Company No. 295576–U

AmBank Islamic Berhad

(Formerly known as AmIslamic Bank Berhad)

(Incorporated in Malaysia)

CAFIB - Pillar 3 Disclosures

31 March 2015

CAFIB - Pillar 3 Disclosures
31 March 2015

Table of Contents **Page**

1.0 Scope of Application

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

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

Frequency of Disclosure

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

Medium and Location of Disclosure

These Pillar 3 disclosures of the Bank is available on the Bank'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 for Islamic Banks (Capital Components) issued by the Prudential Financial Policy Department on 28 November 2012, which is based on the Basel III capital accord. Prior to that, the capital adequacy ratios of the Bank were computed in accordance to BNM's Risk Weighted and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components), 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 Risk Weighted Capital Adequacy Framework (Basel II – Risk Weighted Assets).

1.0 Scope of Application (Cont'd.)

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

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

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

2.0 Capital Management

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

Strategic, business and capital plans are drawn up annually covering a 3 year horizon and approved by the Board of Directors ("Board"). The capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained by the Bank 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 Bank's risk, performance and capital.

2.0 Capital Management (Cont'd.)

The Bank 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 Bank 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 Bank'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 Bank and how these events could be mitigated. The Bank's target capital levels are set taking into account its risk appetite and its risk profile under future expected and stressed economic scenarios.

The Bank's assessment of risk appetite is closely integrated with Bank'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 Bank's business activities.

The Bank 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 Bank's management disciplines.

The capital that the Bank 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 Bank's risk rating methodologies and systems. BNM has the right to impose further capital requirements on Malaysian Financial Instruments.

The Bank 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 Bank'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 Common Equity Tier 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 Bank has been operating within these ranges.

The Capital and Balance Sheet Management Department, is responsible for the on-going assessment of the demand for capital and the updating of the Bank’s capital plan.

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

Table 2.1: Capital Adequacy Ratios

The capital adequacy ratios of the Bank are as follows:

	Bank	
	2015	**2014 (Restated)**
Before deducting proposed dividends:		
Common Equity Tier 1	9.200%	9.829%
Tier 1 capital ratio	9.200%	9.829%
Total capital ratio	14.371%	15.805%
After deducting proposed dividends:		
Common Equity Tier 1	9.200%	9.201%
Tier 1 capital ratio	9.200%	9.201%
Total capital ratio	14.371%	15.178%

The comparative capital adequacy ratios were restated arising from restatement of certain comparative figures. This restatement also affected certain disclosures in Table 2.2 and 3.2.

2.0 Capital Management (Cont'd.)

On 30 January 2015, as part of an arrangement between AmBank (M) Berhad ("AmBank") and the Bank in relation to a Restricted Profit Sharing Investment Account ("RPSIA") agreement, AmBank records as "deposits and placements with banks and other financial institutions" its exposure in the arrangement, whereas the Bank records its exposure as "financing and advances". The RPSIA is a contract based on Shariah concept of Mudarabah between AmBank and the Bank to finance a specific business venture where by AmBank solely provides capital and the business ventures are managed solely by the Bank as the entrepreneur. The RPSIA exposes AmBank to the risks and rewards of the financing, and accordingly AmBank accounts for all impairment allowances and risk weighted assets arising from the RPSIA financing.

As at 31 March 2015, the gross exposure and collective allowance relating to the RPSIA financing were RM1,363.8 million and RM1.6 million respectively (31 March 2014: RM450.1 million and RM2.5 million respectively). There was no individual allowance provided for the RPSIA financing. RPSIA assets excluded from the risk weighted capital adequacy computation of the Bank for 31 March 2015 amounted to RM1,363.8 million and the risk weight on these RPSIA assets are accounted for in the computation of capital adequacy of AmBank.

Table 2.2: Risk Weighted Assets and Capital Requirements

The breakdown of risk weighted assets (“RWA”) by exposures in major risk category of the Bank 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	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. **Credit Risk**							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		5,774,979	5,774,979	-	-	-	-
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		3,598,897	3,598,897	769,085	-	769,085	61,527
Corporates		16,167,057	15,570,668	12,187,668	1,363,811	10,823,857	865,908
Regulatory Retail		13,554,097	13,544,051	10,355,040	-	10,355,040	828,403
Residential Mortgages		119,330	119,313	41,884	-	41,884	3,351
Higher Risk Assets		-	-	-	-	-	-
Other Assets		260,888	260,888	260,888	-	260,888	20,871
Defaulted Exposures		473,991	472,395	653,526	-	653,526	52,282
Total for On-Balance Sheet Exposures		**39,949,239**	**39,341,191**	**24,268,091**	**1,363,811**	**22,904,280**	**1,832,342**
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		113,798	113,798	79,124	-	79,124	6,330
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		1,682,902	1,553,632	1,433,782	-	- 1,433,782	114,703
Defaulted Exposures		7,055	6,555	9,833	-	9,833	787
Total for Off-Balance Sheet Exposures		**1,803,755**	**1,673,985**	**1,522,739**	**-**	**1,522,739**	**121,820**
Total On and Off-Balance Sheet Exposures		**41,752,994**	**41,015,176**	**25,790,830**	**1,363,811**	**24,427,019**	**1,954,162**
2. **Large Exposure Risk Requirement**							
3. **Market Risk**	**Long Position**	**Short Position**					
Rate of Return Risk							
- General profit rate risk	1,749,946	1,635,030		209,117	-	209,117	16,729
- Specific profit rate risk	152,592	30,655		3,816	-	3,816	305
Foreign Currency Risk	17,696	-		17,696	-	17,696	1,416
Total	**1,920,234**	**1,665,685**		**230,629**	**-**	**230,629**	**18,450**
4. **Operational Risk**				1,553,441	-	1,553,441	124,275
5. **Total RWA and Capital Requirements**				27,574,900	1,363,811	26,211,089	2,096,887

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 Bank are 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	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. **Credit Risk**							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		6,696,281	6,696,281	-	-	-	-
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		2,467,105	2,467,105	656,193	-	656,193	52,495
Corporates		12,464,229	12,061,855	9,593,137	450,133	9,143,004	731,440
Regulatory Retail		13,363,958	13,351,249	10,211,982	-	10,211,982	816,958
Residential Mortgages		130,614	130,597	45,851	-	45,851	3,668
Other Assets		234,411	234,411	234,411	-	234,411	18,753
Defaulted Exposures		216,258	213,480	264,644	-	264,644	21,172
Total for On-Balance Sheet Exposures		**35,572,856**	**35,154,978**	**21,006,218**	**450,133**	**20,556,085**	**1,644,486**
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		48,718	48,718	31,638	-	31,638	2,531
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		1,951,044	1,804,168	1,735,157	-	1,735,157	138,813
Defaulted Exposures		88	86	129	-	129	10
Total for Off-Balance Sheet Exposures		**1,999,850**	**1,852,972**	**1,766,924**	**-**	**1,766,924**	**141,354**
Total On and Off-Balance Sheet Exposures		**37,572,706**	**37,007,950**	**22,773,142**	**450,133**	**22,323,009**	**1,785,840**
2. **Large Exposure Risk Requirement**							
3. **Market Risk**	**Long Position**	**Short Position**					
Rate of Return Risk							
- General profit rate risk	1,364,685	1,104,465		30,265	-	30,265	2,421
- Specific profit rate risk	260,195	-		11,588	-	11,588	927
Foreign Currency Risk	26,878	272		26,878	-	26,878	2,150
Equity Risk				-			-
- General risk	-	-		-			-
- Specific risk	-	-		-			-
Option Risk	-	-		-			-
Total	**1,651,758**	**1,104,737**		**68,731**	**-**	**68,731**	**5,498**
4. **Operational Risk**				1,519,289	-	1,519,289	121,543
5. **Total RWA and Capital Requirements**				24,361,162	450,133	23,911,029	1,912,881

3.0 Capital Structure

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

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

All capital instruments included in the capital base have been issued in accordance with the BNM rules and guidelines. The existing Tier 2 Capital instruments of the Bank 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. The Bank’s Tier 2 Capital instruments qualify for the gradual phase-out treatment under the transitional arrangements of the Basel III accord. Under this treatment, the amount of capital instruments that can be recognized by the Bank shall be capped at 90% of the base in 2013 (as counted separately for Additional Tier 1 Capital (if any) and Tier 2 Capital respectively), with the cap reducing by 10% in each subsequent year. To the extent that an instrument is redeemed or derecognized after 1 January 2013, the amount serving as the base is not reduced.

3.1 Common Equity Tier 1 Capital

Common Equity Tier 1 Capital consists of the following:

Paid-up Ordinary Share Capital

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

3.1 Common Equity Tier 1 Capital (Cont'd.)

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

Retained Earnings
Retained earnings at the end of the financial year and eligible reserves are accumulated resources included in the shareholder's funds in an entity’s statement of financial position, with certain regulatory adjustments applied. The retained earnings is included in Common Equity Tier 1 Capital net of any interim and/or final dividend declared, and net of any interim losses. Quarterly interim profits have been included in Common Equity Tier 1 Capital subject to review/ audit by the external auditors.

Other Disclosed Reserves
Other disclosed reserves comprise the following:

- **Statutory Reserve**

  Statutory reserve is maintained in compliance with the provisions of IBA and is not distributable as cash dividends. When IFSA 2013 came into effect to replace the repealed BAFIA, the maintenance of this reserve is in accordance with Section 57(2)f of the IFSA.

- **Available-for-Sale Reserve/(Deficit)**
  This comprises the unrealised fair value gains and losses on financial investments available-for-sale. Where the available-for-sale reserve is a net gain outstanding balance, the banking subsidiary can recognise 45% of the total outstanding balance as part of CET 1 Capital. Where the available-for-sale reserve is a net loss outstanding balance, the entire outstanding balance is deducted in CET 1 Capital.

Profit Equalisation Reserve

Profit equalisation reserve is the amount appropriated out of the total Islamic banking gross income in order to maintain a certain level of return to Investment Account Holders (“IAH”) which is as stipulated by BNM’s Guidelines on Profit Equalisation Reserve. Profit equalisation reserve is allocated from retained profits and classified as a separate reserve in equity and is non-distributable. The amount of the profit equalisation reserve is derecognised in the calculation of CET 1 Capital.

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

3.3 Tier 2 Capital

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

The amount of Tier 2 Capital Instruments that can be recognized in the computation of the capital adequacy ratios of the Bank has been capped at 90% of the total qualifying Tier 2 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 3.1 outlines the application of the grandfathering provisions in respect of the Tier 2 Capital instruments for the Bank, details of the Tier 2 Capital Instruments are outlined below.

Table 3.1 Tier 2 Capital Instruments of the Bank and the Basel III Gradual Phase-Out Treatment

Base for Tier 2 Capital Instruments outstanding on 1 January 2013	
Instruments	**RM'000**
Subordinated Sukuk Musharakah – Tranche 1	600,000
Subordinated Sukuk Musharakah – Tranche 2	200,000
Subordinated Sukuk Musharakah – Tranche 3	200,000
Total qualiflying base	**1,000,000**

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

3.3 Tier 2 Capital (Cont'd.)

Subordinated Sukuk Musharakah

On 30 September 2011, the Bank implemented a Subordinated Sukuk Musharakah programme ("Sukuk Musharakah") of up to RM2.0 billion. The purpose of the programme is to increase the Bank's Tier 2 Capital.

The Sukuk Musharakah is for a period of ten (10) years. The Bank may exercise its call option and redeem in whole (but not in part) the Sukuk Musharakah on the 5th anniversary of the issue date or on any anniversary date thereafter at 100% of the principal amount together with the expected profit payments.

Sukuk Musharakah issued under the Sukuk Musharakah programme was included as Tier 2 Capital under BNM's capital adequacy framework. Effective 1 January 2013, the Sukuk Musharakah qualify as Tier 2 Capital as a capital instrument eligible for gradual phase-out treatment under the transitional arrangements of the Basel III accord.

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

Issue Date	First Call Date	Tenor	Profit Rate	Nominal value outstanding (RM million)
30 September 2011	30 September 2016	10 years Non-Callable 5 years	4.40% per annum	480
31 January 2012	31 January 2017	10 years Non-Callable 5 years	4.35% per annum	190
24 December 2012	23 December 2017	10 years Non-Callable 5 years	4.45% per annum	130
Total				800

3.3 Tier 2 Capital (Cont'd.)

Basel III Subordinated Sukuk Murabahah

On 28 February 2014, the Bank has implemented a Subordinated Sukuk Murabahah programme of RM3.0 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 CAFIB (Capital Components) issued by BNM, and the 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 tenure of thirty (30) years from the date of the first issuance under the programme. Each issuance of Tier 2 Subordinated Sukuk under this programme shall have a tenure of at least five (5) years from the issue date, and is callable on any profit payment date after a minimum period of five (5) years from the date of issuance of each tranche.

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

Issue Date	First Call Date	Tenor	Profit Rate	Nominal value outstanding (RM million)
28 February 2014	28 February 2019	10 years Non-Callable 5 years	5.07% per annum	200
25 March 2014	25 March 2019	10 years Non-Callable 5 years	5.05% per annum	150
Total				350

3.3 Tier 2 Capital (Cont'd.)

Table 3.2: Capital Structure

The components of Common Equity Tier 1, Additional Tier 1, Tier 2, Total Capital and Risk Weighted Assets ("RWA") are as follows:

	31 March 2015 RM'000	31 March 2014 (Restated) RM'000
Common Equity Tier 1 ("CET1") Capital		
Ordinary shares	462,922	462,922
Share premium	724,185	724,185
Retained earnings	747,523	698,125
Available-for-sale dificit	(6,592)	(18,442)
Statutory reserve	483,345	483,345
Profit equalisation reserve	3,904	1,260
Less : Regulatory adjustments applied on CET1 Capital		
- Intangible assets	(20)	(26)
- Profit equalisation reserve	(3,904)	(1,260)
CET1 Capital	2,411,363	2,350,109
Additional Tier 1 Capital		
Additional Tier 1 capital instruments (subject to gradual phase-out treatment)	-	-
Less : Regulatory adjustments applied on Tier 1 Capital	-	-
Tier 1 Capital	2,411,363	2,350,109
Tier 2 Capital		
Tier 2 capital instruments meeting all relevant criteria for inclusion	350,000	350,000
Tier 2 capital instruments (subject to gradual phase-out treatment)	700,000	800,000
Collective allowance and regulatory reserves	305,338	279,038
Less : Regulatory adjustments applied on Tier 2 Capital		
Tier 2 Capital	1,355,338	1,429,038
Total Capital	3,766,701	3,779,147
Credit RWA	25,790,830	22,773,142
Less : Credit RWA absorbed by PSIA	(1,363,811)	(450,133)
Total Credit RWA	24,427,019	22,323,009
Market RWA	230,629	68,731
Operational RWA	1,553,441	1,519,289
Total Risk Weighted Assets	26,211,089	23,911,029

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

The Risk Appetite Framework provides portfolio parameters for Credit Risk, Traded Market Risk, Non-Traded Market Risk and Operational Risk and Regulatory Compliance incorporating, inter alia, limit structures for countries, industries, single counterparty, group, product, value at risk, stop loss, stable funding ratio, liquidity and operational risk and regulatory compliance triggers.

Board Approved Risk Appetite Statement

The Bank strategic goals are to sustain the top quartile return on 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/profit 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 Bank intends to maintain sufficient quantity and quality of capital in excess of Basel III requirement for Common Equity Tier 1, Tier 1 Capital and Total Capital. Our capital requirements are robustly tested over a three year period.

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

The Bank manages operational risk by setting the operational risk appetite statements and measurements that the Bank is willing to tolerate to support its business strategies and objectives. The Bank 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 Bank 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.

4.0 General Risk Management (Cont'd.)

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

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

Risk Management Governance

The Board is ultimately responsible for the management of risks within the Bank. 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.

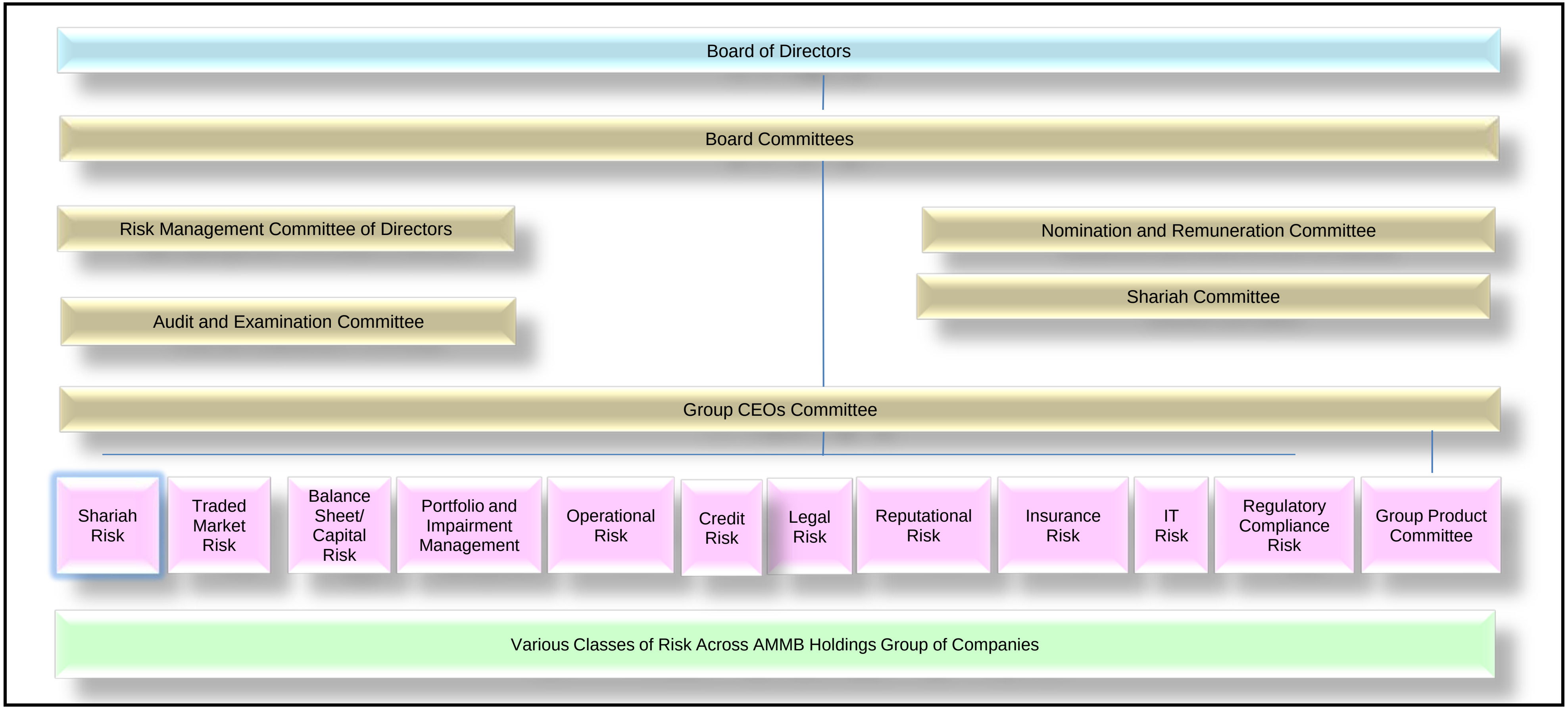
The Board has also established the Group CEOs Committee to assist it in managing the risks and businesses of the AMMB Group. The committee addresses all classes of risk within its Board delegated mandate: balance sheet risk, credit risk, legal risk, operational risk, market risk, Shariah risk, compliance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

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

4.0 General Risk Management (Cont'd.)

Risk Management Governance

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.)

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 Internal Capital Adequacy Assessment Process (“ICAAP") (Cont'd.)

4.1.2 Management Oversight

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

- undergo regular, effective and comprehensive review;
- satisfy regulatory requirements;
- be capable of independent assessment and validation;
- be incorporated into the Bank’s overall risk management strategy and governance frameworks.

4.1.3 Capital Management Plan and Framework

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

- a strategy for maintaining capital resources over time;
- measures that would be taken in the event capital falls below a targeted level; 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 agency 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.

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

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

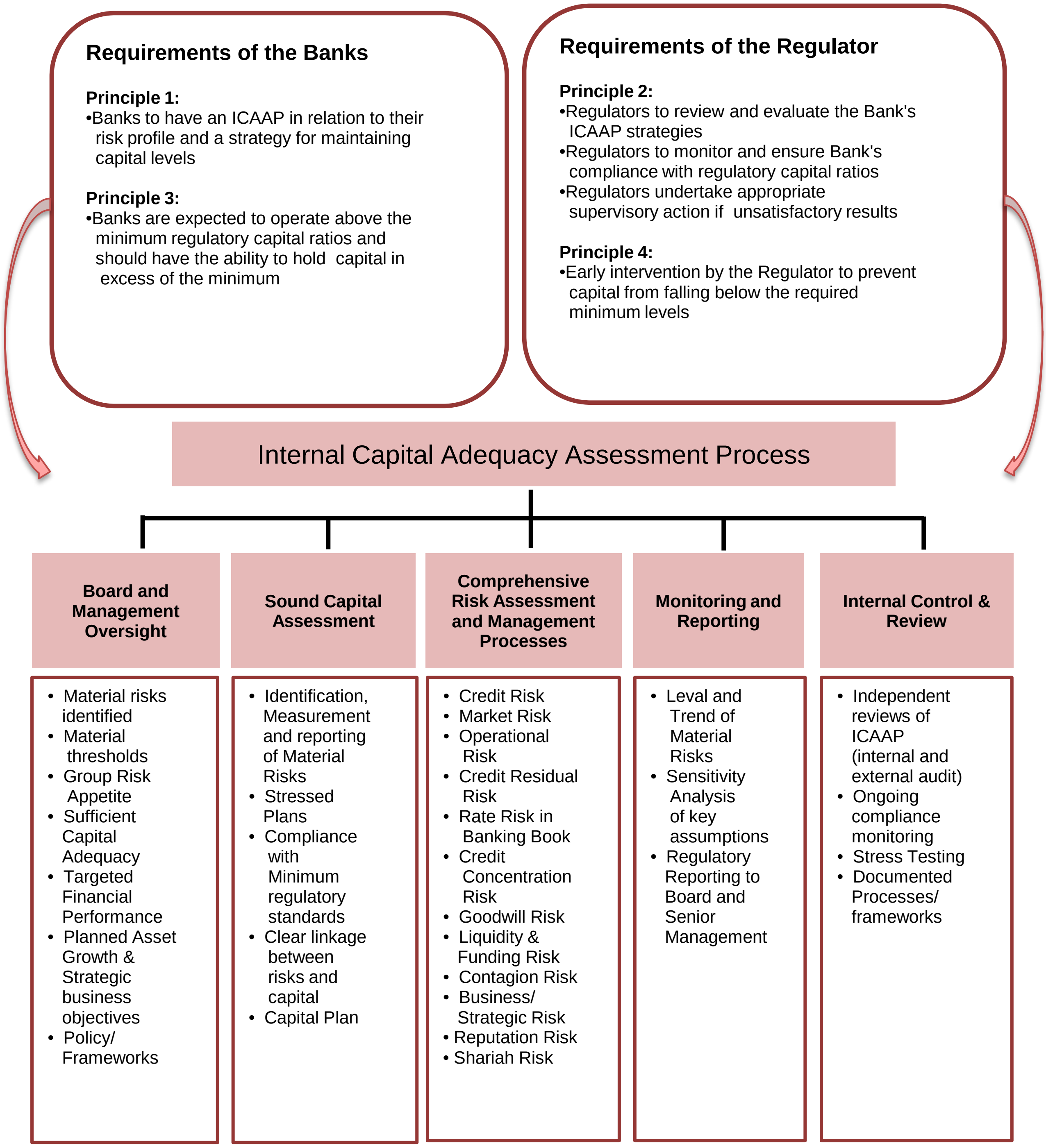
- the Group must have clearly articulated definitions of each material risk type to be included in the ICAAP; and
- processes to identify and determine the materiality of current risk types, change to existing risk types and new risk types must be established.

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.

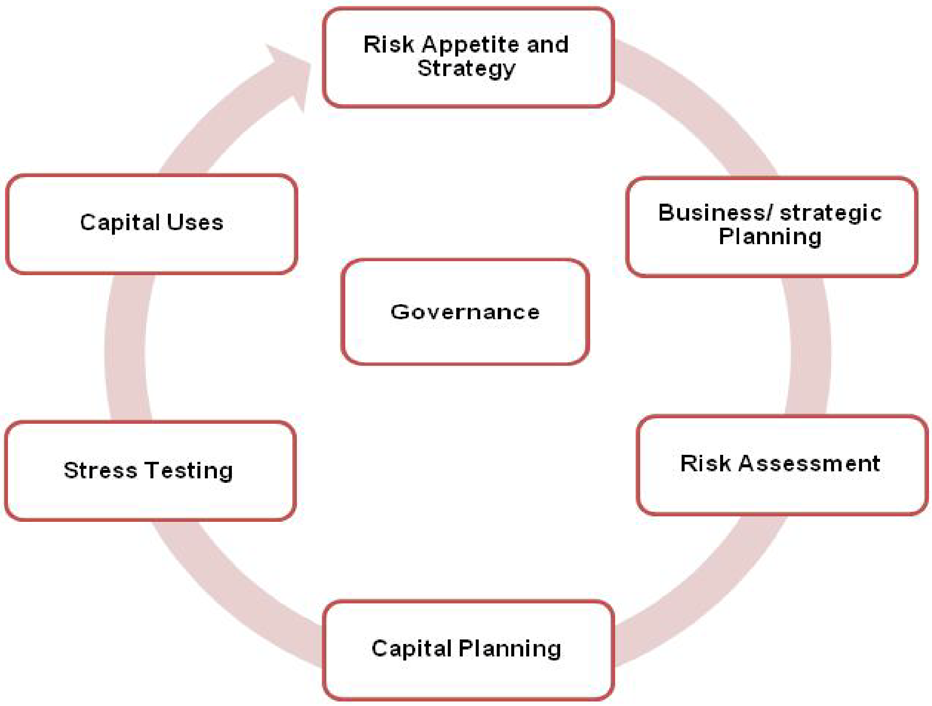
4.1 Internal Capital Adequacy Assessment Process (“ICAAP") (Cont'd.)

ICAAP Framework



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

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 financing, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Bank's transactions and/or positions as well as Shariah compliance risk.

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

For non-retail credits, risk recognition begins with an assessment of the financial standing of the customer or counterparty using an 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 Bank's credit exposures.

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

5.0 Credit Risk Management (Cont'd.)

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;
- enhance pricing models;
- facilitate financing loss provision calculation;
- stress testing; and
- enhancement portfolio management.

Financing activities are guided by internal credit policies and Risk Appetite Framework that are approved by the Board. The Bank'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 Bank's optimal portfolio mix. Credit risk portfolio management strategies include, amongst others:

- concentration threshold/ review trigger:
  - single counterparty credit;
  - industry sector; and
  - country
- setting financing to value limits for asset backed financing (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 Bank requires for the risk undertaken, taking into account operating expenses and cost of capital.

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 meet to review the quality and diversification of the Bank's financing portfolio, approve new and amended credit risk policy, and review the portfolio risk profile against the Group Risk Appetite Framework ("GRAF").

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

The Bank 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 Financing and Advances

All financing and advances are categorised as either:

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

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

A financing is classified as impaired under the following circumstances:

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

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

(d) A financing may also be classified as impaired:

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

   ii. cross-default occurs when:
      - a default of a financing obligation of a borrower triggers a default of another financing obligation of the same borrower or
      - a default of a financing obligation of a borrower triggers a default of a financing obligation of other borrowers within the same borrower group.

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

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 Financing and Advances (Cont'd)

(e) Debt instruments (for example, fixed income securities, debt converted instrument etc.) shall be classified as impaired when the coupon or profit 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, that is, 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

Financing 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 allowance 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 Bank 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 Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activity RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures														
Sovereigns/Central Banks	-	-	-	-	55,076	-	-	5,213,547	-	-	506,356	-	-	5,774,979
Banks, DFIs and MDBs	-	-	-	-	-	-	-	3,598,897	-	-	-	-	-	3,598,897
Corporates	1,413,869	2,193,270	2,186,637	126,074	3,186,066	910,208	851,709	1,194,702	2,529,576	431,222	955,314	152,959	35,451	16,167,057
Regulatory Retail	19,443	5,121	48,233	960	49,078	46,047	33,952	1,219	22,588	15,452	46,893	13,263,681	1,430	13,554,097
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	119,330	-	119,330
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	260,888	260,888
Defaulted Exposures	479	3	3,714	7,703	11,341	5,761	504	83	315,464	94	1,787	121,901	5,157	473,991
Total for On Balance Sheet Exposures	1,433,791	2,198,394	2,238,584	134,737	3,301,561	962,016	886,165	10,008,448	2,867,628	446,768	1,510,350	13,657,871	302,926	39,949,239
Off-Balance Sheet Exposures														
OTC Derivatives	-	-	156	-	-	-	-	113,527	-	115	-	-	-	113,798
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	123,353	69,929	321,793	16,179	407,791	133,712	71,524	9,374	153,657	92,113	19,296	263,216	965	1,682,902
Defaulted Exposures	-	-	352	-	6,485	9	-	-	110	99	-	-	-	7,055
Total for Off-Balance Sheet Exposures	123,353	69,929	322,301	16,179	414,276	133,721	71,524	122,901	153,767	92,327	19,296	263,216	965	1,803,755
Total On and Off-Balance Sheet Exposures	**1,557,144**	**2,268,323**	**2,560,885**	**150,916**	**3,715,837**	**1,095,737**	**957,689**	**10,131,349**	**3,021,395**	**539,095**	**1,529,646**	**13,921,087**	**303,891**	**41,752,994**

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

The distribution of credit exposures by sector of the Bank are as follows (Contd.):

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 Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activity RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures														
Sovereigns/Central Banks	-	-	-	-	53,899	-	-	5,670,892	-	-	671,357	-	300,133	6,696,281
Banks, DFIs and MDBs	-	-	-	-	-	-	-	2,467,105	-	-	-	-	-	2,467,105
Corporates	931,522	64,052	2,250,763	209,693	3,003,810	831,259	906,489	720,258	2,161,546	758,680	393,135	187,512	45,510	12,464,229
Regulatory Retail	34,371	11,844	59,483	1,199	61,452	55,682	28,090	1,569	5,785	18,365	52,546	13,033,572	-	13,363,958
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	130,614	-	130,614
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	234,411	234,411
Defaulted Exposures	642	70	10,361	14	19,748	8,529	4,215	852	1,495	2,334	2,040	165,958	-	216,258
Total for On-Balance Sheet Exposures	966,535	75,966	2,320,607	210,906	3,138,909	895,470	938,794	8,860,676	2,168,826	779,379	1,119,078	13,517,656	580,054	35,572,856
Off-Balance Sheet Exposures														
OTC Derivatives	-	-	2	-	-	-	-	48,716	-	-	-	-	-	48,718
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	140,455	3,510	414,704	20,780	465,766	184,016	106,979	34,460	248,674	91,317	30,334	209,449	600	1,951,044
Defaulted Exposures	-	-	-	-	6	9	-	34	-	-	-	39	-	88
Total for Off-Balance Sheet Exposures	140,455	3,510	414,706	20,780	465,772	184,025	106,979	83,210	248,674	91,317	30,334	209,488	600	1,999,850
Total On and Off-Balance Sheet Exposures	**1,106,990**	**79,476**	**2,735,313**	**231,686**	**3,604,681**	**1,079,495**	**1,045,773**	**8,943,886**	**2,417,500**	**870,696**	**1,149,412**	**13,727,144**	**580,654**	**37,572,706**

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

The amounts of impaired and past due financing, individual and collective allowances, charges for individual impairment allowances and write offs during the year by sector of the Bank 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 Hotel 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	Not Allocated RM'000	Total RM'000
Impaired financing	354	7	34,143	21,100	9,590	6,763	12,076	33	322,332	4,211	6,169	188,040	1,637	-	**606,455**
Past due financing	9,692	267	61,845	81	46,489	25,479	21,719	117	245,431	23,256	19,005	3,845,999	13,554	-	**4,312,934**
Individual allowances	-	-	27,351	13,031	5,444	2,564	10,760	-	5,221	1,012	-	692	-	-	**66,075**
Collective allowances	-	-	-	-	-	-	-	-	-	-	-	-	-	458,453	**458,453**
Charges/(Writeback) for individual	-	-	9,581	13,031	4,664	2,367	10,359	-	5,186	754	-	692	-	-	**46,634**
Write-offs against individual allowances	-	-	-	-	-	8	21	-	-	-	-	-	-	-	**29**

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 Hotel 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	Not Allocated RM'000	Total RM'000
Impaired financing	1,802	122	30,579	56	13,416	6,688	5,430	31	-	9,539	7,493	272,608	751	-	**348,515**
Past due financing	34,124	3,234	53,945	722	61,036	30,707	202,829	7,175	41,504	29,572	26,352	4,369,633	221	-	**4,861,054**
Individual allowances	-	-	17,770	-	780	205	422	-	35	258	-	-	-	-	**19,470**
Collective allowances	-	-	-	-	-	-	-	-	-	-	-	-	-	534,465	**534,465**
Charges for individual allowances	-	20	48,515	-	780	1,467	4,618	-	(5,394)	258	3,304	-	-	-	**53,568**
Write-offs against individual allowances	-	20	36,812	-	-	1,262	4,196	-	-	-	6,259	-	-	-	**48,549**

Table 5.3: Geographical distribution of credit exposures

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

2015	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	5,774,979	-	5,774,979
Banks, DFIs and MDBs	3,598,117	780	3,598,897
Corporates	16,167,057	-	16,167,057
Regulatory Retail	13,554,097	-	13,554,097
Residential Mortgages	119,330	-	119,330
Other Assets	260,888	-	260,888
Defaulted Exposures	473,991	-	473,991
Total for On Balance Sheet Exposures	39,948,459	780	39,949,239
Off-Balance Sheet Exposures			
OTC Derivatives	113,798	-	113,798
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,682,902	-	1,682,902
Defaulted Exposures	7,055	-	7,055
Total for Off-Balance Sheet Exposures	1,803,755	-	1,803,755
Total On and Off-Balance Sheet Exposures	**41,752,214**	**780**	**41,752,994**

Table 5.3: Geographical distribution of credit exposures

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

2014	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	6,696,281	-	6,696,281
Banks, DFIs and MDBs	2,442,270	24,835	2,467,105
Corporates	12,464,229	-	12,464,229
Regulatory Retail	13,363,958	-	13,363,958
Residential Mortgages	130,614	-	130,614
Other Assets	234,411	-	234,411
Defaulted Exposures	216,258	-	216,258
Total for On-Balance Sheet Exposures	35,548,021	24,835	35,572,856
Off-Balance Sheet Exposures			
OTC Derivatives	48,718	-	48,718
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,951,044	-	1,951,044
Defaulted Exposures	88	-	88
Total for Off-Balance Sheet Exposures	1,999,850	-	1,999,850
Total On and Off-Balance Sheet Exposures	**37,547,871**	**24,835**	**37,572,706**

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

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

2015	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
Impaired financing	606,455	-	606,455
Past due financing	4,312,934	-	4,312,934
Individual allowances	66,075	-	66,075
Collective allowances	458,453	-	458,453

2014	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
Impaired financing	348,515	-	348,515
Past due financing	4,861,054	-	4,861,054
Individual allowances	19,470	-	19,470
Collective allowances	534,465	-	534,465

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 Bank 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	4,468,613	-	-	-	-	-	1,306,366	-	5,774,979
Banks, DFI and MDB	1,334,046	2,165,119	-	-	-	-	99,732	-	3,598,897
Corporates	3,688,257	1,625,186	1,875,477	293,169	2,000,321	2,703,410	3,981,237	-	16,167,057
Regulatory Retail	279,140	5,757	22,510	55,954	766,975	2,101,194	10,322,567	-	13,554,097
Residential Mortgages	50	20	72	131	2,169	3,526	113,362	-	119,330
Other Assets	698	1,427	2,215	4,699	127,656	-	-	124,193	260,888
Defaulted Exposures	329,292	898	2,435	3,253	23,843	28,925	85,345	-	473,991
Total for On-Balance Sheet Exposures	10,100,096	3,798,407	1,902,709	357,206	2,920,964	4,837,055	15,908,609	124,193	39,949,239
Off-Balance Sheet Exposures									
OTC Derivatives	30,525	559	13,876	27,434	-	2,906	38,498	-	113,798
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	226,503	85,850	181,338	307,277	319,709	136,499	425,726	-	1,682,902
Defaulted Exposures	-	4,833	676	110	99	977	360	-	7,055
Total for Off-Balance Sheet Exposures	257,028	91,242	195,890	334,821	319,808	140,382	464,584	-	1,803,755
Total On and Off-Balance Sheet Exposures	**10,357,124**	**3,889,649**	**2,098,599**	**692,027**	**3,240,772**	**4,977,437**	**16,373,193**	**124,193**	**41,752,994**

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 Bank is as follows (Contd.):

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	3,501,254	1,578,574	100,269	-	-	176,567	1,339,617	-	6,696,281
Banks, DFI and MDB	989,290	1,052,546	-	125,202	-	-	14,221	285,846	2,467,105
Corporates	3,538,054	851,902	494,091	598,021	1,549,050	2,026,612	3,406,499	-	12,464,229
Regulatory Retail	301,390	12,370	24,842	77,362	801,540	1,869,171	10,277,283	-	13,363,958
Residential Mortgages	30	26	9	70	1,746	4,519	124,214	-	130,614
Other Assets	510	1,044	1,627	3,475	-	111,583	-	116,172	234,411
Defaulted Exposures	18,723	2,524	4,030	6,565	42,226	29,227	112,963	-	216,258
Total for On-Balance Sheet Exposures	8,349,251	3,498,986	624,868	810,695	2,394,562	4,217,679	15,274,797	402,018	35,572,856
Off-Balance Sheet Exposures									
OTC Derivatives	10,030	121	8,120	10,761	19,686	-	-	-	48,718
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	236,927	74,013	171,475	462,859	360,143	106,517	539,110	-	1,951,044
Defaulted Exposures	39	3	-	-	34	-	12	-	88
Total for Off-Balance Sheet Exposures	246,996	74,137	179,595	473,620	379,863	106,517	539,122	-	1,999,850
Total On and Off-Balance Sheet Exposures	**8,596,247**	**3,573,123**	**804,463**	**1,284,315**	**2,774,425**	**4,324,196**	**15,813,919**	**402,018**	**37,572,706**

Table 5.6: Reconciliation of changes to financing impairment allowances

The reconciliation of changes to financing impairment allowances of the Bank are as follows:

2015	**Individual impairment allowances RM'000**	**Collective impairment allowances RM'000**
Balance at 1 April	19,470	534,465
Charge for the year – net	46,634	224,295
Transferred from AmBank *	-	2,463
Amount written-off	(29)	(302,770)
Balance at 31 March	66,075	458,453

2014	**Individual impairment allowances RM'000**	**Collective impairment allowances RM'000**
Balance at 1 April	14,451	490,410
Charge for the year – net	53,568	240,823
Amount written-off	(48,549)	(196,768)
Balance at 31 March	19,470	534,465

2015	**(Charge off)/recoveries RM'000**
Bad debts written off during the year	(7,902)
Bad debt recoveries during the year	147,282

2014	**(Charge off)/recoveries RM'000**
Bad debts written off during the year	(4,702)
Bad debt recoveries during the year	90,622

* As at 31 March 2015, the gross exposure and collective allowance relating to the RPSIA financing amounted to RM1,363.8 million and RM1.6 million respectively (31 March 2014 :RM450.1 million and RM2.5 million respectively). There was no individual allowance provided for the RPSIA financing.

6.0 Credit Risk Exposure under the Standardised Approach

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

- sovereigns and central banks
- banking Institutions
- corporate
- securitisations

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

- Moody's Investors Service ("Moody's")
- Standard & Poor's Rating Services ("S&P")
- 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 Bank is as follows:

2015

Risk Weights	Exposures after Netting and Credit Risk Mitigation									
	Sovereigns and Central Banks	Banks, DFIs and MDBs	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	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
0%	5,774,979	19,696	-	2,542,580	-	-	-	-	8,337,255	-
20%	-	3,402,267	-	1,097,097	219	-	-	-	4,499,583	899,917
35%	-	-	-	-	-	118,508	-	-	118,508	41,478
50%	-	250,076	-	47,180	6,637	2,490	-	-	306,383	153,191
75%	-	-	-	-	13,019,836	-	-	-	13,019,836	9,764,877
100%	-	-	5,704	13,223,590	845,316	2,601	-	260,888	14,338,099	14,338,099
150%	-	-	-	334,802	56,953	-	3,757	-	395,512	593,268
Average Risk Weight										
Total	5,774,979	3,672,039	5,704	17,245,249	13,928,961	123,599	3,757	260,888	41,015,176	25,790,830

Table 6.1: Credit exposures by risk weights under the Standardised Approach (Cont'd.)

The breakdown of credit risk exposures by risk weights of the Bank is as follows:

2014

Risk Weights	Exposures after Netting and Credit Risk Mitigation									
	Sovereigns and Central Banks	Banks, DFIs and MDBs	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	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
0%	6,696,281	14,221	-	2,024,387	-	-	-	-	7,490,086	-
20%	-	1,901,125	-	552,567	439	-	-	-	2,270,905	490,826
35%	-	-	-	-	-	129,678	-	-	144,996	45,387
50%	-	586,014	-	41,429	8,388	3,604	-	-	131,728	319,718
75%	-	-	-	-	12,762,736	-	-	-	12,595,849	9,572,052
100%	-	-	60	11,062,521	870,917	3,019	-	234,411	10,744,085	12,170,928
150%	-	-	-	31,642	81,970	-	2,542	-	128,203	174,231
Average Risk Weight										
Total	6,696,281	2,501,360	60	13,712,546	13,724,450	136,301	2,542	234,411	33,505,852	22,773,142

Table 6.2: Rated Exposures according to Ratings by ECAIs

2015

Exposure Class	Ratings of Corporate by Approved ECAIs				
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
		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	5,704	-	-	-	5,704
Corporates	17,968,242	816,195	37,937	-	17,114,110
Total	**17,973,946**	**816,195**	**37,937**	**-**	**17,119,814**

2014

Exposure Class	Ratings of Corporate by Approved ECAIs				
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	Rating & Investment information, Inc.	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
		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	60	-	-	-	60
Corporates	14,260,889	321,800	40,055	-	13,899,034
Total	**14,260,949**	**321,800**	**40,055**	**-**	**13,899,094**

Table 6.2: Rated Exposures according to Ratings by ECAIs (Cont'd)

2015

Exposure Class		Ratings of Sovereigns and Central Banks by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks	5,774,979	-	5,774,979	-	-	-	-
Total	**5,774,979**	**-**	**5,774,979**	-	-	-	-

2014

Exposure Class		Ratings of Sovereigns and Central Banks by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment information, Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks	6,696,281	-	6,696,281	-	-	-	-
Total	**6,696,281**	**-**	**6,696,281**	-	-	-	-

Table 6.2: Rated Exposures according to Ratings by ECAIs (Cont'd)

2015

Exposure Class	Ratings of Banking Institutions by Approved ECAIs				
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
		RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Banks, DFIs and MDBs	3,672,039	798,270	122,935	46,304	2,704,529
Total	3,672,039	798,270	122,935	46,304	2,704,529

2014

Exposure Class	Ratings of Banking Institutions by Approved ECAIs				
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
	Rating & Investment information, Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
		RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Banks, DFIs and MDBs	2,501,359	24,429	12,770	-	2,464,160
Total	2,501,359	24,429	12,770	-	2,464,160

7.0 Credit Risk Mitigation

Main Types of Collateral Taken by The Bank

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

- Cash and term deposits
- Exchange traded shares, sukuk 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

The Bank can only accept Shariah approved asset as collateral.

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

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

Processes for Collateral Management

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

Guarantee Support

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

7.0 Credit Risk Mitigation (Cont'd.)

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 customer is not recognised as part of the risk grade enhancement.

Use of Credit Derivatives and Netting for Risk Mitigation

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

Transaction Structuring to Mitigate Credit Risk

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

Concentrations of Credit Risk Mitigation

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

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

Table 7.1: Credit Risk Mitigation

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

Exposures 2015	Exposures before CRM RM'000	Exposures covered by guarantees/credit derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	5,774,979	-	-
Banks, DFIs and MDBs	3,598,897	-	-
Corporates	16,167,057	1,172,445	1,309,732
Regulatory Retail	13,554,097	219	21,254
Residential Mortgages	119,330	-	183
Other Assets	260,888	-	-
Defaulted Exposures	473,991	243	3,297
Total On-Balance Sheet Exposures	39,949,239	1,172,907	1,334,466
Off-Balance Sheet Exposures			
OTC Derivatives	113,798	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,682,902	10,665	270,418
Defaulted Exposures	7,055	-	5,919
Total Off-Balance Sheet Exposures	1,803,755	10,665	276,337
Total On and Off-Balance Sheet Exposures	**41,752,994**	**1,183,572**	**1,610,803**

Exposures 2014	Exposures before CRM RM'000	Exposures covered by guarantees/credit derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	6,696,281	-	-
Banks, DFIs and MDBs	2,467,105	-	-
Corporates	12,464,229	1,034,403	1,324,960
Regulatory Retail	13,363,958	434	22,915
Residential Mortgages	130,614	-	202
Other Assets	234,411	-	-
Defaulted Exposures	216,258	280	4,147
Total for On-Balance Sheet Exposures	35,572,856	1,035,117	1,352,224
Off-Balance Sheet Exposures			
OTC Derivatives	48,718	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,951,044	6,939	317,155
Defaulted Exposures	88	-	3
Total for Off-Balance Sheet Exposures	1,999,850	6,939	317,158
Total On and Off-Balance Sheet Exposures	**37,572,706**	**1,042,056**	**1,669,382**

8.0 Off Balance Sheet Exposures and Counterparty Credit Risk

8.1 Off Balance Sheet exposures

The Bank's off balance sheet exposure consists of the following:

- credit related exposures, e.g. direct credit substitute, certain transaction-related contingent items, short term self liquidating trade-related contingencies, obligations under underwriting agreements, irrevocable commitment to extend credit and unutilised credit card lines.
- derivatives financial instruments, e.g. equity and commodity related contracts (option).

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

8.2 Counterparty Credit Risk

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

For each individual contract, the pre-settlement risk exposure is normally calculated based on the sum of the marked-to-market ("MTM") value of 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, that is in the money, the Bank has credit exposure against the counterparty; if it is negative, that is 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.

8.2 Counterparty Credit Risk (Cont'd.)

Maximum pay out method is used for back to back and structured products where the underlying instrument structures are dynamic, that is not confine 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 Group Risk Appetite Framework.

Other than credit limit setting and related duration setting of such limits, the Bank’s primary tool to mitigate counterparty credit risk 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 Bank 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 Bank are as follows:

2015

Description	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct credit substitutes	107,926		107,926	89,554
Transaction related contingent items	746,892		373,446	250,557
Short term self liquidating trade related contingencies	80,959		16,192	15,105
Foreign exchange related contracts	1,154,993	25,602	53,879	46,313
One year or less	1,154,993	25,602	53,879	46,313
Profit rate related contracts				
Over one year to five years	180,000	1,504	2,906	2,306
Over five years	350,000	-	38,498	21,248
Other commodity contracts	363,034	363	18,514	9,257
One year or less	363,034	363	18,514	9,257
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	977,474		488,737	440,592
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	2,923,931		584,786	558,955
Unutilised credit card lines	594,355		118,871	88,852
Total	7,479,564	27,469	1,803,755	1,522,739

2014

Description	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Direct credit substitutes	128,226		128,226	110,245
Transaction related contingent items	706,662		353,331	242,731
Short term self liquidating trade related contingencies	60,205		12,041	9,143
Forward asset purchases	170,000		170	34
Obligations under an on-going underwriting agreement	25,000		-	-
Foreign exchange related contracts	1,110,511	7,096	24,295	19,427
One year or less	1,110,511	7,096	24,295	19,427
Equity related contracts	64,108	43	1,966	983
Over one year to five years	64,108	43	1,966	983
Other commodity contracts	373,900	560	22,456	11,228
One year or less	53,805	80	2,770	1,385
Over one year to five years	320,095	480	19,686	9,843
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,024,041		512,021	478,904
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	4113057		822612	802474
Unutilised credit card lines	613662		122732	91755
Total	8,389,372	7,699	1,999,850	1,766,924

9.0 Securitisation

The Bank did not have any securitisation exposure in its trading book and banking book nor did it undertake any securitisation activities during the financial year ended 31 March 2015 and 31 March 2014.

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 establishment of internal control • Contingency planning
Monitoring/ Review	• Monitoring and reporting of loss incidents by Event Type, Portfolio and Line of Business and entity, reporting of operational risk boardand 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 and Shariah compliance risk (please refer to Chapter 14 for discussion on Shariah Governance Sturcture). It excludes strategic, systemic and reputational risk.

Operational Risk Appetite ("ORA") is set as part of overall Group Risk Appetite Framework ("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

10.0 Operational Risk (Cont'd.)

The strategy for managing operational risk in the Bank 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, RMCD and Board.
- Group Internal Audit acts as the third and final line of defence by providing independent assurance on the internal control effectiveness through periodic audit programme.

Group Operational Risk maintains close working relationships with all Lines 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 Bank. 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 incident that falls within one of the seven Event Types as stated in Basel II. IMDC also serves as a centralised database of operational risk incidents to model the potential exposure to future operational risks and estimate the amount of economic capital charge.
- The Risk and Control Self Assessment ("RCSA") is a process of continual assessment of risks and controls effectiveness. By using structured questionnaires to assess and measure key risk and its corresponding controls effectiveness, RCSA provides risk profiling across the Bank.
- 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.

10.0 Operational Risk (Cont'd.)

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 theaten 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
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 Bank’s operations and establishment of critical functions recovery against downtime. BCM builds the resilience and recovery capability to safeguard the interest of the Bank’s stakeholders by protecting our brand and reputation.

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

The Bank 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 Bank 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 Bank's financials or reputation.

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

10.3 Regulatory Compliance Risk

A proactive regulatory risk monitoring and control process is essential for any financial institution 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 AMMB 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 Bank to facilitate compliance with rules and regulations. To further promote understanding, the Regulatory Compliance facilitates briefings, disseminates information and leads coordination efforts.

11.0 Market Risk Management

Market risk is the risk of losses due to adverse changes in the level or volatility of market rates or prices, such as profit rates, credit spreads, equity prices and foreign exchange rates. The Bank differentiates between two type 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 Limit • 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

11.1 Traded Market Risk (Cont'd.)

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

VaR, ALL, HSL and other detailed management controls are used to measure, monitor and control TMR exposures. VaR is a quantitative measure which applies recent historic market conditions to estimate potential losses in market value, at a certain confidence level and over a specified holding period. Loss limits serve to alert management on the need to take relevant and appropriate action once they are triggered.

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

Apart from VaR, ALL and HSL, additional sensitivity controls (e.g. Greek Limits/PV01) and indicators are used to monitor changes in portfolio value due to changes in risk factors under different market conditions.

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

The Bank adopts the Standardised Approach for market risk capital charge computation. The capital charge serves as a financial 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

Rate of Return Risk in Banking Book ("RORBB")

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

Identification	• Identify 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

RORBB arises from changes in market profit rates that impact core net 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 profit margins and implied volatilities on profit rate options. The provision of retail and wholesale banking products and services (primarily financing and deposit-taking activities) creates profit rate sensitive positions in the Bank's statement of financial position.

The principal objectives of balance sheet risk management are to manage profit income sensitivity while maintaining acceptable levels of RORBB and funding risk, and to manage the economic value of the Bank's capital.

The Board's oversight of RORBB is supported by the Group CEOs Committee. Group CEOs Committee is responsible for the alignment of Bank-wide risk appetite and funding needs, taking into consideration Bank-wide business strategies. Group CEOs Committee consistently oversees the Bank's gapping positions, asset growth and liability mix against the profit rate outlook. It also reviews strategies to ensure a comfortable level of RORBB is maintained. The Bank has successfully engaged long-term borrowings and written profit rate swaps to manage 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.

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

Rate of Return Risk in Banking Book (Cont'd.)

The Bank measures the risk of losses arising from potential adverse movements in market profit rates and volatilities using VaR. VaR is a quantitative measure of 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 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 profit rates and spreads, changes in financing and deposit product balances due to behavioural characteristics under different profit rate environments. Material assumptions include the repricing characteristics and the stickiness of indeterminate or non-maturity deposits and financings.

The profit rate scenarios may include rapid ramping of profit rates, gradual ramping of profit rates, and narrowing or widening of spreads. Usually each analysis incorporates what management deems the most appropriate assumptions about customer behaviour in a 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 RORBB within Board-approved limits. This is achieved through the ability to reposition the profit rate exposure of the statement of financial position using dynamic product and funding strategies, supported by MFRS 139-compliant profit rate hedging activities using 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.

RORBB is calculated daily and reported to Group CEOs Committee, RMCD and the Board.

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

Rate of Return Risk in Banking Book (Cont'd.)

The following table demonstrates the sensitivity of the Bank's profit before zakat and taxation and equity to a reasonable possible change in rate of return with all other variables remaining constant.

	2015		2014	
	Rate of Return	Rate of Return	Rate of Return	Rate of Return
	+ 100 bps	- 100 bps	+ 100 bps	- 100 bps
MYR	RM'000	RM'000	RM'000	RM'000
Impact on profit before zakat and taxation	(3,624)	3,624	(1,552)	1,552
Impact on equity	(312,389)	343,626	(291,755)	318,315

12.0 Equities (Banking Book Positions)

The Bank did not have any equity investment as at 31 March 2015 and 31 March 2014.

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 on going 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.

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

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 Ratio • Financing to Deposit Ratio ("FDR") • Other Detailed Management Controls
Control/ Mitigation	• LCR Limits • NLF Limits • Concentration Ratios • FDR 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 Bank's liquidity management and strategic 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 on going 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.

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

The Bank has put in place a Contingency Funding Plan to identify early warning signals of possible liquidity problem. The Contingency Funding Plan also sets out the detailed responsibilities among the relevant departments in the event of actual liquidity crises occurring to ensure orderly execution of procedures to restore the liquidity position and confidence in the organisation.

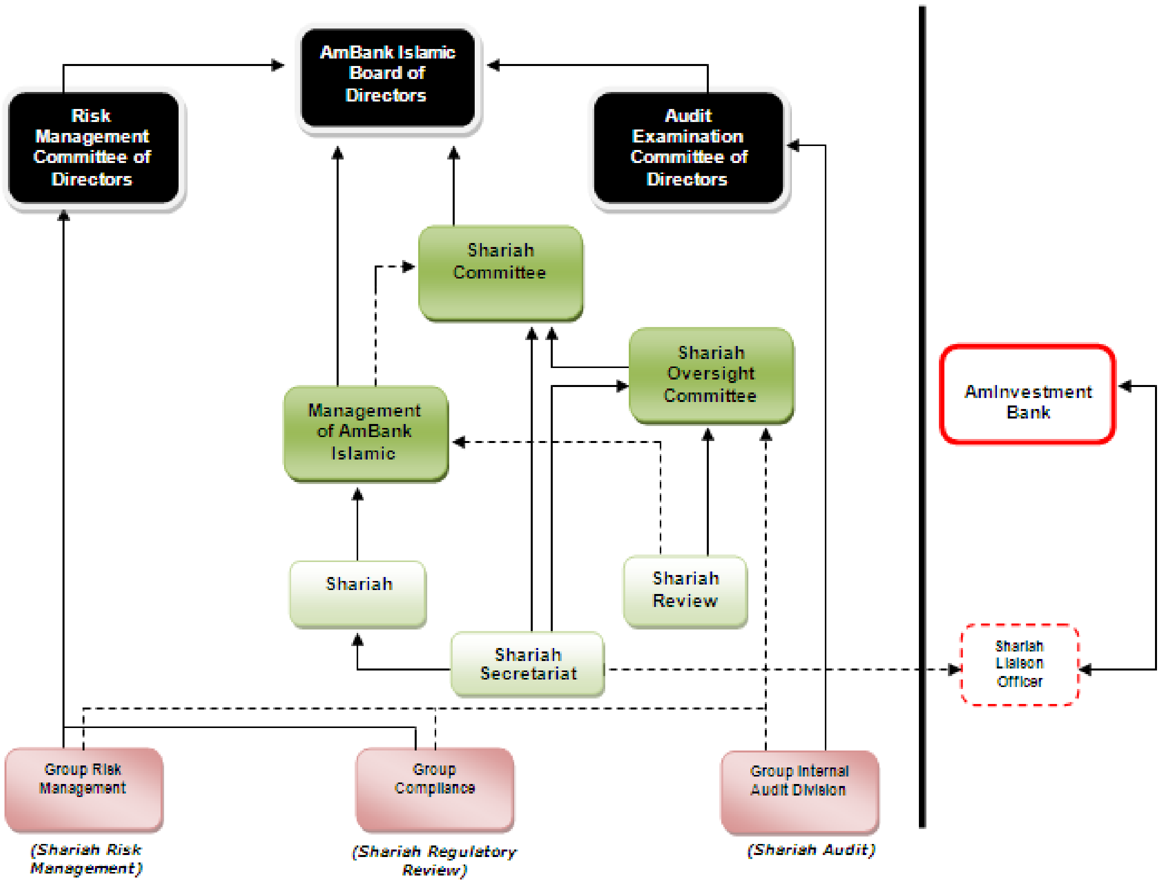
Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Bank's liquidity at risk. The stress testing output contributes to the development of the liquidity risk limits and the Bank's Contingency Funding Plan.

The Bank further stresses the importance of customer deposit accounts as a source of funds to fund financing to customers. They are monitored using the unadjusted financing to deposit ratio, which compares financing 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.

14.0 Shariah Governance Structure



The AMMB Group has established a sound and robust Shariah governance structure for its Islamic banking operations in accordance with the requirement of BNM's "Shariah Governance Framework for Islamic Financial Institutions". This is to ensure the operations and business activities of the Bank comply with Shariah principles and its requirements.

Apart from Shariah Department and Shariah Review Department, the Bank's Shariah governance structure leverages on the AMMB Group's shared platforms such as Group Risk Management Department, Group Compliance Department, and Group Internal Audit Division for key Shariah functions. As a prudential measure, the Bank has continued to enhance its overall Shariah governance structure and compliance with Shariah requirements in line with the regulatory policies and requirements under Islamic Financial Services Act (IFSA).

14.0 Shariah Governance Structure (Cont'd.)

Board of Directors

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

Audit Examination Committee

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

Risk Management Committee of Directors

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

Shariah Committee

The Shariah Committee is responsible and accountable on matters related to Shariah. This includes advising the Board and Management on Shariah matters and endorsing and validating products and services, Shariah policies and the relevant documentation in relation to Islamic Banking operation. The Shariah Committee also provides advice and guidance on management of zakat fund, charity and other social programs or activities.

Shariah Oversight Committee

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

14.0 Shariah Governance Structure (Cont'd.)

Management

Management is responsible to make reference to the Shariah Committee and Shariah Oversight Committee on Shariah matters and to take necessary measures for implementation. The Management is also responsible in setting the infrastructure and providing the environment and adequate resources to support the Shariah governance structure. This includes putting in place adequate systems and controls in order to ensure compliance with Shariah and to mitigate Shariah non-compliance risk.

Shariah Department

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

Shariah Review Department

Shariah Review Department is a designated team within the Bank that undertakes Shariah review function from operational perspective. The objective of the Shariah review function is to provide reasonable self-assurance for the Bank in its daily activities and operations thus to add value and improve the degree of Shariah awareness and compliance. Shariah Review Department is accountable to the Shariah Oversight Committee and operationally report to the Management of the Bank.

Group Internal Audit Division

A designated team within the Group Internal Audit Department is responsible to conduct independent assessment on the level of Shariah compliance of Islamic banking operations through Shariah audit function. Areas of audit include product structure documentation, adequacy of systems, internal controls and computation, staff competency and adequacy of the Shariah governance process.

14.0 Shariah Governance Structure (Cont'd.)

Group Compliance Department

Undertakes the Shariah compliance review from a regulatory perspective. This is executed based on the Shariah Regulatory Review Methodology, which consists of the Compliance Monitoring and Reporting ("CMR") and Regulatory Compliance Assessment. CMR is a periodical self-assessment by the Departments via a structured process and Compliance Assessment is performed to review on department's compliance with regulatory requirements including Shariah regulatory requirements and effectiveness of the self-assessment performed.

Group Risk Management Department

Shariah risk management leverages on existing infrastructure within Group Risk Management Department in managing the Shariah risk. The unique Shariah risks shall be identified according to existing risk types; credit risk, operational risk and market risk.

14.1 Shariah non-compliant income

Shariah non-compliant income is an income generated from any transaction(s) that arise from the failure of the Bank to comply with Shariah principles and requirements as laid down by Shariah Advisory Council of Bank Negara Malaysia and its own Shariah Committee.

As at 31 March 2015, an amount of RM113,600 arising from 3 Shariah non-compliant incidents was recorded as Shariah non-compliant income. The amount due to operational error was refunded to the affected customers in accordance with the manner as prescribed by the Shariah Oversight Committee.

The Bank has put in place and continues to enhance controls to prevent similar incidents from recurring such as revised processes as well as asset management.