

AmBank Islamic Berhad

Pillar 3 Disclosure

As at 30 September 2016

CAFIB - Pillar 3 Disclosures
30 September 2016

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1.0 Scope of Application

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

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

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.

Capital Adequacy Ratios

BNM guidelines on capital adequacy require regulated banking entities 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.

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).

With effect from 1 January 2016, pursuant to BNM's guidelines on Capital Adequacy Framework for Islamic Banks (Capital Components) issued on 13 October 2015, the minimum capital adequacy ratio to be maintained under the guidelines remained at 4.5% for CET1 Capital, 6.0% for Tier 1 Capital and 8% for Total Capital ratio. Banking institutions are also required to maintain capital buffers. The capital buffers shall comprise the sum of the following:

- (a) a Capital Conservation Buffer ("CCB") of 2.5%; and
- (b) a Countercyclical Capital Buffer ("CCyB") determined as the weighted-average of the prevailing CCyB rates applied in the jurisdictions in which the Bank has credit exposures.

The CCB requirements under transitional arrangements shall be phased-in starting from 1 January 2016 as follows:

	CCB
Calendar year 2016	0.625%
Calendar year 2017	1.25%
Calendar year 2018	1.875%
Calendar year 2019 onwards	2.5%

1.0 Scope of Application (Cont'd.)

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 period.

Medium and Location of Disclosure

These Pillar 3 disclosure of the Bank is available on the AmBank Group's corporate website at www.ambankgroup.com.

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:
- (b) Capital requirement to support business growth, strategic objectives, buffer for material regulatory risks and stress test results.

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.

2.0 Capital Management (Cont'd.)

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 and 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 Institutions.

The Bank operates processes and controls to monitor and manage capital adequacy across the organisation. Capital is maintained on the basis of the local regulator's requirements. It is overseen by the Group Asset and Liability Committee ("GALCO"). The GALCO 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.

Group Management Risk Committee ("GMRC") proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ending 31 March 2017 ("FY 2017"), these ranges are 8.5% to 10.5% for the Common Equity Tier 1 capital ratio, 9.6% to 11.6% for the Tier 1 Capital Ratio, and 14.0% to 16.0% for the Total Capital ratio. The Bank has been generally 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.

2.0 Capital Management (Cont'd.)

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:

	30 September	31 March
	2016	2016
Common Equity Tier 1 capital ratio	10.547%	9.846%
Tier 1 capital ratio	10.547%	9.846%
Total capital ratio	15.072%	15.320%

As part of an arrangement between AmBank (M) Berhad ("AmBank") and the Bank in relation to a Restricted Investment Account ("RIA") agreement, AmBank records as "Investment Account" its exposure in the arrangement, whereas the Bank records its exposure as "financing and advances". The RIA is a contract based on Shariah concept of Mudarabah between AmBank and the Bank to finance a specific business venture whereby AmBank solely provides capital and the business ventures are managed solely by the Bank as the entrepreneur. The RIA 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 RIA arrangement.

As at 30 September 2016, the gross exposure and collective allowance relating to the RIA financing were RM1,003.7 million and RM1.5 million respectively (31 March 2016: RM1,004.0 million and RM1.5 million respectively). There was no individual allowance provided for the RIA financing. RIA assets excluded from the risk weighted capital adequacy computation of the Bank for 30 September 2016 amounted to RM1,003.7 million and the risk weight on assets funded by RIA 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:

30 September 2016

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		2,910,592	2,910,592	-	-	-	-
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		1,651,247	1,651,247	353,253	-	353,253	28,260
Corporates		15,891,300	15,648,380	12,547,272	1,003,656	11,543,616	923,489
Regulatory Retail		12,409,511	12,392,518	9,906,519	-	9,906,519	792,522
Residential Mortgages		227,713	227,697	86,196	-	86,196	6,896
Higher Risk Assets		569	569	853	-	853	68
Other Assets		190,495	190,495	190,495	-	190,495	15,240
Defaulted Exposures		482,591	476,135	667,906	-	667,906	53,433
Total for On-Balance Sheet Exposures		33,764,018	33,497,633	23,752,494	1,003,656	22,748,838	1,819,908
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		94,699	94,699	59,705	-	59,705	4,776
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		2,047,683	1,945,660	1,810,676	-	1,810,676	144,854
Defaulted Exposures		7,593	3,672	5,508	-	5,508	441
Total for Off-Balance Sheet Exposures		2,149,975	2,044,031	1,875,889	-	1,875,889	150,071
Total On and Off-Balance Sheet Exposures		35,913,993	35,541,664	25,628,383	1,003,656	24,624,727	1,969,979
2. Large Exposure Risk Requirement		-	-	-	-	-	-
3. Market Risk							
	Long Position	Short Position					
Rate of Return Risk							
- General rate of return risk	1,875,080	1,627,042		110,746	-	110,746	8,860
- Specific rate of return risk	330,192	82,818		18,425	-	18,425	1,474
Foreign Currency Risk	1,686	1,492		1,686	-	1,686	135
Total	2,206,958	1,711,352		130,857	-	130,857	10,469
4. Operational Risk				1,470,038	-	1,470,038	117,603
5. Total RWA and Capital Requirements				27,229,278	1,003,656	26,225,622	2,098,051

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:

31 March 2016

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		5,151,579	5,151,579	-	-	-	-
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		2,352,284	2,352,284	534,118	-	534,118	42,729
Corporates		17,204,019	16,954,120	12,898,558	1,003,979	11,894,579	951,566
Regulatory Retail		12,835,263	12,811,911	10,121,367	-	10,121,367	809,709
Residential Mortgages		209,656	209,640	78,054	-	78,054	6,244
Other Assets		213,254	213,254	213,254	-	213,254	17,060
Defaulted Exposures		477,525	475,442	657,802	-	657,802	52,624
Total for On-Balance Sheet Exposures		38,443,580	38,168,230	24,503,153	1,003,979	23,499,174	1,879,932
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		132,577	132,577	81,149	-	81,149	6,492
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		1,798,885	1,685,265	1,528,101	-	1,528,101	122,248
Defaulted Exposures		578	169	254	-	254	20
Total for Off-Balance Sheet Exposures		1,932,040	1,818,011	1,609,504	-	1,609,504	128,760
Total On and Off-Balance Sheet Exposures		40,375,620	39,986,241	26,112,657	1,003,979	25,108,678	2,008,692
2. Large Exposure Risk Requirement		-	-	-	-	-	-
3. Market Risk							
	Long Position	Short Position					
Rate of Return Risk							
- General rate of return risk	2,256,739	2,101,692		228,463	-	228,463	18,277
- Specific rate of return risk	186,166	20,561		15,230	-	15,230	1,218
Foreign Currency Risk	52,538	141		52,538	-	52,538	4,203
Total	2,495,443	2,122,394		296,231	-	296,231	23,698
4. Operational Risk				1,519,148	-	1,519,148	121,532
5. Total RWA and Capital Requirements				27,928,036	1,003,979	26,924,057	2,153,922

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 that were issued prior to 2013 do not meet all qualifying criteria for full recognition of capital instruments under the Basel III accord, on the requirements for loss absorbency at the point of non-viability, and write-off or conversion mechanisms for achieving principal loss absorption and or loss absorbency at the point of non-viability. 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/period 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 CET 1 Capital net of any interim and/or final dividend declared, and net of any interim losses. Quarterly interim profits have been included in CET 1 Capital subject to review/ audit by the external auditors.

Other Disclosed Reserves

Other disclosed reserves comprise the following:

- **Statutory Reserve**

Statutory reserve is maintained in compliance with Section 57(2)f of the IFSA and is not distributable as cash dividends.

- **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 Bank 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 (i.e. deficit), the entire outstanding balance is deducted in 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 provision and regulatory reserve (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 issued prior to 2013 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 2016, the amount of such Tier 2 Capital that can be recognised in the computation of the capital adequacy ratios is capped at 60% 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	Note 1 (a)
Subordinated Sukuk Musharakah – Tranche 2	200,000	(b)
Subordinated Sukuk Musharakah – Tranche 3	200,000	(c)
Total qualifying base	1,000,000	

Note 1:

- (a) Nominal value of sukuk which amounted to RM120.0 million was purchased and cancelled as at 31 March 2014.
- (b) Nominal value of sukuk which amounted to RM10.0 million was purchased and cancelled as at 31 March 2014.
- (c) Nominal value of sukuk which amounted to RM70.0 million was purchased and cancelled as at 31 March 2014.

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 new 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.

The 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 30 September 2016 are as follows:

Issue Date	First Call Date	Tenor	Profit Rate	Nominal value outstanding (RM million)
31 January 2012	31 January 2017	10 years Non-Callable 5	4.35% per annum	190
24 December 2012	26 December 2017	10 years Non-Callable 5	4.45% per annum	130
Total				320

During the financial period, the Bank redeemed RM480.0 million of nominal value of the Sukuk Musharakah on its first call date of 30 September 2016.

3.3 Tier 2 Capital (Cont'd.)

Basel III Subordinated Sukuk Murabahah

On 28 February 2014, the Bank had 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 30 September 2016 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	5.07% per annum	200
25 March 2014	25 March 2019	10 years Non-Callable 5	5.05% per annum	150
21 December 2015	21 December 2025	10 years Non-Callable 5	5.35% per annum	250
Total				600

3.3 Tier 2 Capital (Cont'd.)**Table 3.2: Capital Structure**

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

	30 September 2016 RM'000	31 March 2016 RM'000
<u>Common Equity Tier 1 ("CET1") Capital</u>		
Ordinary shares	462,922	462,922
Share premium	724,185	724,185
Retained earnings	1,091,562	982,055
Available for sale reserve/(deficit)	9,595	(1,589)
Statutory reserve	483,345	483,345
Less : Regulatory adjustments applied on CET1 Capital		
- Intangible assets	(202)	(14)
- 55% of cumulative gains of available-for-sale financial instruments	(5,277)	-
CET1 Capital/ Tier 1 Capital	2,766,130	2,650,904
<u>Tier 2 Capital</u>		
Tier 2 Capital instruments meeting all relevant criteria for inclusion	600,000	600,000
Tier 2 Capital instruments (subject to gradual phase-out treatment)	320,000	600,000
Collective allowance and regulatory reserves	266,712	273,963
Tier 2 Capital	1,186,712	1,473,963
Total Capital	3,952,842	4,124,867

The breakdown of the risk-weighted in various categories of risk are as follows:

	30 September 2016 RM'000	31 March 2016 RM'000
Credit RWA	25,628,383	26,112,657
Less : Credit RWA absorbed by RIA	(1,003,656)	(1,003,979)
Total Credit RWA	24,624,727	25,108,678
Market RWA	130,857	296,231
Operational RWA	1,470,038	1,519,148
Total Risk Weighted Assets	26,225,622	26,924,057

4.0 General Risk Management

The Risk Management Framework takes its lead from the Board's Approved Risk Appetite Framework that forms the foundation of the AMMB Group to set its risk/reward profile.

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

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

Board Approved Risk Appetite Statement

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

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

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

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

4.0 General Risk Management (Cont'd.)

Board Approved Risk Appetite Statement (Cont'd.)

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

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

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

Board of Directors							
BOARD RISK COMMITTEES		Risk Management Committee of Directors (RMCD)	Audit & Examination Committee (AEC)	Board Credit Committee (BCC)	Governance Committee (GC)	Group Information Technology Committee (GITC)	Shariah Committee
Management Level Risk Management Committees							
MANAGEMENT RISK COMMITTEES		Group Management Risk Committee (GMRC)	Group Asset & Liability Committee (GALCO)	Group Management Governance & Compliance Committee (GMGCC)	Group Management Committee (GMC)	Credit & Commitments Committee (CACC)	

5.0 Credit Risk Management

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

Identification	<ul style="list-style-type: none"> • Identify/recognise credit risk on transactions and/or positions • Select asset and portfolio mix
Assessment/ Measurement	<ul style="list-style-type: none"> • Internal credit rating system • Probability of default ("PD") • Loss given default ("LGD") • Exposure at default ("EAD")
Control/ Mitigation	<ul style="list-style-type: none"> • Portfolio Limits, Counterparty Limits • Wholesale Pricing • Collateral and tailored facility structures
Monitoring/ Review	<ul style="list-style-type: none"> • Monitor and report portfolio mix • Review customers under Classified Accounts • Review customers under Rescheduled and Restructured Account • Undertake post mortem credit 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 Group Risk Appetite Framework ("GRAF") and related credit policies.

For non-retail credits, risk recognition begins with an assessment of the financial standing of the customer or counterparty using a 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;
- enhancement to pricing models;
- financing loss provision calculation;
- stress testing; and
- enhancement to 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;
- Rescheduled and Restructured ("R&R") Account Management sets out the controls in managing R&R financing pursuant to the BNM's revised policy on Classification and Impairment Provisions for Loan/Financing issued in April 2015; and
- setting guidelines on Wholesale Pricing 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.

5.0 Credit Risk Management (Cont'd.)

Individual credit risk exposure exceeding certain thresholds are escalated to Credit and Commitments Committee (“CACC”) for approval. In the event such exposure exceeds CACC authority, it will be submitted to Board Credit Committee (“BCC”) for review or approval, as the case may be. Portfolio credit risk is reported to the relevant management and board committees.

The GMRC regularly meets to review the quality and diversification of the Bank’s financing portfolio and review the portfolio risk profile against the GRAF, and recommend or approve new and amended credit risk policy.

Group Risk prepares monthly Risk Reports which detail important portfolio composition and trend analysis incorporating asset growth, asset quality, impairment, 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.

5.1 Impairment (Cont'd.)

5.1.1 Definition of Past Due and Impaired Financing and Advances (Cont'd.)

A financing is classified as impaired under the following circumstances:

- (a) when the principal or profit or both is past due¹ or the amount outstanding is in excess of approved limit (for revolving facilities), each for more than 90 days or 3 months on any material² obligation; 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 1 day+1 month past due (the 30-days grace period is to allow for exclusion of administrative default³)
- (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. if it is probable that the Bank will be unable to collect all amounts due (including both profit and principal) according to the contractual terms of the agreement
 - ii. due to cross-default. Cross-default occurs when:
 - a default of a financing obligation of a customer triggers a default of another financing obligation of the same customer; or
 - a default of a financing obligation of a customer triggers a default of a financing obligation of other customers within the same customer group.

The CACC is allowed to waive the declaration of cross-default across all accounts of the same customer or accounts of all customers within the same customer group.

or

- iii. if deemed appropriate by the Watchlist Forum.

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. Current "material" threshold is set at more than RM200.00.

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 instruments etc.) shall be classified as impaired:
 - i. when the coupon /profit payment or face/nominal value redemption is one (1) day past due after the grace period, where there is a stipulated grace period within the contractually agreed terms; or
 - ii. when an event of default ("EOD") has been declared by the Trustee/Facility Agent⁴ for reasons other than payment in default (as outlined in the Trust Deed Guidelines issued by the Securities Commission of Malaysia); or
 - iii. where it is deemed appropriate to classify as impaired and approved by the Watchlist Forum.
- (f) the financing is deemed impaired when it is classified as R&R in the Central Credit Reference Information System ("CCRIS").

5.1.2 Methodology for Determination of Individual and Collective Allowances

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

Individual Assessment

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

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

⁴ *In cases where the bond/sukuk holdings are not governed by a Trust Deed, the Facility Agent may declare, if so requested in writing by the bond/sukuk holders by way of Special Resolution that an EOD has occurred (subject to the Agency Agreement between issuers and facility agent), notwithstanding the stated maturity of the bond/sukuk.*

5.1 Impairment (Cont'd.)

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

With effect from 31 December 2015, the Bank is required to maintain, in aggregate, collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding financing⁵ net of individual impairment.

⁵ *Excluding financing with an explicit guarantee from the Government of Malaysia.*

Table 5.1: Distribution of gross credit exposures by sector

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

30 September 2016	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	Government and Central Banks 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, DFIs and MDBs	-	-	-	-	-	-	-	-	2,910,592	-	-	-	-	-	2,910,592
Corporates	1,447,386	1,933,683	2,853,039	100,469	2,247,370	1,065,181	1,039,598	1,018,284	-	2,286,378	338,819	1,415,780	102,069	43,244	15,891,300
Regulatory Retail	19,678	2,463	42,627	747	34,890	36,310	12,924	231	-	20,345	20,240	21,950	12,193,424	3,682	12,409,511
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	227,713	-	227,713
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	-	569	-	569
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	190,495	190,495
Defaulted Exposures	70	2,970	1,125	4,252	8,939	6,916	4,179	-	-	331,722	6,478	5,483	110,197	260	482,591
Total for On Balance Sheet Exposures	1,467,134	1,939,116	2,896,791	105,468	2,291,199	1,108,407	1,056,701	2,669,762	2,910,592	2,638,445	365,537	1,443,213	12,633,972	237,681	33,764,018
Off-Balance Sheet Exposures															
OTC Derivatives	-	-	1,093	-	-	6,511	-	87,076	-	-	19	-	-	-	94,699
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	183,052	9,096	461,707	19,571	383,093	215,990	165,060	33,990	-	110,275	92,461	40,293	332,717	378	2,047,683
Defaulted Exposures	-	107	46	3,376	-	123	-	-	-	-	3,941	-	-	-	7,593
Total for Off-Balance Sheet Exposures	183,052	9,203	462,846	22,947	383,093	222,624	165,060	121,066	-	110,275	96,421	40,293	332,717	378	2,149,975
Total On and Off-Balance Sheet Exposures	1,650,186	1,948,319	3,359,637	128,415	2,674,292	1,331,031	1,221,761	2,790,828	2,910,592	2,748,720	461,958	1,483,506	12,966,689	238,059	35,913,993

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

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

31 March 2016	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	Government and Central Banks 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	-	-	-	-	-	-	-	-	5,151,579	-	-	-	-	-	5,151,579
Banks, DFIs and MDBs	-	-	-	-	-	-	-	2,352,284	-	-	-	-	-	-	2,352,284
Corporates	1,546,426	1,935,165	2,709,646	112,641	3,013,758	933,884	914,749	1,557,903	-	2,515,573	405,614	1,401,908	112,917	43,835	17,204,019
Regulatory Retail	18,513	3,300	43,812	724	47,330	39,583	15,465	271	-	18,900	16,049	30,386	12,596,767	4,163	12,835,263
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	209,656	-	209,656
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	213,254	213,254
Defaulted Exposures	88	2,784	870	5,916	3,610	4,458	4,373	-	-	334,305	828	1,021	117,989	1,283	477,525
Total for On-Balance Sheet Exposures	1,565,027	1,941,249	2,754,328	119,281	3,064,698	977,925	934,587	3,910,458	5,151,579	2,868,778	422,491	1,433,315	13,037,329	262,535	38,443,580
Off-Balance Sheet Exposures															
OTC Derivatives	-	-	669	-	375	10,805	-	118,880	-	-	1,229	619	-	-	132,577
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	150,072	9,202	357,691	18,195	432,596	199,269	85,850	21,863	-	124,753	98,280	8,827	292,219	68	1,798,885
Defaulted Exposures	-	189	-	-	-	119	-	-	-	270	-	-	-	-	578
Total for Off-Balance Sheet Exposures	150,072	9,391	358,360	18,195	432,971	210,193	85,850	140,743	-	125,023	99,509	9,446	292,219	68	1,932,040
Total On and Off-Balance Sheet Exposures	1,715,099	1,950,640	3,112,688	137,476	3,497,669	1,188,118	1,020,437	4,051,201	5,151,579	2,993,801	522,000	1,442,761	13,329,548	262,603	40,375,620

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 period/year of the Bank by sector are as follows:

30 September 2016	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	71	3,730	19,991	9,271	13,227	8,100	4,433	8	365,176	789	4,283	140,869	4,300	-	574,248
Past due financing	5,595	3,730	120,688	9,337	16,813	13,724	7,365	337	396,373	15,618	11,489	3,386,173	12,892	-	4,000,134
Individual allowance	-	712	17,605	5,019	2,913	886	1,108	-	31,280	-	18	-	-	-	59,541
Collective allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	315,577	315,577
Charges/(Writeback) for individual allowance	-	66	(8,918)	(542)	2,913	838	608	-	8,424	-	18	-	-	-	3,407
Write-offs against individual allowance	-	-	39	4,455	-	41	3,046	-	-	-	-	-	-	-	7,581

31 March 2016	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	150	3,450	29,434	16,233	4,813	4,350	6,998	-	378,700	2,670	3,305	154,228	869	-	605,200
Past due financing	8,205	3,455	32,107	16,310	23,095	9,607	10,953	377	420,180	29,360	11,374	3,255,326	15,816	-	3,836,165
Individual allowance	-	646	26,562	10,016	-	89	3,546	-	22,856	-	-	-	-	-	63,715
Collective allowance	-	-	-	-	-	-	-	-	-	-	-	-	-	329,392	329,392
Charges/(Writeback) for individual allowance	-	646	8,325	(3,015)	(166)	76	3,906	-	17,635	76	113	(8)	-	-	27,588
Write-offs against individual allowance	-	-	9,114	-	5,278	2,551	11,120	-	-	1,088	113	684	-	-	29,948

Table 5.3: Geographical distribution of credit exposures

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

30 September 2016	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	2,910,592	-	2,910,592
Banks, DFIs and MDBs	1,646,133	5,114	1,651,247
Corporates	15,891,300	-	15,891,300
Regulatory Retail	12,409,511	-	12,409,511
Residential Mortgages	227,713	-	227,713
Higher Risk Assets	569	-	569
Other Assets	190,495	-	190,495
Defaulted Exposures	482,591	-	482,591
Total for On Balance Sheet Exposures	33,758,904	5,114	33,764,018
Off-Balance Sheet Exposures			
OTC Derivatives	94,699	-	94,699
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	2,047,683	-	2,047,683
Defaulted Exposures	7,593	-	7,593
Total for Off-Balance Sheet Exposures	2,149,975	-	2,149,975
Total On and Off-Balance Sheet Exposures	35,908,879	5,114	35,913,993

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

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

31 March 2016	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	5,151,579	-	5,151,579
Banks, DFIs and MDBs	2,330,683	21,601	2,352,284
Corporates	17,204,019	-	17,204,019
Regulatory Retail	12,835,263	-	12,835,263
Residential Mortgages	209,656	-	209,656
Other Assets	213,254	-	213,254
Defaulted Exposures	477,525	-	477,525
Total for On-Balance Sheet Exposures	38,421,979	21,601	38,443,580
Off-Balance Sheet Exposures			
OTC Derivatives	132,577	-	132,577
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,798,885	-	1,798,885
Defaulted Exposures	578	-	578
Total for Off-Balance Sheet Exposures	1,932,040	-	1,932,040
Total On and Off-Balance Sheet Exposures	40,354,019	21,601	40,375,620

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

The amounts of all impaired and past due financing, individual and collective allowances of the Bank which reside in Malaysia are as follows:

30 September 2016	Total
	RM'000
Impaired financing	574,248
Past due financing	4,000,134
Individual allowances	59,541
Collective allowances	315,577

31 March 2016	Total
	RM'000
Impaired financing	605,200
Past due financing	3,836,165
Individual allowances	63,715
Collective allowances	329,392

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:

30 September 2016	>6 months							No Maturity specified RM'000	Total RM'000
	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000		
On-Balance Sheet Exposures									
Sovereigns/Central Banks	1,757,457	-	-	-	-	137,852	1,015,283	-	2,910,592
Banks, DFIs and MDBs	946,485	594,585	-	90,077	-	-	20,100	-	1,651,247
Corporates	5,598,593	1,041,946	329,586	1,392,084	1,819,999	2,080,548	3,628,544	-	15,891,300
Regulatory Retail	269,244	7,927	17,288	75,793	1,046,305	3,032,291	7,960,663	-	12,409,511
Residential Mortgages	13	18	22	239	2,949	7,356	217,116	-	227,713
Higher Risk Assets	-	-	-	-	-	-	569	-	569
Other Assets	846	1,857	2,521	5,583	7,460	104,608	-	67,620	190,495
Defaulted Exposures	316,247	680	29,383	3,650	32,219	35,976	64,436	-	482,591
Total for On-Balance Sheet Exposures	8,888,885	1,647,013	378,800	1,567,426	2,908,932	5,398,631	12,906,711	67,620	33,764,018
Off-Balance Sheet Exposures									
OTC Derivatives	103	525	36,361	19,613	-	13,597	24,500	-	94,699
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	291,794	179,217	270,462	226,934	311,429	62,751	705,096	-	2,047,683
Defaulted Exposures	222	90	490	107	3,727	-	2,957	-	7,593
Total for Off-Balance Sheet Exposures	292,119	179,832	307,313	246,654	315,156	76,348	732,553	-	2,149,975
Total On and Off-Balance Sheet Exposures	9,181,004	1,826,845	686,113	1,814,080	3,224,088	5,474,979	13,639,264	67,620	35,913,993

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.):

31 March 2016	Residual contractual maturity							No Maturity specified RM'000	Total RM'000
	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		
On-Balance Sheet Exposures									
Sovereigns/Central Banks	3,883,604	-	-	-	-	125,337	1,142,638	-	5,151,579
Banks, DFIs and MDBs	732,384	1,540,032	-	-	-	-	79,868	-	2,352,284
Corporates	4,803,397	1,529,321	952,030	617,548	3,263,987	2,480,238	3,557,498	-	17,204,019
Regulatory Retail	255,249	9,265	25,956	70,967	897,563	2,647,876	8,928,387	-	12,835,263
Residential Mortgages	12	12	32	128	2,796	5,477	201,199	-	209,656
Other Assets	681	1,760	2,399	5,464	12,140	105,347	-	85,463	213,254
Defaulted Exposures	312,788	2,509	1,170	32,011	23,317	33,740	71,990	-	477,525
Total for On-Balance Sheet Exposures	9,988,115	3,082,899	981,587	726,118	4,199,803	5,398,015	13,981,580	85,463	38,443,580
Off-Balance Sheet Exposures									
OTC Derivatives	5,765	14,060	13,458	52,689	-	18,606	27,999	-	132,577
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	235,425	118,457	180,526	320,515	248,304	124,984	570,674	-	1,798,885
Defaulted Exposures	-	189	-	389	-	-	-	-	578
Total for Off-Balance Sheet Exposures	241,190	132,706	193,984	373,593	248,304	143,590	598,673	-	1,932,040
Total On and Off-Balance Sheet Exposures	10,229,305	3,215,605	1,175,571	1,099,711	4,448,107	5,541,605	14,580,253	85,463	40,375,620

Table 5.6: Reconciliation of changes to financing impairment allowances

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

30 September 2016	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at beginning of financial year	63,715	329,392
Charge for the period – net	3,407	68,267
Foreign exchange differences	-	4
Amount written-off	(7,581)	(82,086)
Balance at end of financial period	<u>59,541</u>	<u>315,577</u>
30 September 2016		(Charge off)/recoveries RM'000
Bad debts written off during the period		(7,612)
Bad debt recoveries during the period		67,594

31 March 2016	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at beginning of financial year	66,075	458,453
Charge for the year – net	27,588	77,975
Transferred from AmBank *	-	17
Foreign exchange differences	-	(5)
Amount written-off	(29,948)	(207,048)
Balance at end of financial year	<u>63,715</u>	<u>329,392</u>
31 March 2016		(Charge off)/recoveries RM'000
Bad debts written off during the year		(15,223)
Bad debt recoveries during the year		124,971

* During the current financial year,

- on 31 December 2015, the Bank entered into a RIA contract for the sum of RM300.0 million with AmBank. Arising from this contract, the Bank transferred collective allowance of approximately RM2.46 million for the financing funded to AmBank. On 15 March 2016, AmBank early redeemed the RIA and derecognised the collective allowance previously recognised in its financial statements of RM2.48 million.

As at 30 September 2016, the gross exposure and collective allowance relating to the RPSIA financing amounted to RM1,003.7 million and RM1.5 million respectively (31 March 2016 :RM1,004.0 million and RM1.5 million respectively). There was no individual allowance provided for the RPSIA financing.

6.0 Credit Risk Exposure under the Standardised Approach

Depending on the exposure class, the following ratings by the following External Credit Assessment Institutions ("ECAIs") are used by the Group:

- 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 ECAIs rating that broadly corresponds to the broad internal credit quality categories. Internal credit rating grades assigned to corporate and retail lending business were realigned in 2015 from existing 5 rating categories to 8 rating categories (seven for non-defaulted and one for those that have defaulted) in accordance with the Capital Adequacy Framework (Basel II – Risk-Weighted Assets). The ECAIs mapping is based on 1 year average cumulative default rates as per corporate default studies undertaken by Fitch (1990-2013), Standard & Poor's (1981-2013), Moody's (1983-2013), RAM (1992-2013) and MARC (1997-2013); and is incorporated in the Credit Risk Rating Policy.

Credit Quality Classification	Moody's	S&P	Fitch	RAM	MARC
Exceptionally Strong	Aaa to A2	AAA to A	AAA to A		
Very Strong	A3 to Baa3	A- to BBB-	A- to BBB-	AAA to AA3	AAA to AA
Strong	Ba1 to Ba2	BB+ to BB	BB+ to BB	A1 to A2	
Satisfactory	Ba3	BB-	BB-	A3 to BBB2	AA- to A+
Moderate	B1 to B2	B+ to B	B+ to B	BBB3 to BB1	A to A-
Marginal	B3	B-	B-	BB2 to B1	BBB+ 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:

30 September 2016

Risk Weights	Exposures after Netting and Credit Risk Mitigation										
	Sovereigns and Central Banks	Public Sector Entities	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	RM'000
0%	2,910,592	-	20,099	-	2,425,330	-	-	-	-	5,356,021	-
20%	-	-	1,545,384	-	901,627	472	-	-	-	2,447,483	489,496
35%	-	-	-	-	-	-	188,799	-	-	188,799	66,080
50%	-	-	156,364	-	16,477	5,644	44,581	-	-	223,066	111,533
75%	-	-	-	-	-	10,273,527	-	-	-	10,273,527	7,705,145
100%	-	-	-	-	13,948,545	2,504,058	2,949	-	190,495	16,646,047	16,646,047
150%	-	-	-	-	345,512	60,216	-	993	-	406,721	610,082
Average Risk Weight											
Total	2,910,592	-	1,721,847	-	17,637,491	12,843,917	236,329	993	190,495	35,541,664	25,628,383
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	

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:

31 March 2016

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%	5,151,579	19,828	-	3,090,516	-	-	-	-	8,261,923	-
20%	-	2,109,683	-	1,311,569	508	-	-	-	3,421,760	684,352
35%	-	-	-	-	-	179,034	-	-	179,034	62,662
50%	-	332,040	-	2,930	9,713	32,693	-	-	377,376	188,688
75%	-	-	-	-	11,050,726	-	-	-	11,050,726	8,288,044
100%	-	-	-	13,984,625	2,107,386	3,179	-	213,254	16,308,444	16,308,444
150%	-	-	-	328,573	58,405	-	-	-	386,978	580,467
Average Risk Weight										
Total	5,151,579	2,461,551	-	18,718,213	13,226,738	214,906	-	213,254	39,986,241	26,112,657
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-

Table 6.2: Rated Exposures according to Ratings by ECAIs

30 September 2016

Exposure Class	Ratings of Corporate by Approved ECAIs				
	Moody's S&P Fitch RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A+ to A- A to A3 A+ to A-	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 BBB+ to BB-	Unrated Unrated Unrated Unrated Unrated
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Credit Exposures (using Corporate					
Risk Weights)					
Corporates	17,986,820	599,559	460,381	-	16,926,880
Total	17,986,820	599,559	460,381	-	16,926,880

31 March 2016

Exposure Class	Ratings of Corporate by Approved ECAIs				
	Moody's S&P Fitch RAM MARC	Aaa to Aa3 AAA to AA- AAA to AA- AAA to AA3 AAA to AA-	A1 to A3 A+ to A- A+ to A- A to A3 A+ to A-	Baa1 to Ba3 BBB+ to BB- BBB+ to BB- BBB1 to BB3 BBB+ to BB-	Unrated Unrated Unrated Unrated Unrated
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Credit Exposures (using Corporate					
Risk Weights)					
Corporates	19,079,599	1,058,765	452,413	-	17,568,421
Total	19,079,599	1,058,765	452,413	-	17,568,421

Table 6.2: Rated Exposures according to Ratings by ECAIs (Cont'd.)**30 September 2016**

	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moody's	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
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks	2,910,592	-	2,910,592	-	-	-	-
Total	2,910,592	-	2,910,592	-	-	-	-

31 March 2016

	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moody's	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
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks	5,151,579	-	5,151,579	-	-	-	-
Total	5,151,579	-	5,151,579	-	-	-	-

Table 6.2: Rated Exposures according to Ratings by ECAIs (Cont'd.)**30 September 2016**

	Ratings of Banking Institutions by Approved ECAIs				
	Moody's	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
	RII	AAA to AA-	A+ to A-	BBB+ to BBB-	Unrated
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and Off-Balance Sheet Exposures</u>					
Banks, DFIs and MDBs	1,721,847	522,424	-	66,737	1,132,686
Total	1,721,847	522,424	-	66,737	1,132,686

31 March 2016

	Ratings of Banking Institutions by Approved ECAIs				
	Moody's	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
Exposure Class	RM'000	RM'000	RM'000	RM'000	RM'000
<u>On and Off-Balance Sheet Exposures</u>					
Banks, DFIs and MDBs	2,461,551	667,433	99,783	101,416	1,592,919
Total	2,461,551	667,433	99,783	101,416	1,592,919

7.0 Credit Risk Mitigation

Table 7.1: Credit Risk Mitigation

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

Exposures	Exposures before CRM RM'000	Exposures covered by guarantees/credit derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
30 September 2016			
Credit Risk			
<u>On-Balance Sheet Exposures</u>			
Sovereigns/Central Banks	2,910,592	-	-
Banks, DFIs and MDBs	1,651,247	-	-
Corporates	15,891,300	1,076,771	952,169
Regulatory Retail	12,409,511	472	32,762
Residential Mortgages	227,713	-	132
Higher Risk Assets	569	-	-
Other Assets	190,495	-	-
Defaulted Exposures	482,591	-	104,673
Total On-Balance Sheet Exposures	33,764,018	1,077,243	1,089,736
<u>Off-Balance Sheet Exposures</u>			
OTC Derivatives	94,699	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	2,047,683	14,450	214,649
Defaulted Exposures	7,593	-	4,467
Total Off-Balance Sheet Exposures	2,149,975	14,450	219,116
Total On and Off-Balance Sheet Exposures	35,913,993	1,091,693	1,308,852

Exposures	Exposures before CRM RM'000	Exposures covered by guarantees/credit derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
31 March 2016			
Credit Risk			
<u>On-Balance Sheet Exposures</u>			
Sovereigns/Central Banks	5,151,579	-	-
Banks, DFIs and MDBs	2,352,284	-	-
Corporates	17,204,019	1,610,453	1,092,008
Regulatory Retail	12,835,263	507	38,870
Residential Mortgages	209,656	-	142
Other Assets	213,254	-	-
Defaulted Exposures	477,525	24	102,788
Total for On-Balance Sheet Exposures	38,443,580	1,610,984	1,233,808
<u>Off-Balance Sheet Exposures</u>			
OTC Derivatives	132,577	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,798,885	42,232	220,824
Defaulted Exposures	578	-	459
Total for Off-Balance Sheet Exposures	1,932,040	42,232	221,283
Total On and Off-Balance Sheet Exposures	40,375,620	1,653,216	1,455,091

8.0 Off Balance Sheet Exposures and Counterparty Credit Risk

Table 8.1: Off-Balance Sheet Exposures

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

30 September 2016

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	263,232		263,232	251,413
Transaction related contingent items	696,848		348,424	243,308
Short term self liquidating trade related contingencies	61,397		12,279	11,315
Forward asset purchases	41,743		2,000	400
Foreign exchange related contracts	1,618,061	26,662	56,602	41,257
One year or less	1,618,061	26,662	56,602	41,257
Profit rate related contracts	890,000	1,596	38,097	18,448
Over one year to five years	540,000	1,596	13,597	6,198
Over five years	350,000	-	24,500	12,250
Other commodity contracts	-	-	-	-
One year or less	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,161,002		580,501	521,361
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	3,652,699		730,541	699,915
Unutilised credit card lines	591,497		118,299	88,472
Total	8,976,479	28,258	2,149,975	1,875,889

31 March 2016

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	235,448		235,448	223,829
Transaction related contingent items	746,826		373,413	253,638
Short term self liquidating trade related contingencies	121,004		24,201	23,570
Forward asset purchases	10,460		1,900	1,900
Foreign exchange related contracts	1,679,198	55,282	85,971	57,846
One year or less	1,679,198	55,282	85,971	57,846
Profit rate related contracts	1,250,000	1,991	46,606	23,303
Over one year to five years	900,000	1,991	18,606	9,303
Over five years	350,000	-	28,000	14,000
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	999,782		499,891	413,291
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	2,846,242		569,249	540,865
Unutilised credit card lines	476,806		95,361	71,262
Total	8,365,766	57,273	1,932,040	1,609,504

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 period ended 30 September 2016 and financial year ended 31 March 2016.

10.0 Non-Traded Market Risk

Market Risk Sensitivity – Rate of Return Risk ("RORBB") in the Banking Book

The RORBB sensitivity for the Bank is as follows:

30 September 2016	Rate of Return + 100 bps RM'000	Rate of Return - 100 bps RM'000
Impact on profit before zakat and taxation	(8,488)	8,488
Impact on equity	(241,581)	265,053

31 March 2016	Rate of Return + 100 bps RM'000	Rate of Return - 100 bps RM'000
Impact on profit before zakat and taxation	(7,912)	7,912
Impact on equity	(260,620)	286,976

11.0 Equities (Banking Book Positions)

The Bank did not have any equity investment as at 30 September 2016 and 31 March 2016.

12.0 Liquidity Risk and Funding Management

The liquidity risk management of the Bank is aligned to BNM's policy document on Liquidity Coverage Ratio ("LCR") issued by BNM on 31 March 2015.

13.0 Shariah Governance Structure

13.1 Shariah non-compliant incidents and income

There was no shariah non-compliant incidents and income during the financial period ended 30 September 2016 (eight shariah non-compliant incidents for the financial year ended 31 March 2016 and involved a total income amount of approximately RM9.7 million which was subsequently purified).