidating trade related contingencies	616,860		123,366	91,046
Assets sold with recourse	200		200	200
Forward asset purchases	105,872		6,360	3,710
Obligations under an on-going underwriting agreement	250,000		-	-
Foreign exchange related contracts				
One year or less	22,242,153	85,948	211,519	134,918
Over one year to five years	3,051,273	119,934	331,810	271,535
Over five years	895,569	89,634	272,947	225,831
Interest rate related contracts				
One year or less	4,332,040	3,947	12,754	4,554
Over one year to five years	28,559,304	151,354	927,330	392,518
Over five years	6,250,836	48,801	476,900	244,942
Equity and commodity related contracts				
One year or less	419,790	4,928	19,603	13,526
Over one year to five years	331,103	480	20,127	10,063
Credit derivative contracts				
Over one year to five years	306,519	4,651	10	5
Over five years	305,967	19,153	6	3
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	5,145,833		2,552,853	2,170,244
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	13,898,239		2,800,012	2,557,267
Unutilised credit card lines	3,622,016		724,403	539,996
Total	**96,090,249**	**528,830**	**11,840,606**	**9,208,392**

Table 8.2 : Credit Derivatives Counterparty Credit Risk

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

		2015		2014	
		Sell Leg	Buy Leg *	Sell Leg	Buy Leg *
Usage	**Product**	**Notional Exposure for Protection Sold RM'000**	**Notional Exposure for Protection Bought RM'000**	**Notional Exposure for Protection Sold RM'000**	**Notional Exposure for Protection Bought RM'000**
Intermediation	Credit default swap	354,399	300,000	312,485	300,000

* Out of the total notional exposure for protection bought as at 31 March 2015, RM283,500,000 (2014: RM283,500,000) has no counterparty credit risk exposure because it is on a fully funded basis.

9.0 Securitisation

9.1 Objectives, roles and involvement

The Group has undertaken securitisations of its own originated assets, as well as advised on securitisations of third party assets as part of its debt capital markets services for its clients. The Group's objectives in relation to securitisation activity include the following:

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

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

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

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

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

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

9.3 Governance

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

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

9.4 Risk measurement and reporting of securitisation exposures

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

9.5 Special Purpose Vehicle ("SPV") used in securitisation exercises

Third party exposures that have been securitised via SPVs include civil servant and government-linked companies' staff housing loans.

9.6 Accounting Policies for Securitisation

The Group has sponsored SPVs involving assets of the Group. Such SPVs are consolidated where the Group has control as determined in accordance with MFRS 10, Consolidated Financial Statements.

Assets that have been transferred wholly or proportionately to an unconsolidated entity remain on the Group's statement of financial position, with a liability recognised for the proceeds received, unless:

a) substantially all risks and rewards associated with the assets have been transferred, in which case, they are derecognised in full; or
b) if a significant portion, but not all, of the risks and rewards have been transferred, the asset is derecognised entirely if the transferee has the ability to sell the financial asset, otherwise the asset continues to be recognised to the extent of the Group's continuing involvement.

9.7 Use of external rating agencies

The Group uses the services of both RAM and MARC and where applicable, international rating agencies for securitisation transactions purposes.

Table 9.1: Securitisation (Trading and Banking Book)

The securitised exposures of the Group are as follows:

2015 **Underlying asset**	**Total exposures securitised RM'000**	**Past due RM'000**	**Impaired RM'000**	**Gains/losses recognised during the financial year RM'000**
Traditional securitisation originated by the Group				
Banking book				
Corporate loans	165,580	-	100,918	-
Mortgage loans	801,925	-	792,193	-
Total traditional securitisation	**967,505**	**-**	**893,111**	**-**
Total synthetic securitisation	**-**	**-**	**-**	**-**
Total traditional and synthetic securitisation	**967,505**	**-**	**893,111**	**-**

2014 **Underlying asset**	**Total exposures securitised RM'000**	**Past due RM'000**	**Impaired RM'000**	**Gains/losses recognised during the financial year RM'000**
Traditional securitisation originated by the Group				
Banking book				
Corporate loans	199,373	-	129,895	-
Mortgage loans	747,256	-	738,154	-
Total traditional securitisation	**946,629**	**-**	**868,049**	**-**
Total synthetic securitisation	**-**	**-**	**-**	**-**
Total traditional and synthetic securitisation	**946,629**	**-**	**868,049**	**-**

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

2015 Securitisation exposures by exposure type	Exposure value of positions purchased or retained RM'000	Exposure after CRM RM'000	Exposures subject to deduction RM'000	Distribution of exposures after CRM according to appplicable risk weights Rated securitisation exposures or risk weights of guarantees/credit derivatives 20% RM'000	50% RM'000	1250% RM'000	Unrated (look-through) Exposure amount RM'000	Risk weighted assets RM'000
Traditional securitisation originated by third party								
On Balance Sheet Exposures	53,312	53,312	-	53,312	-	-	-	10,662
Originated by the Group								
On Balance Sheet Exposures	1,314	1,314	-	-	-	1,314	-	16,426
Total traditional securitisation	**54,626**	**54,626**	**-**	**53,312**	**-**	**1,314**	**-**	**27,088**
Total synthetic securitisation	-	-	-	-	-	-	-	-
Total traditional and synthetic securitisation	**54,626**	**54,626**	**-**	**53,312**	**-**	**1,314**	**-**	**27,088**

2014 Securitisation exposures by exposure type	Exposure value of positions purchased or retained RM'000	Exposure after CRM RM'000	Exposures subject to deduction RM'000	Distribution of exposures after CRM according to appplicable risk weights Rated securitisation exposures or risk weights of guarantees/credit derivatives 20% RM'000	50% RM'000	1250% RM'000	Unrated (look-through) Exposure amount RM'000	Risk weighted assets RM'000
Traditional securitisation originated by third party								
On Balance Sheet Exposures	164,923	164,923	-	164,923	-	-	-	32,984
Originated by the Group								
On Balance Sheet Exposures	6,459	6,459	-	-	-	6,459	-	80,739
Total traditional securitisation	**171,382**	**171,382**	**-**	**164,923**	**-**	**6,459**	**-**	**113,723**
Total synthetic securitisation	-	-	-	-	-	-	-	-
Total traditional and synthetic securitisation	**171,382**	**171,382**	**-**	**164,923**	**-**	**6,459**	**-**	**113,723**

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

2015 **Securitisation exposures by exposure type**	**Total exposure value of positions purchased or retained RM'000**	**Exposures subject to deduction RM'000**	**General risk charge RM'000**	**Specific risk charge RM'000**	**Risk weighted assets RM'000**
<u>Traditional securitisation originated by third party</u>					
On balance sheet by exposure type - others	-	-	-	-	-
Total traditional securitisation	**-**	**-**	**-**	**-**	**-**
Total synthetic securitisation	**-**	**-**	**-**	**-**	**-**
Total traditional and synthetic securitisation	**-**	**-**	**-**	**-**	**-**

2014 **Securitisation exposures by exposure type**	**Total exposure value of positions purchased or retained RM'000**	**Exposures subject to deduction RM'000**	**General risk charge RM'000**	**Specific risk charge RM'000**	**Risk weighted assets RM'000**
<u>Traditional securitisation originated by third party</u>					
On balance sheet by exposure type - others	40,685	-	895	814	21,363
Total traditional securitisation	**40,685**	**-**	**895**	**814**	**21,363**
Total synthetic securitisation	**-**	**-**	**-**	**-**	**-**
Total traditional and synthetic securitisation	**40,685**	**-**	**895**	**814**	**21,363**

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 and 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 triggers, 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. It excludes strategic, systemic and reputational risk.

Operational Risk Appetite ("ORA") is set as part of overall GRAF, which sets the acceptable tolerance levels of operational risk that the Bank is willing to accept, taking into consideration of the relevant financial and non-financial risk or return attributes in order to support the achievement of Bank's strategic plan and business objectives. The ORA statements and measurements are classified based on operational 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, and 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.

10.0 Operational Risk (Cont'd.)

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

- the Incident Management and Data Collection ("IMDC") module provides a common platform for reporting operational risk incidents that 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 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.

10.1 Business Continuity Management

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

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

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

10.1 Business Continuity Management (Cont'd.)

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, disruption 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 risks 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 staff 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

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 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	• Monitor 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 TMR 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.

11.2 Non-Traded Market Risk

Interest Rate Risk/Rate of Return Risk in the Banking Book ("IRR/RORBB")

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

Identification	• Identification of IRR/RORBB within existing and new products. • Review market-related information such as market trend and economic data.
Assessment/ Measurement	• VaR • Earnings-at-Risk ("EaR") • PV01 • Other Detailed Management Controls
Control/ Mitigation	• VaR Limits • EaR Limits • PV01 Limits • Minimum Holding Period • Other Detailed Management Limits
Monitoring/ Review	• Monitor limits • Periodical review and reporting

IRR/RORBB arises from changes in market interest/profit rates that impact core net interest/profit income, future cash flows or fair values of financial instruments. This risk arises from mismatches between repricing dates of assets and liabilities, changes in yield curves, volatilities in interest/profit 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 Group CEOs Committee. Group CEOs Committee is responsible for the alignment of Bank-wide risk appetite and funding needs, taking into consideration the Bank's 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 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.

11.2 Non-Traded Market Risk (Cont'd.)

Interest Rate Risk/Rate of Return Risk in the Banking Book ("IRR/RORBB") (Cont'd.)

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

Table 11.1: Market Risk Sensitivity - IRR/RORBB

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

2015 Currency (MYR)	Interest Rate/Rate of Return +100 bps RM'000	Interest Rate/Rate of Return -100 bps RM'000
Impact on Profit Before Taxation	156,248	(156,248)
Impact on Equity	(231,823)	268,300

2014 Currency (MYR)	Interest Rate/Rate of Return +100 bps RM'000	Interest Rate/Rate of Return -100 bps RM'000
Impact on Profit Before Taxation	152,296	(152,196)
Impact on Equity	(264,141)	299,765

12.0 Equities (Banking Book Positions)

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

- equity investments that are taken for strategic and other objectives - Where an equity investment is undertaken for a strategic purpose, such investment will be made only after extensive analysis and due diligence. Equity investments undertaken for other business objectives are principally in conjunction with initiatives or measures promoted by the relevant regulatory authorities or trade bodies in which the Group will jointly with other financial institutions invest in such entities to attain various objectives, such as socio-economic development, promoting the further development of the financial market, the provision of facilities to improve customer service, and support for human capital development for the betterment of the Malaysian banking industry. The Board's 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. 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:

Non traded equity investments	**2015 RM'000**	**2014 RM'000**
Value of quoted (publicly traded) equities	176,996	188,288
Value of unquoted (privately held) equities	88,573	88,470
Total	**265,569**	**276,758**
Net realised and unrealised (losses)/gains		
Cumulative realised gains from sales and liquidations	12,081	41,052
Total unrealised (losses)/gains	(9,183)	(10,751)
Total	**2,898**	**30,301**
Risk weighted assets		
Equity investments subject to a 100% risk weight	176,957	188,288
Equity investments subject to a 150% risk weight	132,917	132,706
Total	**309,874**	**320,994**
Total minimum capital requirement (8%)	**24,790**	**25,680**

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") • Liquidity Concentration Ratios • Loans to Deposit Ratio ("LDR") • Other Detailed Management Controls
Control/ Mitigation	• LCR Limits • NLF Limits • Concentration Ratios • LDR 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 New Liquidity Framework ("NLF") 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 Group's liquidity management and strategies policies and is responsible for setting liquidity limits, proposing liquidity risk policies and contingency funding plan and practices to be in compliance with local regulatory requirements, and monitor liquidity on an ongoing basis. The Capital and Balance Sheet Management department and Group Risk Management propose and oversee the implementation of policies and other controls relating to the above risks.

The Bank has in place various liquidity measurements that provide the Bank with visibility from volatility of customer's deposits to the concentration ratio of chunky deposits. Group Risk Management is responsible for monitoring the controls and limits while the Capital and Balance Sheet Management Department is responsible to ensure the controls and limits are within the thresholds.

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.

13.0 Liquidity Risk and Funding Management (Cont'd.)

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.

The Bank further stresses the importance of customer deposit accounts as a source of funds to finance lending to customers. They are monitored using the unadjusted loans to deposit ratio, which compares loans and advances to customers as a percentage of customer deposit accounts.

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

In preparation to the impending implementation of BNM's 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.