AmBank (M) Berhad

Pillar 3 Disclosures

Contents

		Page
1.0	**Scope of Application**	1
2.0	**Capital Management**	2
3.0	**Capital Structure**	7
4.0	**Risk Management Framework**	12
5.0	**Credit Risk Management**	17
6.0	**Credit Risk Exposure under the Standardised Approach**	30
7.0	**Credit Risk Mitigation**	35
8.0	**Off-Balance Sheet Exposures and Counterparty Credit Risk**	38
9.0	**Securitisation**	42
10.0	**Operational Risk**	48
11.0	**Market Risk**	49
12.0	**Equities (Banking Book Positions)**	50
13.0	**Non-Traded Market Risk**	53

1.0 Scope of Application

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

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

The Bank has provided explicit guarantee against the liabilities of its wholly owned Labuan offshore banking subsidiary, AmInternational (L) Ltd. ("AMIL"), a Labuan company licensed under the Labuan Financial Services and Securities Act to carry out Labuan banking business. In accordance with the RWCAF, the capital position and risk weighted assets ("RWA") of the Bank refers to the combined capital base and RWA of the Bank and AMIL.

The following information has been provided in order to highlight the capital adequacy of the Group and the Bank. The information provided has been verified by the Group internal auditors and certified by the 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, which are based on the Basel II capital accord. The Group and the Bank have adopted the Standardised Approach for Credit and Market Risks 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 the Bank comprise the financial statements of the Bank and the financial statements of all its controlled entities (individually referred to as "group entities") where it is determined that there is a capacity to control. 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 or engaged in financial activities	Fully consolidated	Fully consolidated
Subsidiaries engaged in non-financial activities	Fully consolidated	Deducted from capital base
Associates which are licensed under BAFIA	Equity accounted	Pro-rata consolidated
Associates which are not licensed under BAFIA	Equity accounted	Reported as investment and risk weighted

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

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

2.0 Capital Management

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

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

The capital plan takes the following into account:

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

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

The Group uses internal models and other quantitative techniques in its internal risk and capital assessment. The models help to estimate potential future losses arising from credit, market and other risks, and using regulatory formulae to simulate the amount of capital required to support them. In addition, the models enable the Group to gain a deeper understanding of its risk profile, for example, 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 statement of financial position, capital and liquidity.

2.0 Capital Management (Contd.)

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

GALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For FY 2012, these ranges are 8.5 per cent to 11.5 per cent for the Tier 1 capital ratio and 12.0 per cent to 16.0 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 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 ultimate holding company, AMMB, and its group entities when due.

Table 2.1: Capital Adequacy Ratio

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

	Group		Bank	
	2012	**2011**	**2012**	**2011**
Before deducting proposed dividends:				
Core capital ratio	11.2%	9.8%	11.3%	10.0%
Risk weighted capital ratio	15.4%	14.5%	15.6%	14.8%
After deducting proposed dividends:				
Core capital ratio	10.1%	9.3%	10.1%	9.5%
Risk weighted capital ratio	14.4%	14.1%	14.6%	14.4%

(b) The capital adequacy ratios of AMIL are as follows:

	AMIL	
	2012	**2011**
Before deducting proposed dividends:		
Core capital ratio	19.2%	47.3%
Risk weighted capital ratio	19.4%	47.5%
After deducting proposed dividends:		
Core capital ratio	19.2%	47.3%
Risk weighted capital ratio	19.4%	47.5%

Notes:

1) The capital position and RWA of the Bank refers to the combined capital base and RWA of AmBank (M) Bhd and its wholly-owned offshore banking subsidiary company, AmInternational (L) Ltd ("AMIL").

Table 2.2 : Risk-Weighted Assets and Capital Requirements

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

2012 Exposure class		Gross exposures/ EAD before credit risk mitigation ("CRM")	Net exposures/ EAD after CRM	Risk weighted assets	Minimum capital requirement at 8%
		RM'000	RM'000	RM'000	RM'000
1. **Credit Risk**					
On Balance Sheet Exposures					
Sovereigns/ Central banks		6,315,458	5,933,395	-	-
Banks, Development financial institutions ("DFI") and Multilateral development banks ("MDB")		4,740,473	4,740,473	1,208,330	96,666
Insurance companies, Securities firms and Fund managers		30,666	30,666	30,666	2,453
Corporates		26,286,936	24,710,388	23,439,468	1,875,157
Regulatory retail		22,143,955	22,012,228	16,466,924	1,317,354
Residential mortgages		8,926,278	8,911,475	3,366,102	269,288
Higher risk assets		131,249	131,249	196,873	15,750
Other assets		1,813,378	1,813,378	1,351,401	108,112
Securitisation		97,462	97,462	20,692	1,655
Equity		49,319	49,319	49,319	3,946
Defaulted exposures		2,203,455	1,895,563	2,537,125	202,970
Total On Balance Sheet Exposures		**72,738,629**	**70,325,596**	**48,666,900**	**3,893,351**
Off-Balance Sheet Exposures					
Over the counter ("OTC") Derivatives		1,973,266	1,973,266	1,002,309	80,185
Credit Derivatives		69	69	28	2
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		8,648,919	8,002,234	7,291,696	583,336
Defaulted exposures		239,260	220,846	331,269	26,502
Total Off-Balance Sheet Exposures		**10,861,514**	**10,196,415**	**8,625,302**	**690,025**
Total On and Off-Balance Sheet Exposures		**83,600,143**	**80,522,011**	**57,292,202**	**4,583,376**
2. **Large Exposure Risk Requirement**		-	-	3,298	264
3. **Market Risk**	**Long position**	**Short position**			
Interest rate risk					
- General interest rate risk	62,857,452	53,938,867		2,913,139	233,051
- Specific interest rate risk	9,254,122	55,154		633,877	50,710
Foreign currency risk	140,062	52,699		140,062	11,205
Equity risk					
- General risk	349,065	40,715		308,351	24,668
- Specific risk	349,065	40,715		475,614	38,049
Option risk	1,138,490	1,853,397		23,770	1,902
Total	**74,088,256**	**55,981,547**		**4,494,813**	**359,585**
4. **Operational Risk**				5,401,295	432,104
5. **Total RWA and Capital Requirements**				**67,191,608**	**5,375,329**

The Group does not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent.

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

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

2011 Exposure class		Gross exposures/ EAD before credit risk mitigation ("CRM")	Net exposures/ EAD after CRM	Risk weighted assets	Minimum capital requirement at 8%
		RM'000	RM'000	RM'000	RM'000
1. **Credit Risk**					
On Balance Sheet Exposures					
Sovereigns/ Central banks		8,913,240	8,627,683	-	-
Banks, Development financial institutions ("DFI") and Multilateral development banks ("MDB")		7,633,456	7,633,456	1,784,418	142,753
Insurance companies, Securities firms and Fund managers		54,968	54,968	31,732	2,539
Corporates		24,874,291	22,691,482	21,087,007	1,686,961
Regulatory retail		25,023,133	24,889,156	18,641,377	1,491,310
Residential mortgages		6,860,275	6,848,849	2,752,168	220,173
Higher risk assets		217,560	217,560	326,340	26,107
Other assets		1,442,090	1,442,090	1,123,365	89,869
Securitisation		137,943	137,943	26,895	2,152
Equity		62,374	62,374	62,374	4,990
Defaulted exposures		2,276,362	2,211,082	3,052,751	244,220
Total On Balance Sheet Exposures		**77,495,692**	**74,816,643**	**48,888,427**	**3,911,074**
Off-Balance Sheet Exposures					
Over the counter ("OTC") Derivatives		1,478,374	1,478,374	744,556	59,564
Credit Derivatives		1,045	1,044	522	42
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		6,926,395	6,609,086	6,048,183	483,855
Defaulted exposures		89,268	87,515	131,272	10,502
Total Off-Balance Sheet Exposures		**8,495,082**	**8,176,019**	**6,924,533**	**553,963**
Total On and Off-Balance Sheet Exposures		**85,990,774**	**82,992,662**	**55,812,960**	**4,465,037**
2. **Large Exposure Risk Requirement**		-	-	-	-
3. **Market Risk**	**Long position**	**Short position**			
Interest rate risk					
- General interest rate risk	53,451,775	51,102,848		1,020,954	81,676
- Specific interest rate risk	4,489,674	1,950,806		355,633	28,451
Foreign currency risk	8,768	17,927		17,927	1,434
Equity risk					
- General risk	349,668	25,751		323,917	25,913
- Specific risk	349,668	25,751		519,835	41,587
Option risk	294,367	302,792		3,931	315
Total	**58,943,920**	**53,425,875**		**2,242,197**	**179,376**
4. **Operational Risk**				5,176,229	414,098
5. **Total RWA and Capital Requirements**				**63,231,386**	**5,058,511**

The Group does not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent.

3.0 Capital Structure

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

- paid-up ordinary share capital, irredeemable non-cumulative convertible preference shares, and eligible reserves;
- innovative Tier 1 capital and qualifying subordinated liabilities; and
- collective allowance (netted against loans and advances).

All capital instruments included in the capital base have been issued in accordance with the Bank Negara Malaysia 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, irredeemable non-cumulative convertible preference shares, 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.

Irredeemable Non-cumulative Convertible Preference Shares

Irredeemable non-cumulative convertible preference shares are permanent holdings for which there are no obligation to pay a dividend, and the dividend payment is not cumulative. Such shares do not generally carry voting rights, but rank higher than ordinary shares for dividend payments and in the event of a winding-up or other return of capital.

In the financial year 2008, the Bank issued RM150 million Irredeemable Non-Cumulative Convertible Preference Shares ("INCPS") to its holding company, AMFB Holdings Berhad. The INCPS are convertible into new ordinary shares of the Bank on the basis of one (1) new ordinary share for every one (1) INCPS held.

On 30 September 2011, the RM150 million INCPS were fully converted into 150,000,000 new ordinary shares of RM1.00 each in the Bank.

Retained Earnings

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

3.1 Tier 1 Capital (Contd.)

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 in compliance with the provisions of BAFIA and is not distributable as cash dividends.

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

- **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 (if any).

Innovative Tier 1 Capital

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

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

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

The salient features of the Hybrid Securities are as follows:

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

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

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

(b) Innovative Tier 1 Capital Securities

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

3.1 Tier 1 Capital (Contd.)

Non-innovative Tier 1 Capital

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

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

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

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

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

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

3.2 Tier 2 capital

The main components of Tier 2 capital are collective allowance for impaired loans and advances and subordinated debt instruments as follows:

Medium Term Notes

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

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

3.2 Tier 2 capital (Contd.)

Medium Term Notes (Contd.)

The MTNs issued under the MTN Programme was included as Tier 2 capital in compliance with the Risk Weighted Capital Adequacy Framework issued by BNM.

The salient features of the MTNs issued are as follows:

(i) Tranche 1 amounting to RM500 million was issued on 4 February 2008 and is for a tenor of 10 years Non-Callable 5 years and bears interest at 5.23% per annum.

(ii) Tranche 2 and 3 totalling RM240 million was issued on 14 March 2008 as follows:

- Tranche 2 amounting to RM165 million is for a tenor of 10 years Non-Callable 5 years and bears interest at 5.2% per annum.
- Tranche 3 amounting to RM75 million is for a tenor of 12 years Non-Callable 7 years and bears interest at 5.4% per annum.

(iii) Tranche 4 and 5 totalling RM120 million was issued on 28 March 2008 as follows:

- Tranche 4 amounting to RM45 million is for a tenor of 10 years Non-Callable 5 years and bears interest at 5.2% per annum.
- Tranche 5 amounting to RM75 million is for a tenor of 12 years Non-Callable 7 years and bears interest at 5.4% per annum.

(iv) Tranche 6 amounting to RM600 million issued on 9 April 2008 is for a tenor of 15 years Non-Callable 10 years and bears interest at 6.25% per annum.

(v) Tranche 7 amounting to RM97.8 million issued on 10 December 2009 is for a tenor of 10 years Non-Callable 5 years and bears interest at 5.75% per annum.

The interest rate of the MTN will step up by 0.5% per annum as follows:

(i) Tranche 1 – at the beginning of the 6th year
(ii) Tranche 2 – at the beginning of the 6th year
(iii) Tranche 3 – at the beginning of the 8th year
(iv) Tranche 4 – at the beginning of the 6th year
(v) Tranche 5 – at the beginning of the 8th year
(vi) Tranche 6 – at the beginning of the 11th year
(vii) Tranche 7 – at the beginning of the 6th year

and every anniversary thereafter, preceding the maturity date of the MTN.

Innovative and Non-innovative Tier 1 Capital Securities

Please refer to Section 3.1 for details of the innovative and non-innovative Tier 1 capital securities in issue.

Table 3.1 : Capital Structure

The components of Tier 1 and Tier 2 Capital of the Group and the Bank are as follows:

	The Group		The Bank	
	2012	**2011**	**2012**	**2011**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Tier 1 capital				
Paid-up ordinary share capital	820,364	670,364	820,364	670,364
Share premium	942,844	942,844	942,844	942,844
Statutory reserve	980,969	680,459	980,969	680,459
Merger reserve	48,516	48,516	48,516	48,516
Exchange fluctuation reserve	2,077	(709)	2,077	(709)
Irredeemable non-cumulative convertible preference shares	-	150,000	-	150,000
Innovative Tier 1 capital	1,129,210	926,409	1,124,271	925,373
Non-innovative Tier 1 capital	500,000	500,000	500,000	500,000
Retained earnings at end of year	3,264,831	2,690,387	3,235,856	2,684,567
Non controlling interest	50	50	-	-
Total	**7,688,861**	**6,608,320**	**7,654,897**	**6,601,414**
Less:				
Deferred tax assets	(160,792)	(432,261)	(159,755)	(432,261)
Total Tier 1 capital	**7,528,069**	**6,176,059**	**7,495,142**	**6,169,153**
Tier 2 capital				
Medium term notes	1,557,800	1,557,800	1,557,800	1,557,800
Innovative Tier 1 capital	105,890	308,691	110,829	309,727
Collective allowance for impaired loans and advances#	1,202,562	1,166,407	1,198,932	1,161,406
Total Tier 2 capital	**2,866,252**	**3,032,898**	**2,867,561**	**3,028,933**
Total capital funds	**10,394,321**	**9,208,957**	**10,362,703**	**9,198,086**
Less:				
Investment in subsidiaries	(32,769)	(32,769)	(32,780)	(32,780)
Other deduction	(9,446)	(18,672)	(9,446)	(18,672)
Capital base	**10,352,106**	**9,157,516**	**10,320,477**	**9,146,634**

Excludes collective allowance on impaired loans restricted from Tier 2 capital of the Group and the Bank as at 31 March 2012 of RM336,203,000 (2011: RM480,983,000) and RM336,161,000 (2011: RM480,964,000) respectively.

4.0 Risk Management Framework

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

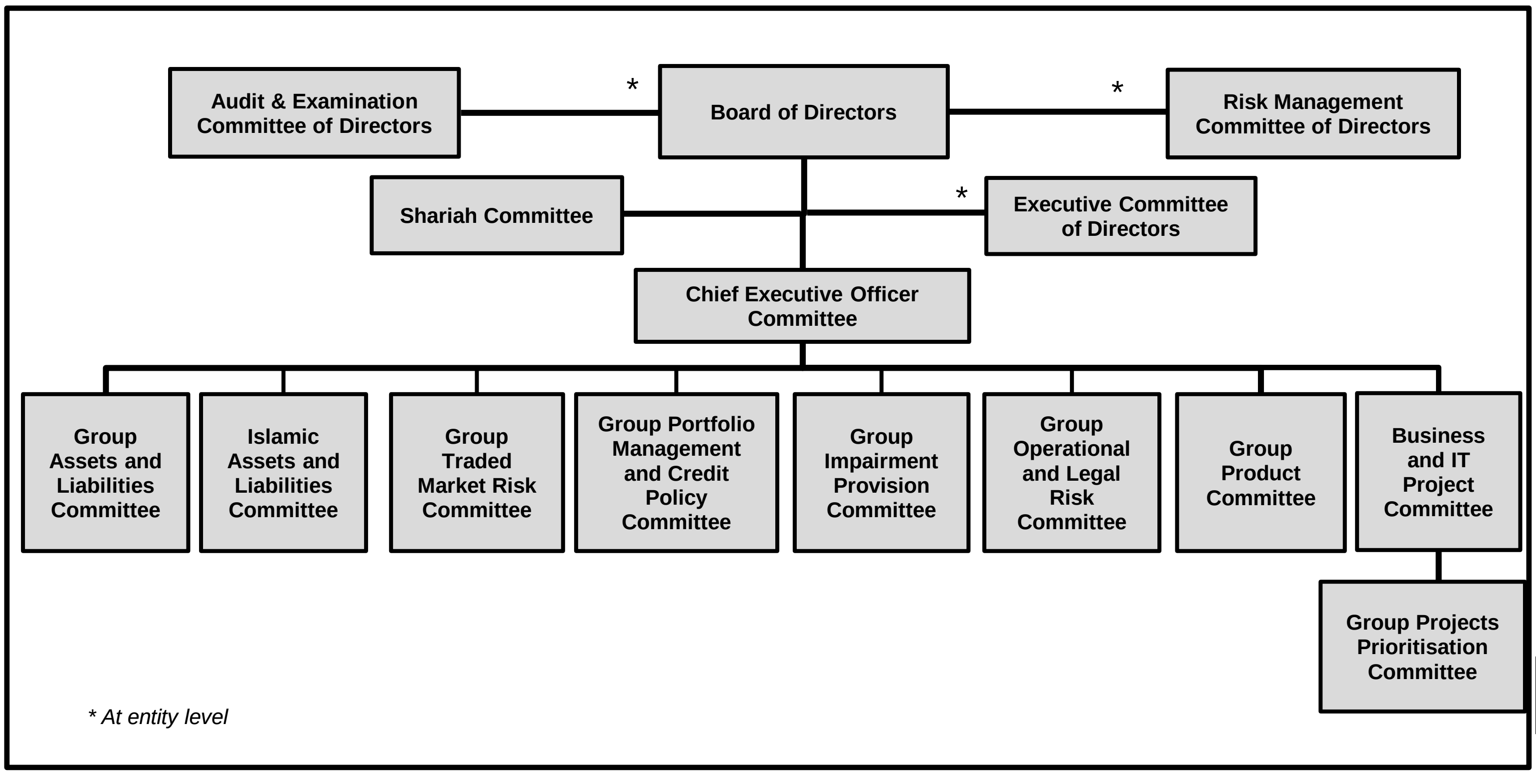
The Risk Appetite Framework is approved annually by the Board taking into account the Group's desired external rating and targeted profitability/return on equity ("ROE") and is reviewed periodically throughout the financial year by both the executive management and the Board to consider any fine tuning/amendments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

The Risk Appetite Framework provides portfolio parameters for Credit Risk, Traded Market Risk, Non-Traded Market Risk and Operational Risk incorporating, inter alia, limit structures for countries, industries, single counterparty, 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 is ultimately responsible for the management of risks within the Group. The Risk Management Committee of Directors is formed to assist the Board 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 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:



4.0 Risk Management Framework (Contd.)

Risk Management Governance (Contd.)

Committee	Roles and Responsibilities
Risk Management Committee of Directors ("RMCD")	- 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 on risk issues.
Audit & Examination Committee of Directors ("AEC")	- 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 the Board in ensuring the Islamic Banking operations of the Group are Shariah compliant.
Shariah Committee	- Responsible and accountable on matters related to Shariah, which includes advising the Board and management on Shariah matters and endorsing and validating products and services, and the relevant documentation in relation to Islamic Banking operations of the Group.
Executive Committee of Directors ("EXCO")	- 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")	- 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 on risk issues.
Group Assets and Liabilities Committee (Conventional and Islamic) ("GALCO")	- 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 is effective and fair and capital is managed.
Islamic Assets and Liabilities Committee	- 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 is effective and fair and capital is managed.
Group Traded Market Risk Committee ("GTMRC")	- Responsible for development of traded market risk policy framework, oversee the trading book portfolio, approve new trading products and ensure the compliance with internal and regulatory requirements throughout the Group.
Group Portfolio Management and Credit Policy Committee ("GPMCP")	- Responsible for development for credit policy framework, oversee credit portfolio, endorse asset writing strategies, review credit provisioning policies and process and ensure compliance with internal and regulatory requirements throughout the Group.
Group Impairment Provision Committee	- Responsible for the development of key policies relating to impairment provisions, ensure provisions are assessed and made in accordance with the Board approved policies and FRS 139 and 137 standards and establish adequate management governance for the determination of provisions.
Group Operational and Legal Risk Committee ("GOLRC")	- 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")	- 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.

4.0 Risk Management Framework (Contd.)

Risk Management Governance (Contd.)

Committee	Roles and Responsibilities
Business and IT Project Committee ("BITPC")	- Responsible to review and approve (or where required recommend for approval) requests relating to the Group's major business and Information Technology ("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	- 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 financial year 2013 ("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 Internal Capital Adequacy Assessment Process ("ICAAP')(Contd.)

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

- Meet minimum prudential requirements in all jurisdictions in which the Group operates, also any rating agencies' requirements, including maintaining appropriate buffers over minimum capital levels.
- 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 (for example acquisitions) should be allocated to individual business units using regulatory capital allocation principles (basic Economic Capital methodologies to be introduced in FY 2013);
- Capital allocation should be consistent with the Group's Regulatory Capital measurement framework (basic Economic Capital methodologies to be introduced in 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 in 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.

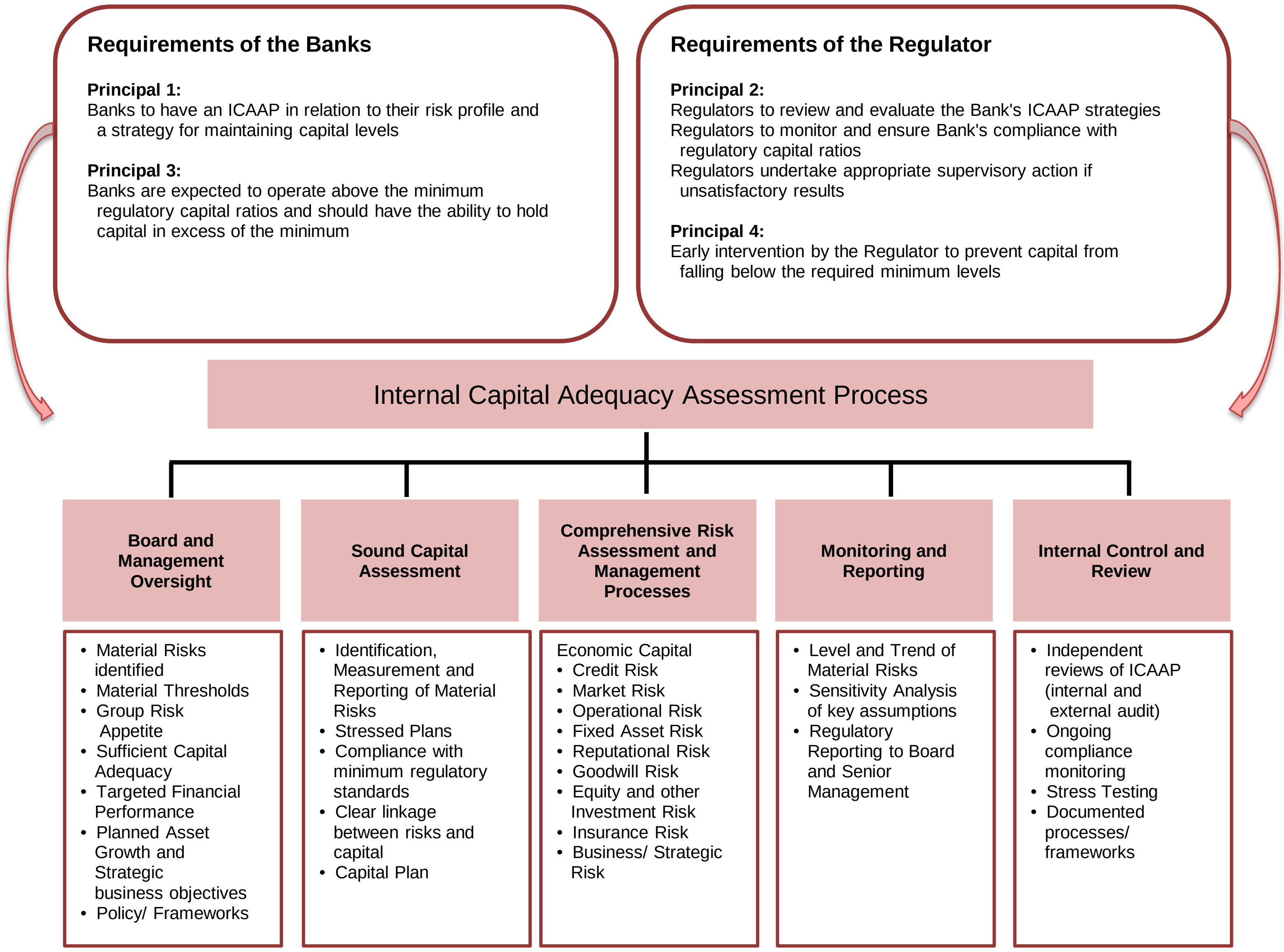
4.1.8 The Board must be notified and the regulator advised as soon as practicable of any:

- 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.

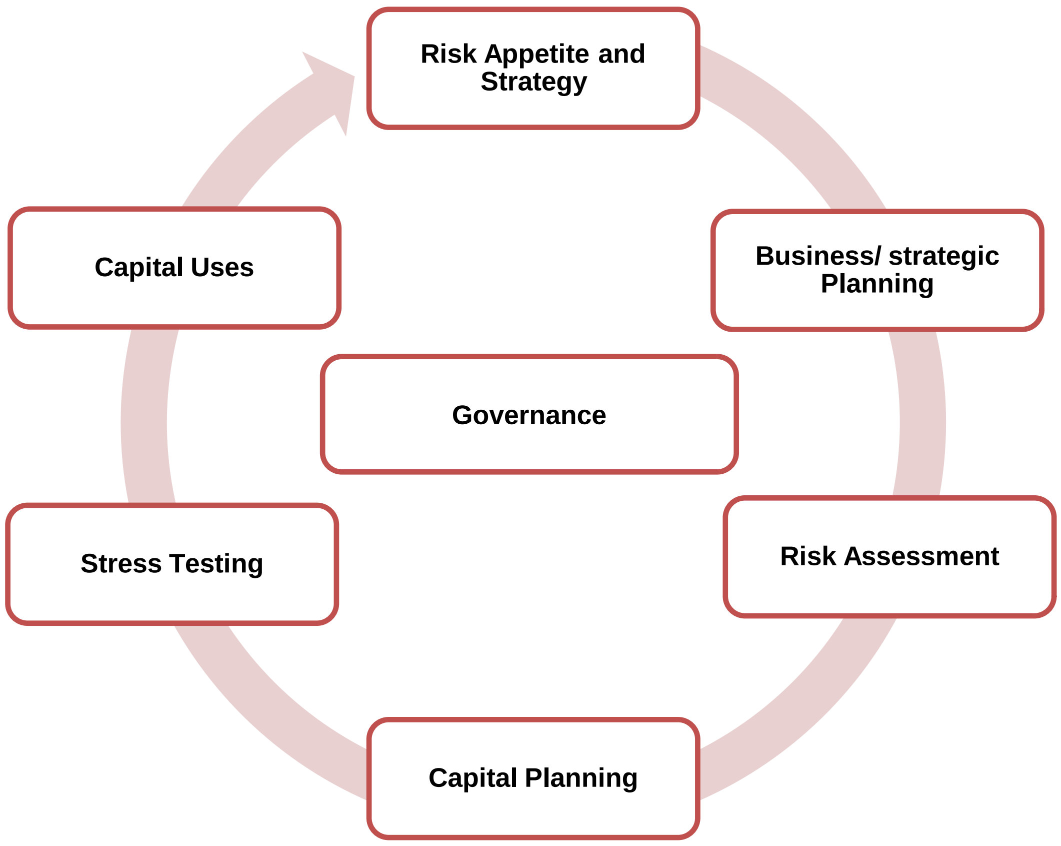
4.1.9 The cost of capital should be reviewed annually. The cost of capital should be set with reference to the Group's long term Return on Equity objectives.

4.1 Internal Capital Adequacy Assessment Process ("ICAAP")(Contd.)

ICAAP Framework



Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

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

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

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

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

For non-retail credits, risk recognition begins with an assessment of the financial standing of the borrower or counterparty using an internally developed credit rating model. The model consists of quantitative and qualitative scores that are then translated into a rating grade, ranging from "AAA" (representing the lowest risk grade) to "C" (i.e., the highest risk grade). The assigned credit rating grade forms a crucial part of the credit analysis undertaken for each of the Group's credit exposures.

For retail credits, third generation credit-scoring systems to better differentiate the quality of borrowers are being used to complement the credit assessment and approval processes. New LGD and EAD models have also been recently developed which will also become operational in financial year 2013.

To support credit risk management's observation of disciplines governed by the Basel II Framework and Financial Reporting Standards ("FRS"), our rating models pertaining to credit risk (obligor's PD, LGD and EAD) are in the process of being upgraded. These new models are scheduled to be operational in financial year 2013 and will:

- improve the accuracy of individual obligor risk ratings and calculation of expected loss;
- enhance pricing models;
- facilitate loan loss provision calculation;
- automate stress-testing; and
- enhance portfolio management.

5.0 Credit Risk Management (Contd.)

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

- concentration limits:
  - single counterparty credit;
  - industry sector;
  - country; and
  - portfolio composition (by risk grade).
- Asset writing strategies for industry sectors and individual customers;
- Setting Loan to Value limits for asset backed loans (i.e., property exposures and other collateral);
- Watchlist processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers; and
- Setting Benchmark Returns which serve as a guide to the minimum returns the Group requires for the risk undertaken, taking into account operating expenses and cost of capital.

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 EXCO. 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 portfolio, approve new and amended credit risk policy, review watchlist reports and post mortem review of loans/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, impairment, flow rates of loan delinquency buckets and exposures by industry sectors are reported monthly by Group Risk to executive management and to all meetings of the Board.

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

5.1 Impairment

5.1.1 Definition of Past Due and Impaired Loans

All loans and advances are categorised as either:

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

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

A loan is classified as impaired under the following circumstances:

(a) where the principal or interest or both[1] 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 default occurs, unless it does not exhibit any weakness that would render it classified according to the Group's Credit Risk Rating Framework. Notwithstanding that, these loans shall be classified as impaired when the principal or interest 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.

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

5.1 Impairment (Contd.)

5.1.2 Methodology for Determination of Individual and Collective Allowances

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

Individual Assessment

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

(a) Trigger management

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

(b) Valuation of assets

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

Collective Assessment

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, BNM 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' historical experience.

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

Table 5.1 : Distribution of gross credit exposures by sector

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

2012	Agriculture RM'000	Mining and quarrying RM'000	Manufacturing RM'000	Electricity, gas and water RM'000	Construction RM'000	Wholesale, retail trade, restaurant and hotel RM'000	Transport, storage and communication RM'000	Finance and insurance RM'000	Real estate RM'000	Business activities RM'000	Education and health RM'000	Household RM'000	Others RM'000	Total RM'000
On Balance Sheet Exposures														
Sovereigns/ Central banks	-	-	-	-	-	-	-	6,249,023	-	-	66,435	-	-	6,315,458
Banks, Development financial institutions and Multilateral development banks	-	-	-	-	-	36	-	4,740,406	-	-	31	-	-	4,740,473
Insurance companies, Securities firms and Fund managers	-	-	-	-	-	-	-	30,666	-	-	-	-	-	30,666
Corporates	2,006,557	1,677,609	4,887,094	1,974,227	1,785,737	3,331,660	1,715,025	2,953,534	4,162,898	627,502	554,573	436,648	173,872	26,286,936
Regulatory retail	87,223	22,366	294,515	7,780	268,083	436,116	157,358	16,363	24,861	185,935	95,333	20,540,386	7,636	22,143,955
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	8,926,278	-	8,926,278
Higher risk assets	-	-	4,817	-	-	-	9,209	861	4,853	-	-	23,239	88,270	131,249
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	1,813,378	1,813,378
Securitisation	61,741	-	-	-	-	-	-	35,721	-	-	-	-	-	97,462
Equity	-	-	41	-	9	480	6,982	7,224	4,249	42	-	-	30,292	49,319
Defaulted exposures	9,318	154,439	183,420	99,989	363,140	248,696	271,026	34,994	98,726	13,628	32,922	686,755	6,402	2,203,455
Total for On Balance Sheet Exposures	2,164,839	1,854,414	5,369,887	2,081,996	2,416,969	4,016,988	2,159,600	14,068,792	4,295,587	827,107	749,294	30,613,306	2,119,850	72,738,629
Off-Balance Sheet Exposures														
OTC derivatives	5,608	9,878	44,919	-	15,006	26,542	57,333	1,776,755	-	332	-	-	36,893	1,973,266
Credit derivatives	-	-	-	-	-	-	-	69	-	-	-	-	-	69
Off-balance sheet exposures other than OTC derivatives or credit derivatitives	198,531	150,371	1,407,293	106,297	2,299,982	799,897	351,619	467,681	625,630	182,476	105,820	1,909,625	43,697	8,648,919
Defaulted exposures	30	-	180,074	-	41,773	3,996	100	954	3,426	-	-	8,907	-	239,260
Total for Off-Balance Sheet Exposures	204,169	160,249	1,632,286	106,297	2,356,761	830,435	409,052	2,245,459	629,056	182,808	105,820	1,918,532	80,590	10,861,514
Total On and Off-Balance Sheet Exposures	**2,369,008**	**2,014,663**	**7,002,173**	**2,188,293**	**4,773,730**	**4,847,423**	**2,568,652**	**16,314,251**	**4,924,643**	**1,009,915**	**855,114**	**32,531,838**	**2,200,440**	**83,600,143**

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

The distribution of credit exposures by sector of the Group as follows (contd.):

2011	Agriculture RM'000	Mining and quarrying RM'000	Manufacturing RM'000	Electricity, gas and water RM'000	Construction RM'000	Wholesale, retail trade, restaurant and hotel RM'000	Transport, storage and communication RM'000	Finance and insurance RM'000	Real estate RM'000	Business activities RM'000	Education and health RM'000	Household RM'000	Others RM'000	Total RM'000
On Balance Sheet Exposures														
Sovereigns/ Central banks	-	-	-	-	-	-	-	8,913,240	-	-	-	-	-	8,913,240
Banks, Development financial institutions and Multilateral development banks	-	-	-	539	-	-	-	7,566,729	-	-	-	9,371	56,817	7,633,456
Insurance companies, Securities firms and Fund managers	-	-	-	-	8,496	-	-	46,472	-	-	-	-	-	54,968
Corporates	1,844,540	1,051,084	4,369,138	2,603,220	2,149,044	2,682,856	2,008,719	3,147,378	2,292,975	884,524	270,198	314,012	1,256,603	24,874,291
Regulatory retail	179,750	24,812	24,695	13,176	349,722	60,000	348,711	175,092	1,817	3,887	159,111	23,666,464	15,896	25,023,133
Residential mortgages	-	-	-	-	368	-	-	3	-	-	-	6,859,904	-	6,860,275
Higher risk assets	-	-	-	-	-	-	-	-	-	-	95,504	34,309	87,747	217,560
Other assets	-	-	-	-	-	-	-	-	-	-	-	-	1,442,090	1,442,090
Securitisation	68,184	-	-	-	-	-	-	64,302	-	-	-	-	5,457	137,943
Equity	-	-	-	-	-	-	-	-	-	-	32,857	7	29,510	62,374
Defaulted exposures	9,075	2	226,708	118,338	245,045	431,386	75,128	285,429	78,844	597	36,337	742,198	27,275	2,276,362
Total for On Balance Sheet Exposures	2,101,549	1,075,898	4,620,541	2,735,273	2,752,675	3,174,242	2,432,558	20,198,645	2,373,636	889,008	594,007	31,626,265	2,921,395	77,495,692
Off-Balance Sheet Exposures														
OTC derivatives	319	9,646	24,161	-	509	6,226	16,507	1,307,703	-	224	3	-	113,076	1,478,374
Credit derivatives	-	-	-	-	-	-	-	1,045	-	-	-	-	-	1,045
Off-balance sheet exposures other than OTC derivatives or credit derivatitives	168,888	105,189	757,566	222,617	2,010,337	515,360	392,150	623,059	269,466	114,054	52,009	1,140,126	555,574	6,926,395
Defaulted exposures	285	-	4,431	-	30,167	6,599	43,260	2,288	1,936	72	-	-	230	89,268
Total for Off-Balance Sheet Exposures	169,492	114,835	786,158	222,617	2,041,013	528,185	451,917	1,934,095	271,402	114,350	52,012	1,140,126	668,880	8,495,082
Total On and Off-Balance Sheet Exposures	**2,271,041**	**1,190,733**	**5,406,699**	**2,957,890**	**4,793,688**	**3,702,427**	**2,884,475**	**22,132,740**	**2,645,038**	**1,003,358**	**646,019**	**32,766,391**	**3,590,275**	**85,990,774**

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

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

2012	**Agriculture RM'000**	**Mining and quarrying RM'000**	**Manufacturing RM'000**	**Electricity, gas and water RM'000**	**Construction RM'000**	**Wholesale, retail trade, restaurant and hotel RM'000**	**Transport, storage and communication RM'000**	**Finance and insurance RM'000**	**Real estate RM'000**	**Business activities RM'000**	**Education and health RM'000**	**Household RM'000**	**Others RM'000**	**Unallocated RM'000**	**Total RM'000**
Impaired loans and advances	23,935	154,677	184,869	132,130	94,839	42,430	4,089	37,628	26,200	12,369	44,805	895,513	10,413	-	**1,663,897**
Past due loans	44,525	164,142	230,982	134,720	258,783	177,584	52,843	39,490	181,606	47,518	262,950	10,422,081	10,413	-	**12,027,637**
Individual allowances	11,528	-	13,469	29,432	31,898	2,934	1,094	43	13,423	1,529	580	3,572	4,972	-	**114,474**
Collective allowances	-	-	-	-	-	-	-	-	-	-	-	-	-	1,538,765	**1,538,765**
Charges for individual allowances	(6,502)	227,490	44,331	13,113	11,579	2,036	1,020	977	16,454	1,529	3,011	3,909	(2)	-	**318,945**
Write-offs against individual allowances	7,209	227,490	78,217	153,871	49,259	-	8,796	3,275	9,760	-	5,112	1,224	1,329	-	**545,542**

2011	**Agriculture RM'000**	**Mining and quarrying RM'000**	**Manufacturing RM'000**	**Electricity, gas and water RM'000**	**Construction RM'000**	**Wholesale, retail trade, restaurant and hotel RM'000**	**Transport, storage and communication RM'000**	**Finance and insurance RM'000**	**Real estate RM'000**	**Business activities RM'000**	**Education and health RM'000**	**Household RM'000**	**Others RM'000**	**Unallocated RM'000**	**Total RM'000**
Impaired loans and advances	38,356	355	244,898	288,508	284,056	58,724	19,562	46,872	64,638	5,246	41,337	1,018,435	12,260	-	**2,123,247**
Past due loans	64,445	9,065	277,919	291,821	399,864	236,024	92,164	51,990	103,337	129,482	94,921	11,275,363	16,120	-	**13,042,515**
Individual allowances	25,239	-	47,355	170,190	69,578	898	8,870	2,341	6,729	-	2,681	887	6,303	-	**341,071**
Collective allowances														1,647,390	**1,647,390**
Charges for individual allowances	1,213	-	10,907	(3,536)	59,769	12,029	8,744	1,226	4,265	(11,594)	3,197	1,428	4,733	-	**92,381**
Write-offs against individual allowances	-	-	17,459	-	105,920	9,727	175	4	3,127	3,543	11,188	48,417	2,939	-	**202,499**

Table 5.3 : Geographical distribution of credit exposures

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

2012	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On Balance Sheet Exposures			
Sovereigns/ Central banks	6,315,458	-	6,315,458
Banks, Development financial institutions and Multilateral development banks	3,617,556	1,122,917	4,740,473
Insurance companies, Securities firms and Fund managers	-	30,666	30,666
Corporates	25,406,124	880,812	26,286,936
Regulatory retail	22,143,955	-	22,143,955
Residential mortgages	8,926,128	150	8,926,278
Higher risk assets	127,693	3,556	131,249
Other assets	1,812,555	823	1,813,378
Securitisation	97,462	-	97,462
Equity	49,319	-	49,319
Defaulted exposures	2,203,455	-	2,203,455
Total for On Balance Sheet Exposures	**70,699,705**	**2,038,924**	**72,738,629**
Off-Balance Sheet Exposures			
OTC derivatives	1,973,266	-	1,973,266
Credit derivatives	69	-	69
Off-balance sheet exposures other than OTC derivatives or credit derivatives	8,561,697	87,222	8,648,919
Defaulted exposures	239,260	-	239,260
Total for Off-Balance Sheet Exposures	**10,774,292**	**87,222**	**10,861,514**
Total On and Off-Balance Sheet Exposures	**81,473,997**	**2,126,146**	**83,600,143**

Table 5.3 : Geographical distribution of credit exposures (contd.)

The geographic distribution of credit exposures of the Group is as follows (contd.):

2011	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On Balance Sheet Exposures			
Sovereigns/ Central banks	8,913,240	-	8,913,240
Banks, Development financial institutions and Multilateral development banks	6,396,539	1,236,917	7,633,456
Insurance companies, Securities firms and Fund managers	54,968	-	54,968
Corporates	24,429,823	444,468	24,874,291
Regulatory retail	25,023,133	-	25,023,133
Residential mortgages	6,860,275	-	6,860,275
Higher risk assets	216,710	850	217,560
Other assets	1,442,090	-	1,442,090
Securitisation	137,943	-	137,943
Equity	62,374	-	62,374
Defaulted exposures	2,276,362	-	2,276,362
Total for On Balance Sheet Exposures	**75,813,457**	**1,682,235**	**77,495,692**
Off-Balance Sheet Exposures			
OTC derivatives	1,478,374	-	1,478,374
Credit derivatives	1,045	-	1,045
Off-balance sheet exposures other than OTC derivatives or credit derivatives	6,880,856	45,539	6,926,395
Defaulted exposures	89,268	-	89,268
Total for Off-Balance Sheet Exposures	**8,449,543**	**45,539**	**8,495,082**
Total On and Off-Balance Sheet Exposures	**84,263,000**	**1,727,774**	**85,990,774**

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

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

2012	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	1,663,897	-	1,663,897
Past due loans	12,027,637	-	12,027,637
Individual allowances	114,474	-	114,474
Collective allowances	1,533,829	4,936	1,538,765

2011	In Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
Impaired loans and advances	2,123,247	-	2,123,247
Past due loans	13,042,515	-	13,042,515
Individual allowances	341,071	-	341,071
Collective allowances	1,641,842	5,548	1,647,390

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

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

2012	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On Balance Sheet Exposures									
Sovereigns/ Central banks	4,237,734	-	-	-	45,528	-	2,032,196	-	6,315,458
Banks, Development financial institutions and Multilateral development banks	1,805,243	1,712,403	363,649	822	558,529	279,412	20,415	-	4,740,473
Insurance companies, Securities firms and Fund managers	-	-	30,666	-	-	-	-	-	30,666
Corporates	4,937,355	2,133,015	1,455,783	1,013,337	5,640,677	2,942,615	8,134,149	30,005	26,286,936
Regulatory retail	1,565,677	49,154	69,439	151,781	2,501,778	4,484,207	13,321,919	-	22,143,955
Residential mortgages	10,657	849	843	5,888	47,777	110,869	8,749,395	-	8,926,278
Higher risk assets	3,766	81	30	269	9,776	5,064	24,853	87,410	131,249
Other assets	-	-	-	-	-	166,664	21,001	1,625,713	1,813,378
Securitisation	3,601	-	-	-	-	-	93,861	-	97,462
Equity	-	-	-	-	8,202	-	10,957	30,160	49,319
Defaulted exposures	567,234	54,598	294,612	13,792	366,986	152,288	753,945	-	2,203,455
Total for On Balance Sheet Exposures	**13,131,267**	**3,950,100**	**2,215,022**	**1,185,889**	**9,179,253**	**8,141,119**	**33,162,691**	**1,773,288**	**72,738,629**
Off-Balance Sheet Exposures									
OTC derivatives	102,536	95,104	55,025	93,670	217,818	722,535	686,578	-	1,973,266
Credit derivatives	-	1	-	-	39	19	10	-	69
Off-balance sheet exposures other than OTC derivatives or credit derivatives	1,633,652	479,375	953,073	1,835,276	1,106,966	447,015	2,193,562	-	8,648,919
Defaulted exposures	27,208	10,422	4,593	113,674	64,430	5,371	13,562	-	239,260
Total for Off-Balance Sheet Exposures	**1,763,396**	**584,902**	**1,012,691**	**2,042,620**	**1,389,253**	**1,174,940**	**2,893,712**	**-**	**10,861,514**
Total On and Off-Balance Sheet Exposures	**14,894,663**	**4,535,002**	**3,227,713**	**3,228,509**	**10,568,506**	**9,316,059**	**36,056,403**	**1,773,288**	**83,600,143**

Table 5.5 : Residual contractual maturity by major types of credit exposure (contd.)

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

2011	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On Balance Sheet Exposures									
Sovereigns/ Central banks	6,567,706	2,000,308	-	-	25,491	50,106	269,629	-	8,913,240
Banks, Development financial institutions and Multilateral development banks	3,614,426	2,717,606	291,907	4,334	140,749	752,534	111,900	-	7,633,456
Insurance companies, Securities firms and Fund managers	-	-	-	-	18,968	36,000	-	-	54,968
Corporates	4,177,354	1,917,732	1,695,266	1,311,230	5,264,278	3,636,500	6,861,928	10,003	24,874,291
Regulatory retail	1,520,539	38,979	72,078	238,698	1,909,145	5,040,704	16,202,990	-	25,023,133
Residential mortgages	3,010	880	4,267	7,873	38,811	80,966	6,724,468	-	6,860,275
Higher risk assets	18,490	-	4	35,075	8,360	27,570	41,173	86,888	217,560
Other assets	92,530	33	56,818	2,244	52,958	1,386	-	1,236,121	1,442,090
Securitisation	42	-	-	-	-	108,710	29,191	-	137,943
Equity	6,801	-	-	-	18,887	-	7,169	29,517	62,374
Defaulted exposures	856,493	32,502	29,077	17,375	181,392	222,884	936,639	-	2,276,362
Total for On Balance Sheet Exposures	**16,857,391**	**6,708,040**	**2,149,417**	**1,616,829**	**7,659,039**	**9,957,360**	**31,185,087**	**1,362,529**	**77,495,692**
Off-Balance Sheet Exposures									
OTC derivatives	106,677	96,509	32,116	35,233	378,295	498,603	330,941	-	1,478,374
Credit derivatives	-	-	50	-	995	-	-	-	1,045
Off-balance sheet exposures other than OTC derivatives or credit derivatives	1,650,481	645,969	1,066,536	1,533,269	973,252	245,511	811,377	-	6,926,395
Defaulted exposures	15,714	23,101	5,095	12,480	9,090	21,562	2,226	-	89,268
Total for Off-Balance Sheet Exposures	**1,772,872**	**765,579**	**1,103,797**	**1,580,982**	**1,361,632**	**765,676**	**1,144,544**	**-**	**8,495,082**
Total On and Off-Balance Sheet Exposures	**18,630,263**	**7,473,619**	**3,253,214**	**3,197,811**	**9,020,671**	**10,723,036**	**32,329,631**	**1,362,529**	**85,990,774**

Table 5.6 : Reconciliation of changes to loans impairment allowances exposure

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

	2012		2011	
	Individual impairment allowances RM'000	Collective impairment allowances RM'000	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at 1 April	341,071	1,647,390	452,386	1,797,171
Charge for the year – net	318,945	413,104	92,381	784,839
Amount written-off	(545,542)	(521,758)	(202,499)	(472,658)
Repurchase of loan	-	-	-	4,142
Transfer from debt converted instrument	-	-	12,356	-
Arising from disposal of subsidiary	-	-	(13,553)	(465,603)
Exchange differences	-	29	-	(501)
Balance at 31 March	**114,474**	**1,538,765**	**341,071**	**1,647,390**

	2012 (Charge offs)/ recoveries RM'000	2011 (Charge offs)/ recoveries RM'000
Bad debts written off during the year	(99,214)	(106,733)
Bad debt recoveries during the year	554,758	532,056

6.0 Credit Risk Exposure under the 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 ("S&P")
- Moody’s Investors Service ("Moodys")
- Fitch Rating ("Fitch")
- Rating and Investment Information, Inc
- RAM Rating Services Berhad ("RAM")
- Malaysian Rating Corporation Berhad ("MARC")

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

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

2012 Risk weights	Exposures after netting and credit risk mitigation											
	Sovereigns and Central banks	Banks, MDBs and FDIs	Insurance companies, Securities firms and Fund managers	Corporates	Regulatory retail	Residental mortgages	Higher risk assets	Other assets	Securitisation	Equity	Total exposures after netting & credit risk mitigation	Total risk weighted assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	5,933,395	-	-	6,311	-	-	-	453,936	-	-	6,393,642	-
20%	63,530	4,424,854	-	1,415,861	159,004	-	-	10,051	77,720	-	6,151,020	1,230,204
35%	-	-	-	-	-	7,274,262	-	-	-	-	7,274,262	2,545,992
50%	-	1,991,025	-	579,872	56,415	1,661,677	-	-	10,296	-	4,299,285	2,149,643
75%	-	-	-	-	23,647,135	-	-	-	-	-	23,647,135	17,735,351
100%	-	14	80,525	29,109,801	181,999	208,589	-	1,349,391	-	49,319	30,979,638	30,979,638
150%	-	-	-	1,266,865	360,183	-	140,535	-	-	-	1,767,583	2,651,374
1250%	-	-	-	-	-	-	-	-	9,446	-	9,446	-
Total	**5,996,925**	**6,415,893**	**80,525**	**32,378,710**	**24,404,736**	**9,144,528**	**140,535**	**1,813,378**	**97,462**	**49,319**	**80,522,011**	**57,292,202**
Deduction from capital base									9,446		9,446	

2011 Risk weights	Exposures after netting and credit risk mitigation											
	Sovereigns and Central banks	Banks, MDBs and FDIs	Insurance companies, Securities firms and Fund managers	Corporates	Regulatory retail	Residental mortgages	Higher risk assets	Other assets	Securitisation	Equity	Total exposures after netting & credit risk mitigation	Total risk weighted assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	8,632,200	-	-	-	-	-	-	316,498	-	-	8,948,698	-
20%	-	7,281,299	-	1,852,965	10,248	-	-	2,784	109,134	-	9,256,430	1,851,286
35%	-	-	-	-	-	4,491,048	-	-	-	-	4,491,048	1,571,867
50%	-	1,662,142	46,472	638,483	239,147	2,369,758	-	-	10,137	-	4,966,139	2,483,070
75%	-	-	-	-	25,843,658	380	-	-	-	-	25,844,038	19,383,028
100%	77,948	7,588	41,296	25,811,247	47,742	184,489	-	1,122,808	-	62,374	27,355,492	27,355,492
150%	-	-	-	1,377,785	516,239	-	218,121	-	-	-	2,112,145	3,168,217
1250%	-	-	-	-	-	-	-	-	18,672	-	18,672	-
Total	**8,710,148**	**8,951,029**	**87,768**	**29,680,480**	**26,657,034**	**7,045,675**	**218,121**	**1,442,090**	**137,943**	**62,374**	**82,992,662**	**55,812,960**
Deduction from capital base									18,672		18,672	

Table 6.2: Rated exposures according to ratings by ECAIs

2012	Ratings of corporate by approved ECAIs					
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment information Inc.	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Credit exposures (using corporate risk weights)						
Insurance companies, Securities firms and Fund managers	80,525	-	-	-	-	80,525
Corporates	32,378,710	988,794	467,747	99,306	3,617	30,819,246
Total	**32,459,235**	**988,794**	**467,747**	**99,306**	**3,617**	**30,899,771**

2011	Ratings of corporate by approved ECAIs					
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment information Inc.	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Credit Exposures (using corporate risk weights)						
Insurance companies, Securities firms and Fund managers	87,768	-	46,472	8,496	-	32,800
Corporates	29,680,480	1,343,329	589,398	123,669	5,446	27,618,638
Total	**29,768,248**	**1,343,329**	**635,870**	**132,165**	**5,446**	**27,651,438**

2012	Short term ratings of banking institutions and corporate by approved ECAIs					
Exposure class	Moodys	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 information Inc.	a-1+, a-1	a-2	a-3	b,c	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Banks, MDBs and FDIs	135,459	135,459	-	-	-	-
Total	**135,459**	**135,459**	**-**	**-**	**-**	**-**

There was no short term ratings of Banking Institutions and Corporates by approved ECAIs as at 31 March 2011.

Table 6.2: Rated exposures according to ratings by ECAIs (contd.)

2012	Ratings of sovereigns and central banks by approved ECAIs					
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Rating & Investment information Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Sovereigns and central banks	5,996,925	-	5,996,925	-	-	-
Total	**5,996,925**	**-**	5,996,925	-	-	**-**

2011	Ratings of sovereigns and central banks by approved ECAIs					
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Rating & Investment information Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Sovereigns and central banks	8,710,148	4,500	-	-	-	8,705,648
Total	**8,710,148**	**4,500**	-	-	-	**8,705,648**

2012	Ratings of banking institutions by approved ECAIs					
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Rating & Investment information Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Banks, MDBs and FDIs	6,280,434	2,413,931	438,934	1,154,668	14	2,272,887
Total	**6,280,434**	**2,413,931**	**438,934**	**1,154,668**	**14**	**2,272,887**

2011	Ratings of banking institutions by approved ECAIs					
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
	Rating & Investment information Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures						
Banks, MDBs and FDIs	8,951,029	1,538,447	143,449	85,828	68	7,183,237
Total	**8,951,029**	**1,538,447**	**143,449**	**85,828**	**68**	**7,183,237**

Table 6.3: Securitisation according to ratings by ECAIs

2012	Ratings of securitisation by approved ECAIs			
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Unrated
	S&P	AAA to AA-	A+ to A-	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
	RAM	AAA to AA3	A1 to A3	Unrated
	MARC	AAA to AA-	A+ to A-	Unrated
	Rating & Investment information Inc.	AAA to AA-	A+ to A-	Unrated
		RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures				
Securitisation	97,462	77,720	10,296	9,446
Total	**97,462**	**77,720**	**10,296**	**9,446**

2011	Ratings of securitisation by approved ECAIs			
Exposure class	Moodys	Aaa to Aa3	A1 to A3	Unrated
	S&P	AAA to AA-	A+ to A-	Unrated
	Fitch	AAA to AA-	A+ to A-	Unrated
	RAM	AAA to AA3	A1 to A3	Unrated
	MARC	AAA to AA-	A+ to A-	Unrated
	Rating & Investment information Inc.	AAA to AA-	A+ to A-	Unrated
		RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures				
Securitisation	137,943	109,134	10,137	18,672
Total	**137,943**	**109,134**	**10,137**	**18,672**

Note: All securitisations are for periods exceeding 12 months.

7.0 Credit Risk Mitigation

Main types of collateral taken by the Group

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

- Cash and term deposits
- Exchange traded shares, bonds, sukuk, convertible bonds and marketable securities
- Non-exchange traded debt securities/ sukuk
- Unit trusts (including Amanah Saham Nasional, Amanah Saham Bumiputera and mutual funds)
- Non-exchange traded shares
- Residential and non-residential property
- Plantation land, mining land, quarry land and vacant land
- Passenger vehicle, commercial vehicle, construction vehicle and vessel
- Plant and machineries

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

In addition to rating customer's probability of default via an internal risk rating system, the Group uses Security Indicators ("SIs") in its non-retail portfolio to assess the strength of collateral supporting its exposures. Thus both the PD and LGD estimates are used in assessing and monitoring exposures.

Processes for collateral management

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

Guarantee Support

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

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

Use of credit derivatives and netting for risk mitigation

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

Transaction structuring to mitigate credit risk

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

Concentrations of credit risk mitigation

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

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

Table 7.1 : Credit Risk Mitigation

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

2012 **Exposures**	**Exposures before credit risk mitigations ("CRM") RM'000**	**Exposures covered by guarantees RM'000**	**Exposures covered by eligible financial collateral RM'000**
Credit Risk			
On Balance Sheet Exposures			
Sovereigns/ Central banks	6,315,458	-	382,063
Banks, Development financial institutions and Multilateral development banks	4,740,473	-	-
Insurance companies, Securities firms and Fund managers	30,666	-	-
Corporates	26,286,936	32,313	1,576,549
Regulatory retail	22,143,955	132,160	131,727
Residential mortgages	8,926,278	-	14,803
Higher risk assets	131,249	-	-
Other assets	1,813,378	-	-
Securitisation	97,462	-	-
Equity	49,319	-	-
Defaulted exposures	2,203,455	28,191	307,893
Total for On Balance Sheet Exposures	72,738,629	192,664	2,413,035
Off-Balance Sheet Exposures			
OTC derivatives	1,973,266	-	-
Credit derivatives	69	-	-
Off Balance sheet exposures other than OTC derivatives or credit derivatives	8,648,919	3,577	646,685
Defaulted exposures	239,260	-	18,414
Total for Off-Balance Sheet Exposures	10,861,514	3,577	665,099
Total On and Off-Balance Sheet Exposures	**83,600,143**	**196,241**	**3,078,134**

Table 7.1 : Credit Risk Mitigation (Contd.)

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

2011 **Exposures**	**Exposures before credit risk mitigations ("CRM") RM'000**	**Exposures covered by guarantees RM'000**	**Exposures covered by eligible financial collateral RM'000**
Credit Risk			
On Balance Sheet Exposures			
Sovereigns/ Central banks	8,913,240	-	285,557
Banks, Development financial institutions and Multilateral development banks	7,633,456	-	-
Insurance companies, Securities firms and Fund managers	54,968	-	-
Corporates	24,874,291	43,131	2,182,808
Regulatory retail	25,023,133	191,841	133,977
Residential mortgages	6,860,275	-	11,426
Higher risk assets	217,560	-	-
Other assets	1,442,090	-	-
Securitisation	137,943	-	-
Equity	62,374	-	-
Defaulted exposures	2,276,362	22,238	65,280
Total for On Balance Sheet Exposures	77,495,692	257,210	2,679,048
Off-Balance Sheet Exposures			
OTC derivatives	1,478,374	-	-
Credit derivatives	1,045	-	-
Off Balance sheet exposures other than OTC derivatives or credit derivatives	6,926,395	2,097	317,310
Defaulted exposures	89,268	-	1,753
Total for Off-Balance Sheet Exposures	8,495,082	2,097	319,063
Total On and Off-Balance Sheet Exposures	**85,990,774**	**259,307**	**2,998,111**

8.0 Off-Balance Sheet exposures and Counterparty Credit Risk

8.1 Off-Balance Sheet exposures

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

(1) Credit related exposures, for example, guarantees given on behalf of customers, certain transaction-related contingent items, obligation under underwriting agreement, short term self liquidating trade-related contingencies, irrevocable commitment to extend credit and unutilised credit card line.
(2) Derivatives Financial Instruments, for example, forward exchange contracts (forward exchange contracts and cross currency swaps) interest rate related contracts (interest rate futures and interest rate swaps), equity related contracts (option and futures) and commodity related contract (option).
(3) Other treasury-related exposures, for example, 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 include interest rates, foreign exchange, and equities.

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

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

- The MTM is essentially the current replacement cost of the contract, and can be positive or negative. Where it is positive, that is, in the money, the Group has credit exposure against the counterparty; if it is negative, that is, out of the money, the negative value will be used.
- The PCRE factors 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, that is, not confined to a standardised underlying instrument. Where the maximum payout is known, it is taken as the pre-settlement risk amount. However, in situations where the maximum payout is not observable, a Monte Carlo simulation method is used.

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

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

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

Table 8.1: Off-Balance Sheet Exposures

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

2012 **Description**	**Principal amount RM'000**	**Positive fair value of derivative contracts RM'000**	**Credit equivalent amount RM'000**	**Risk weighted assets RM'000**
Direct credit substitutes	1,608,754		1,608,753	1,443,945
Transaction related contingent Items	3,120,757		1,560,379	1,127,086
Short term self liquidating trade related contingencies	615,243		122,765	111,477
Forward asset purchases	360,899		13,873	4,542
Obligations under an on-going underwriting	265,000		-	-
Foreign exchange related contracts				
One year or less	20,064,852	112,201	280,483	143,525
Over one year to five years	3,145,654	26,001	325,855	240,346
Over five years	58,532	-	11,706	5,854
Interest rate related contracts				
One year or less	14,448,655	19,931	55,617	33,130
Over one year to five years	18,849,399	94,269	587,236	217,854
Over five years	8,042,138	93,824	674,872	338,101
Equity related contracts				
One year or less	484,281	2,046	10,250	10,215
Over one year to five years	362,369	10,464	27,261	13,308
Credit Derivative Contracts				
One year or less	61,290	140	1	-
Over one year to five years	549,473	14,974	58	25
Over five years	292,733	6,185	10	2
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	4,682,068		2,341,038	2,020,626
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	13,251,953		2,650,444	2,473,956
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	100		200	200
Unutilised credit card lines	2,953,565		590,713	441,110
Total	**93,217,715**	**380,035**	**10,861,514**	**8,625,302**

Table 8.1: Off-Balance Sheet Exposures (Contd.)

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

2011 Description	Principal amount RM'000	Positive fair value of derivative contracts RM'000	Credit equivalent amount RM'000	Risk weighted assets RM'000
Direct credit substitutes	2,259,750		2,178,611	1,886,616
Transaction related contingent Items	1,869,799		975,469	881,252
Short term self liquidating trade related	615,999		123,200	123,761
Forward Asset Purchases	424,290		14,821	6,228
Obligations under an on-going underwriting	260,000		-	-
Foreign exchange related contracts				
One year or less	28,584,266	83,225	214,374	154,875
Over one year to five years	929,849	23,831	125,379	78,059
Over five years	151,265	-	-	-
Interest rate related contracts				
One year or less	5,870,000	6,171	17,327	6,556
Over one year to five years	27,256,982	203,205	740,086	334,006
Over five years	3,900,759	39,882	330,941	143,257
Equity related contracts				
One year or less	601,986	26,137	21,074	10,473
Over one year to five years	521,072	8,726	29,191	17,330
Credit derivative contracts				
One year or less	76,473	132	50	25
Over one year to five years	252,433	5,364	995	497
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	4,498,060		888,393	766,187
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	10,796,440		2,170,507	2,018,435
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness and others	31,406		200	200
Unutilised credit card lines	3,322,322		664,464	496,776
Total	**92,223,151**	**396,673**	**8,495,082**	**6,924,533**

Table 8.2 : Credit Derivatives Counterparty Credit Risk

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

2012

No.	Transaction Date	Usage	Name of Product	Sell Leg: Protection Type/ Counterparty	Sell Leg: Notional Exposure for Protection Sold RM'000	Buy Leg: Protection Type/ Counterparty	Buy Leg: Notional Exposure for Protection Bought RM'000
1	1 June 2010	Intermediation	Credit Linked Note ("CLN") - First to Default	Seller/UBS	127,852	Buyer/Customer *	138,448
2	6 April 2011	Intermediation	CLN - RBS	Seller/BNP	30,645	Buyer/Customer *	30,245
3	24 May 2011	Intermediation	Credit Linked Note ("CLN") - First to Default 2	Seller/BNP	98,064	Buyer/Customer *	100,000
4	23 August 2011	Intermediation	Credit Linked Note ("CLN") - First to Default 3	Seller/UBS	48,821	Buyer/Customer *	50,000
5	14 September 2011	Intermediation	Credit Linked Note ("CLN") - First to Default 4	Seller/BNP	146,367	Buyer/Customer	150,000

2011

No.	Transaction Date	Usage	Name of Product	Sell Leg: Protection Type/ Counterparty	Sell Leg: Notional Exposure for Protection Sold RM'000	Buy Leg: Protection Type/ Counterparty	Buy Leg: Notional Exposure for Protection Bought RM'000
1	1 June 2010	Intermediation	CLN - First to Default	Seller/UBS AG	126,217	Buyer/Customer *	126,217
2	6 August 2010	Intermediation	CLN - Morgan Stanley	Seller/UBS AG	38,236	Buyer/Customer *	38,236

* The Bank has no counterparty credit risk exposure because it is on a fully funded basis.

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:

- increase the availability of different sources of funding;
- facilitate prudential balance sheet management;
- transfer of credit risk;
- obtain regulatory relief;

The Group is involved in securitisation of assets that provide diversity in its funding base 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.

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

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

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

9.2.2 Governance

The governance of securitisation activities is overseen by the Board and Executive Committees, and managed in accordance with the credit risk and market risk frameworks.

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

9.2.3 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 assess performance information of the underlying pools on an ongoing basis, for example, 30/60/90 days past due, default rates, prepayment rates to gauge the stability of the model parameters to determine sufficiency of the buffers.

9.2 Objectives, roles and involvement (Contd.)

9.2.4 Special Purpose Vehicles ("SPV") used in securitisation exercises

For all traditional securitisation transactions where the Group acts as the sponsor[2] , 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 complies with the requirements of the ABS Guidelines.

Third party exposures that have been securitised via such SPVs include civil servant and government link company staff housing loans and unsecured personal loans/financing 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 statement of financial position to the extent of the Group's continuing involvement.

---

2 per the BNM's clarification, a banking institution is considered a sponsor if it in fact or in substance, it manages or advises the programme, places securities into the market or provides liquidity and or credit enhancements. This is applicable if the Group entity acts as a sponsor to an ABCP (CP with maturity of one year or less) conduit or similar programmes.

9.2 Objectives, roles and involvement (Contd.)

9.2.5 Accounting Policies for Securitisation (Contd.)

Loans, 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 statement of financial position for accounting purposes. The accounting treatment of the assets will depend on their nature. They could include loans 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 income 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 income statement. Other securitisation exposures will be fair valued through the statement of financial position 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.

Table 9.1: Securitisation (Trading and Banking Book)

The securitised exposures of the Group are as follows:

2012 Underlying asset	Total exposures securitised RM'000	Past due RM'000	Impaired RM'000	Gains/losses recognised during the year RM'000
Traditional securitisation originated by the Group				
Banking book				
Corporate loans	1,000,418	-	918,939	-
Mortgage loans	496,890	-	198,667	-
Total traditional securitisation	**1,497,308**	**-**	**1,117,606**	**-**
Total synthetic securitisation	**-**	**-**	**-**	**-**
Total traditional and synthetic securitisation	**1,497,308**	**-**	**1,117,606**	**-**

2011 Underlying asset	Total exposures securitised RM'000	Past due RM'000	Impaired RM'000	Gains/losses recognised during the year RM'000
Traditional securitisation originated by the Group				
Banking book				
Corporate loans	1,245,892	-	1,220,344	-
Mortgage loans	540,349	-	205,500	-
Total traditional securitisation	**1,786,241**	**-**	**1,425,844**	**-**
Total synthetic securitisation	**-**	**-**	**-**	**-**
Total traditional and synthetic securitisation	**1,786,241**	**-**	**1,425,844**	**-**

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

2012				Distribution of exposures after CRM according to appplicable risk weights			
				Rated securitisation exposures or risk weights of guarantees/ credit derivatives		Unrated (look-through)	
Securitisation exposures by exposure type	Exposure value of positions purchased or retained RM'000	Exposure after CRM RM'000	Exposures subject to deduction RM'000	20% RM'000	50% RM'000	Exposure amount RM'000	Risk weighted assets RM'000
Traditional securitisation originated by third party							
On Balance Sheet Exposures	88,016	88,016	-	77,719	10,296	-	20,692
Originated by the Group							
On Balance Sheet Exposures	9,446	9,446	9,446	-	-	-	-
Total traditional securitisation	**97,462**	**97,462**	**9,446**	**77,719**	**10,296**	**-**	**20,692**
Total synthetic securitisation	-	-	-	-	-	-	-
Total traditional and synthetic securitisation	**97,462**	**97,462**	**9,446**	**77,719**	**10,296**	**-**	**20,692**

2011				Distribution of exposures after CRM according to appplicable risk weights			
				Rated securitisation exposures or risk weights of guarantees/ credit derivatives		Unrated (look-through)	
Securitisation exposures by exposure type	Exposure value of positions purchased or retained RM'000	Exposure after CRM RM'000	Exposures subject to deduction RM'000	20% RM'000	50% RM'000	Exposure amount RM'000	Risk weighted assets RM'000
Traditional securitisation originated by third party							
On Balance Sheet Exposures	119,271	119,271	-	109,134	10,137	-	26,895
Originated by the Group							
On Balance Sheet Exposures	18,672	18,672	18,672	-	-	-	-
Total traditional securitisation	**137,943**	**137,943**	**18,672**	**109,134**	**10,137**	**-**	**26,895**
Total synthetic securitisation	-	-	-	-	-	-	-
Total traditional and synthetic securitisation	**137,943**	**137,943**	**18,672**	**109,134**	**10,137**	**-**	**26,895**

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

2012 Securitisation exposures by exposure type	Total exposures value of positions RM'000	Exposures subject to deduction RM'000	General risk charge RM'000	Specific risk charge RM'000	Risk weighted assets RM'000
Traditional securitisation originated by third party					
On balance sheet by exposure type - others	10,461	-	84	105	2,363
Total traditional securitisation	**10,461**	**-**	**84**	**105**	**2,363**
Total synthetic securitisation	**-**	**-**	**-**	**-**	**-**
Total traditional and synthetic securitisation	**10,461**	**-**	**84**	**105**	**2,363**

2011 Securitisation exposures by exposure type	Total exposures value of positions RM'000	Exposures subject to deduction RM'000	General risk charge RM'000	Specific risk charge RM'000	Risk weighted assets RM'000
Traditional securitisation originated by third party					
On balance sheet by exposure type - others	5,263	-	43	105	1,850
Total traditional securitisation	**5,263**	**-**	**43**	**105**	**1,850**
Total synthetic securitisation	**-**	**-**	**-**	**-**	**-**
Total traditional and synthetic securitisation	**5,263**	**-**	**43**	**105**	**1,850**

10.0 Operational Risk

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

Identification	• Identify and analyse risks in key processes/activities within Line of Business (including new products)
Assessment/ Measurement	• Incident Management and Data Collection • Risk and Control Self Assessment • Key Risk Indicators
Control/ Mitigation	• Policies addressing control and governance requirements to mitigate specific operational risk • Advisory on the establishment of internal control • Contingency planning
Monitoring/ Review	• Monitoring and reporting of loss incidents by Event Type, Portfolio and Line of Business • 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. 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 Business, continually assisting in the identification of operational risks inherent in their respective business activities, assessing the impact and significance of these risks and ensuring that satisfactory risk mitigation measures and controls are in place. Various tools and methods are employed to identify, measure, control and monitor/ report operational risk issues within the Group. The Operational Risk Management System ("ORMS") contains the following modules:

- The Incident Management and Data Collection ("IMDC") module provides a common platform for reporting 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.

10.0 Operational Risk (Contd.)

As part of the risk transfer strategy, the Group obtains third party insurance cover to cover the Group's 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 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.

11.0 Market Risk Management

Market risk is the risk of losses due to adverse changes in the level or volatility of market rates or prices, such as interest/profit rates, credit spreads, equity prices and foreign exchange rates. The 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 Group Market Risk ("GMR").

11.1 Traded Market Risk ("TMR")

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

Identification	• Identify market risks within existing and new products. • Review market-related information such as market trend and economic data.
Assessment/ Measurement	• Value-at-Risk ("VaR") • Profit-at-Risk ("PaR") • Capital-at-Risk ("CaR") • Other Detailed Management Controls
Control/ Mitigation	• VaR limits • PaR limits • CaR limits • Loss Limits (Annual/Monthly/Daily) • Concentration Limits • Greeks Limits (Delta/Gamma/Delta-Gamma/Vega/Theta) • Dollar/Present Value of One Basis Point ("DV01/PV01") • Stealth Limits • Position Size Limits • Maximum Tenure Limits • Maximum Holding Period • Permitted Instruments/Currencies/Countries
Monitoring/ Review	• Monitor limits • Periodical review and reporting

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, limit setting, limit monitoring and collaboration and agreement with business units on business strategies.

11.1 Traded Market Risk ("TMR") (Contd.)

VaR, PaR, 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. PaR comprises VaR and a loss limit threshold ("Annual Loss Limit"). 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 controls (for example, Greeks Limits/DV01/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.

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

The Group adopts the Standardised Approach for market risk capital charge computation. The captal charge serves as a buffer against losses from potential adverse market movements.

GMR is committed to on-going implementation of 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 book are primarily categorised as follows:

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

- Equity investments on which capital gains are expected – These transactions are for proprietary trading.

- Equity investments made as the result of a work out of a problem exposure – From time to time, the Group will take an equity stake in a customer as part of a work out arrangement for problem exposures. These investments are made only where there is no other viable option available and form an immaterial part of the Group's equity exposures.

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

Measurement of equity securities – Equity securities that have a quoted market price are carried at their fair value. 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 less impairment loss (if any).

Where the investment is held for long term strategic purposes, these investments are accounted for as available for sale, with changes in fair value being recognised in equity.

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 from 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:

Non traded equity investments	2012 RM'000	2011 RM'000
Value of quoted (publicly traded) equities	72,233	51,419
Value of unquoted (privately held) equities	88,271	87,738
Total	**160,504**	**139,157**
Net realised and unrealised gains/(losses)		
Cumulative realised gains/ (losses) from sales and liquidations	2,907	1,361
Total unrealised gains/ (losses)	610	5,120
Total	**3,517**	**6,481**
Risk weighted assets		
Equity investments subject to a 100% risk weight	71,117	50,104
Equity investments subject to a 150% risk weight	134,081	133,579
Total	**205,198**	**183,683**
Total minimum capital requirement (8%)	**16,416**	**14,695**

13.0 Non-Traded Market Risk

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

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

Identification	• Identify of interest/profit rate risks within existing and new products. • Review market-related information such as market trend and economic data.
Assessment/ Measurement	• Non-Traded Value-at-Risk ("VaR") • Earnings-at-Risk ("EaR")
Control/ Mitigation	• Non-traded VaR limit • EaR Limit
Monitoring/ Review	• Monitor limits • Periodical review and reporting

IRR/RORBB arises from changes in market interest/profit rates that impact core net interest/profit income, future cash flows or fair values of financial instruments. This risk arises from mismatches between repricing dates of assets and liabilities, changes in yield curves, volatilities in interest/profit 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 statement of financial position.

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 GALCO. GALCO is responsible for the alignment of Group-wide risk appetite and funding needs, taking into consideration 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 tenure interest/profit rate risk, and maintained a comfortable gapping profile as a result. In accordance with 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.

13.1 Interest Rate Risk/Rate of Return Risk in the Banking Book (Contd.)

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 statement of financial position 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.

13.2 Market Risk Sensitivity – Interest/ Profit Rate Risk/ Rate of Return Risk in the Banking Book

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

2012 Currency (MYR)	Interest Rate/Rate of Return +100 bps RM'000	Interest Rate/Rate of Return -100 bps RM'000
Impact on Profit Before Taxation	97,791	(97,791)
Impact on Equity	11,679	(4,187)

2011 Currency (MYR)	Interest Rate/Rate of Return +100 bps RM'000	Interest Rate/Rate of Return -100 bps RM'000
Impact on Profit Before Taxation	155,679	(155,679)
Impact on Equity	51,803	(50,731)

13.3 Liquidity and Funding Risk

Liquidity risk is the risk that the organisation either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can only access these financial resources at an unreasonable cost. Liquidity risk exposure arises mainly from the deposit taking and borrowing activities and market disruption, and to a lesser extent, significant drawdown of funds from previously contracted financing and purchase commitments. Funding risk is the risk of ongoing ability to raise sufficient funds to finance actual and proposed business activities at a reasonable cost. Funding and liquidity risk are interrelated as improper funding risk management may lead to liquidity problem while insufficient liquidity risk management may also give rise to funding risk.

The liquidity risk management of the Group is aligned with the New Liquidity Framework issued by Bank Negara Malaysia. 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. This objective is partly managed through maintenance of a portfolio of high-quality liquid assets to protect against adverse funding conditions and support day-to-day operations. The secondary objective is to ensure an optimal funding structure and to balance the key liquidity risk management objectives, which includes diversification of funding sources, customer base and maturity period.

The 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 Management propose and oversee the implementation of policies and other controls relating to the above risks.

The Group has put in place a Contingency Funding Plan to identify early warning signals of possible liquidity problem. The Contingency Funding Plan also sets out the detailed responsibilities among the relevant departments in the event of actual liquidity crises occurring to ensure orderly execution of procedures to restore the liquidity position and confidence in the 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 Contingence 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 adjusted loans/financing to deposit ratio, which compares loans/financing and advances to customers as a percentage of customer deposit accounts, together with term funding with a remaining term to maturity in excess of three years.

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

In preparation to the impending implementation of Basel III liquidity metrics, the Group is putting in place the measurement mechanism and strategizing for ensuring availability of cost effective liquidity. Subject to finalisation of the detailed regulations, the Group is confident of meeting BNM's requirements on Basel III liquidity metrics in accordance with its recently approved timetable for implementation.