AmInvestment Bank Group

RWCAF - Pillar 3 Disclosures

31 March 2012

AmInvestment Bank Berhad Group
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Contents

1.0 Scope of Application

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

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

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

BNM guidelines on capital adequacy require regulated banking entities to maintain an adequate level of capital to withstand any losses which may result from credit and other risks associated with financing operations.

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

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

1.1 Basis of Consolidation

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

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

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

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.

1 BAFIA denotes the Banking and Financial Institutions Act 1989.

2 IBA denotes the Islamic Banking Act 1983.

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. 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, e.g., by identifying potential concentrations, assessing the impact of portfolio management actions and performing what-if analysis.

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

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

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

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

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

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

GALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. 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 the evolving global regulatory debate on banking institutions' capital structures, we believe it is appropriate to remain strongly capitalised above our target ranges.

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

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

Table 2.1: Capital Adequacy Ratios

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

	Group		Bank	
	2012	2011	2012	2011
Before deducting proposed dividends:				
Core capital ratio	21.7%	25.4%	21.0%	24.7%
Risk weighted capital ratio	21.7%	25.4%	21.0%	24.7%
After deducting proposed dividends:				
Core capital ratio	20.1%	23.0%	19.1%	21.7%
Risk weighted capital ratio	20.1%	23.0%	19.1%	21.7%

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

	Islamic Window	
	2012	2011
Before deducting proposed dividends:		
Core capital ratio	51.4%	44.5%
Risk weighted capital ratio	51.4%	44.5%
After deducting proposed dividends:		
Core capital ratio	51.4%	44.5%
Risk weighted capital ratio	51.4%	44.5%

Table 2.2: Risk Weighted Assets and Capital Requirements

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

2012

	Exposure Class	Gross Exposures/ EAD before CRM		Net Exposures/ EAD after CRM	Risk Weighted Assets	Minimum Capital Requirement at 8%
		RM'000	RM'000	RM'000	RM'000	RM'000
1.	***Credit Risk***					
	On-Balance Sheet Exposures					
	Sovereigns/Central Banks		12,239	12,239	-	-
	Banks, Development Financial Institutions ("DFI") & Multilateral Development Banks ("MDB")		565,294	565,294	113,262	9,061
	Corporates		573,715	145,903	146,390	11,711
	Regulatory Retail		39,824	7,904	6,009	481
	Higher Risk Assets		14,310	14,310	21,465	1,717
	Other Assets		1,218,349	1,218,349	976,046	78,084
	Equity Exposure		11,337	11,337	11,337	907
	Defaulted Exposures		450	150	225	18
	Total for On-Balance Sheet Exposures		**2,435,518**	**1,975,486**	**1,274,734**	**101,979**
	Off-Balance Sheet Exposures					
	Off-balance sheet exposures other than OTC derivatives or credit derivatives		252,145	213,270	178,730	14,298
	Defaulted Exposures		461	461	692	55
	Total for Off-Balance Sheet Exposures		**252,606**	**213,731**	**179,422**	**14,353**
	Total On and Off-Balance Sheet Exposures		**2,688,124**	**2,189,217**	**1,454,156**	**116,332**
2.	**Large Exposures Risk Requirement**		-	-	-	-
3.	***Market Risk***	Long Position	Short Position			
	Interest Rate Risk					
	- General risk	1,802	1,797		-	-
	Foreign Currency Risk	2,212	2,090		2,212	177
	Equity Risk					
	- General risk	30,821	30,515		306	25
	- Specific risk	30,821	30,515		38,483	3,079
	Option Risk	148,100	-		203,638	16,291
	Total	**213,756**	**64,917**		**244,639**	**19,572**
4.	Operational Risk				541,955	43,356
5.	Total RWA and Capital Requirements				**2,240,750**	**179,260**

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

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

2011

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

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

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

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

2012

	Exposure Class	Gross Exposures		Net Exposures	Risk Weighted Assets	Capital Requirements
		RM'000	RM'000	RM'000	RM'000	RM'000
1.	***Credit Risk***					
	On-Balance Sheet Exposures					
	Sovereigns/Central Banks		60	60	-	-
	Banks, DFIs & MDBs		173,732	173,732	34,746	2,780
	Other Assets		19,120	19,120	18,938	1,515
	Total for On-Balance Sheet Exposures		**192,912**	**192,912**	**53,684**	**4,295**
	Off-Balance Sheet Exposures					
	Off-balance sheet exposures other than OTC derivatives or credit derivatives		114,792	114,792	114,792	9,183
	Total for Off-Balance Sheet Exposures		**114,792**	**114,792**	**114,792**	**9,183**
	Total On and Off-Balance Sheet Exposures		**307,704**	**307,704**	**168,476**	**13,478**
2.	**Large Exposures Risk Requirement**		-	-	-	-
		Long Position	Short Position			
3.	**Market Risk**	-	-	-	-	-
4.	Operational Risk				93,271	7,462
5.	Total RWA and Capital Requirements				**261,747**	**20,940**

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

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

2011

	Exposure Class	Gross Exposures		Net Exposures	Risk Weighted Assets	Capital Requirements
		RM'000	RM'000	RM'000	RM'000	RM'000
1.	***Credit Risk***					
	On-Balance Sheet Exposures					
	Sovereigns/Central Banks		65	65	-	-
	Banks, DFIs and MDBs		129,400	129,400	25,880	2,070
	Other Assets		30,455	30,455	26,968	2,157
	Total for On-Balance Sheet Exposures		**159,920**	**159,920**	**52,848**	**4,227**
	Off-Balance Sheet Exposures					
	Off-balance sheet exposures other than OTC derivatives or credit derivatives		132,877	119,473	119,473	9,558
	Total for Off-Balance Sheet Exposures		**132,877**	**119,473**	**119,473**	**9,558**
	Total On and Off-Balance Sheet Exposures		**292,797**	**279,393**	**172,321**	**13,785**
2.	**Large Exposures Risk Requirement**		-	-	-	-
		Long Position	Short Position			
3.	**Market Risk**	-	-	-	-	-
4.	Operational Risk				77,825	6,226
5.	Total RWA and Capital Requirements				**250,146**	**20,011**

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

3.0 Capital Structure

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

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

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

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

3.1 Tier 1 Capital

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

Paid-up Ordinary Share Capital

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

Retained Earnings

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

Eligible Reserves

Eligible reserves comprise the following:

- **Share Premium**
  Share premium is used to record premium arising from new shares issued in the group entity.
- **Statutory Reserve**
  Statutory reserve is maintained by the Group in compliance with the provisions of BAFIA and IBA and is not distributable as cash dividends.
- **Capital Reserve and Merger Reserve**
  The capital reserve and merger reserve represent reserves arising from the transfer of subsidiaries pursuant to schemes of arrangementunder group restructuring which involved capital reduction 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.

3.2 Tier 2 Capital

The main component of Tier 2 capital is the collective allowance for loans and financing.

Table 3.1: Capital Structure

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

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Tier 1 capital				
Paid-up ordinary share capital	200,000	200,000	200,000	200,000
Statutory reserve	200,000	200,000	200,000	200,000
Capital reserve	2,815	2,815	-	-
Merger reserve	7,656	7,656	-	-
Exchange fluctuation reserve	28,066	26,707	-	-
Unappropriated profits at end of year	92,444	135,347	102,299	130,227
Total	530,981	572,525	502,299	530,227
Less: Goodwill	(11,243)	(11,243)	-	-
Deferred tax (assets)/liabilities - net	(20,003)	(19,670)	(16,844)	(19,477)
Total Tier 1 capital	499,735	541,612	485,455	510,750
Deduction in excess of allowable Tier 2 Capital	(13,860)	(15,476)	(102,091)	(103,707)
Maximum allowable Tier 1 Capital	485,875	526,136	383,364	407,043
Tier 2 capital				
Collective allowance for loans and financing #	9,218	8,362	9,218	8,362
Total Tier 2 capital	9,218	8,362	9,218	8,362
Total capital funds	495,093	534,498	392,582	415,405
Less: Investment in capital of related financial institution	(23,078)	(23,838)	(23,078)	(23,838)
Less: Investment in subsidiaries	-	-	(88,231)	(88,231)
Deduction in excess of allowable Tier 2 Capital made against Tier 1 Capital	13,860	15,476	102,091	103,707
Capital base	485,875	526,136	383,364	407,043

#Excludes collective allowance on impaired loans/financing restricted from Tier 2 capital of the Group and the Bank of RM825,000 for 2012 (2011 : RM841,000)

The breakdown of risk weighted assets of the Group and the Bank in the various risk categories are as follows:

	Group		Bank	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Credit risk	1,454,156	1,552,679	1,103,164	1,219,262
Market risk	244,639	16,843	478,318	9,729
Operational risk	541,955	505,180	244,709	416,225
Total risk weighted assets	2,240,750	2,074,702	1,826,191	1,645,216

Table 3.1: Capital Structure (Contd.)

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

	2012 RM'000	2011 RM'000
Tier 1 Capital		
Islamic Banking Funds	30,000	30,000
Unappropriated profits at end of year	106,005	82,740
	136,005	112,740
Less: Deferred tax assets	(1,541)	(1,542)
Total Tier 1 Capital and Capital Base	134,464	111,198

The breakdown of risk weighted assets of the Islamic window of the Bank in the various risk categories are as follows:

	2012 RM'000	2011 RM'000
Credit risk	168,476	172,321
Market risk	-	-
Operational risk	93,271	77,825
Total risk weighted assets	261,747	250,146

4.0 Risk Management Framework

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

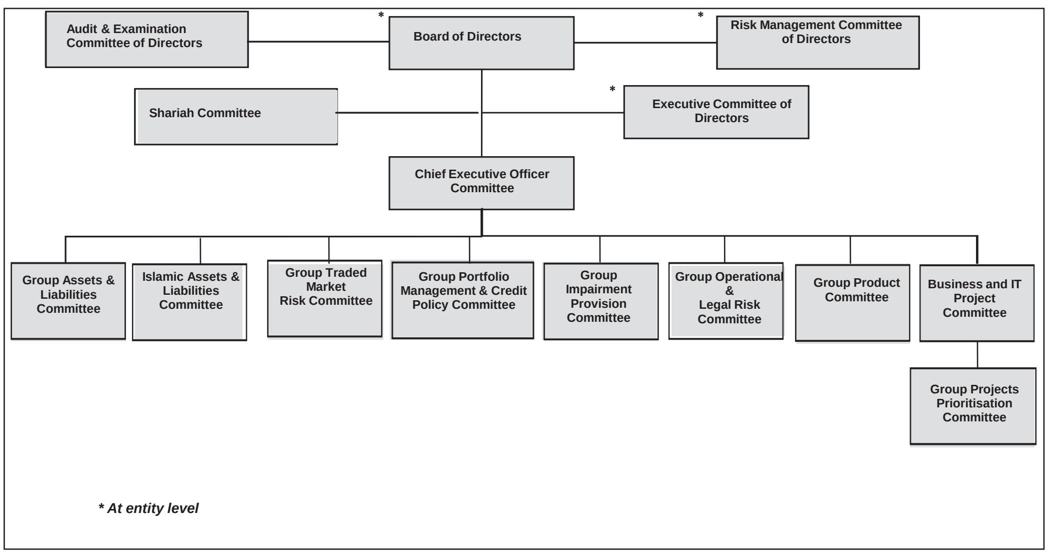
The Risk Appetite Framework is approved annually by the Board of Directors taking into account the Group's desired external rating and targeted profitability / return on equity ("ROE") and is reviewed periodically throughout the financial year by both the executive management and the Board of Directors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

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

Risk Management Governance

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

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



Committee	Roles and Responsibilities
Risk Management Committee of Directors ("**RMCD**")	- 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 advice the Board of Directors ("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 Board of Directors 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 Board of Directors and management on Shariah matters and endorsing and validating products and services, and the relevant documentations in relation to Islamic Banking operations of the Group.
	- The Shariah Oversight Committee, which is a sub-committee to the Shariah committee performs an oversight function for the key Shariah functions; Shariah review, Shariah audit, and Shariah Risk Management.
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 advice the Board of Directors 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 are 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 are 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 the 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 the compliance with the internal and regulatory requirements throughout the Group.
Group Impairment Provision Committee	- Responsible for the development of key policies relating to impairment provisions, ensure provision are assessed and made in accordance with Board approved policies and FRS 139 and 137 standards and establish adequate management governance for the determination of provisions.
Group Operational and Legal Risk ("**GOLRC**")	- 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.
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 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 FY 2013);
- The Board and Management's targeted financial performance, and
- The Group's planned asset growth and strategic business objectives.

4.1.2 Management Oversight

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

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

4.1.3 Capital Management Plan and Framework

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

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

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

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

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

- Minimums;
- Triggers; and
- Target operating ranges

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

4.1.5 Capital allocation:

- The Group's capital, excluding any amount held centrally for strategic contingencies (e.g. acquisitions) should be allocated to individual business units using regulatory capital allocation principles (basic Economic Capital methodologies to be introduced from FY 2013);
- Capital allocation should be consistent with the Group's Regulatory Capital measurement framework (basic Economic Capital methodologies to be introduced from FY 2013) and risk adjusted performance requirements;
- The Group should only retain capital that is required to meet its economic, operational, prudential and strategic requirements. Consideration should be given to returning capital in excess of that required to shareholders.

4.1.6 Material Risks

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

4.1.7 Economic Capital Model

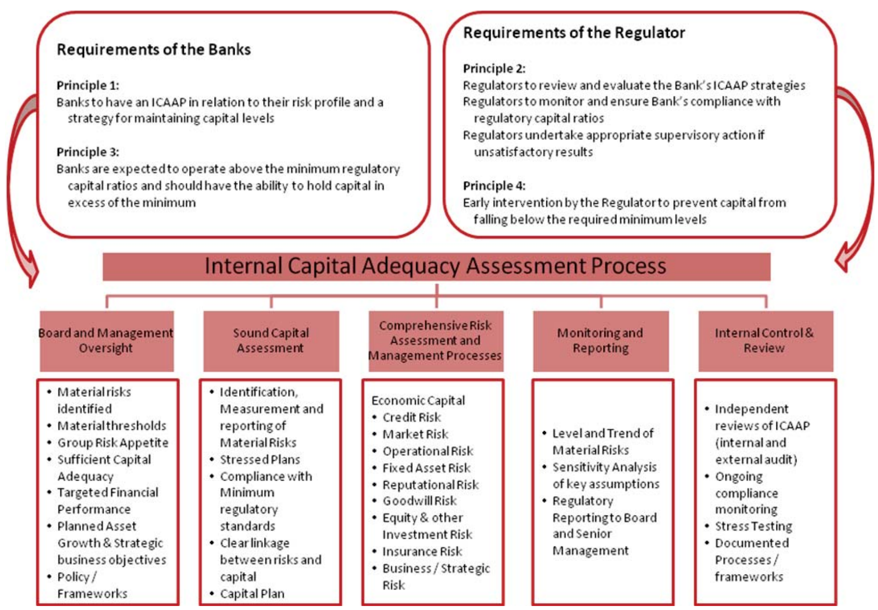
- The Group will develop a fully documented, Board approved comprehensive and credible internal economic capital model, targeted for basic introduction from FY 2013;
- In advance of the introduction of an economic capital model, regulatory capital will be used as a proxy in order to ease the transition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

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

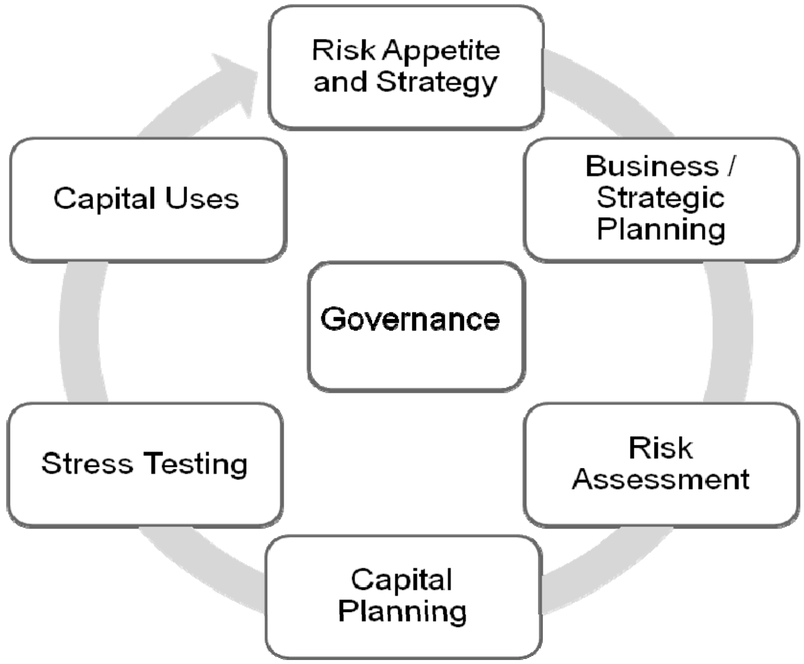
- Significant departure from its ICAAP;
- Concerns that the Board has about its capital adequacy along with proposed measures to address those concerns; and
- Significant changes in its capital.

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

ICAAP Framework



Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

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

Identification	• 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 & 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 as well as Shariah compliance risk (please refer to Section 14 for discussion on Shariah Governance).

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

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

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

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

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

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

The Group applies the 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, financing and advances are categorised as either:

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

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

A loan/financing is classified as impaired under the following circumstances:

(a) where the principal or interest/profit or both is past due or the amount outstanding is in excess of approved limit (for revolving facilities), each for more than 90 days or 3 months; or

(b) the loan exhibits weaknesses that render a classification appropriate to the Group's Credit Risk Rating Framework, which requires it to fall under the "unlikeliness to repay" category under the Group's Watchlist Policy.

(c) for loans with repayment schedules on quarterly basis or longer intervals to be classified as impaired as soon as default occurs, unless it does not exhibit any weakness that would render it classified according to Group's Credit Risk Rating Framework. Notwithstanding that, these loans shall be classified as impaired when the principal or interest/profit or both is past due for more than 90 days or 3 months.

(d) for distressed rescheduled and restructured ("R/R") facilities, these loans are categorised as "unlikeliness to repay" and classified as impaired. Non-performing R/R facilities remain impaired until re-aged.

5.1.2 Methodology for Determination of Individual and Collective Allowances

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

Individual Assessment

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

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

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

Collective Assessment

All financial assets below the significant threshold and those not assessed to be individually impaired, will be subject to collective assessment and a collective allowance will be computed accordingly.

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

(a) Transitional approach – where, banking institutions may maintain an allowance of at least 1.5 per cent of total outstanding loans net of individual impairment allowance; or

(b) Full FRS 139 compliance approach – where collective allowances are computed using models based on the banking institutions' history of experience.

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

Table 5.1: Distribution of gross credit exposures by sector

	Reporting date: 31 March 2012											
	Primary Agriculture RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurant and Hotel RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activities RM'000	Education, Health and Others RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures												
Sovereigns/ Central Banks	-	-	-	-	-	12,239			-	-	-	12,239
Banks, DFIs & MDBs	-	-	-	-	-	565,294			-	-	-	565,294
Corporates	4,856	851	-	-	3,096	702	3,456	45,486	1,101	502,988	11,179	573,715
Regulatory Retail	-	-	-	-	-	-			-	39,824	-	39,824
Higher Risk Assets	-	-	-	-	-	-			-	-	14,310	14,310
Other Assets	284	2,350	103	170	864	705,888	-	295,037	46	213,380	227	1,218,349
Equity	-	-	-	-	-	-			-	-	11,337	11,337
Defaulted Exposures	-	-	-	-	-	-			-	450	-	450
Total On-Balance Sheet Exposures	**5,140**	**3,201**	**103**	**170**	**3,960**	**1,284,123**	**3,456**	**340,523**	**1,147**	**756,642**	**37,053**	**2,435,518**
Off-Balance Sheet Exposures												
Off-balance sheet exposures other than OTC derivatives or credit derivatives	239	86	-	94,463	40	-	36,446	84,051	729	35,693	398	252,145
Defaulted Exposures	-	-	-	-	-	-			461	-	-	461
Total for Off-Balance Sheet Exposures	**239**	**86**	**-**	**94,463**	**40**	**-**	**36,446**	**84,051**	**1,190**	**35,693**	**398**	**252,606**
Total On and Off-Balance Sheet Exposures	**5,379**	**3,287**	**103**	**94,633**	**4,000**	**1,284,123**	**39,902**	**424,574**	**2,337**	**792,335**	**37,451**	**2,688,124**

Table 5.1: Distribution of gross credit exposures by sector

Reporting date: 31 March 2011	Primary Agriculture RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurant and Hotel RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activities RM'000	Education, Health and Others RM'000	Household RM'000	Others RM'000	Total RM'000
On Balance Sheet Exposures													
Sovereigns/ Central Banks	-	-	-	-	-	-	2,150	-	-	-	-	-	2,150
Banks, DFIs & MDBs	-	-	-	-	-	-	745,911	-	-	-	-	-	745,911
Corporates	2,000	2,104	-	-	4,129	-	37,803	3,658	1,000	-	454,824	2,719	508,237
Regulatory Retail	-	-	-	-	-	-	-	-	-	-	48,085	-	48,085
Higher Risk Assets	-	-	-	-	-	-	-	-	-	-	-	15,787	15,787
Other Assets	44	219	42	372	10	872	612,103	-	-	20	383,707	108,849	1,106,238
Defaulted Exposures	-	-	-	-	-	-	-	-	-	-	689	-	689
Total On-Balance Sheet Exposures	**2,044**	**2,323**	**42**	**372**	**4,139**	**872**	**1,397,967**	**3,658**	**1,000**	**20**	**887,305**	**127,355**	**2,427,097**
Off-Balance Sheet Exposures													
Off-balance sheet exposures other than OTC derivatives or credit derivatives	-	-	-	-	-	-	164,144	36,428	51,000	24	2,585	50	254,231
Defaulted Exposures	-	-	-	-	-	-	-	-	-	16	-	-	16
Total for Off-Balance Sheet Exposures	**-**	**-**	**-**	**-**	**-**	**-**	**164,144**	**36,428**	**51,000**	**40**	**2,585**	**50**	**254,247**
Total On and Off-Balance Sheet Exposures	**2,044**	**2,323**	**42**	**372**	**4,139**	**872**	**1,562,111**	**40,086**	**52,000**	**60**	**889,890**	**127,405**	**2,681,344**

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

31 March 2012	Household RM'000	Others RM'000	Not allocated RM'000	Total RM'000
Impaired loans, advances and financing	684	3,870	-	4,554
Past due loans/financing*	-	-	-	-
Individual allowance	479	3,082	-	3,561
Collective allowance	-	-	10,043	10,043
Charges for individual allowance	1,213	-	-	1,213
Write-offs against individual allowance	138	-	-	138
31 March 2011				
Impaired loans, advances and financing	1,225	4,695	-	5,920
Past due loans/financing*	-	-	-	-
Individual allowance	1,004	3,908	-	4,912
Collective allowance	-	-	9,202	9,202
Charges for individual allowance	397	-	-	397
Write-offs against individual allowance	508	-	-	508

*These are loans which are past due but not impaired

Table 5.3: Geographical distribution of credit exposures

	Reporting date: 31 March 2012		
	Inside Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On-Balance Sheet Exposures			
Sovereigns/ Central Banks	12,239	-	12,239
Banks, DFIs and MDBs	535,930	29,364	565,294
Corporates	294,315	279,400	573,715
Regulatory Retail	39,824	-	39,824
Higher Risk Assets	14,188	122	14,310
Other Assets	1,206,349	12,000	1,218,349
Equity	11,337	-	11,337
Defaulted Exposures	450	-	450
Total On-Balance Sheet Exposures	2,114,632	320,886	2,435,518
Off-Balance Sheet Exposures			
Off-balance sheet exposures other than OTC derivatives or credit derivatives	252,144	1	252,145
Defaulted Exposures	461	-	461
Total for Off-Balance Sheet Exposures	252,605	1	252,606
Total On and Off-Balance Sheet Exposures	**2,367,237**	**320,887**	**2,688,124**

	Reporting date: 31 March 2011		
	Inside Malaysia RM'000	Outside Malaysia RM'000	Total RM'000
On-Balance Sheet Exposures			
Sovereigns/ Central Banks	2,150	-	2,150
Banks, DFIs and MDBs	732,194	13,717	745,911
Corporates	257,963	250,274	508,237
Regulatory Retail	48,085	-	48,085
Higher Risk Assets	14,702	1,085	15,787
Other Assets	1,106,238	-	1,106,238
Defaulted Exposures	689	-	689
Total On-Balance Sheet Exposures	2,162,021	265,076	2,427,097
Off-Balance Sheet Exposures			
Off-balance sheet exposures other than OTC derivatives or credit derivatives	254,231	-	254,231
Defaulted Exposures	16	-	16
Total for Off-Balance Sheet Exposures	254,247	-	254,247
Total On and Off-Balance Sheet Exposures	**2,416,268**	**265,076**	**2,681,344**

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

31 March 2012	**Inside Malaysia RM'000**	**Outside Malaysia RM'000**	**Total RM'000**
Impaired loans, advances & financing	4,554	-	4,554
Past due loans/financing*	-	-	-
Individual allowance	3,561	-	3,561
Collective allowance	10,043	-	10,043
31 March 2011			
Impaired loans, advances & financing	5,920	-	5,920
Past due loans/financing*	-	-	-
Individual allowance	4,912	-	4,912
Collective allowance	9,202	-	9,202

*These are loans which are past due but not impaired

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

Reporting date: 31 March 2012	Up to 1 month RM'000	>1 to 3 months RM'000	>3 to 6 months RM'000	>6 to 12 months RM'000	>1 to 3 years RM'000	>3 to 5 years RM'000	> 5 years RM'000	No maturity specified RM'000	Total RM'000
On-Balance Sheet Exposures									
Sovereigns/ Central Banks	-	-	-	-	-	-	-	12,239	12,239
Banks, DFIs & MDBs	560,156	1,816	-	-	-	-	3,322	-	565,294
Corporates	222,891	56,729	134,706	125,799	952	29,761	-	2,877	573,715
Regulatory Retail	175	2	34	687	975	34,154	3,797	-	39,824
Higher Risk Assets	-	-	-	-	-	-	2,200	12,110	14,310
Other Assets	1,139,115	-	-	8,230	-	-	165	70,839	1,218,349
Equity	-	-	-	-	-	-	-	11,337	11,337
Defaulted Exposures	93	-	-	207	150	-	-	-	450
Total On-Balance Sheet Exposures	1,922,430	58,547	134,740	134,923	2,077	63,915	9,484	109,402	2,435,518
Off-Balance Sheet Exposures									
Off-balance sheet exposures other than OTC derivatives or credit derivatives	135	1,449	3,027	53,831	36,714	131,080	25,909	-	252,145
Defaulted Exposures	-	-	-	-	-	-	461	-	461
Total for Off-Balance Sheet Exposures	135	1,449	3,027	53,831	36,714	131,080	26,370	-	252,606
Total On and Off-Balance Sheet Exposures	1,922,565	59,996	137,767	188,754	38,791	194,995	35,854	109,402	2,688,124

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

Table 5.6: Reconciliation of changes to loans impairment allowances

	Reporting date: 31 March 2012	
	Individual impairment alowances RM'000	**Collective impairment allowances RM'000**
Balance at 1 April	4,912	9,202
Charge for the year – net	(1,213)	865
Amount written-off	(138)	(24)
Balance at 31 March	3,561	10,043

	Charge offs/ recoveries RM'000
Bad debts written off during the year	-
Bad debt recoveries during the year	(2)

	Reporting date: 31 March 2011	
	Individual impairment alowances RM'000	**Collective impairment allowances RM'000**
Balance at 1 April	5,817	6,624
Charge for the year – net	(397)	2,589
Amount written-off	(508)	(11)
Balance at 31 March	4,912	9,202

	Charge offs/ recoveries RM'000
Bad debts written off during the year	(36)
Bad debt recoveries during the year	4

6.0 Credit Risk Exposure under Standardised Approach

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

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

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

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

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

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

2012
Group

Risk Weights	Exposures after Netting and Credit Risk Mitigation								Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	Banks, MDBs and FDIs	Insurance Cos, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Higher Risk Assets	Other Assets	Equity		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	12,239	-	-	-	-	-	14	-	12,253	-
20%	-	564,617	-	-	-	-	302,862	-	867,479	173,496
50%	-	677	-	67,813	-	-	-	-	68,490	34,245
75%	-	-	-	-	8,165	-	-	-	8,165	6,124
100%	-	-	26,650	264,123	326	-	915,473	11,337	1,217,909	1,217,909
150%	-	-	-	461	150	14,310	-	-	14,921	22,382
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	
Total	12,239	565,294	26,650	332,397	8,641	14,310	1,218,349	11,337	2,189,217	1,454,156

2011
Group

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

Table 6.2: Rated Exposures according to Ratings by ECAIs

2012
Group

EXPOSURE CLASS	Ratings of Corporate by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc.	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures Credit Exposures						
Insurance Cos., Securities Firms & Fund managers	**26,650**	-	-	-	-	26,650
Corporates	**332,396**	714	742	-	-	330,940
Total	**359,046**	714	742	-	-	357,590

2011
Group

EXPOSURE CLASS	Short term Ratings of Banking Institutions and Corporates by Approved ECAIs					
	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 Inc.	a-1+,a-1	a-2	a-3	b,c	Unrated
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures Credit Exposures						
Insurance Cos., Securities Firms & Fund managers	**26,650**	-	-	-	-	26,650
Corporates	**239,536**	-	-	-	-	239,536
Total	**266,186**	-	-	-	-	266,186

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

2012
Group

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks	**12,239**	-	12,239	-	-	-	-
Total	**12,239**	**-**	**12,239**	**-**	**-**	**-**	**-**

2011
Group

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks	**2,150**	-	-	-	-	-	2,150
Total	**2,150**	**-**	**-**	**-**	**-**	**-**	**2,150**

2012
Group

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs	**565,294**	-	2,063	286,156	-	-	277,075
Total	**565,294**	**-**	**2,063**	**286,156**	**-**	**-**	**277,075**

2011
Group

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs	**745,911**	-	115	527,285	-	-	218,511
Total	**745,911**	**-**	**115**	**527,285**	**-**	**-**	**218,511**

Table 6.3: Securitisation according to Ratings by ECAIs

2012
Group

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

2012
Group

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

2011
Group

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

2011
Group

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

7.0 Credit Risk Mitigation

Main types of collateral taken by the Group

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

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

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

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

Processes for collateral management

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

Guarantee Support

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

Use of credit derivatives and netting for risk mitigation

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

Transaction structuring to mitigate credit risk

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

Concentrations of credit risk mitigation

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

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

Table 7.1: Credit Risk Mitigation

2012
Group

Exposures	Exposures before CRM	Exposures covered by Eligible Financial Collateral
Credit Risk	**RM'000**	**RM'000**
On-Balance Sheet Exposures		
Sovereigns/Central Banks	12,239	-
Bank, DFIs & MDBs	565,294	-
Corporates	573,715	491,240
Regulatory Retail	39,824	44,237
Higher Risk Assets	14,310	-
Equity Exposures	11,337	-
Other Assets	1,218,349	-
Defaulted Exposures	450	300
Total On-Balance Sheet Exposures	**2,435,518**	**535,777**
Off-Balance Sheet Exposures		
Off-balance sheet exposures other than OTC derivatives or credit derivatives	252,145	-
Defaulted Exposures	461	-
Total for Off-Balance Sheet Exposures	252,606	-
Total On and Off-Balance Sheet Exposures	**2,688,124**	**535,777**

2011
Group

Exposures	Exposures before CRM	Exposures covered by Eligible Financial Collateral
Credit Risk	**RM'000**	**RM'000**
On-Balance Sheet Exposures		
Sovereigns/Central Banks	2,150	-
Bank, DFIs & MDBs	745,911	-
Corporates	508,237	510,371
Regulatory Retail	48,085	52,885
Higher Risk Assets	15,787	-
Other Assets	1,106,238	-
Defaulted Exposures	689	689
Total On-Balance Sheet Exposures	**2,427,097**	**563,945**
Off-Balance Sheet Exposures		
Off-balance sheet exposures other than OTC derivatives or credit derivatives	254,231	-
Defaulted Exposures	16	-
Total for Off-Balance Sheet Exposures	254,247	-
Total On and Off-Balance Sheet Exposures	**2,681,344**	**563,945**

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

8.1 Off-Balance Sheet exposures

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

(1) Credit related exposures, e.g. guarantees given on behalf of customers, underwriting liabilities and irrevocable commitment to extend credit

(2) Derivatives Financial Instruments, e.g. foreign exchange related contract (forwards exchange contracts), equity related contracts (futures and contract for differences).

(3) Other treasury-related exposures, e.g. forward purchase commitment

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

8.2 Counterparty Credit Risk

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

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

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

- The mark-to-market is essentially the current replacement cost of the contract, and can be positive or negative. Where it is positive, i.e. in the money, the Group has credit exposure against the counterparty; if it is negative, i.e. out of the money, the negative value will be used.

- The PCRE factors recognize that prices change over the remaining period to maturity, and that risk increases with time. The PCRE factors are mandated for regulatory capital purposes.

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

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

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

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

Table 8.1 Off-Balance Sheet Exposures

The aggregated 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	181,890	-	181,890	147,984
Obligations under an on-going underwriting agreement	148,100			
Foreign exchange related contracts				
One year or less	1,292	1		
Equity related contracts				
One year or less	30,429	86	1	1
Over five years	20			
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	175	-	88	66
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	353,134	-	70,627	31,371
Total	**715,040**	**87**	**252,606**	**179,422**

	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	209,579	-	209,579	196,174
Foreign exchange related contracts				
One year or less	2,375	10	-	-
Equity related contracts				
One year or less	2,247	-	-	-
Over five years	13,480	303		
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	7,353		1,603	222
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	215,910	-	43,065	5,981
Total	**450,944**	**313**	**254,247**	**202,377**

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

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

9.0 Securitisation

9.1 Definition of Securitisation

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

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

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

9.2 Objectives, roles and involvement

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

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

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

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

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

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

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

9.2.3 Risk measurement and reporting of securitisation exposures

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

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

For all traditional securitisation transactions where the Group entity acts as the sponsor[3], such transactions will be structured to comply with the Securities Commission's Guidelines on the Offering of Asset-Backed Securities ("ABS Guidelines") and, where applicable, the BNM's Prudential Standards on Securitisation Transactions. The SPVs used and to be used by the Group entity will comply with the requirements of the ABS Guidelines.

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

9.2.5 Accounting Policies for Securitisation

Securitisation of the Group originated assets

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

Qualitative factors – in substance:

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

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

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

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

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

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

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

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

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

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

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

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

9.2.6 Use of external rating agencies

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

[3] per BNM's clarification, a banking institution is considered a sponsor if it in fact or in substance 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.

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 & governance requirements to mitigate specific operational risk • Advisory on the establishment of internal controls • Contingency planning
Monitoring/ Review	• Monitoring and reporting of loss incidents by Event Type, • Periodical review of risk profile within Line of Business

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external incidents which includes legal risk and Shariah compliance risk (Please refer to Chapter 14 for discussion on Shariah Governance). It excludes strategic, systemic and reputational risk.

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

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

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

- The Incident Management and Data Collection ("IMDC") module provides a common platform for reporting an operational risk incident that falls within one of the seven Event Types as stated in Basel II. IMDC also serves as a centralised database of operational risk incidents to model the potential exposure to future operational risks and estimate the amount of economic capital charge.
- The Risk and Control Self Assessment ("RCSA") is a process of continual assessment of risks and controls effectiveness. By using structured questionnaires to assess and measure key risk and its corresponding controls effectiveness, RCSA provides risk profiling across the Group.
- The Key Risk Indicators ("KRI") module provides early warning of increasing risk and/or control failures by monitoring the changes of the underlying risk measurements.

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

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

The Group adopts Basic Indicator Approach for the operational risk capital charge computation.

10.1 Business Continuity Management

The Business Continuity Management ("BCM") 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 & governance requirements to mitigate specific operational risk • Advisory on the establishment of internal controls • Contingency planning
Monitoring/ Review	• Monitoring and reporting of loss incidents by Event Type, Portfolio and Line of Business • Periodical review of risk profile within Line of Business

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

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

The Group is continuously reviewing the level of business operations resiliency as to enhance the BCM capability throughout all department and branches across the region. Training is an on-going agenda to heighten the BCM awareness and inculcate a business resilience culture.

10.2 Legal Risk

In all the jurisdictions that the Group conducts its business, it is subject to legal risks arising from potential breaches of applicable laws, unenforceability of contracts, lawsuits, or adverse judgment, which may lead to incurrence of losses, disrupt or otherwise impact on the Group's financials or reputation.

Legal risk is managed by internal legal counsel as well as the Operational & Legal Risks Management Committee and, where necessary, in consultation with external legal counsel to ensure that such risk is minimised.

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 Group Market Risk ("GMR"). For Islamic products and activities, the Shariah compliance risk is also assessed and monitored (please refer to Section 14 for discussion on Shariah Governance).

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	• Recommend / validate methodologies to calculate: - Value-at-risk ("VaR") - Profit-at-Risk ("PaR") - Capital-at-Risk ("CaR") - Other Detailed Management Controls
Controls/ Mitigation	• Recommend: - VaR Limits - PaR Limits - CaR Limits - Loss Limits (Annual/ Monhtly/ Daily) - Concentration Limits - Greeks Limits (Delta/ Gamma/ Delta-Gamma/ Vega/ Theta) - Dollar/ Present Value of One Basis Point ("DV01/OV01") - Stealth Limits - Position Size Limits - Maximum Holding Period
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.

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 (i.e. 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 (e.g. 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. This serves as a financial buffer to withstand 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 books are primarily categorised as follows:

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

- Equity investments on which capital gains are expected – These transactions are 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 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 less impairment losses (if any) 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 aggregated 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	11,337	514
Value of unquoted (privately held) equities	14,310	15,073
Total	25,647	15,587
Net realised and unrealised gains/(losses)		
Cumulative realised gains/(losses) from sales and liquidations	1,206	3,468
Total unrealised gains/(losses)	(1,013)	224
Total	193	3,692
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	11,337	-
Equity investments subject to a 150% risk weight	21,465	23,381
Total	32,802	23,381
Total minimum capital requirement (8%)	2,624	1,870

13.0 Non-Traded Market Risk ("NTMR")

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

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

Identification	• Identify interest rate/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	• Establish 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 margins and implied volatilities on interest/profit rate options. The provision of retail and wholesale banking products and services (primarily lending and deposit taking activities) creates interest/profit rate-sensitive positions in the 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 the GALCO. GALCO is responsible for the alignment of Group-wide risk appetite and funding needs, taking into consideration the Group-wide business strategies. GALCO consistently manages the Group's gapping positions, asset growth and liability mix against the interest/profit rate outlook. It also reviews strategies to ensure a comfortable level of interest/profit rate risk is maintained. The Group has successfully engaged long-term borrowings and written interest/profit rate swaps to reduce longer tenure interest/profit rate risk, and maintained a comfortable gapping profile as a result. In accordance with the Group's policy, positions are monitored on a monthly basis and hedging strategies are used to ensure risk exposures are maintained within board-established limits.

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

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

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

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

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

IRR/RORBB is calculated monthly and reported to GALCO.

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

Impact on Profit or Loss

	2012		2011	
Currency	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**
MYR	**6,355**	**(6,355)**	**5,829**	**(5,829)**

Impact on Equity

	2012		2011	
Currency	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**	**Interest Rate + 100 bps (RM'000)**	**Interest Rate - 100 bps (RM'000)**
MYR	**720**	**(699)**	**(420)**	**475**

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

13.2 Liquidity and Funding Risk

Liquidity risk is the risk that the 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.

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.

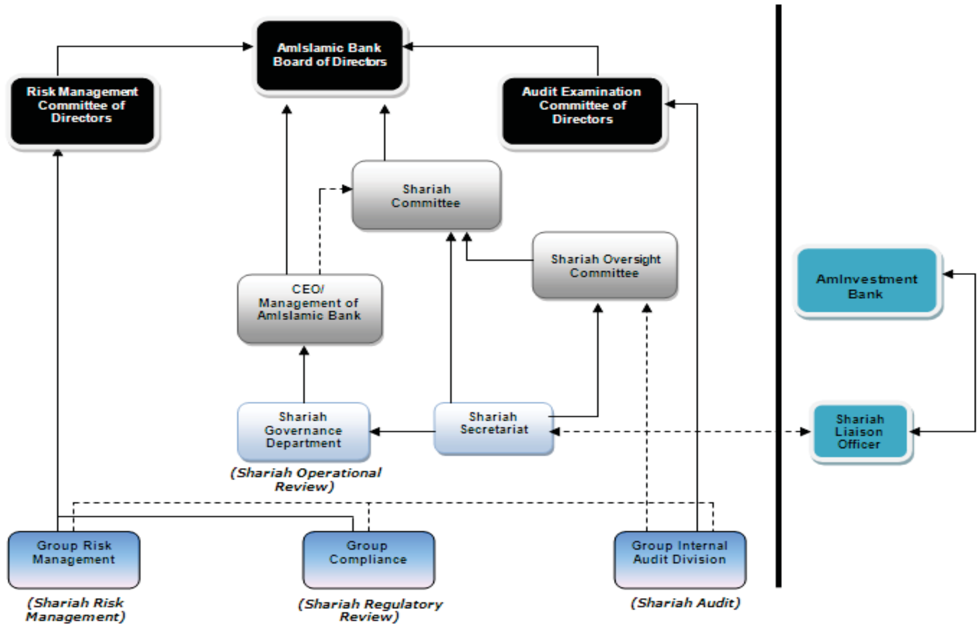
Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Group's liquidity at risk. The stress testing output contributes to the development of the liquidity risk limits and the Group's Contingency Funding Plan.

The Group stresses the importance of customer deposit accounts as a source of funds to finance lending to customers. They are monitored using the adjusted loans/financing to deposit ratio ("LDR"), 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.

Given the universal banking model of the Group, the centralisation of treasury functions and deposit gathering within AmBank (M) Berhad ("AmBank"), a related company and the Bank, the adjusted LDR is not relevant to the activities undertaken by the Bank. The Bank is predominantly funded via AmBank and thus its liquidity risks are captured within AmBank's liquidity risk metrics.

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 Bank Negara Malaysia's requirements on Basel III liquidity metrics in accordance with its recently approved timetable for implementation.

14.1 Shariah Governance Structure



A Shariah governance framework is put in place in the organisational structure of the Group for its Islamic banking operations, which includes establishment of the Shariah Committee in line with the requirement of Section 3(5)(b) of The IBA and BNM's "Shariah Governance Framework for Islamic Financial Institutions". The Bank's Shariah Governance Structure leverages on the Group's shared platforms such as Group Risk Management Department, Group Compliance Department, and Group Internal Audit Division for key Shariah functions.

AmInvestment Bank through its Islamic window i.e. Islamic Markets Department leverages on AmIslamic Bank/ AmBank Group Shariah Governance Structure, including the Shariah Committee and the Shariah Secretariat of AmIslamic Bank. Alternatively, they may also opt for independent external Shariah advisors as approved by the Securities Commission (SC) of Malaysia when necessary and will be on ad-hoc basis.

In addition, the Group Islamic banking operations practice first-level check on Shariah requirements by Business Units through Shariah guides and awareness programs. Each department at AmIslamic Bank is also designed to interface with Business Units and shared services of the Group. These departments function to bridge the understanding of Shariah requirements and are the frontline to disseminate and guide on implementation of Shariah requirements. References are made from existing Shariah guides issued by the Shariah Governance Departmentand endorsed by the Shariah Committee.

Board of Directors
The Board of Directors is accountable and responsible for the overall oversight on Shariah governance structure, including the appointment of Shariah Committee members. The Board performs its oversight through various committees such as Audit Examination Committee of Directors ("AEC"), Risk Management Committee of Directors ("RMCD") and Shariah Committee.

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

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

Shariah Committee
The Shariah Committee is responsible and accountable on matters related to Shariah. This includes advising the Board and Management on Shariah matters and endorsing and validating products and services, and the operations in relation to Islamic Banking. The Shariah Committee reports functionally to AmIslamic Bank's Board of Directors and this provides for the independence of the Shariah Committee in exercising their duties.

Shariah Oversight Committee
The Shariah Oversight Committee, which is a sub-committee to the Shariah Committee performs an oversight function for the key Shariah functions; Shariah review, Shariah Audit, and Shariah Risk Management.

Chief Executive Officer / Management

The CEO / management is responsible to make reference to the Shariah Committee on Shariah issues and to take necessary measures for implementation of Shariah Committee's advice and decisions. The CEO / management is also responsible in setting the infrastructure and providing the environment and adequate resources to support the Shariah governance framework. This includes putting in place adequate systems and controls in order to ensure compliance with Shariah and mitigate Shariah risk.

Shariah Governance Department

The Shariah Governance Department operates as a one-stop centre for all Shariah related operational issues of Islamic businesses. This includes providing day-to-day Shariah advisory and support function, Shariah operational review, Shariah research, and as Secretariat to the Shariah Committee and Shariah Oversight Committee. In addition, the Shariah Governance Department also perform the zakat and charity management.

Group Internal Audit Division

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

Group Compliance Department

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

Group Risk Management Department

Shariah risk management leverages on existing infrastructure within Group Risk Management Department (GRMD) in managing the Shariah risk. GRMD engages Group Islamic banking operations to review and ensure that Islamic products and financing proposals are Shariah compliant by referring to available Shariah guides.

14.1 Non-Shariah compliant income

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