

AmInvestment Bank Group

RWCAF - Pillar 3 Disclosures

31 March 2011

AmInvestment Bank Berhad Group RWCAF - Pillar 3 Disclosures for 31 March 2011

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1.0 Scope of Application

The Bank Negara Malaysia's ("BNM") Risk Weighted Capital Adequacy Framework - Basel II and Capital Adequacy Framework for Islamic Banks ("RWCAF") – Disclosure Requirement ("Pillar 3") is applicable to all banking institutions licensed under the Banking and Financial Institutions Act 1989 ("BAFIA") and all Islamic banks licensed under section 3(4) of the Islamic Banking Act 1983 ("IBA"). The Pillar 3 disclosure requirements aim to enhance transparency on the risk management practices and capital adequacy of banking institutions.

The banking entity at AmInvestment Bank Berhad Group ("Group") level to which the RWCAF framework applies is AmInvestment Bank Berhad ("Bank")

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

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.

The capital adequacy ratios are computed in accordance with BNM's Risk-weighted Capital Adequacy Framework or Risk-weighted Capital Adequacy Framework for Islamic Banks (as applicable), which are based on the Basel II capital accord. Each entity has adopted the Standardised Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk.

The minimum regulatory capital adequacy requirement is 8.0% for the risk-weighted capital ratio.

1.1 Basis of Consolidation

For statutory accounting purposes, the consolidated financial statements of Bank comprise the financial statements of the Bank and the financial statements of all its controlled entities (together referred to as the "Group" and individually referred to as "group entities") where it is determined that there is a capacity to control. Control means the power to govern directly or indirectly the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Type of entity	Accounting Treatment	
	Statutory reporting	Basel II regulatory reporting
Subsidiaries licensed under BAFIA ^[1] or IBA ^[2] or engaged in financial activities	Fully consolidated	Fully consolidated
Subsidiaries engaged in non-financial activities	Fully consolidated	Deducted from capital base
Associates and jointly controlled entities which are licensed under BAFIA or IBA	Equity accounted	Pro-rata consolidated
Associates and jointly controlled entities which are not licensed under BAFIA or IBA	Equity accounted	Reported as investment and risk weighted

¹ BAFIA denotes the Banking and Financial Institutions Act 1989.

² IBA denotes the Islamic Banking Act 1983.

Apart from regulatory requirements and statutory constraints, there is no current or foreseen material, practical or legal impediments to the transfer of funds or regulatory capital within the Group.

Any such transfers would require the approvals of the respective Boards of Directors, as well as the concurrence of BNM.

2.0 Capital Management

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

Strategic, business and capital plans are drawn up annually covering a 5 year horizon and approved by the Board of Directors. The capital plan ensures that adequate levels of capital and an optimum mix of the different components of capital are maintained by the Group to support its strategy.

The capital plan takes the following into account:

(a) Regulatory capital requirements:

- forecast demand for capital to support the credit ratings; and
- increases in demand for capital due to business growth and market shocks.

(b) Or stresses:

- available supply of capital and capital raising options; and
- internal controls and governance for managing the Group’s risk, performance and capital.

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

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

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

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

The capital that the Group is required to hold is determined by its balance sheet, off-balance sheet, counterparty and other risk exposures after applying collateral and other mitigants, based on the Group's risk rating methodologies and systems. We discuss these outcomes with BNM on a regular basis as part of our normal regulatory liaison activities. BNM has the right to impose further capital requirements on Malaysian Financial Institutions via its Financial Market Supervision remit.

The Group operates processes and controls to monitor and manage capital adequacy across the organisation. Where we operate in other jurisdictions, capital is maintained on the basis of the local regulator's requirements. It is overseen by the Group Asset and Liability Committee ("GALCO"), which is responsible for managing the Group's balance sheet, capital and liquidity.

A strong governance and process framework is embedded in the capital planning and assessment methodology. Overall responsibility for the effective management of risk rests with the Board of Directors. The Risk Management Committee of Directors ("RMCD") is specifically delegated the task of reviewing all risk management issues including oversight of the Group's capital position and any actions impacting the capital levels. The Audit and Examination Committee ("AEC") reviews specific risk areas and the issues discussed at the key capital management committees.

GALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. These ranges are 7.5 per cent to 8.5 per cent for the Tier 1 capital ratio and 11.5 per cent to 12.5 per cent for the total capital ratio. The Group has been (knowingly) operating in excess of these ranges for the last 3 years as the Group was conservatively positioned for any repercussions from the Global Financial Crisis.

A dedicated team, the Capital and Balance Sheet Management Department, is responsible for the ongoing assessment of the demand for capital and the updating of the Group's capital plan.

In light of the uncertain economic environment and the evolving global regulatory debate on banking institutions' capital structures, we believe it is appropriate to remain strongly capitalised above our target ranges.

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

There are no current material, practical or legal impediments to the prompt transfer of capital resources in excess of those required for regulatory purposes or repayment of liabilities between the parent company, AMMB and its group entities when due.

Table 2.1: Capital Adequacy Ratios

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

	Group		Bank	
	2011	2010	2011	2010
Before deducting proposed dividends:				
Core capital ratio	25.4%	24.0%	24.7%	28.3%
Risk-weighted capital ratio	25.4%	29.4%	24.7%	30.1%
After deducting proposed dividends:				
Core capital ratio	23.0%	21.7%	21.7%	25.5%
Risk-weighted capital ratio	23.0%	27.1%	21.7%	27.3%

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

	Islamic Window	
	2011	2010
Before deducting proposed dividends:		
Core capital ratio	44.5%	38.5%
Risk-weighted capital ratio	44.5%	38.5%
After deducting proposed dividends:		
Core capital ratio	44.5%	38.5%
Risk-weighted capital ratio	44.5%	38.5%

Table 2.2: Risk Weighted Assets and Capital Requirements

(a) The breakdown of risk-weighted assets ("RWA") by exposure in each major risk category of the Group is as follows:

2011

	Exposure Class	Gross Exposures/ EAD before CRM		Net Exposures/ EAD after CRM	Risk Weighted Assets	Minimum Capital Requirement at 8%
		RM'000	RM'000	RM'000	RM'000	RM'000
1.	<u>Credit Risk</u> <i>On-Balance Sheet Exposures</i>					
	Sovereigns/Central Banks		2,150	2,150	-	-
	Public Sector Entities		-	-	-	-
	Banks, Development Financial Institutions & MDBs,		745,911	745,911	153,917	12,313
	Insurance Cos, Securities Firms & Fund Managers		-	-	-	-
	Corporates		508,237	64,222	64,214	5,137
	Regulatory Retail		48,085	9,493	7,156	572
	Residential Mortgages		-	-	-	-
	Higher Risk Assets		15,787	15,787	23,681	1,894
	Other Assets		1,106,238	1,106,238	1,101,201	88,097
	Specialised Financing/Investment Equity Exposure		-	-	-	-
	Securitisation Exposures		-	-	-	-
	Defaulted Exposures		689	89	133	11
	Total for On-Balance Sheet Exposures		2,427,097	1,943,890	1,350,302	108,024
	<i>Off-Balance Sheet Exposures</i>					
	OTC Derivatives		-	-	-	-
	Credit Derivatives		-	-	-	-
	Off balance sheet exposures other than OTC derivatives or credit derivatives		254,231	202,473	202,353	16,188
	Defaulted Exposures		16	16	24	2
	Total for Off-Balance Sheet Exposures		254,247	202,489	202,377	16,190
	Total On and Off-Balance Sheet Exposures		2,681,344	2,146,379	1,552,679	124,214
2.	Large Exposures Risk Requirement		-	-	-	-
3.	<u>Market Risk</u>	Long Position	Short Position			
	Interest Rate Risk	-	-		-	-
	Foreign Currency Risk	1,768	-		1,768	141
	Equity Risk					
	- General risk	7,385	2,181		5,204	416
	- Specific risk	7,385	2,181		9,871	790
	Option Risk	-	-		-	-
	Total	16,538	4,362		16,843	1,347
4.	Operational Risk				505,180	40,414
5.	Total RWA and Capital Requirements				2,074,702	165,975

The Group does not have any issuances of Profit-Sharing Investment Account ("PSIA") used as a risk absorbent.

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

2010

	Exposure Class	Gross Exposures/ EAD before CRM		Net Exposures/ EAD after CRM	Risk Weighted Assets	Minimum Capital Requirement at 8%
		RM'000	RM'000	RM'000	RM'000	RM'000
1.	<u>Credit Risk</u>					
	<i>On-Balance Sheet Exposures</i>					
	Sovereigns/Central Banks		89	89	-	-
	Public Sector Entities		-	-	-	-
	Banks, Development Financial Institutions & MDBs, Insurance Cos, Securities Firms & Fund Managers		674,086	674,086	139,425	11,154
	Corporates		347,712	39,827	57,882	4,631
	Regulatory Retail		39,145	5,477	4,108	329
	Residential Mortgages		6,680	6,680	2,459	197
	Higher Risk Assets		17,350	17,350	26,025	2,082
	Other Assets		969,083	969,083	947,687	75,815
	Specialised Financing/Investment Equity Exposure		4,074	4,074	4,074	326
	Securitisation Exposures		-	-	-	-
	Defaulted Exposures		32,523	31,272	46,909	3,753
	Total for On-Balance Sheet Exposures		2,090,742	1,747,938	1,228,569	98,287
	<i>Off-Balance Sheet Exposures</i>					
	OTC Derivatives		-	-	-	-
	Credit Derivatives		-	-	-	-
	Off balance sheet exposures other than OTC derivatives or credit derivatives		437,736	437,736	424,309	33,945
	Defaulted Exposures		-	-	-	-
	Total for Off-Balance Sheet Exposures		437,736	437,736	424,309	33,945
	Total On and Off-Balance Sheet Exposures		2,528,478	2,185,674	1,652,878	132,232
2.	Large Exposures Risk Requirement		-	-	-	-
3.	<u>Market Risk</u>	Long Position	Short Position			
	Interest Rate Risk	201	201		12	1
	Foreign Currency Risk	38,482	-		38,482	3,079
	Equity Risk					
	- General risk	61,106	-		61,106	4,888
	- Specific risk	61,106	-		40,016	3,201
	Option Risk	6,615	-		9,096	728
	Total	167,510	201		148,712	11,897
4.	Operational Risk				428,455	34,276
5.	Total RWA and Capital Requirements				2,230,045	178,405

The Group does not have any issuances of Profit-Sharing Investment Account ("PSIA") used as a risk absorbent.

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

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

2011						
	Exposure Class	Gross Exposures		Net Exposures	Risk Weighted Assets	Capital Requirements
		RM'000	RM'000	RM'000	RM'000	RM'000
1.	<u>Credit Risk</u>					
	<i>On-Balance Sheet Exposures</i>					
	Sovereigns/Central Banks		65	65	-	-
	Public Sector Entities		-	-	-	-
	Banks, Development Financial Institutions & MDBs, Insurance Cos, Securities Firms & Fund Managers		129,400	129,400	25,880	2,070
	Corporates		-	-	-	-
	Regulatory Retail		-	-	-	-
	Residential Mortgages		-	-	-	-
	Higher Risk Assets		-	-	-	-
	Other Assets		30,455	30,455	26,968	2,157
	Specialised Financing/Investment Equity Exposure		-	-	-	-
	Securitisation Exposures		-	-	-	-
	Defaulted Exposures		-	-	-	-
	Total for On-Balance Sheet Exposures		159,920	159,920	52,848	4,227
	<i>Off-Balance Sheet Exposures</i>					
	OTC Derivatives		-	-	-	-
	Credit Derivatives		-	-	-	-
	Off balance sheet exposures other than OTC derivatives or credit derivatives		132,877	119,473	119,473	9,558
	Defaulted Exposures		-	-	-	-
	Total for Off-Balance Sheet Exposures		132,877	119,473	119,473	9,558
	Total On and Off-Balance Sheet Exposures		292,797	279,393	172,321	13,785
2.	Large Exposures Risk Requirement		-	-	-	-
3.	<u>Market Risk</u>	Long Position	Short Position			
	Interest Rate Risk	-	-	-	-	-
	Foreign Currency Risk	-	-	-	-	-
	Equity Risk	-	-	-	-	-
	Foreign Risk	-	-	-	-	-
	Option Risk	-	-	-	-	-
	Total	-	-	-	-	-
4.	Operational Risk				77,825	6,226
5.	Total RWA and Capital Requirements				250,146	20,011

The Group does not have any issuances of Profit-Sharing Investment Account ("PSIA") used as a risk absorbent.

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

2010						
	Exposure Class	Gross Exposures		Net Exposures	Risk Weighted Assets	Capital Requirements
		RM'000	RM'000	RM'000	RM'000	RM'000
1.	Credit Risk					
	<i>On-Balance Sheet Exposures</i>					
	Sovereigns/Central Banks		23	23	-	-
	Public Sector Entities		-	-	-	-
	Banks, Development Financial Institutions & MDBs, Insurance Cos, Securities Firms & Fund Managers		122,938	122,938	24,588	1,967
	Corporates		-	-	-	-
	Regulatory Retail		-	-	-	-
	Residential Mortgages		-	-	-	-
	Higher Risk Assets		-	-	-	-
	Other Assets		11,825	11,825	11,242	899
	Specialised Financing/Investment Equity Exposure		-	-	-	-
	Securitisation Exposures		-	-	-	-
	Defaulted Exposures		-	-	-	-
	Total for On-Balance Sheet Exposures		134,786	134,786	35,830	2,866
	<i>Off-Balance Sheet Exposures</i>					
	OTC Derivatives		-	-	-	-
	Credit Derivatives		-	-	-	-
	Off balance sheet exposures other than OTC derivatives or credit derivatives		137,895	124,490	124,490	9,959
	Defaulted Exposures		-	-	-	-
	Total for Off-Balance Sheet Exposures		137,895	124,490	124,490	9,959
	Total On and Off-Balance Sheet Exposures		272,681	259,276	160,320	12,825
2.	Large Exposures Risk Requirement		-	-	-	-
3.	Market Risk	Long Position	Short Position			
	Interest Rate Risk	-	-	-	-	-
	Foreign Currency Risk	-	-	-	-	-
	Equity Risk	-	-	-	-	-
	Foreign Risk	-	-	-	-	-
	Option Risk	-	-	-	-	-
	Total	-	-	-	-	-
4.	Operational Risk				95,971	7,678
5.	Total RWA and Capital Requirements				256,291	20,503

The Group does not have any issuances of Profit-Sharing Investment Account ("PSIA") used as a risk absorbent.

3.0 Capital Structure

Table 3.1 Capital Structure summarises the consolidated capital position of the Group. The consolidated statement of financial position of the Group includes capital under the following headings:

- paid-up ordinary share capital and eligible reserves;
- innovative Tier 1 capital and qualifying subordinated liabilities; and
- collective allowance (netted against loans, advances and financing).

Capital instruments issued by the Group

All capital instruments included in the capital base have been issued in accordance with the BNM rules and guidelines.

For regulatory purposes, capital is categorised into two main categories, or tiers, depending on the degree of permanency and loss absorbency exhibited. These are Tier 1 and Tier 2 capital which are described below.

3.1 Tier 1 Capital

Tier 1 capital comprises paid-up ordinary share capital, retained earnings, eligible reserves and innovative and non-innovative Tier 1 capital, after the deduction of certain regulatory adjustments.

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.

Retained Earnings

Retained earnings at the end of the financial year and eligible reserves are accumulated resources included in the shareholders' funds in an entity's statement of financial position, with certain regulatory adjustments applied.

Eligible Reserves

Eligible reserves comprise the following:

- **Share Premium**
Share premium is used to record premium arising from new shares issued in the group entity.
- **Statutory Reserve**
Statutory reserve is maintained by the Group in compliance with the provisions of BAFIA and IBA and is not distributable as cash dividends.
- **Merger Reserve**
The merger reserve represent reserve arising from the transfer of subsidiaries pursuant to scheme of arrangement under group restructuring which is accounted for using the merger accounting method.
- **Exchange Fluctuation Reserve**
Exchange fluctuation reserve is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging.

3.2 Tier 2 Capital

The main components of Tier 2 capital are collective allowance for bad and doubtful debts and subordinated debt instruments as follows:

Redeemable Unsecured Subordinated Bonds

Pursuant to a Trust Deed dated 27 October 2005, the Bank issued RM200,000,000 nominal amount of Redeemable Unsecured Subordinated Bonds ("SubBonds III") for the purpose of redemption of RM200,000,000 nominal amount of unsecured subordinated certificates of deposits. The unsecured subordinated certificates of deposits were redeemed on 1 March 2006.

The salient features of the SubBonds III are as follows:

- (i) The SubBonds III bear interest at 4.75% per annum for the first five years and at 5.25% to 7.25% per annum between years 6 to 10. The interest is payable on a semi-annual basis.
- (ii) The SubBonds III are redeemable on 31 October 2010 or on each anniversary date thereafter at nominal value together with interest accrued to the date of redemption.
- (iii) The SubBonds III are for a period of 10 years maturing on 31 October 2015. However, subject to the prior approval of BNM, AmIB may redeem the SubBonds III on 31 October 2010 or on each anniversary date thereafter.

The SubBonds III were redeemed on 29 October 2010.

Table 3.1: Capital Structure

(a) The components of Tier 1 and Tier 2 Capitals of the Group and the Bank are as follows:

	Group		Bank	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Tier 1 capital				
Paid-up ordinary share capital	200,000	200,000	200,000	200,000
Statutory reserve	200,000	200,000	200,000	200,000
Capital reserve	2,815	2,815	-	-
Merger reserve	7,656	7,656	-	-
Exchange fluctuation reserve	26,707	24,172	-	-
Unappropriated profits at end of year	135,347	116,133	130,227	113,874
Total	572,525	550,776	530,227	513,874
Less: Goodwill	(11,243)	(11,243)	-	-
Deferred tax (assets)/liabilities - net	(19,670)	(4,870)	(19,477)	(4,556)
Total tier 1 capital	541,612	534,663	510,750	509,318
Deduction in excess of allowable Tier 2 Capital	(15,476)	-	(103,707)	-
Maximum allowable Tier 1 Capital	526,136	534,663	407,043	509,318
Tier 2 capital				
Subordinated bonds	-	135,000	-	135,000
Collective allowance for bad and doubtful debts	8,362	9,768	8,362	9,768
Total tier 2 capital	8,362	144,768	8,362	144,768
Total capital funds	534,498	679,431	415,405	654,086
Less: Investment in capital of related financial institution	(23,838)	(24,448)	(23,838)	(24,448)
Less: Investment in subsidiaries	-	-	(88,231)	(88,231)
Deduction in excess of allowable Tier 2 Capital made against Tier 1 Capital	15,476	-	103,707	-
Capital base	526,136	654,983	407,043	541,407

#Excludes collective allowance on impaired loans restricted from Tier 2 capital of the Group and the Bank of AmInvestment Bank Berhad RM841,000 for 2011 (2010 : NIL)

Table 3.1: Capital Structure (Contd.)

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

	2011 RM'000	2010 RM'000
Tier 1 Capital		
Islamic Banking Funds	30,000	30,000
Unappropriated profits at end of year	82,740	68,659
	<u>112,740</u>	<u>98,659</u>
 Less: Deferred tax assets	 (1,542)	 -
	<u>111,198</u>	<u>98,659</u>
Total Tier 1 Capital and Capital Base	<u>111,198</u>	<u>98,659</u>

4.0 Risk Management Framework

The Risk Management Framework takes its lead from the Board of Directors' Approved Risk Appetite Framework which provides the catalyst to setting the risk/reward profile required by the Board of Directors, together with the related business strategies, limit framework and policies required to enable successful execution.

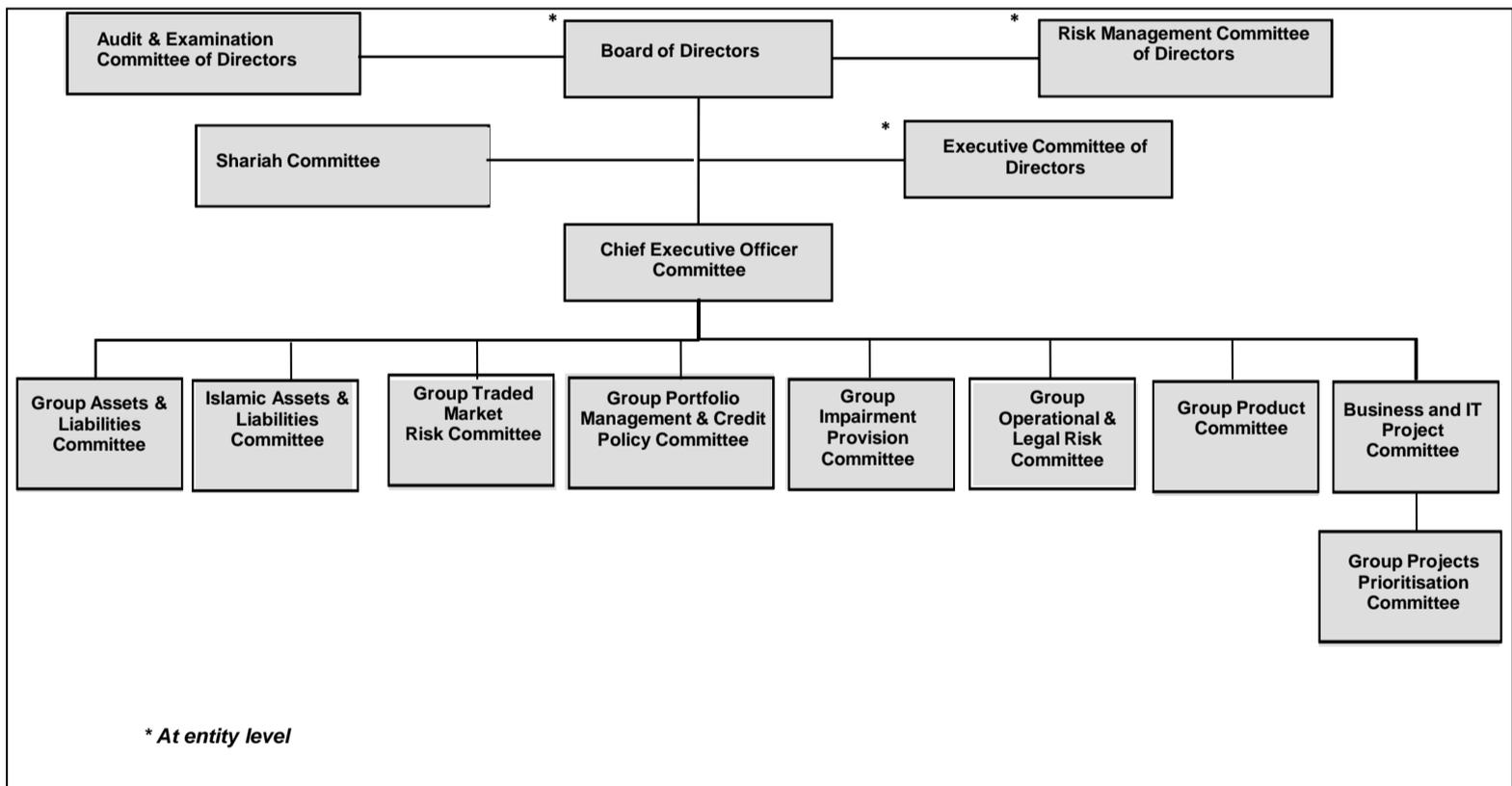
The Risk Appetite Framework is approved annually by the Board of Directors taking into account the Group's desired external rating and targeted profitability / return on equity ("ROE") and is reviewed periodically throughout the financial year by both the executive management and the Board of Directors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

The Risk Appetite Framework provides portfolio parameters for Credit Risk, Traded Market Risk, Non-Traded Market Risk and Operational Risk incorporating, inter alia, limit structures for countries, industries, single counterparty's, value at risk, capital at risk, earnings at risk, stop loss, stable funding ratio and liquidity. Each Business Unit has asset writing strategies which tie into the overall Risk Appetite Framework providing detailed strategies of how the Business Units will execute their business plans in compliance with the Risk Appetite Framework.

Risk Management Governance

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

The Board of Directors has also established various Management Committees at the Group level to assist it in managing the risks and businesses of the Group. The following chart sets out the organisational structure of the risk management committees and an overview of the respective committee's roles and responsibilities:



Committee	Roles and Responsibilities
Risk Management Committee of Directors ("RMCD")	<ul style="list-style-type: none"> - Oversee senior management activities in managing risk (covering credit, market, funding, operational, legal regulatory capital and strategic risk) and to ensure that the risk management process is in place and functioning. - Report and advise the Board of Directors on risk issues.
Audit & Examination Committee of Directors ("AEC")	<ul style="list-style-type: none"> - Provide assistance to the Board in relation to fulfilling fiduciary responsibilities and monitoring of the accounting and financial reporting practices of the Group. - Provide assistance to Board of Directors in ensuring the Islamic Banking operations of the Group are Shariah compliant.
Shariah Committee	<ul style="list-style-type: none"> - Responsible and accountable on matters related to Shariah, which includes advising Board of Directors and management on Shariah matters and endorsing and validating products and services, and the relevant documentations in relation to Islamic Banking operations of the Group.
Executive Committee of Directors ("EXCO")	<ul style="list-style-type: none"> - Responsible to consider and approve credit facilities and commitment that are not in accordance with the policies approved by the Board for which EXCO has been granted powers to exempt. - Review credit facilities and commitment that exceeds certain thresholds.
Chief Executive Officer Committee ("CEO Committee")	<ul style="list-style-type: none"> - Responsible for overall day to day operations of the Group such as oversee management's activities in managing risk, review high level risk exposures, portfolio composition and risk strategies; and evaluate the existence and effectiveness of the control and risk management infrastructure. - Report and advise the Board of Directors on risk issues.
Group Assets and Liabilities Committee (Conventional and Islamic) ("GALCO")	<ul style="list-style-type: none"> - Responsible for the development of capital and balance sheet management policy, approve and oversee non-traded interest/profit rate risk exposures, liquidity and funding framework and hedging and management of structural foreign exposure. Ensure fund transfer pricing are effective and fair and capital is managed.
Islamic Assets and Liabilities Committee	<ul style="list-style-type: none"> - Responsible for the development of Islamic capital and balance sheet management policy, approve and oversee rate of return risk exposures, liquidity and funding framework and hedging and management of structural foreign exposure. Ensure fund transfer pricing are effective and fair and capital is managed.
Group Traded Market Risk Committee ("GTMRC")	<ul style="list-style-type: none"> - Responsible for development of traded market risk policy framework, Oversee the trading book portfolio, approve new trading products and ensure the compliance with the internal and regulatory requirements throughout the Group
Group Portfolio Management and Credit Policy Committee ("GPMCP")	<ul style="list-style-type: none"> - Responsible for development for credit policy framework, oversee credit portfolio, endorse asset writing strategies, review credit provisioning policies and process and ensure the compliance with the internal and regulatory requirements throughout the Group.
Group Impairment Provision Committee	<ul style="list-style-type: none"> - Responsible for the development of key policies relating to impairment provisions, ensure provision are assessed and made in accordance with Board approved policies and FRS 139 and 137 standards and establish adequate management governance for the determination of provisions.
Group Operational and Legal Risk ("GOLRC")	<ul style="list-style-type: none"> - Responsible for endorsing operational risk, legal risk and regulatory compliance framework, oversee operational risk and legal risk management and reviews regulatory actions or any incidences that may give rise to operational and legal risk along with the actions taken to mitigate such risks.
Group Product Committee ("GPC")	<ul style="list-style-type: none"> - Responsible for ensuring adequate infrastructure and resources are in place for product management, endorse proposal for new product and product launching strategies, approve proposal for product variation and reactivation of dormant product; and review post implementation activities and product performance.
Business and IT Project Committee ("BITPC")	<ul style="list-style-type: none"> - Responsible to review and approve (or where required recommend for approval) requests relating to the Group's major Business and IT investments. - To ensure all projects are aligned to the Business and IT plans, appropriate prioritisation of Business and IT projects, and the allocation of resources
Group Projects Prioritisation Committee	<ul style="list-style-type: none"> - Responsible to optimise the allocation of shared resources and change capacity to programmes, projects and initiatives across the Group.

4.1 Internal Capital Adequacy Assessment Process (“ICAAP”)

The core objectives of the Group’s 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 (basic Economic Capital methodologies to be introduced in FY 2013);
- The Board and Management’s targeted financial performance, and
- The Group’s planned asset growth and strategic business objectives.

4.1.2 Management Oversight

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

- Undergo regular, effective and comprehensive review;
- Satisfy regulatory requirements;
- Be capable of independent assessment and validation;
- Be incorporated into the Group’s overall risk management strategy and governance frameworks.

4.1.3 Capital Management Plan and Framework

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

- A strategy for maintaining capital resources over time;
- Measures that would be taken in the event capital falls below a targeted level;
- Measures to ensure that the Group is in compliance with minimum regulatory standards; and
- Stressed capital plans; with clearly documented assumptions consistent with the Group’s strategic planning cycles.

4.1.4 The Group’s quality and level of capital must be commensurate with the level of risks in the business. Sufficient capital should be maintained to:

- Meet minimum prudential requirements in all jurisdictions in which the Group operates, also any ratings agency requirements, including maintaining appropriate buffers over minimum capital levels.
- Be consistent with the Group’s overall risk profile and financial positions, taking into account its strategic focus and business plan.
- Ensure there is sufficient capital to support the regulatory capital requirements of the business, including those resulting from the outcomes of stress testing.

The Group will have appropriately established capital targets for each major capital type; including:

- Minimums;
- Triggers; and
- Target operating ranges

The relationship between regulatory targets and economic capital will be clearly articulated and documented as part of the Group’s Economic Capital initiatives, targeted for basic introduction in FY 2013.

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 (basic Economic Capital methodologies to be introduced from FY 2013);
- Capital allocation should be consistent with the Group’s Regulatory Capital measurement framework (basic Economic Capital methodologies to be introduced from FY 2013) 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 Economic Capital Model

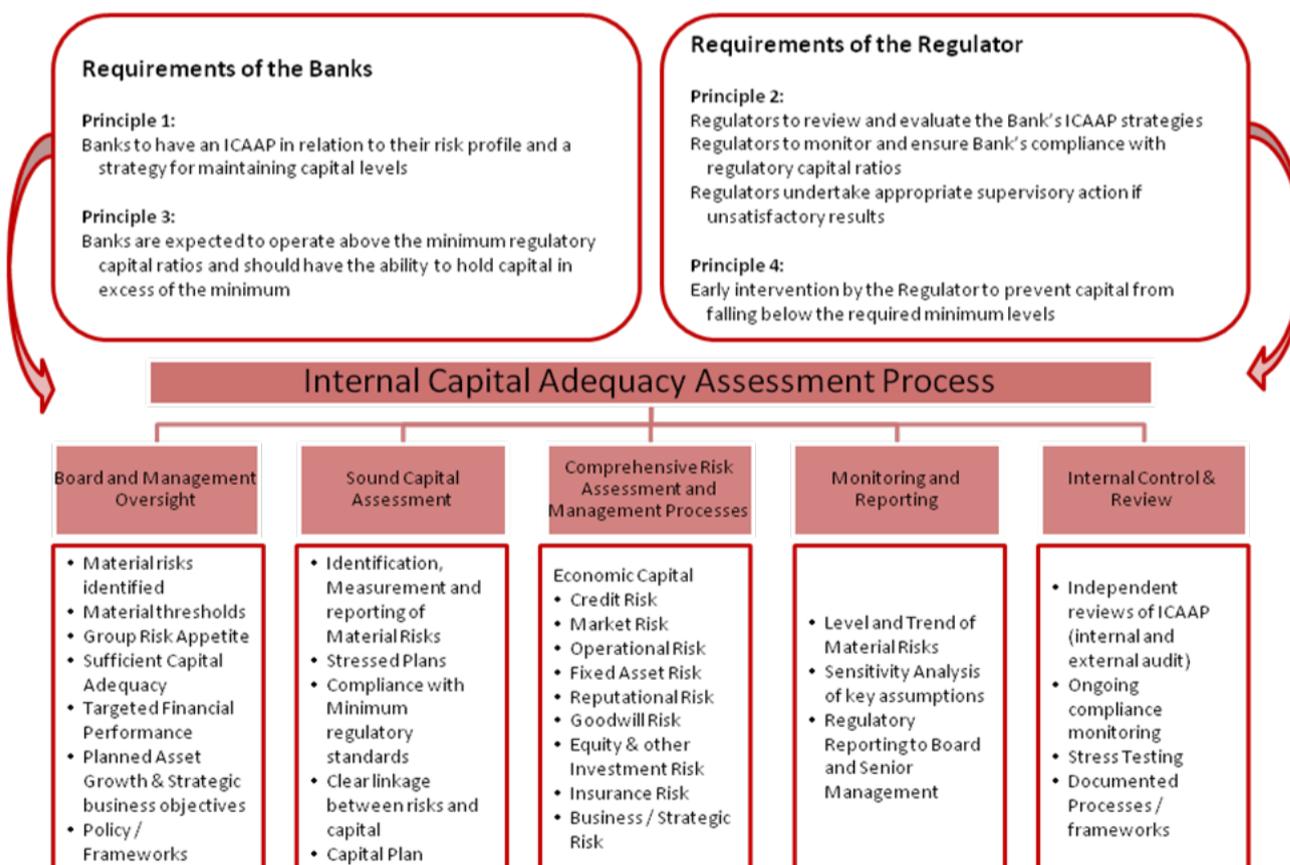
- The Group will develop a fully documented, Board approved comprehensive and credible internal economic capital model, targeted for basic introduction from FY 2013;
- In advance of the introduction of an economic capital model, regulatory capital will be used as a proxy in order to ease the transition process;
- While capital may not be required for every material risk, the economic capital framework must consider the capital required for each material risk type. The reason for the inclusion or exclusion of any material risk types from the economic capital model must be documented.

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

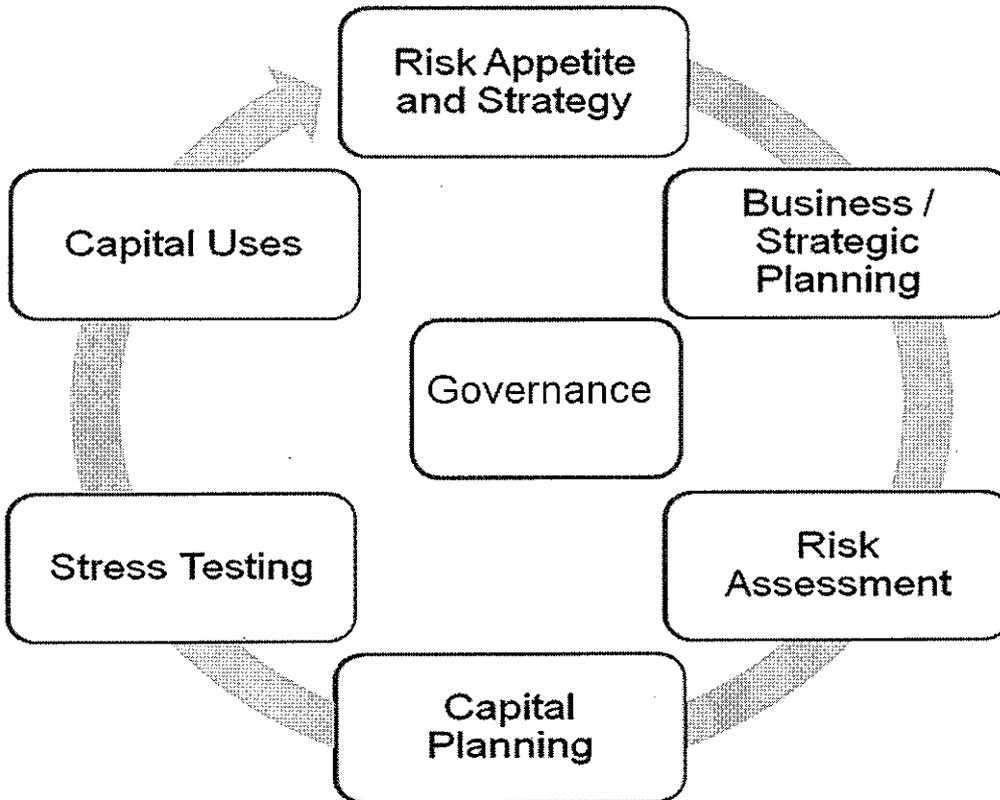
- Significant departure from its ICAAP;
- Concerns that the Board has about its capital adequacy along with proposed measures to address those concerns; and
- Significant changes in its capital.

4.1.9 The cost of capital should be reviewed annually. The cost of capital should be set with reference to the Group’s long term Return on Equity objectives.

ICAAP Framework



Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

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

Identification	<ul style="list-style-type: none"> • Accurate identification/recognition of credit risk on transactions and/ or positions • Selection of asset and portfolio mix
Assessment/ Measurement	<ul style="list-style-type: none"> • Loss given default ("LGD") • Exposure at default ("EAD")
Control/ Mitigation	<ul style="list-style-type: none"> • Portfolio Limits, Counterparty Limits, Benchmark Returns • Collateral & tailored facility structures
Monitoring/ Review	<ul style="list-style-type: none"> • Monitoring of portfolio and reporting • Watchlist review • Post mortem review

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its payment obligations. Exposure to credit risk arises from lending, securities and derivative exposures. The identification of credit risk is done by assessing the potential impact of internal and external factors on the Group transactions and/ or positions.

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

Lending activities are guided by internal credit policies and Risk Appetite Framework that are approved by the Board of Directors. The Group's Risk Appetite Framework is refreshed at least annually and with regard to credit risk, provides direction as to portfolio management strategies and objectives designed to deliver the Group's optimal portfolio mix. Credit Risk portfolio management strategies include, amongst others:

- Concentration limits to single counterparty credit;
- Asset writing strategies for group of customers;
- Setting Loan to Value limits for asset backed loans/financing (i.e., exchange traded shares & other collateral);
- Watch-list processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers; and.

Individual credit risk exposure is reported to Credit and Commitment Committee ("CACC"). In the event such exposure exceeds CACC authority, it will be reported to EC. Portfolio credit risk is reported to the relevant management and board committees.

The GPMCP regularly meets to review the quality and diversification of the Group's loan/financing portfolio, approve new and amended credit risk policy, review watch list reports and post mortem review of loan/financing (to extract lessons learned for facilitating credit training and refinement of credit policies or guidelines, towards enhancing risk identification and control).

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

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

5.1 Impairment

5.1.1 Definition of Past Due and Impaired Loans

All loans, financing and advances are categorised as either:

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

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

A loan is classified as impaired under the following circumstances:

- (a) where the principal or interest/profit or both is past due or the amount outstanding is in excess of approved limit (for revolving facilities), each for more than 90 days or 3 months; or
- (b) the loan exhibits weaknesses that render a classification appropriate to the Group's Credit Risk Rating Framework, which requires it to fall under the "unlikeliness to repay" category under the Group's Watchlist Policy.
- (c) for loans with repayment schedules on quarterly basis or longer intervals to be classified as impaired as soon as default¹ occurs, unless it does not exhibit any weakness that would render it classified according to Group's Credit Risk Rating Framework. Notwithstanding that, these loans shall be classified as impaired when the principal or interest/profit or both is past due for more than 90 days or 3 months.
- (d) for distressed rescheduled and restructured ("R/R") facilities, these loans are categorised as "unlikeliness to repay" and classified as impaired. Non-performing R/R facilities remain impaired until re-aged.

5.1.2 Methodology for Determination of Individual and Collective Allowances

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

Individual Assessment

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

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

Collective Assessment

All financial assets 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.

As a transitional arrangement up to 2012, the Bank Negara Malaysia has given banking institutions the choice of applying either one of the following approaches in computing the required collective assessment:

- (a) Transitional approach – where, banking institutions may maintain an allowance of at least 1.5 per cent of total outstanding loans net of individual impairment allowance; or
- (b) Full FRS 139 compliance approach – where collective allowances are computed using models based on the banking institutions' history of experience.

The Group has opted for the transitional approach and has modified it to reflect the Group's historical loss experience.

¹ "Default" is defined for loans with repayment schedules on a quarterly basis or longer as 1 day past due + 30 days

Table 5.1: Distribution of gross credit exposures by sector

Reporting date: 31 March 2011											
	Primary Agriculture RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurant and Hotel RM'000	Transport, Storage and Communication RM'000	Finance, Insurance, Real Estate and Business Activities RM'000	Education, Health and Others RM'000	Household RM'000	Others RM'000	Total RM'000
On Balance Sheet Exposures											
Sovereigns/ Central Banks	-	-	-	-	-	-	2,150	-	-	-	2,150
Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-
Banks, Development Financial Institutions & Multilateral Development Banks	-	-	-	-	-	-	745,911	-	-	-	745,911
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	-	-	-	-	-	-	-
Corporates	2,000	2,104	-	-	4,129	-	42,461	-	454,824	2,719	508,237
Regulatory Retail	-	-	-	-	-	-	-	-	48,085	-	48,085
Residential Mortgages	-	-	-	-	-	-	-	-	-	-	-
Higher Risk Assets	-	-	-	-	-	-	-	-	-	15,787	15,787
Other Assets	44	219	42	372	10	872	612,103	20	383,707	108,849	1,106,238
Specialised Financing/ Investment Securitisation	-	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-	-
Defaulted Exposures	-	-	-	-	-	-	-	-	689	-	689
Total On Balance Sheet Exposures	2,044	2,323	42	372	4,139	872	1,402,625	20	887,305	127,355	2,427,097
Off-Balance Sheet Exposures											
OTC Derivatives	-	-	-	-	-	-	-	-	-	-	-
Credit Derivatives	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures other than OTC Derivatives or credit derivatives	-	-	-	-	-	-	251,572	24	2,585	50	254,231
Defaulted Exposures	-	-	-	-	-	-	-	16	-	-	16
Total for Off-Balance Sheet Exposures	-	-	-	-	-	-	251,572	40	2,585	50	254,247
Total On and Off-Balance Sheet Exposures	2,044	2,323	42	372	4,139	872	1,654,197	60	889,890	127,405	2,681,344

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

Reporting date:31 March 2011				
	Household	Others	Not allocated	Total
	RM'000	RM'000	RM'000	RM'000
Impaired loans, advances and financing	1,225	4,695	-	5,920
Past due loans*	-	-	-	-
Individual allowance	1,004	3,908		4,912
Collective allowance	-	-	9,202	9,202
Charges for individual allowance	397	-	-	397
Write-offs against individual allowance	508	-	-	508

*These are loans which are past due but not impaired

Table 5.3: Geographical distribution of credit exposures

	Reporting date: 31 March 2011		
	Inside	Outside	Total
	Malaysia	Malaysia	
	RM'000	RM'000	RM'000
On Balance Sheet Exposures			
Sovereigns/ Central Banks	2,150	-	2,150
Public Sector Entities	-	-	-
Banks, Development Financial Institutions & Multilateral Development Banks	732,194	13,717	745,911
Insurance Companies, Securities Firms & Fund Managers	-	-	-
Corporates	257,963	250,274	508,237
Regulatory Retail	48,085	-	48,085
Residential Mortgages	-	-	-
Higher Risk Assets	14,702	1,085	15,787
Other Assets	1,106,238	-	1,106,238
Specialised Financing/ Investment Securitisation	-	-	-
Equity	-	-	-
Defaulted Exposures	689	-	689
Total On Balance Sheet Exposures	2,162,021	265,076	2,427,097
Off-Balance Sheet Exposures	-	-	-
OTC Derivatives	-	-	-
Credit Derivatives	-	-	-
Off-balance sheet exposures other than OTC Derivatives or credit derivatives	254,231	-	254,231
Defaulted Exposures	16	-	16
Total for Off-Balance Sheet Exposures	254,247	-	254,247
Total On and Off-Balance Sheet Exposures	2,416,268	265,076	2,681,344

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

Reporting date: 31 March 2011			
	Inside Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
Impaired Loans, Advances & Financing	5,920	-	5,920
Past Due Loans*	-	-	-
Individual allowance	4,912	-	4,912
Collective allowance	9,202	-	9,202

*These are loans which are past due but not impaired

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

	Reporting date: 31 March 2011								Total RM'000
	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 to 3 years RM'000	>3 to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	
On Balance Sheet Exposures									
Sovereigns/ Central Banks	-	-	-	-	-	-	-	2,150	2,150
Public Sector Entities	-	-	-	-	-	-	-	-	-
Banks, Development Financial Institutions & Multilateral Development Banks	739,431	-	-	6,480	-	-	-	-	745,911
Insurance Companies, Securities Firms & Fund Managers	-	-	-	-	-	-	-	-	-
Corporates	22,878	64,206	44,254	334,669	1,430	38,792	2,008	-	508,237
Regulatory Retail	2,164	6,075	4,187	31,664	1,876	1,929	190	-	48,085
Residential Mortgages	-	-	-	-	-	-	-	-	-
Higher Risk Assets	-	-	-	15,787	-	-	-	-	15,787
Other Assets	1,028,743	676	16,769	592	-	26,207	403	32,848	1,106,238
Specialised Financing/ Investment Securitisation	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-
Defaulted Exposures	689	-	-	-	-	-	-	-	689
Total On Balance Sheet Exposures	1,793,905	70,957	65,210	389,192	3,306	66,928	2,601	34,998	2,427,097
Off-Balance Sheet Exposures									
OTC Derivatives	-	-	-	-	-	-	-	-	-
Credit Derivatives	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures other than OTC									
Derivatives or credit derivatives	1,580	5,309	7,658	43,008	52,444	144,232	-	-	254,231
Defaulted Exposures	16	-	-	-	-	-	-	-	16
Total for Off-Balance Sheet Exposures	1,596	5,309	7,658	43,008	52,444	144,232	-	-	254,247
Total On and Off-Balance Sheet Exposures	1,795,501	76,266	72,868	432,200	55,750	211,160	2,601	34,998	2,681,344

Table 5.6: Reconciliation of changes to loans impairment allowances

Reporting date: 31 March 2011		
	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at 1 April	5,817	6,624
Charge for the year – net	(397)	2,589
Amount written-off	(508)	(11)
Balance at 31 March	<u>4,912</u>	<u>9,202</u>
		Charge offs/ recoveries RM'000
Bad debts written off during the year		(36)
Bad debt recoveries during the year		<u>4</u>

6.0 Credit Risk Exposure under Standardised Approach

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

- Sovereigns and Central Banks
- Banking Institutions
- Corporate
- Securitisations

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

- Standard & Poor's Rating Services
- Moody's Investors Service
- Fitch Rating
- Rating and Investment Information, Inc
- RAM Rating Services Berhad
- Malaysian Rating Corporation Berhad

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

(d) i) The breakdown of credit risk exposures by risk weights of the Group are as follows:

**2011
Group**

Risk Weights	Exposures after Netting and Credit Risk Mitigation												Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	PSEs RM'000	Banks, MDBs and FDIs RM'000	Insurance Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Specialised Financing /Investment RM'000	Securitisation RM'000	Equity RM'000		
0%	2,150	-	-	-	-	-	-	-	14	-	-	-	2,164	-
20%	-	-	730,127	-	-	-	-	-	6,279	-	-	-	736,406	147,281
35%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50%	-	-	15,784	-	-	-	-	-	-	-	-	-	15,784	7,892
75%	-	-	-	-	-	9,861	-	-	-	-	-	-	9,861	7,396
100%	-	-	-	26,650	239,520	157	-	-	1,099,945	-	-	-	1,366,272	1,366,272
150%	-	-	-	-	16	89	-	15,787	-	-	-	-	15,892	23,838
Average Risk Weight													-	-
Deduction from Capital Base													-	
Total	2,150	-	745,911	26,650	239,536	10,107	-	15,787	1,106,238	-	-	-	2,146,379	1,552,679

**2010
Group**

Risk Weights	Exposures after Netting and Credit Risk Mitigation												Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	PSEs RM'000	Banks, MDBs and FDIs RM'000	Insurance Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Specialised Financing /Investment RM'000	Securitisation RM'000	Equity RM'000		
0%	89	-	-	-	-	-	-	-	14	-	-	-	103	-
20%	-	-	658,726	-	-	-	-	-	26,729	-	-	-	685,455	137,091
35%	-	-	-	-	-	-	5,874	-	-	-	-	-	5,874	2,056
50%	-	-	15,360	-	-	-	806	-	-	-	-	-	16,166	8,083
75%	-	-	-	-	-	5,566	-	-	-	-	-	-	5,566	4,175
100%	-	-	-	-	468,172	-	-	-	942,340	-	-	4,074	1,414,586	1,414,586
150%	-	-	-	-	40,516	58	-	17,350	-	-	-	-	57,924	86,887
Average Risk Weight													-	-
Deduction from Capital Base													-	
Total	89	-	674,086	-	508,688	5,624	6,680	17,350	969,083	-	-	4,074	2,185,674	1,652,878

Table 6.2: Rated Exposures according to Ratings by ECAIs

2011
Group

EXPOSURE CLASS	Ratings of Corporate by Approved ECAIs					
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc.	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures Credit Exposures						
Public Sector Entities	-	-	-	-	-	-
Insurance Cos., Securities Firms & Fund managers	26,650	-	-	-	-	26,650
Corporates	239,536	-	-	-	-	239,536
Total	266,186	-	-	-	-	266,186

2011
Group

Exposure Class	Short term Ratings of Banking Institutions and Corporates by Approved ECAIs					
	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+ F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
	Rating & Investment Inc.	a-1+,a-1	a-2	a-3	b,c	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures						
Banks, MDBs and FDIs	-	-	-	-	-	-
Rated Credit Exposures						
Public Sector Entities	-	-	-	-	-	-
Insurance Cos., Securities Firms & Fund managers	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Total	-	-	-	-	-	-

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

2011
Group

Exposure Class	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
	Rating & Investment Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures							
Sovereigns and Central Banks	2,150	-	-	-	-	-	2,150
Total	2,150	-	-	-	-	-	2,150

2011
Group

Exposure Class	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
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs	745,911	-	115	527,285	-	-	218,511
Total	745,911	-	115	527,285	-	-	218,511

Table 6.3: Securitisation according to Ratings by ECAIs

2011
Group

EXPOSURE CLASS	Ratings of Securitizations by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc.	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures						
Securitisation	-	-	-	-	-	-
Total	-	-	-	-	-	-

2011
Group

EXPOSURE CLASS	Short Term Ratings of Securitisation by Approved ECAIs				
	Moodys	P-1	P-2	P-3	Others or Unrated
	S&P	A-1	A-2	A-3	Others or Unrated
	Fitch	F1+, F1	F2	F3	Others or Unrated
	RAM	P-1	P-2	P-3	NP
	MARC	MARC-1	MARC-2	MARC-3	MARC-4
	Rating & Investment Inc.	a-1+, a-1	a-2	a-3	b, c
		RM'000	RM'000	RM'000	RM'000
On and Off Balance Sheet Exposures					
Securitisation	-	-	-	-	-
Total	-	-	-	-	-

7.0 Credit Risk Mitigation

Main types of collateral taken by the Group

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

- Cash and term deposits
- Exchange traded shares, bonds, sukuk, convertible bonds and marketable securities
- Non-exchange traded debt securities/ sukuk
- Unit trusts (including Amanah Saham Nasional, Amanah Saham Bumiputera and mutual funds)

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

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

Processes for collateral management

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

Guarantee Support

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

Use of credit derivatives and netting for risk mitigation

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

Transaction structuring to mitigate credit risk

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

Concentrations of credit risk mitigation

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

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

Table 7.1: Credit Risk Mitigation

2011
Group

Exposures	Exposures before CRM	Exposures covered by Guarantees / Credit Derivatives	Exposures covered by Eligible Financial Collateral	Exposures covered by Other Eligible Collateral
	RM'000	RM'000	RM'000	RM'000
Credit Risk				
<u>On-Balance Sheet Exposures</u>				
Sovereigns/Central Banks	2,150	-	-	-
Public Sector Entities	-	-	-	-
Bank, Development Financial Institutions & MDE	745,911	-	-	-
Insurance Cos, Securities Firms & Fund Manage	-	-	-	-
Corporates	508,237	-	510,371	-
Regulatory Retail	48,085	-	52,885	-
Residential Mortgages	-	-	-	-
Higher Risk Assets	15,787	-	-	-
Specialised Financing / Investment	-	-	-	-
Equity Exposures	-	-	-	-
Securitisation Exposures	-	-	-	-
Other Assets	1,106,238	-	-	-
Defaulted Exposures	689	-	689	-
Total On-Balance Sheet Exposures	2,427,097	-	563,945	-
<u>Off-Balance Sheet Exposures</u>				
OTC Derivatives	-	-	-	-
Credit Derivatives	-	-	-	-
Off Balance sheet exposures other than OTC Derivatives or credit derivatives	254,231	-	-	-
Defaulted Exposures	16	-	-	-
Total for Off-Balance Sheet Exposures	254,247	-	-	-
Total On and Off-Balance Sheet Exposures	2,681,344	-	563,945	-

8.0 Off-Balance Sheet exposures and Counterparty Credit Risk (“CCR”)

8.1 Off-Balance Sheet exposures

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

- (1) Credit related exposures, e.g. guarantees given on behalf of customers, underwriting liabilities and irrevocable commitment to extend credit
- (2) Derivatives Financial Instruments, e.g. foreign exchange related contract (forwards exchange contracts), equity related contracts (futures and contract for differences).
- (3) Other treasury-related exposures, e.g. forward purchase commitment

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

8.2 Counterparty Credit Risk

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

For each individual contract, the pre-settlement risk exposure is normally calculated based on the sum of the mark-to-market (MTM) value of exposure, plus the notional principal multiplied by the potential credit risk exposure (PCRE) factor for the exposure; if the sum of each individual contract is negative, the pre settlement risk exposure for this contract is deemed to be zero.

Pre-settlement risk exposure = MTM + PCRE factor (or known as add-on factor) x Notional Principal

- The mark-to-market is essentially the current replacement cost of the contract, and can be positive or negative. Where it is positive, i.e. in the money, the Group has credit exposure against the counterparty; if it is negative, i.e. out of the money, the negative value will be used.
- The PCRE factors recognize that prices change over the remaining period to maturity, and that risk increases with time. The PCRE factors are mandated for regulatory capital purposes.

Maximum pay out method is used for back to back and structured products where the underlying instrument structures are dynamic i.e. not confine to a standardised underlying instruments. Where the maximum payout is known, it is taken as the pre-settlement risk amount. However, in situations where the maximum payout is not observable, a Monte Carlo simulation method is used.

Exposure to the counterparty is governed by the counterparty credit limit under the Group Risk Appetite Framework.

Other than credit limit setting and related duration setting of such limits, the Group and the Bank's primary tool to mitigate counterparty credit risks by taking collateral.

For derivative exposures, collateral is generally managed via standard market documentation which governs the amount of collateral required and the re-margining frequency between counterparties, including the impact on collateral requirements should either the Group's or the counterparty's credit risk rating be upgraded or downgraded.

Table 8.1: Off-Balance Sheet Exposures

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

2011

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Credit-Related Exposures				
Direct Credit Substitutes	209,579	-	209,579	196,174
Irrevocable commitments to extend credit maturing:				
- within one year	197,449	-	43,065	5,981
- more than one year	7,353	-	1,603	222
	414,381		254,247	202,377
Derivative Financial Instruments				
Foreign exchange related contracts:				
- One year or less	2,375	10	-	-
Equity related contracts:				
- One year or less	2,247	-	-	-
- Over five years	13,480	303	-	-
	18,102	313	-	-
Total	432,483	313	254,247	202,377

2010

	Principal Amount RM'000	Positive Fair Value of Derivative Contracts RM'000	Credit Equivalent Amount RM'000	Risk Weighted Assets RM'000
Credit-Related Exposures				
Direct Credit Substitutes	437,648		437,648	424,243
Obligations under underwriting agreements	6,615		-	-
Irrevocable commitments to extend credit maturing:				
- within one year	166,459		-	-
- more than one year	4,444		88	66
	615,166		437,736	424,309
Derivative Financial Instruments				
Equity related contracts:				
- One year or less	28,173		-	-
	28,173	-	-	-
Other Treasury-related Exposures				
Forward purchase commitments	206		-	-
Total	643,545	-	437,736	424,309

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

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

9.0 Securitisation

9.1 Definition of Securitisation

Securitisation is a financial technique where the cash flow from an asset or a pool of assets is used to service obligations to, typically, at least 2 different classes or tranches of creditors, who are holders of debt securities with each class or tranche reflecting a different degree of credit risk.

Securitisation takes many forms and may be categorised as traditional or synthetic, depending on legal ownership of the pool of assets.

- Traditional securitisations involve the transfer of ownership via equitable assignment of the underlying asset pool into a Special Purpose Vehicle ("SPV") which finances the purchase by issuing debt instruments to investors. The debt securities are commonly referred to as Asset-Backed Securities ("ABS").
- Synthetic securitisations also transfer the credit risk of an underlying pool of assets to third parties. However, legal ownership of the assets remains with the originator.

9.2 Objectives, roles and involvement

The Group's objectives in relation to securitisation activity include the following:

- earn management fees on assets under management;
- earn other fees for products and services provided, e.g., liquidity, funding and credit support and structuring and arranging services.

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

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

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

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

Currently, the Group does not have any securitisation exposure in its trading book and banking book nor does it undertake any securitisation activity during the year.

9.2.2 Governance

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

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

9.2.3 Risk measurement and reporting of securitisation exposures

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

9.2.4 Special Purpose Vehicles (“SPV”) used in securitisation exercises

For all traditional securitisation transactions where the Group entity acts as the sponsor, such transactions will be structured to comply with the Securities Commission’s Guidelines on the Offering of Asset-Backed Securities (“ABS Guidelines”) and, where applicable, the BNM’s Prudential Standards on Securitisation Transactions. The SPVs used and to be used by the Group entity will comply with the requirements of the ABS Guidelines.

Third party exposures that have been securitised via such SPVs include civil servant and government-linked company staff housing loans and unsecured personal loans granted to members of co-operatives.

9.2.5 Accounting Policies for Securitisation

Securitisation of the Group originated assets

For accounting purposes, the Group consolidates SPVs when the substance of the relationship indicates that the Group controls them. In assessing control, all relevant factors are considered, including qualitative and quantitative aspects. For example:

Qualitative factors – in substance:

- the activities of the SPV are being conducted on behalf of the Group according to the Group’s specific business needs so that it obtains benefit from the SPV’s operation. This might be evidenced, for example, by the Group providing a significant level of support to the SPV; and
- The Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPV.

Quantitative factors – hereinafter referred to as ‘the majority of risks and rewards of ownership’. In substance:

- The Group has rights to obtain the majority of the benefits of the SPV and therefore may be exposed to risks incidental to the activities of the SPV; and
- The Group retains the majority of the residual or ownership risks related to the SPV or its assets in order to obtain benefits from its activities.

The Group reassesses the required consolidation accounting tests whenever there is a change in the substance of the relationship between the Group entity and an SPV, for example, when the nature of the Group entity’s involvement or the governing rules, contractual arrangements or capital structure of the SPV change.

The transfer of assets to an SPV may give rise to the full or partial derecognition of the financial assets concerned. Only in the event that derecognition is achieved are sales and any resultant gains on sales recognised in the financial statements. In a traditional securitisation, assets are sold to an SPV and no gain or loss on sale is recognised at inception.

Full derecognition occurs when the Group transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the assets, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks.

Partial derecognition occurs when the Group sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the balance sheet to the extent of the Group’s continuing involvement.

Loans/financing, credit cards, debt securities and trade receivables that have been securitised under arrangements by which the Group retains a continuing involvement in such transferred assets do not generally qualify for derecognition. Continuing involvement may entail retaining the rights to future cash flows arising from the assets after investors have received their contractual terms (for example, interest rate strips); providing subordinated interest; liquidity support; continuing to service the underlying asset; or entering into derivative transactions with the securitisation vehicles. As such, the Group continues to be exposed to risks associated with these transactions.

Where assets have been derecognised in whole or in part, the rights and obligations that The Group retains from its continuing involvement in securitisations are initially recorded as an allocation of the fair value of the financial asset between the part that is derecognised and the part that continues to be recognised on the date of transfer.

Securitisation in the management of the Group's credit portfolio – For risk mitigation using synthetic securitisation, the underlying assets remain on the Group's balance sheet for accounting purposes. The accounting treatment of the assets will depend on their nature. They could include loans/financing and receivables, available for sale securities or derivatives. The most common form of synthetic securitisation is via a credit default swap, which is treated as a derivative and recognised in the profit and loss statement at fair value.

For investment in securitisation exposures, if the instrument includes a credit default swap, the exposure will be fair valued through the profit and loss statement. Other securitisation exposures will be fair valued through the balance sheet unless The Group makes an election at the time of purchase to fair value through profit or loss.

Provision of securitisation services including funding and management of conduit vehicles – In general, facilities provided to securitisations are treated the same way as facilities to any other borrower or counterparty. Fee income from these services is recognised on an accrual basis. Liquidity and funding facilities are treated as commitments to provide finance, with fee and margin income recognised on an accrual basis. Warehouse and term funding facilities are treated as loans.

9.2.6 Use of external rating agencies

The Group uses the services of both RAM Rating Services Berhad and Malaysian Rating Corporation Berhad for securitisation transactions purposes.

10.0 Operational Risk

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

Identification	<ul style="list-style-type: none"> Identify and analyse risks in key processes/activities within Line of Business (including new products)
Assessment/ Measurement	<ul style="list-style-type: none"> Incident Management and Data Collection Risk and Control Self Assessment Key Risk Indicators
Control/ Mitigation	<ul style="list-style-type: none"> Policies addressing control & governance requirements to mitigate specific operational risk Advisory on the establishment of internal controls Contingency planning
Monitoring/ Review	<ul style="list-style-type: none"> Monitoring and reporting of loss incidents by Event Type, 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 legal risk and Shariah compliance risk (Please refer to Chapter 14 for discussion on Shariah Governance). It excludes strategic, systemic and reputational risk.

The strategy for managing operational risk in the Group is anchored on the three lines of defence concept which are as follows:

- The first line of defence is accountable for implementing the operational risk framework and policies, embedding appropriate internal controls into processes and maintaining business resilience for key activities. The responsibility for managing day-to-day operational risk rests with each Line of Business.
- In the second line, Group Operational Risk is responsible for exercising governance over operational risk through the management of the operational risk framework, policy development, quality assurance of internal controls, operational risk measurement and capital allocation, fraud strategy and reporting of operational risk issues to GOLRC, CEO Committee and RMCD.
- Group Internal Audit acts as the third and final line of defence by providing independent assurance on the internal control effectiveness through periodic audit programme.

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

- The Incident Management and Data Collection ("IMDC") module provides a common platform for reporting an 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 Group.
- The Key Risk Indicators ("KRI") module provides early warning of increasing risk and/or control failures by monitoring the changes of the underlying risk measurements.

As part of the risk transfer strategy, the Group obtains third party insurance cover to cover major operational risks where cost-effective premiums can be obtained. In addition, a comprehensive Business Continuity Management is established to ensure critical business functions can be maintained, or restored in a timely manner, in the event of material disruptions from internal or external events.

The ultimate authority for all operational risk management matters is delegated by the Board of Directors to the CEO Committee. It is in turn, supported by the GOLRC, comprising senior management members of various business divisions and support units. The RMCD, CEO Committee and the GOLRC are the main reporting and escalation committees for operational risk matters. These matters include significant operational risk incidences or findings, deliberations on regulatory and supervisory changes and their impact on operational risk and deliberation and endorsement of operational risk mitigation measures and risk management strategies.

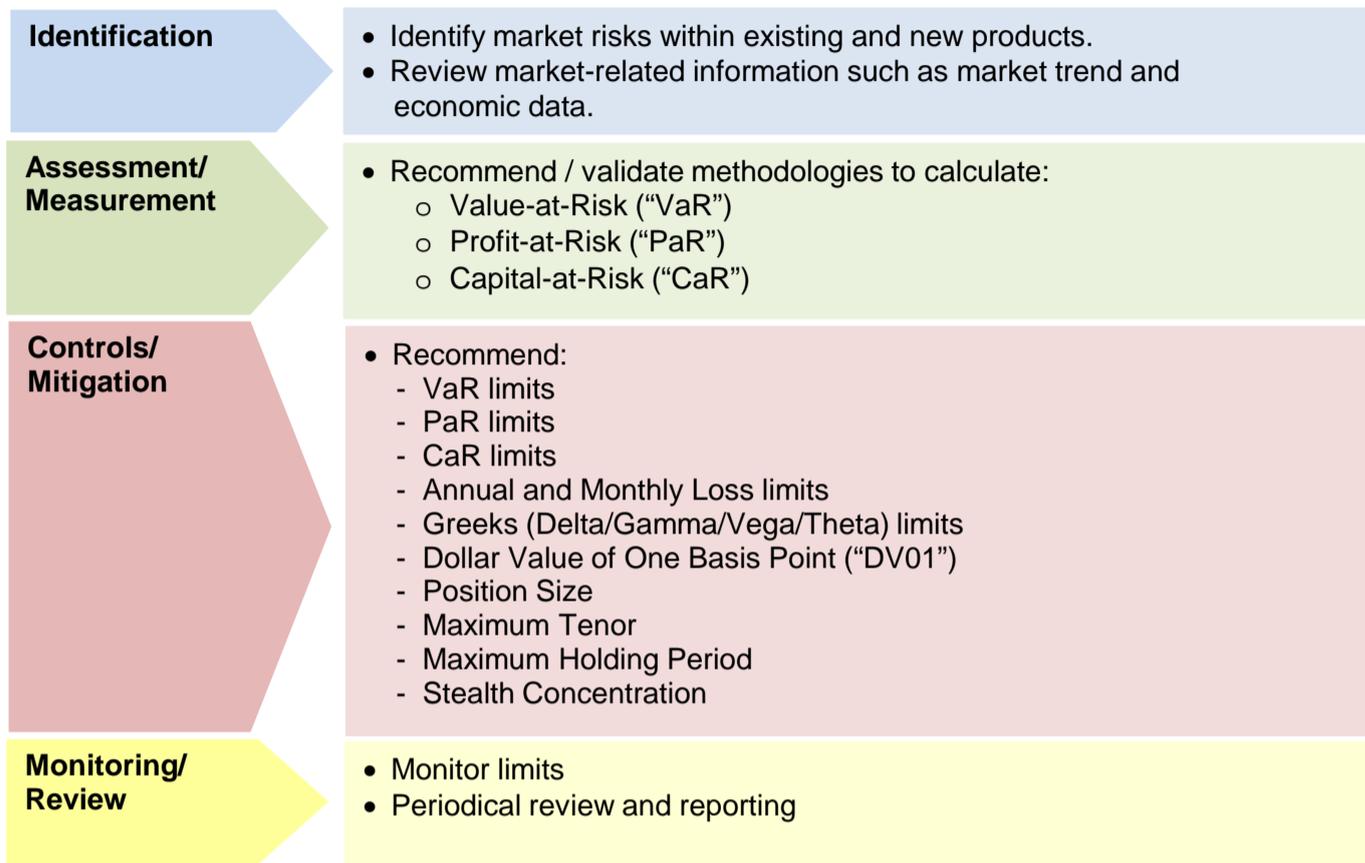
The Group adopts Basic Indicator Approach for the operational risk capital charge computation. AmInvestment Bank Berhad
Pillar 3 Disclosure For The Year Ended 31 March 2011

11.0 Market Risk

Market risk is the risk of losses due to adverse changes in the level or volatility of market rates or prices, such as interest/profit rates, credit spreads, equity prices and foreign exchange rates. The Group differentiates between two types of market risk: Traded Market Risk (“TMR”) and Interest Rate Risk/Rate of Return Risk in the Banking Book (“IRR/RORBB”). Assessment, control and monitoring of these risks are the responsibility of the Market Risk Unit (“MRU”).

11.1 Traded Market Risk (“TMR”)

The Traded Market Risk (“TMR”) management process is depicted in the table below. Please refer to Section 8 for off-balance sheet exposures and counterparty credit risk arising from market risk.



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

Value-at-Risk (“VaR”), Profit-at-Risk (“PaR”), Capital-at-Risk (“CaR”) and sensitivity analysis 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. Profit-at-Risk (“PaR”) comprises Value-at-Risk (“VaR”) and a loss limit threshold. Loss limit thresholds are intended to trigger management discussion on appropriate mitigation measures to be taken, once certain loss levels are reached.

To complement VaR, CaR is used as a measure of the potential impact on portfolio values of more extreme, albeit plausible, market movements. In addition, CaR is used to gauge and ensure that the Group is able to absorb extreme, unanticipated market movements. Apart from VaR, PaR and CaR, additional sensitivity analysis limits (i.e., Greeks/PV01) and indicators are used to monitor changes in portfolio value under potential market conditions such as shifts in currency rates, equity prices and interest/profit rates.

MRU monitors and reports risk exposures against limits on a daily basis. Portfolio market risk positions are also reported to GTMRC, RMCD and the Board of Directors (“The Board”). Furthermore, policies and procedures are in place to ensure prompt action is taken in the event of limit breaches. Business Units exposed to traded market risk are required to maintain risk exposures within their respective thresholds. When risk limits are exceeded, Business Units are required to reduce their exposures immediately to a level below the thresholds unless senior management are consulted and approve alternative strategies to minimise potential losses.

The Group adopts the Standardised Approach for market risk capital charge computation. This serves as a financial buffer to withstand adverse market movements.

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

12.0 Equities (Banking Book Positions)

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

- Equity investments that are taken for strategic and other objectives – Where an equity investment is undertaken for a strategic purpose, such investment will be made only after extensive analysis and due diligence. Equity investments undertaken for other business objectives are principally in conjunction with initiatives or measures promoted by the relevant regulatory authorities or trade bodies in which the Group will jointly with other financial institutions invest in such entities to attain various objectives, such as socio-economic development, promoting the further development of the financial market, the provision of facilities to improve customer service, and support for human capital development for the betterment of the Malaysian banking industry. The Board of Directors' approvals are required prior to committing to all forms of equity investment under this category and, where relevant, the necessary regulatory approval or notification will be obtained or met.
- Equity investments on which capital gains are expected – These transactions are originated and managed by dedicated equity finance teams. These transactions represent funding solutions for known customers of the Group and are governed by specific policies. The Group ensures that the investment in these entities does not constitute a controlling interest in the relevant business.
- Equity investments made as the result of a work out of a problem exposure – From time to time, the Group will take an equity stake in a customer as part of a work out arrangement for problem exposures. These investments are made only where there is no other viable option available and form an immaterial part of the Group's equity exposures.

12.1 Valuation for and accounting of equities investments in the banking book

Measurement of equity securities – Equity securities that have a quoted market price are carried at their fair value. Fair value is determined based upon current bid prices. If a market for a financial asset is not active, fair value is determined based upon a valuation technique. This includes the use of recent arms-length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants to price similar instruments. Where fair value is not determined based upon an actively traded market price, judgement is required to take into consideration the impact of liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. In the event that the fair value of an unlisted security cannot be measured reliably, these investments are measured at cost.

Where the investment is held for long term strategic purposes, these investments are accounted for either as available for sale, with changes in fair value being recognised in equity, or at fair value through profit and loss.

For the periods reported the book value of certain unlisted investments are measured at cost because the fair value cannot be reliably measured. These investments represent minority interests in companies for which active markets do not exist and quote prices are not available. For all other equity exposures book value equals fair value.

Fair value should not differ to the quoted share price. Should a quoted share price not be available, it is estimated using the techniques referred to above.

Table 12.1: Equity investments and capital requirement

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

i) **Non traded equity investments at balance sheet value**

	2011
	RM'000
Equity investment	
Value of quoted (publicly traded) equities	514
Value of unquoted (privately held) equities	15,073
Total	<u>15,587</u>

ii) **Net realised and unrealised gains/(losses)**

	2011
	RM'000
Equity investment	
Cumulative realised gains/(losses) from sales and liquidations	3,468
Total unrealised gains/(losses)	224
Total	<u>3,692</u>

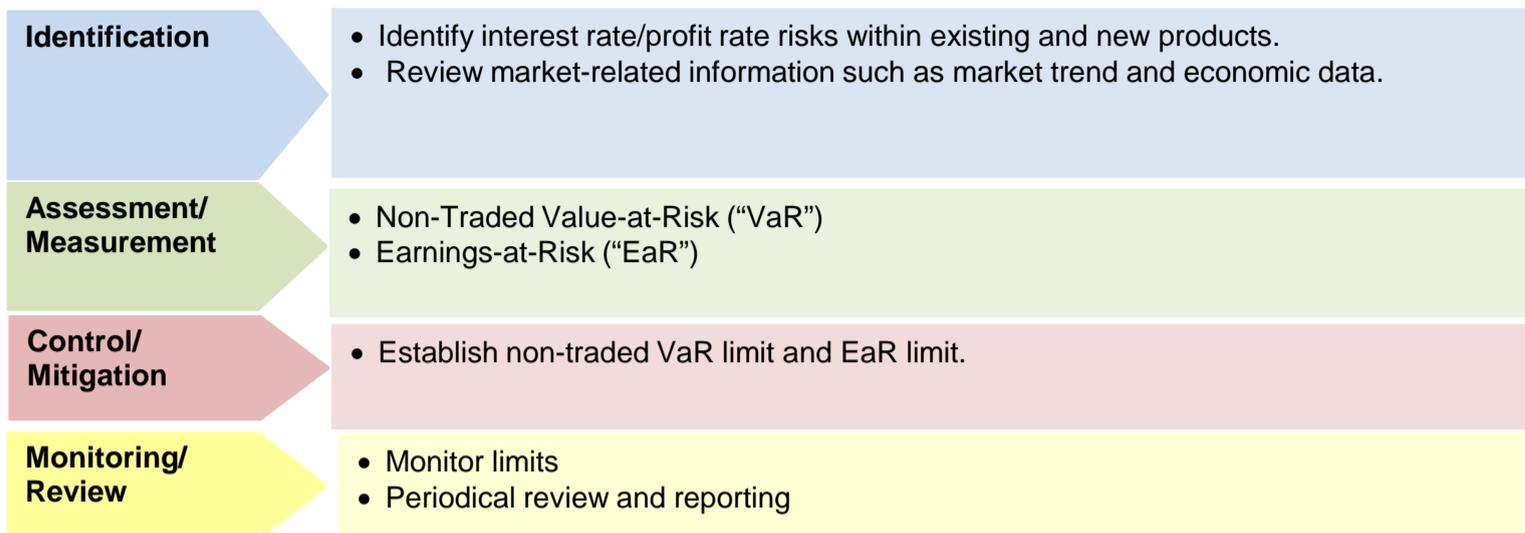
iii) **Capital requirement**

	2011
	RM'000
Risk Weighted Assets	
Equity investments subject to a 150% risk weight	23,381
Total minimum capital requirement (8%)	<u>1,870</u>

13.0 Non-Traded Market Risk (“NTMR”)

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

The Interest Rate Risk/Rate of Return Risk in the Banking Book (“IRR/RORBB”) risk management process is depicted in the table below:



IRR/ RORBB arises from changes in market interest/profit rates that impact core net interest / profit income, future cash flows or fair values of financial instruments. This risk arises from mismatches between repricing dates of assets and liabilities, changes in yield curves, volatilities in interest/profit margin and implied volatilities on interest/profit rate options. The provision of retail and wholesale banking products and services (primarily lending and deposit taking activities) creates interest/profit rate-sensitive positions in the Group’s balance sheet.

The principal objectives of balance sheet risk management are to manage interest /profit income sensitivity while maintaining acceptable levels of interest/profit rate and funding risk, and to manage the market value of the Group’s capital.

The Board’s oversight of IRR/RORBB is supported by the Group Asset & Liability Committee (“GALCO”). GALCO is responsible for the alignment of Group-wide risk appetite and funding needs, taking into consideration the Group-wide business strategies. GALCO consistently manages the Group’s gapping positions, asset growth and liability mix against the interest/profit rate outlook. It also reviews strategies to ensure a comfortable level of interest/profit rate risk is maintained. The Group has successfully engaged long-term borrowings and written interest/profit rate swaps to reduce longer tenor interest/profit rate risk, and maintained a comfortable gapping profile as a result. In accordance with the Group’s policy, positions are monitored on a monthly basis and hedging strategies are used to ensure risk exposures are maintained within board-established limits.

The Group measures the risk of losses arising from potential adverse movements in market interest/profit rates and volatilities using VaR. VaR is a quantitative measure of interest/profit rate risk which applies recent historic market conditions to estimate the potential loss in market value, at a certain confidence level and over a specified holding period.

The Group complements VaR by stress testing interest/profit rate risk exposures to highlight potential risk that may arise from extreme market events that are rare but plausible.

Key assumptions in the gap and sensitivity analysis relate to the behaviour of interest/profit rates and spreads, changes in loan/financing and deposit product balances due to behavioural characteristics under different interest/profit rate environments. Material assumptions include the repricing characteristics and the stickiness of indeterminate or non-maturity deposits.

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

The Group’s strategy seeks to optimise exposure to interest/profit rate risk within Board-approved limits. This is achieved through the ability to reposition the interest/profit rate exposure of the balance sheet using dynamic product and funding strategies, supported by FRS 139-compliant interest/profit rate hedging activities using interest/profit rate swaps and other derivatives. These approaches are governed by The Group’s policies in the areas of product and liquidity management as well as the banking book policy statements and hedging policies.

IRR/RORBB is calculated monthly and reported to GALCO.

Table 13.1 : Interest Rate Risk / Rate of Return Risk in the Banking Book (IRR / RORBB)**Impact on Profit or Loss**

Currency	Interest Rate + 100 bps (RM'000)	Interest Rate - 100 bps (RM'000)
MYR	5,829	(5,829)

Impact on Equity

Currency	Interest Rate + 100 bps (RM'000)	Interest Rate - 100 bps (RM'000)
MYR	(420)	475

Note:

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

13.2 Liquidity and Funding Risk

Liquidity risk is the risk that the organization 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 to a lesser extent, significant drawdown of funds from previously contracted financing and purchase commitments.

The primary objective of the Group's liquidity risk management is to ensure the availability of sufficient funds at a reasonable cost to honour all financial commitments when they fall due. 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.

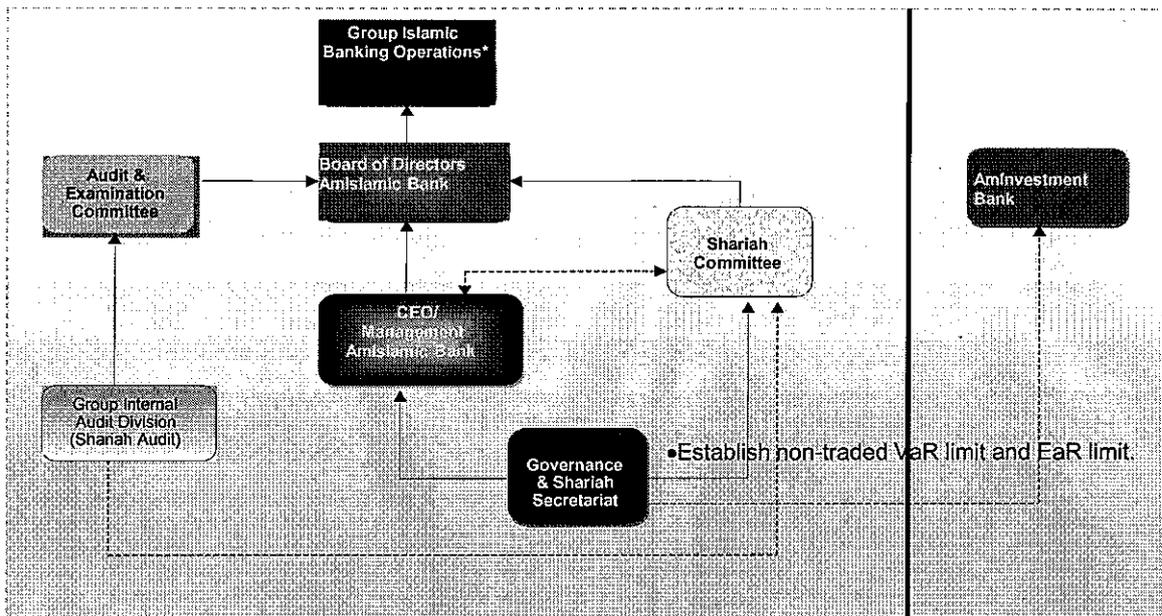
The Group Asset & Liability Committee ("GALCO") is the responsible governing body that approves the Group's liquidity management and strategies policies, and is responsible for setting liquidity limits, proposing liquidity risk policies and contingency funding plan, and practices to be in compliance with local regulatory requirements, and monitor liquidity on an ongoing basis. The Capital and Balance Sheet Management division and Group Risk functions propose and oversee the implementation of policies and other controls relating to the above risks.

In the event of actual liquidity crisis occurring, a Contingency Funding Plan provides a formal process to identify a liquidity crisis and detailing responsibilities among the relevant departments to ensure orderly execution of procedures to restore the liquidity position and confidence in the organization.

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

The Group stresses the importance of customer deposit accounts as a source of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of customer deposit accounts, together with term funding with a remaining term to maturity in excess of one year.

14.1 Shariah Governance Structure



*refers to Islamic banking operations of group entities

A Shariah governance framework is put in place in the organisational structure of the Group for its Islamic banking operations, which includes establishment of the Shariah Committee in line with the requirement of Section 3(5)(b) of Islamic Banking Act 1983 and Bank Negara Malaysia's "Shariah Governance Framework for Islamic Financial Institutions".

AmInvestment Bank leverages on Amlslamic Bank's infrastructure on Shariah governance, including the Shariah Committee and the Shariah Secretariat.

Board of Directors

The Board of Directors is accountable and responsible for the overall oversight on Shariah governance structure, including the appointment of Shariah Committee members. The Board performs its oversight through various committees such as Audit & Examination Committee, and Shariah Committee.

Audit Examination Committee

The Audit & Examination Committee is a Board committee responsible for assisting the Board in discharging its responsibilities for the integrity of the Group's financial statements, assessment of the effectiveness of the systems of internal controls and monitoring the effectiveness and objectivity of the internal and external auditors. The Audit & Examination Committee, upon consultation with the Shariah Committee shall determine the deliverables of the Shariah audit function.

Shariah Committee

The Shariah Committee has been established to advise the Group on Shariah matters in business operations in order to ensure compliance with Shariah. The Shariah Committee reports functionally to Amlslamic's Board of Directors and this provides for the independence of the Shariah Committee in exercising their duties. The main duties and responsibilities of the Shariah Committee are:

- (i) to advise Board of Directors on Shariah matters and provide input to the Group Islamic banking operations in order to ensure that the Islamic business operations comply with the Shariah principles at all times;
- (ii) to endorse and validate the Group Islamic banking operations products and relevant documentations to ensure compliance with Shariah principles;
- (iii) to advise the Group Islamic banking operations on matters to be referred to the Shariah Advisory Council of Bank Negara Malaysia; and
- (iv) to advise the Group Islamic banking operations on business zakat, charity and other social programs.

Management

The management is responsible to make reference to the Shariah Committee on Shariah issues and to take necessary measures for implementation of Shariah Committee's advice and decisions. The management is also responsible to put in place adequate systems and controls in order to ensure compliance with Shariah.

Management shall:

- (i) take into account Shariah compliance considerations whenever the Group Islamic banking operations accepts deposits and investment funds, provides financing and carries out investment services for customers;
- (ii) ensure that contract documentation complies with Shariah principles;
- (iii) ensure that Shariah review and Shariah audit are undertaken periodically; and
- (iv) keep track of income not recognised arising out of Shariah non-compliance and assess the probability of similar cases arising in the future.

The Group Islamic banking operations practices first-level check on Shariah requirements by Business Units through Shariah guides and awareness programs. Each department at AmlIslamic Bank is also designed to interface with Business Units and shared services of the Group. These departments function to bridge the understanding of Shariah requirements and are the frontline to disseminate Shariah requirements as advised by the Shariah Committee. References are made from existing Shariah guides issued by the Shariah Governance section and endorsed by the Shariah Committee.

Shariah Governance section

The Shariah Governance section operates as Secretariat to the Shariah Committee and shall be responsible to ensure all Shariah requirements are met. Amongst the functions of the Shariah Governance section are as follows:

- (i) acting under the supervision and guidance of the Shariah Committee, to advice on Shariah compliance in the Group Islamic banking operations;
- (ii) to conduct review and provide day-to-day Shariah advice and consultancy to relevant parties;
- (iii) to help formulate relevant Shariah guidelines and policies needed to support/guide the Group Islamic banking business operations;
- (iv) to conduct research on Shariah matters; and
- (v) to provide and assist in Shariah awareness programs.

Group Internal Audit Division

A designated team within the Group Internal Audit Division is responsible to conduct independent assessment on the level of Shariah compliance of Islamic banking operations as follows:

- (i) documents utilised are Shariah compliant and in line with the relevant Shariah concepts applied to a deposit or financing facility;
- (ii) Shariah concepts are fully complied with and assets are identifiable, carry adequate value, owned by the Group Islamic banking operations, free from encumbrance and permissible; and
- (iii) marketing and customer support staff are competent with the products and corresponding Shariah concepts applied.

The Shariah Committee is responsible to advise the designated audit team on all Shariah audit processes and activities.

14.1 Non-Shariah compliant income

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