AmIslamic Bank Berhad

(Company No. 295576–U)
(Incorporated in Malaysia)

CAFIB - Pillar 3 Disclosures

31 March 2013

CAFIB - Pillar 3 Disclosures
31 March 2013

Table of Contents **Page**

1.0 Scope of Application

The Bank Negara Malaysia's ("BNM") Risk Weighted Capital Adequacy Framework - Basel II and Capital Adequacy Framework for Islamic Bank - CAFIB ("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 RWCAF framework is applicable to the Bank, a subsidiary of AMMB Holdings Berhad ("AMMB"), which offers Islamic banking services.

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

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.

With effect from 1 January 2013, the capital adequacy ratios are computed in accordance to BNM's guidelines on Capital Adequacy Framework (Capital Components) issued by the Prudential Financial Policy Department on 28 November 2012, which is based on the Basel III capital accord. Prior to that, the capital adequacy ratios of the Bank were computed in accordance to BNM's Risk-Weighted and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components), which are based on the Basel II capital accord. The Bank has adopted the Standardised Approach for Credit and Market Risks and the Basic Indicator Approach for Operational Risk, based on BNM's Guidelines on Risk-Weighted Capital Adequacy Framework (Basel II – Risk-Weighted Assets).

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

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

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

2.0 Capital Management

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

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

The capital plan takes the following into account:

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

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

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

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

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

2.0 Capital Management (Contd.)

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

The capital that the Bank is required to hold is determined by its statement of financial position, commitments and contingencies, counterparty and other risk exposures after applying collateral and other mitigants, based on the Bank's risk rating methodologies and systems. 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 Bank 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 Assets and Liabilities Committee ("GALCO"), which is responsible for managing the Bank'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 Bank's capital position and any actions impacting the capital levels. The Audit and Examination Committee ("AEC") reviews specific risk areas and the issues discussed at the key capital management committees.

GALCO proposes internal triggers and target ranges for capital management and operationally oversees adherence with these. For the current financial year ended 31 March 2013 ("FY 2013"), these ranges are 7.3 per cent to 9.3 per cent for the Common Equity Tier 1 capital ratio, 9.3 per cent to 11.3 per cent for the Tier 1 capital ratio, and 13.3 per cent to 15.3 per cent for the Total Capital ratio. The Bank has been operating within these ranges.

A dedicated team, the Capital and Balance Sheet Management Department, is responsible for the on-going assessment of the demand for capital and the updating of the Bank's capital plan.

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

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.

2.0 Capital Management (Contd.)

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

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 AMMB and its group entities when due.

Table 2.1: Capital Adequacy Ratios

The capital adequacy ratios of the Bank as at 31 March 2013 are as follows:

The comparative capital adequacy ratios are based on the Basel II accord and have not been restated based on Basel III accord as the Basel III is implemented on a prospective basis with effect from 1 January 2013.

	31 March 2013
Common Equity Tier 1	9.5%
Tier 1 capital ratio	9.5%
Total capital ratio	14.6%

	31 March 2012
Core capital ratio	9.0%
Risk weighted capital ratio	15.0%

On 28 December 2012, as part of an arrangement between AmBank (M) Berhad (“AmBank”) and the Bank in relation to a Restricted Profit Sharing Investment Account (“RPSIA”) agreement, AmBank records as deposits and placements with banks and other financial institutions its exposure in the arrangement, whereas the Bank records its exposure as financing and advances. The RPSIA is a contract based on Shariah concept of Mudharabah between AmBank and the Bank to finance a specific business venture where by AmBank solely provides capital and the business ventures are managed solely by the Bank as the entrepreneur. The RPSIA exposes AmBank to the risks and rewards of the financing, and accordingly AmBank accounts for all impairment allowances and risk-weighted assets arising from the RPSIA financing.

As at 31 March 2013, the gross exposure and collective allowance relating to the RPSIA financing were RM500.9 million and RM2.1 million respectively. There was no individual allowance provided for the RPSIA financing. RPSIA assets excluded from the risk-weighted capital adequacy computation of the Bank amounted to RM500.9 million and the risk-weight on these RPSIA assets are accounted for in the computation of capital adequacy of AmBank.

Table 2.2: Risk Weighted Assets and Capital Requirements

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

2013

Exposure Class		Gross Exposures/ EAD before Credit Risk Mitigation ("CRM")	Net Exposures/ EAD after CRM	Risk Weighted Assets	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
1. **Credit Risk**							
On-Balance Sheet Exposures							
Sovereigns/Central Banks		6,062,718	6,062,718	-	-	-	-
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		1,948,473	1,948,473	394,247	-	394,247	31,540
Corporates		9,932,971	9,788,718	8,085,735	500,866	7,584,869	606,790
Regulatory Retail		13,155,072	13,142,161	10,037,300	-	10,037,300	802,984
Residential Mortgages		147,218	147,188	51,849	-	51,849	4,148
Other Assets		240,332	240,332	237,848	-	237,848	19,028
Defaulted Exposures		204,858	202,541	250,127	-	250,127	20,010
Total On-Balance Sheet Exposures		**31,691,642**	**31,532,131**	**19,057,106**	**500,866**	**18,556,240**	**1,484,500**
Off-Balance Sheet Exposures							
Over the counter ("OTC") Derivatives		51,471	51,471	28,935	-	28,935	2,315
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		2,020,450	1,913,280	1,854,574	-	1,854,574	148,366
Defaulted Exposures		9,218	8,970	13,454	-	13,454	1,076
Total Off-Balance Sheet Exposures		**2,081,139**	**1,973,721**	**1,896,963**	**-**	**1,896,963**	**151,757**
Total On and Off-Balance Sheet Exposures		**33,772,781**	**33,505,852**	**20,954,069**	**500,866**	**20,453,203**	**1,636,257**
2. **Large Exposure Risk Requirement**							
3. **Market Risk**	**Long Position**	**Short Position**					
Rate of Return Risk							
- General profit rate risk	1,935,655	630,342		414,905	-	414,905	33,193
- Specific profit rate risk	1,305,282	-		163,048	-	163,048	13,044
Foreign Currency Risk	5,167	-		5,167	-	5,167	413
Total	**3,246,104**	**630,342**		**583,120**	**-**	**583,120**	**46,650**
4. **Operational Risk**				1,406,226	-	1,406,226	112,498
5. **Total RWA and Capital Requirements**				22,943,415	500,866	22,442,549	1,795,405

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

The breakdown of risk weighted assets ("RWA") by exposures in major risk category of the Bank are as follows:

2012

Exposure Class		Gross Exposures/ EAD before Credit Risk Mitigation ("CRM")	Net Exposures/ EAD after CRM	Risk Weighted Assets	Minimum Capital Requirement at 8%
	RM'000	RM'000	RM'000	RM'000	RM'000
1. **Credit Risk**					
On-Balance Sheet Exposures					
Sovereigns/Central Banks		2,963,412	2,963,412	-	-
Banks, Development Financial Institutions ("DFI") and Multilateral Development Banks ("MDBs")		2,043,864	2,043,864	408,773	32,702
Corporates		7,353,744	7,171,709	6,080,568	486,445
Regulatory Retail		11,340,037	11,330,465	8,596,987	687,759
Residential Mortgages		166,351	166,316	59,482	4,759
Other Assets		302,025	302,026	297,735	23,819
Defaulted Exposures		195,165	194,203	255,161	20,413
Total On-Balance Sheet Exposures		**24,364,598**	**24,171,995**	**15,698,706**	**1,255,897**
Off-Balance Sheet Exposures					
Over the counter ("OTC") Derivatives		35,840	35,840	17,901	1,432
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives		1,588,760	1,445,132	1,375,532	110,042
Defaulted Exposures		2,648	2,518	3,776	302
Total Off-Balance Sheet Exposures		**1,627,248**	**1,483,490**	**1,397,209**	**111,776**
Total On and Off-Balance Sheet Exposures		**25,991,846**	**25,655,485**	**17,095,915**	**1,367,673**
2. **Large Exposure Risk Requirement**					
3. **Market Risk**	**Long Position**	**Short Position**			
Rate of Return Risk					
- General profit rate risk	2,565,717	812,263		273,208	21,857
- Specific profit rate risk	1,753,346	-		103,245	8,260
Foreign Currency Risk	7,591	251		7,591	607
Total	**4,326,654**	**812,514**		**384,044**	**30,724**
4. **Operational Risk**				1,327,826	106,226
5. **Total RWA and Capital Requirements**				18,807,785	1,504,623

The Bank does not have Profit-Sharing Investment Account ("PSIA") that qualifies as a risk absorbent as at 31 March 2012.

3.0 Capital Structure

Table 3.3 Capital Structure summarises the capital position of the Bank. Under basel III the capital structure of the Bank includes capital under the following headings:

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

All capital instruments included in the capital base have been issued in accordance with the BNM rules and guidelines. The existing Tier 2 Capital instruments of the Bank do not meet all qualifying criteria for full recognition of capital instruments under the Basel III accord, on the requirements for loss absorbency at the point of non-viability, and write-off or conversion mechanisms for achieving principal loss absorption and/or loss absorbency at the point of non-viability. The Bank's Tier 2 Capital instruments qualify for the gradual phase-out treatment under the transitional arrangements of the Basel III accord. Under this treatment, the amount of capital instruments that can be recognized by the Bank shall be capped at 90% of the base in 2013 (as counted separately for Additional Tier 1 Capital (if any) and Tier 2 Capital respectively), with the cap reducing by 10% in each subsequent year. To the extent that an instrument is redeemed or derecognized after 1 January 2013, the amount serving as the base is not reduced.

3.1 Common Equity Tier 1 Capital

Common Equity Tier 1 Capital consists of the following:

Paid-up Ordinary Share Capital

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

On 27 December 2012, the Bank implemented a rights issue of shares on the following basis:

a. issue of 34,884,000 new ordinary shares of RM1.00 each by the Bank allotted to AMMB on the basis of 1,000,000 new ordinary shares for every 12,270,325 existing ordinary shares held; and

b. the issue price of the new ordinary shares was RM4.30 per share, determined with reference to the net asset value per share as at 30 September 2012 of RM4.30 (with a 3.3% premium thereon).

3.1 Tier 1 Capital (Contd.)

Paid-up Ordinary Share Capital(Contd.)

The Rights Issue has raised RM150.0 million ordinary capital for the Bank and AMMB had fully subscribed for its entitlement to the Rights Issue with its own cash resources.

Share Premium

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

Retained Earnings

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

Other Disclosed Reserves

Other disclosed reserves comprise the following:

- **Statutory Reserve**

  Statutory reserve is maintained in compliance with the provisions of IBA and is not distributable as cash dividends.

- **Unrealized Gains on Available-for-Sale Financial Instruments**

  This comprises the unrealized gains arising from changes in fair value of financial instruments (other than financing and receivables) classified as 'available-for-sale'. Where the available-for-sale reserve is a net gain outstanding balance, the Bank can recognize 45 per cent of the total outstanding balance as part of Common Equity Tier 1. Where the available-for-sale reserve is a net loss outstanding balance, the entire outstanding balance is deducted in Common Equity Tier 1.

3.2 Additional Tier 1 Capital

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

3.3 Tier 2 capital

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

The amount of Tier 2 capital that can be recognized in the computation of the capital adequacy ratios of the Bank has been capped at 90% of the total qualifying Tier 2 balance outstanding as at 1 January 2013. This is in accordance to the transitional gradual phase-out treatment under the Basel III regime. Table 3.1 outlines the application of the grandfathering provisions in respect of the Tier 2 capital instruments for the Bank, Details of the Tier 2 capital instruments are outlined below.

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

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

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

3.3 Tier 2 capital (Contd.)

Subordinated Sukuk Musharakah

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

On the same date, RM600.0 million subordinated securities were issued under this programme.The first tranche of the Sukuk Musharakah carries a profit rate of 4.40% per annum and is payable on a semi-annual basis.

On 31 January 2012, the BAnk issued the second tranche of the Sukuk Musharakah of RM200.0 million. The second tranche carries a profit rate of 4.35% per annum, and is payable on a semi-annual basis.

On 24 December 2012, AmIslamic issued the third tranche of the Sukuk Musharakah of RM200.0 million. The third tranche carries a profit rate of 4.45% per annum, and is payable on a semi-annual basis.

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

3.3 Tier 2 capital (Contd.)

Table 3.2: Capital Structure

The components of Common Equity Tier 1, Additional Tier 1, Tier 2, and Total Capital of the Bank as at 31 March 2013 are as follows:

	31 March 2013 RM'000
Common Equity Tier 1 ("CET1") Capital	
Ordinary shares	462,922
Share premium	724,185
Retained earnings	521,327
Unrealised losses on available-for-sale ("AFS") financial instruments	(7,256)
Statutory reserve	424,266
Less : Regulatory adjustments applied on CET1 capital	
- Intangible assets	(50)
CET1 capital	2,125,394
Additional Tier 1 ("T1") capital	
Additional Tier 1 capital instruments (subject to gradual phase-out treatment)	-
Less : Regulatory adjustments applied on T1 capital	-
T1 capital	2,125,394
Tier 2 ("T2") capital	
Tier 2 capital instruments (subject to gradual phase-out treatment)	900,000
Collective allowance and regulatory reserves	255,665
Less : Regulatory adjustments applied on Tier 2 capital	-
Tier 2 capital	1,155,665
Total Capital	3,281,059

3.3 Tier 2 capital (Contd.)

Table 3.2: Capital Structure

The components of Tier 1 and Tier 2 Capital of the Bank incorporating restatement arising from adoption of Malaysian Financial Reporting Standard ('MFRS") are as follows:

	2012 RM'000
Tier 1 Capital	
Paid-up ordinary share capital	428,038
Share premium	609,068
Statutory reserve	359,716
Retained earnings	327,970
	1,724,792
Less : Deferred tax asset	(33,087)
Total Tier 1 Capital	1,691,705
Tier 2 Capital	
Subordinated Sukuk Musharakah	800,000
Collective allowance #	328,333
Total Tier 2 Capital	1,128,333
Capital base	2,820,038

Excludes collective allowance on impaired financing restricted from Tier 2 capital of the Bank as at 31 March 2012 of RM92,469,000.

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

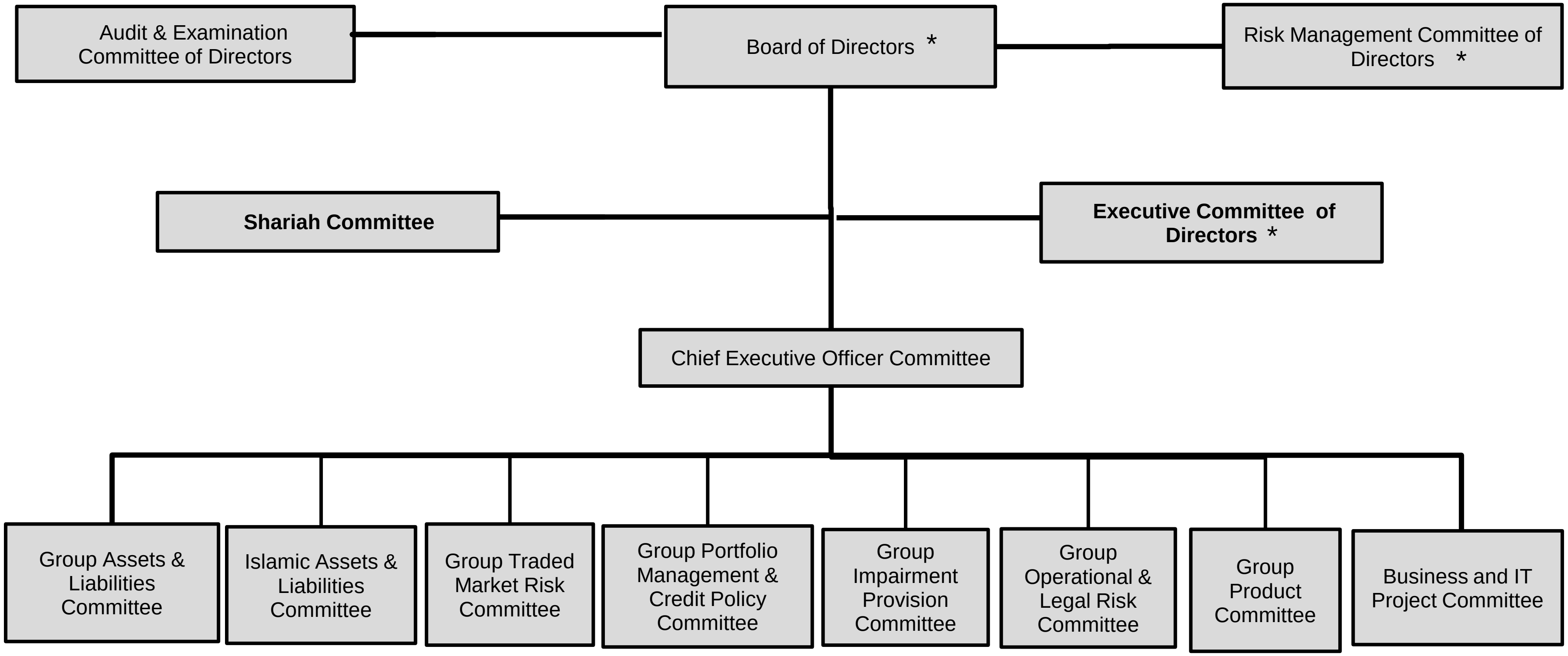
The Risk Appetite Framework provides portfolio parameters for Credit Risk, Traded Market Risk, Non-Traded Market Risk and Operational Risk incorporating, inter alia, limit structures for countries, industries, single counterparty, value at risk, capital at risk, earnings at risk, stop loss, stable funding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

Risk Management Governance

The Board of Directors is ultimately responsible for the management of risks within the Bank. 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 to assist it in managing the risks and businesses of the Bank. The following chart sets out the organisational structure of the risk management committees and an overview of the respective committee's roles and responsibilities.

4.0 Risk Management Framework (Contd.)



** At entity level*

4.0 Risk Management Framework (Contd.)

Committee	Roles and Responsibilities
Risk Management Committee of Directors (“RMCD”)	- Oversee senior management activities in managing risk (covering credit, market, funding, operational, legal, regulatory capital and strategic risk) and to ensure that the risk management process is in place and functioning. - Report and advise the Board of Directors 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 Bank. - Provide assistance to Board of Directors in ensuring the Islamic Banking operations of the Bank 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 function; Shariah review, Shariah audit and Shariah Risk Management.
Executive Committee of Directors (“EXCO”)	- Responsible to consider and approve credit facilities and commitments 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 commitments that exceeds certain thresholds.
Chief Executive Officer Committee (“CEO Committee”)	- Responsible for overall day to day operations of the Bank such as oversee management’s activities in managing risk, review high level risk exposures, portfolio composition and risk strategies; and evaluate the existence and effectiveness of the control and risk management infrastructure. - Report and advise the Board of Directors on risk issues.
Group Assets and Liabilities Committee (Conventional and Islamic) (“GALCO”)	- Responsible for the development of capital and balance sheet management policy, approve and oversee non-traded interest/profit risk exposures, liquidity and funding framework and hedging and management of structural foreign exposure. Ensure fund transfer pricing is effective and fair and capital is managed.
Islamic Assets and Liabilities Committee	- Responsible for the development of Islamic capital and balance sheet management policy, approve and oversee rate of return risk exposures, liquidity and funding framework and hedging and management of structural foreign exposure. Ensure fund transfer pricing is effective and fair and capital is managed.

4.0 Risk Management Framework (Contd.)

Committee	Roles and Responsibilities
Group Traded Market Risk Committee ("GTMRC")	- Responsible for the 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 Bank.
Group Portfolio Management and Credit Policy Committee ("GPMCP")	- Responsible for the development of 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 Bank.
Group Impairment Provision Committee ("GIPC")	- Responsible for the development of key policies relating to impairment provisions, ensure provisions are assessed and made in accordance with Board approved policies and MFRS 139 and MFRS 137 standards and establish adequate management governance for the determination of provisions.
Group Operational and Legal Risk Committee ("GOLRC")	- Responsible for endorsing operational risk, legal risk and regulatory compliance framework, oversee operational risk and legal risk management and reviews regulatory actions or any incidences that may give rise to operational and legal risk along with the actions taken to mitigate such risks.
Group Product Committee ("GPC")	- Responsible for ensuring adequate infrastructure and resources are in place for product management, endorse proposal for new product and product launching strategies, approve proposal for product variation and reactivation of dormant product, and review post implementation activities and product performance.
Business and IT Project Committee ("BITPC")	- Responsible to review and approve (or where required recommend for approval) requests relating to the Bank's major Business and Information Technology ("IT") investments. - To ensure all projects are aligned to the Business and IT plans, appropriate prioritisation of Business and IT projects, and the allocation of resources. - Responsible to optimise the allocation of shared resources and change capacity to programmes, projects and initiatives across the Bank.

4.0 Risk Management Framework (Contd.)

Effective April 2013, the Bank has decided to consolidate the various management committees into one single committee namely, Group CEOs Committee in order to streamline and centralise the management of risk.

Strategic Risk

Strategic risk is the risk of not achieving the Bank's corporate strategic goals. The Bank's overall strategic planning reflects the Bank's vision and mission, taking into consideration the Bank's internal capabilities and external factors.

The Board is actively involved in setting of strategic goals, and is regularly updated on matters affecting corporate strategy implementation and corporate projects/initiatives.

Reputational Risk

The Bank recognizes that maintaining its reputation among clients, investors, regulators and the general public is an important aspect of minimizing legal and operational risk. Maintaining our reputation depends on a large number of factors, including the selection of our clients and business partners and the conduct of our business activities.

The Group seeks to maintain its reputation by screening potential clients and business partners and by conducting our business activities in accordance with high ethical standards and regulatory requirements.

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.

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

The requirements of the ICAAP Policy are consistent and calibrated with the Group’s Risk Appetite as set and approved by the Board.

The following key principles underpin the ICAAP.

4.1.1 The Group must maintain an approved, documented, risk based and auditable ICAAP. The aim is to ensure the Group maintains, on a continuous basis, an adequate level of capitalisation which is sized following the identification, measurement, monitoring, and effective management and oversight of material risks across the Group, consistent with:

- Group Risk Appetite, including the Bank’s target credit rating category;
- regulatory capital requirements
- the Board and Management’s targeted financial performance, and
- the Group’s planned asset growth and strategic business objectives.

4.1.2 Management Oversight

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

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

4.1.3 Capital Management Plan and Framework

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

- a strategy for maintaining capital resources over time;
- measures that would be taken in the event capital falls below a targeted level;
- 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 commensurate with the level of risks in the business. Sufficient capital should be maintained to:

- meet minimum prudential requirements in all jurisdictions in which the Group operates, also any rating agency requirements, including maintaining appropriate buffers over minimum capital levels.
- be consistent with the Group’s overall risk profile and financial positions, taking into account its strategic focus and business plan.

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

- 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

4.1.5 Capital allocation:

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

4.1.6 Material Risks

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

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

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

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

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

ICAAP Framework

Requirements of the Banks

Principle 1:
•Banks to have an ICAAP in relation to their risk profile and a strategy for maintaining capital levels

Principle 3:
•Banks are expected to operate above the minimum regulatory capital ratios and should have the ability to hold capital in excess of the minimum

Requirements of the Regulator

Principle 2:
•Regulators to review and evaluate the Bank's ICAAP strategies
•Regulators to monitor and ensure Bank's compliance with regulatory capital ratios
•Regulators undertake appropriate supervisory action if unsatisfactory results

Principle 4:
•Early intervention by the Regulator to prevent capital from falling below the required minimum levels

Internal Capital Adequacy Assessment Process

Board and Management Oversight
- Material risks identified
- Material thresholds
- Group Risk Appetite
- Sufficient Capital Adequacy
- Targeted Financial Performance
- Planned Asset Growth & Strategic business objectives
- Policy/ Frameworks

Sound Capital Assessment
- Identification, Measurement and reporting of Material Risks
- Stressed Plans
- Compliance with Minimum regulatory standards
- Clear linkage between risks and capital
- Capital Plan

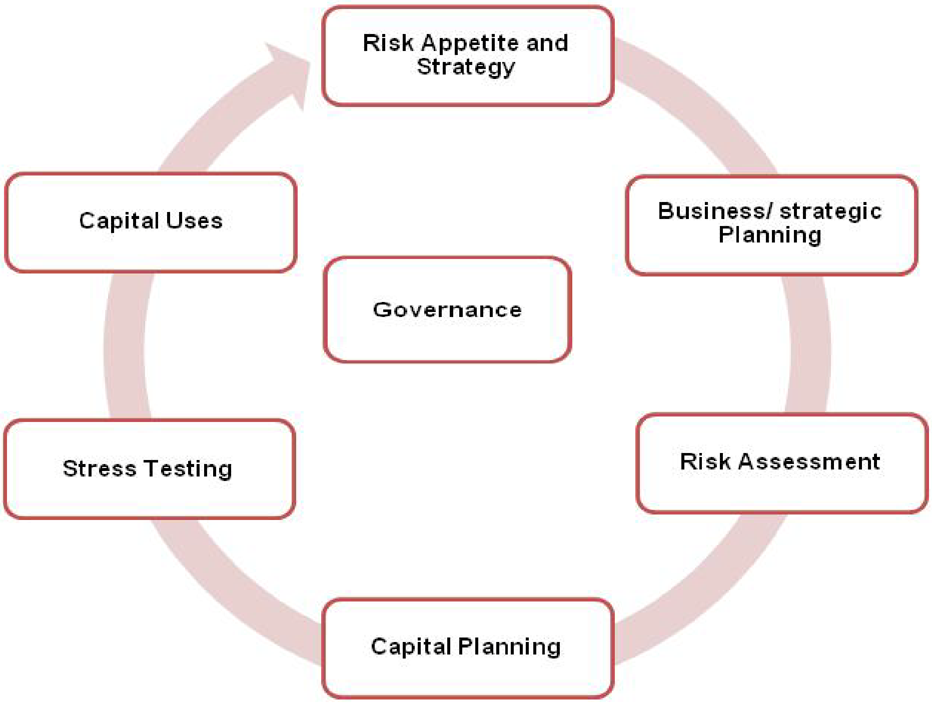
Comprehensive Risk Assessment and Management Processes
- Credit Risk
- Market Risk
- Operational Risk
- Credit Residual Risk
- Rate Risk in Banking Book
- Credit Concentration Risk
- Goodwill Risk
- Liquidity & Funding Risk
- Contagion Risk
- Business/ Strategic Risk
- Reputation Risk

Monitoring and Reporting
- Leval and Trend of Material Risks
- Sensitivity Analysis of key assumptions
- Regulatory Reporting to Board and Senior Management

Internal Control & Review
- Independent reviews of ICAAP (internal and external audit)
- Ongoing compliance monitoring
- Stress Testing
- Documented Processes/ frameworks

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

Overview of ICAAP process and setting Internal Capital Targets



5.0 Credit Risk Management

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

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

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

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

For non-retail credits, risk recognition begins with an assessment of the financial standing of the customer or counterparty using an credit rating model. The model consists of quantitative and qualitative scores that are then translated into rating grades. The assigned credit rating grade forms a crucial part of the credit analysis undertaken for each of the Bank's credit exposures.

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

5.0 Credit Risk Management (Contd.)

To support credit risk management, our rating models for major portfolios have been upgraded to facilitate:

- improvement in the accuracy of individual obligor risk ratings;
- enhance pricing models;
- facilitate financing loss provision calculation;
- stress testing; and
- enhance portfolio management.

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

- concentration threshold/ review trigger:
  - single counterparty credit;
  - industry sector; and
  - country
- asset writing strategies for industry sectors and portfolio composition (by Risk Grade and Security Indicator);
- setting financing to value limits for asset backed financing (that is, property exposures and other collateral);
- watchlist processes for identifying, monitoring and managing customers exhibiting signs of weakness and higher risk customers; and
- setting Benchmark Returns which serve as a guide to the minimum returns the Bank requires for the risk undertaken, taking into account operating expenses and cost of capital.

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

The GPMCP/Group CEOs Committee regularly meets to review the quality and diversification of the Bank's financing portfolio, approve new and amended credit risk policy, review watchlist reports and post-mortem review of 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 financing delinquency buckets and exposures by industry sectors are reported monthly by Group Risk to executive management and to all meetings of the Board.

5.0 Credit Risk Management (Contd.)

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

5.1 Impairment

5.1.1 Definition of Past Due and Impaired Financing

All financing and advances are categorised as either:

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

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

A financing is classified as impaired under the following circumstances:

(a) where the principal or profit or both[1] is past due or the amount outstanding is in excess of approved limit (for revolving facilities), each for more than 90 days or 3 months; or

(b) the financing exhibits weaknesses that render a classification appropriate to the Bank’s Credit Risk Rating Framework, which requires it to fall under the “unlikeliness to repay” category under the Bank’s Watch-list Policy.

(c) for financing with repayment schedules on a 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 to be classified according to the Bank's Credit Risk Rating Framework. Notwithstanding that, these financing shall be classified as impaired when the principal or profit or both is past due for more than 90 days or 3 months.

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

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

5.1 Impairment (Contd.)

5.1.2 Methodology for Determination of Individual and Collective Allowances

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

Individual Assessment

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

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

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

Collective Assessment

Financing and advances, and commitments and contingencies below the significant threshold and those not assessed to be individually impaired, will be subject to collective assessment and a collective allowance will be computed accordingly. The collective impairment assessment and provisioning methodology uses historical loss data to derive the level of provisions. The collective allowance is computed after making the necessary adjustments to reflect current economic conditions.

Table 5.1: Distribution of gross credit exposures by sector

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

2013	Primary agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activity RM'000	Education,Health and others RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures														
Sovereigns/Central Banks	-	-	-	-	-	-	-	5,406,689	-	-	355,896	-	300,133	6,062,718
Banks, Development Financial Institutions & Multilateral Development Banks	-	-	-	-	-	-	-	1,948,473	-	-	-	-	-	1,948,473
Corporates	563,394	61,426	2,300,884	224,944	2,118,925	666,721	667,547	507,362	1,804,427	421,844	444,466	121,666	29,365	9,932,971
Regulatory Retail	33,220	9,456	72,531	1,191	69,491	87,909	48,703	2,451	15,771	43,661	42,418	12,728,089	181	13,155,072
Residential Mortgages	-	-	-	-	-	-	-	-			-	147,218	-	147,218
Other Assets	-	-	-	-	-	-	-	-			-	-	240,332	240,332
Defaulted Exposures	200	4,026	30,013	46	6,417	9,298	1,896	-	32,881	6,101	2,566	111,414	-	204,858
Total On Balance Sheet Exposures	596,814	74,908	2,403,428	226,181	2,194,833	763,928	718,146	7,864,975	1,853,079	471,606	845,346	13,108,387	570,011	31,691,642
Off-Balance Sheet Exposures														
OTC Derivatives	-	-	1	-	-	-	-	51,470	-	-	-	-	-	51,471
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	82,047	17,891	577,091	35,609	404,505	188,205	67,179	58,065	267,204	82,433	65,207	174,708	306	2,020,450
Defaulted Exposures	-	-	8,652	-	51	471	-	-	-	44		-	-	9,218
Total Off-Balance Sheet Exposures	82,047	17,891	585,744	35,609	404,556	188,676	67,179	109,535	267,204	82,477	65,207	174,708	306	2,081,139
Total On and Off-Balance Sheet Exposures	**678,861**	**92,799**	**2,989,172**	**261,790**	**2,599,389**	**952,604**	**785,325**	**7,974,510**	**2,120,283**	**554,083**	**910,553**	**13,283,095**	**570,317**	**33,772,781**

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

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

2012	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activity RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Total RM'000
On-Balance Sheet Exposures														
Sovereigns/Central Banks	-	-	-	-	-	-	-	1,962,920	-	50	-	-	1,000,442	2,963,412
Banks, Development Financial Institutions & Multilateral Development Banks	-	-	-	-	-	-	-	2,043,864	-	-	-	-	-	2,043,864
Corporates	285,424	73,741	2,059,292	222,623	1,243,620	549,715	848,951	369,829	1,139,529	290,460	200,714	64,690	5,156	7,353,744
Regulatory Retail	34,371	8,148	54,435	1,605	75,109	85,989	50,554	2,820	8,211	43,473	40,995	10,933,882	445	11,340,037
Residential Mortgages	-	-	-	-	-	-	-	-			-	166,351	-	166,351
Other Assets	-	-	-	-	-	-	-	-			-	-	302,025	302,025
Defaulted Exposures	431	20	9,706	49	1,381	7,676	743	1,017	24,776	16,066	3,473	129,827	-	195,165
Total On-Balance Sheet Exposures	320,226	81,909	2,123,433	224,277	1,320,110	643,380	900,248	4,380,450	1,172,516	350,049	245,182	11,294,750	1,308,068	24,364,598
Off-Balance Sheet Exposures														
OTC Derivatives	-	-	9	-	-	10	16	35,805	-	-	-	-	-	35,840
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	61,577	8,807	297,128	19,802	327,639	216,529	121,705	36,992	234,316	55,350	35,830	172,790	295	1,588,760
Defaulted Exposures	-	-	2,461	-	35	41	-	-	-	111	-	-	-	2,648
Total Off-Balance Sheet Exposures	61,577	8,807	299,598	19,802	327,674	216,580	121,721	72,797	234,316	55,461	35,830	172,790	295	1,627,248
Total On and Off-Balance Sheet Exposures	**381,803**	**90,716**	**2,423,031**	**244,079**	**1,647,784**	**859,960**	**1,021,969**	**4,453,247**	**1,406,832**	**405,510**	**281,012**	**11,467,540**	**1,308,363**	**25,991,846**

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

The amounts of impaired and past due financing, individual and collective allowances, charges for individual impairment allowances and write offs during the year by sector of the Bank are as follows:

2013	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Not Allocated RM'000	Total RM'000
Impaired financing	359	22	16,725	106	1,997	7,599	211	-	9,124	4,375	13,017	214,908	-	-	**268,443**
Past due financing	21,636	691	33,817	515	29,647	31,255	12,375	613	38,015	22,207	90,646	4,366,487	743	-	**4,648,647**
Individual allowances	-	-	6,067	-	-	-	-	-	5,429	-	2,955	-	-	-	**14,451**
Collective allowances	-	-	-	-	-	-	-	-	-	-	-	-	-	490,410	**490,410**
Charges for individual allowances	-	-	8,031	-	-	-	-	-	5,429	-	(289)	-	-	-	**13,171**
Write-offs against individual allowances	-	-	15,044	-	-	-	-	-	-	-	-	-	-	-	**15,044**

2012	Agriculture RM'000	Mining and Quarrying RM'000	Manufacturing RM'000	Electricity, Gas and Water RM'000	Construction RM'000	Wholesale and Retail Trade and Hotel and restaurants RM'000	Transport, Storage and Communication RM'000	Finance and Insurance RM'000	Real Estate RM'000	Business Activities RM'000	Education and Health RM'000	Household RM'000	Others RM'000	Not Allocated RM'000	Total RM'000
Impaired financing	471	83	23,994	78	1,743	3,708	511	-	-	262	14,065	192,809	-	-	**237,724**
Past due financing	17,100	5,497	60,143	510	45,134	25,818	8,067	770	13,186	15,761	88,317	3,995,169	1,010	-	**4,276,482**
Individual allowances	-	-	13,080	-	-	-	-	-	-	-	3,244	-	-	-	**16,324**
Collective allowances	-	-	-	-	-	-	-	-	-	-	-	-	-	460,411	**460,411**
Charges for individual allowances	-	-	1,886	-	1,517	(714)	-	-	-	-	3,244	-	-	-	**5,933**
Write-offs against individual allowances	-	-	2,259	-	2,859	9,938	-	-	-	-	-	-	-	-	**15,056**

The comparatives for collective assessment allowance have been restated for the effects of the change in accounting policy on collective assessment allowance for financing and advances during the financial year. Details of the restatement are as set out in Note 47 to the financial statements for the financial year ended 31 March 2013.

Table 5.3: Geographical distribution of credit exposures

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

2013	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	6,062,718	-	6,062,718
Banks, Development Financial Institutions and Multilateral Development Banks	1,942,836	5,637	1,948,473
Corporates	9,907,228	25,743	9,932,971
Regulatory Retail	13,155,072	-	13,155,072
Residential Mortgages	147,218	-	147,218
Other Assets	240,332	-	240,332
Defaulted Exposures	204,858	-	204,858
Total On Balance Sheet Exposures	31,660,262	31,380	31,691,642
Off-Balance Sheet Exposures			
OTC Derivatives	51,471	-	51,471
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	2,020,450	-	2,020,450
Defaulted Exposures	9,218	-	9,218
Total Off-Balance Sheet Exposures	2,081,139	-	2,081,139
Total On and Off-Balance Sheet Exposures	**33,741,401**	**31,380**	**33,772,781**

Table 5.3: Geographical distribution of credit exposures

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

2012	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
On-Balance Sheet Exposures			
Sovereigns/Central Banks	2,963,412	-	2,963,412
Banks, Development Financial Institutions and Multilateral Development Banks	2,036,272	7,592	2,043,864
Corporates	7,343,514	10,230	7,353,744
Regulatory Retail	11,340,037	-	11,340,037
Residential Mortgages	166,351	-	166,351
Other Assets	302,025	-	302,025
Defaulted Exposures	195,165	-	195,165
Total On-Balance Sheet Exposures	24,346,776	17,822	24,364,598
Off-Balance Sheet Exposures			
OTC Derivatives	35,840	-	35,840
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,588,760	-	1,588,760
Defaulted Exposures	2,648	-	2,648
Total Off-Balance Sheet Exposures	1,627,248	-	1,627,248
Total On and Off-Balance Sheet Exposures	**25,974,024**	**17,822**	**25,991,846**

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

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

2013	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
Impaired financing	268,443	-	268,443
Past due financing	4,648,647	-	4,648,647
Individual allowances	14,451	-	14,451
Collective allowances	490,410	-	490,410

2012	In Malaysia	Outside Malaysia	Total
	RM'000	RM'000	RM'000
Impaired financing	237,724	-	237,724
Past due financing	4,276,482	-	4,276,482
Individual allowances	16,324	-	16,324
Collective allowances	460,411	-	460,411

The comparatives for collective assessment allowance have been restated for the effects of the change in accounting policy on collective assessment allowance for financing and advances during the financial year. Details of the restatement are as set out in Note 47 to the financial statements.

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

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

2013	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No Maturity specified RM'000	Total RM'000
On-Balance Sheet Exposures									
Sovereigns/Central Banks	3,204,803	1,731,018	-	-	-	170,446	956,451	-	6,062,718
Banks, DFI and MDB	1,029,280	776,920	-	-	121,811	-	20,462	-	1,948,473
Corporates	3,129,843	884,892	437,074	376,697	1,004,075	1,039,927	3,060,463	-	9,932,971
Regulatory Retail	348,031	9,132	21,278	60,768	871,372	1,641,456	10,203,035	-	13,155,072
Residential Mortgages	31	22	20	53	1,568	4,161	141,363	-	147,218
Other Assets	7,822	-	-	-	-	-	-	232,510	240,332
Defaulted Exposures	37,147	5,791	3,167	3,736	32,239	40,550	82,228	-	204,858
Total On-Balance Sheet Exposures	7,756,957	3,407,775	461,539	441,254	2,031,065	2,896,540	14,464,002	232,510	31,691,642
Off-Balance Sheet Exposures									
OTC Derivatives	3,185	9,074	3,347	9,891	25,974	-	-	-	51,471
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	290,507	171,953	182,234	342,556	344,801	59,327	629,072	-	2,020,450
Defaulted Exposures	304	7,401	1,237	238	35	-	3	-	9,218
Total Off-Balance Sheet Exposures	293,996	188,428	186,818	352,685	370,810	59,327	629,075	-	2,081,139
Total On and Off-Balance Sheet Exposures	**8,050,953**	**3,596,203**	**648,357**	**793,939**	**2,401,875**	**2,955,867**	**15,093,077**	**232,510**	**33,772,781**

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

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

2012	Up to 1 month RM'000	>1 month to 3 months RM'000	>3 months to 6 months RM'000	>6 months to 12 months RM'000	>1 year to 3 years RM'000	>3 years to 5 years RM'000	> 5 years RM'000	No Maturity specified RM'000	Total RM'000
On-Balance Sheet Exposures									
Sovereigns/Central Banks	1,153,877	250,043	-	-	-	-	1,559,492	-	2,963,412
Banks, DFI and MDB	1,144,712	750,666	-	-	118,428	-	-	30,058	2,043,864
Corporates	1,632,861	740,244	293,783	467,968	728,354	616,037	2,874,497	-	7,353,744
Regulatory Retail	322,492	6,375	11,656	50,662	887,004	1,706,523	8,355,325	-	11,340,037
Residential Mortgages	32	13	33	276	1,186	3,626	161,185	-	166,351
Other Assets	212,993	-	-	-	-	-	-	89,032	302,025
Defaulted Exposures	21,170	983	635	2,670	34,492	47,582	87,633	-	195,165
Total On-Balance Sheet Exposures	4,488,137	1,748,324	306,107	521,576	1,769,464	2,373,768	13,038,132	119,090	24,364,598
Off-Balance Sheet Exposures									
OTC Derivatives	44	22	13,412	-	22,362	-	-	-	35,840
Off-balance sheet exposures other than OTC Derivatives or Credit Derivatives	273,260	122,528	200,841	328,893	214,745	45,888	402,605	-	1,588,760
Defaulted Exposures	2,021	21	-	112	3	-	491	-	2,648
Total Off-Balance Sheet Exposures	275,325	122,571	214,253	329,005	237,110	45,888	403,096	-	1,627,248
Total On and Off-Balance Sheet Exposures	**4,763,462**	**1,870,895**	**520,360**	**850,581**	**2,006,574**	**2,419,656**	**13,441,228**	**119,090**	**25,991,846**

Table 5.6: Reconciliation of changes to financing impairment allowances

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

2013	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at 1 April	16,324	460,411
Charge for the year – net	13,171	195,964
Transferred to AmBank *	-	(1,871)
Amount written-off	(15,044)	(164,094)
Balance at 31 March	14,451	490,410

2012	Individual impairment allowances RM'000	Collective impairment allowances RM'000
Balance at 1 April	25,447	469,947
Charge for the year – net	5,933	205,859
Amount written-off	(15,056)	(215,395)
Balance at 31 March	16,324	460,411

2013	(Charge off)/recoveries RM'000
Bad debts written off during the year	(8,500)
Bad debt recoveries during the year	73,048

2012	(Charge off)/recoveries RM'000
Bad debts written off during the year	(12,596)
Bad debt recoveries during the year	61,175

* As at 31 March 2013, the gross exposure and the collective allowance relating to the RPSIA financing are RM500.9 million and RM2.1 million respectively. The collective allowance is recognised in the financial statements of AmBank.

The comparatives for collective assessment allowance have been restated for the effects of the change in accounting policy on collective assessment allowance for financing and advances during the financial year. Details of the restatement are as set out in Note 47 to the financial statements.

6.0 Credit Risk Exposure under the Standardised Approach

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

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

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

- Standard & Poor's Rating Services ("S&P")
- Moody's Investors Service ("Moodys")
- Fitch Rating ("Fitch")
- Rating and Investment Information, Inc
- RAM Rating Services Berhad ("RAM")
- Malaysian Rating Corporation Berhad ("MARC")

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

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

2013

Risk Weights	Exposures after Netting and Credit Risk Mitigation										
	Sovereigns and Central Banks	Public Sector Entities	Banks, DFI and MDB	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	6,062,718	-	14,825	-	1,410,058	-	-	-	2,485	7,490,086	-
20%	-	-	1,908,611	-	362,134	160	-	-	-	2,270,905	454,181
35%	-	-	-	-	-	-	144,996	-	-	144,996	50,749
50%	-	-	70,096	-	42,852	13,879	4,901	-	-	131,728	65,863
75%	-	-	-	-	-	12,595,849	-	-	-	12,595,849	9,446,887
100%	-	-	-	150	9,723,502	780,060	2,525	-	237,848	10,744,085	10,744,085
150%	-	-	-	-	78,370	46,149	-	3,684	-	128,203	192,304
Average Risk Weight											
Total	6,062,718	-	1,993,532	150	11,616,916	13,436,097	152,422	3,684	240,333	33,505,852	20,954,069
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	

Table 6.1: Credit exposures by risk weights under the Standardised Approach (Contd.)

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

2012

Risk Weights	Exposures after Netting and Credit Risk Mitigation										
	Sovereigns and Central Banks	Public Sector Entities	Banks, DFI and MDB	Insurance Companies, Securities Firms and Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Total Exposures after Netting and Credit Risk Mitigation	Total Risk Weighted Assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	2,963,412	-	-	-	979,541	-	-	-	4,291	3,947,244	-
20%	-	-	2,047,817	-	143,162	-	-	-	-	2,190,979	438,196
35%	-	-	-	-	-	-	157,899	-	-	157,899	55,264
50%	-	-	34,054	-	40,857	23,914	8,486	-	-	107,311	53,656
75%	-	-	-	-	-	11,113,001	-	-	-	11,113,001	8,334,751
100%	-	-	-	150	7,272,458	413,751	4,965	-	297,734	7,989,058	7,989,058
150%	-	-	-	-	53,810	92,878	-	3,305	-	149,993	224,990
Average Risk Weight											
Total	2,963,412	-	2,081,871	150	8,489,828	11,643,544	171,350	3,305	302,025	25,655,485	17,095,915
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	

Table 6.2: Rated Exposures according to Ratings by ECAIs

2013

Exposure Class		Ratings of Corporate by Approved ECAIs			
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	Rating & Investment information, Inc.	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
		RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Credit Exposures (using Corporate Risk Weights)					
Insurance Companies, Securities Firms and Fund managers	**150**	-	-	-	150
Corporates	**11,868,152**	237,669	32,781	12,372	11,585,330
Total	**11,868,302**	**237,669**	**32,781**	**12,372**	**11,585,480**

2012

Exposure Class		Ratings of Corporate by Approved ECAIs			
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
	Rating & Investment information, Inc.	AAA to AA-	A+ to A-	BBB+ to BB-	Unrated
		RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures					
Credit Exposures (using Corporate Risk Weights)					
Insurance Companies, Securities Firms and Fund managers	**150**	-	-	-	150
Corporates	**8,489,828**	88,379	36,079	9,716	8,355,655
Total	**8,489,978**	**88,379**	**36,079**	**9,716**	**8,355,805**

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

2013

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment information, Inc.	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks	6,062,718	-	6,062,718	-	-	-	-
Total	6,062,718	-	6,062,718	-	-	-	-

2012

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 &	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
On and Off-Balance Sheet Exposures							
Sovereigns and Central Banks	2,963,412	-	2,963,412	-	-	-	-
Total	2,963,412	-	2,963,412	-	-	-	-

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

2013

Exposure Class	Ratings of Banking Institutions by Approved ECAIs				
	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Unrated**
	RAM	**AAA to AA3**	**A1 to A3**	**BBB1 to BBB3**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Unrated**
	Rating & Investment information, Inc.	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures					
Banks, DFI and MDB	1,993,531	229,536	50,189	266,785	1,447,022
Total	1,993,531	229,536	50,189	266,785	1,447,022

2012

Exposure Class	Ratings of Banking Institutions by Approved ECAIs				
	Moodys	**Aaa to Aa3**	**A1 to A3**	**Baa1 to Baa3**	**Unrated**
	S&P	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Unrated**
	Fitch	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Unrated**
	RAM	**AAA to AA3**	**A1 to A3**	**BBB1 to BBB3**	**Unrated**
	MARC	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Unrated**
	Rating &	**AAA to AA-**	**A+ to A-**	**BBB+ to BBB-**	**Unrated**
		RM'000	**RM'000**	**RM'000**	**RM'000**
On and Off-Balance Sheet Exposures					
Banks, DFI and MDB	2,081,871	480,201	3,003	326,134	1,272,532
Total	2,081,871	480,201	3,003	326,134	1,272,532

7.0 Credit Risk Mitigation

Main Types of Collateral Taken by The Bank

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

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

The Bank can only accept Shariah approved asset as collateral.

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

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

Processes for Collateral Management

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

Guarantee Support

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

7.0 Credit Risk Mitigation (Contd.)

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

Use of Credit Derivatives and Netting for Risk Mitigation

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

Transaction Structuring to Mitigate Credit Risk

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

Concentrations of Credit Risk Mitigation

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

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

Table 7.1: Credit Risk Mitigation

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

Exposures 2013	Exposures before Credit Risk Mitigation ("CRM") RM'000	Exposures covered by guarantees/credit derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	6,062,718	-	-
Banks, DFI and MDB	1,948,473	-	-
Corporates	9,932,971	515,950	989,285
Regulatory Retail	13,155,072	160	28,543
Residential Mortgages	147,218	-	272
Other Assets	240,332	-	-
Defaulted Exposures	204,858	-	9,901
Total On-Balance Sheet Exposures	31,691,642	516,110	1,028,001
Off-Balance Sheet Exposures			
OTC Derivatives	51,471	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	2,020,450	6,466	283,260
Defaulted Exposures	9,218	1	248
Total Off-Balance Sheet Exposures	2,081,139	6,467	283,508
Total On and Off-Balance Sheet Exposures	**33,772,781**	**522,577**	**1,311,509**

Exposures 2012	Exposures before Credit Risk Mitigation ("CRM") RM'000	Exposures covered by guarantees/credit derivatives RM'000	Exposures covered by Eligible Financial Collateral RM'000
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	2,963,412	-	-
Banks, DFI and MDB	2,043,864	-	-
Corporates	7,353,744	106,425	812,769
Regulatory Retail	11,340,037	-	22,954
Residential Mortgages	166,351	-	385
Other Assets	302,025	-	-
Defaulted Exposures	195,165	224	2,243
Total On-Balance Sheet Exposures	24,364,598	106,649	838,351
Off-Balance Sheet Exposures			
OTC Derivatives	35,840	-	-
Off Balance sheet exposures other than OTC Derivatives or Credit Derivatives	1,588,760	986	327,991
Defaulted Exposures	2,648	-	142
Total Off-Balance Sheet Exposures	1,627,248	986	328,133
Total On and Off-Balance Sheet Exposures	**25,991,846**	**107,635**	**1,166,484**

8.0 Off-Balance Sheet Exposures and Counterparty Credit Risk

8.1 Off-Balance Sheet exposures

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

- credit related exposures, for example, direct credit substitute, certain transaction-related contingent items, short term self liquidating trade-related contingencies, obligations under underwriting agreements, irrevocable commitment to extend credit and unutilised credit card lines.

- derivatives financial instruments, for example equity and commodity related contracts (option).

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

8.2 Counterparty Credit Risk

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

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

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

- The MTM is essentially the current replacement cost of the contract, and can be positive or negative. Where it is positive, that is in the money, the Bank has credit exposure against the counterparty; if it is negative, that is out of the money, the negative value will be used.

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

- Variation to the above generic methodology is allowed for specific product.

8.2 Counterparty Credit Risk (Contd.)

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

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

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

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

Table 8.1: Off-Balance Sheet Exposures

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

2013

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	121,738		121,738	99,559
Transaction related contingent items	580,655		290,327	223,299
Short term self liquidating trade related contingencies	58,850		11,770	10,552
Forward asset purchases	-		-	-
Obligations under an on-going underwriting agreement	80,000		-	-
Foreign exchange related contracts	623,738	5,470	17,086	11,742
One year or less	623,738	5,470	17,086	11,742
Equity related contracts	64,640	607	3,193	1,597
Over one year to five years	64,640	607	3,193	1,597
Other commodity contracts	515,736	1,847	31,192	15,596
One year or less	159,844	419	8,411	4,206
Over one year to five years	355,892	1,428	22,781	11,390
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,066,005		533,003	510,465
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	4,896,985		979,397	954,379
Unutilised credit card lines	467,164		93,433	69,774
Total	8,475,511	7,924	2,081,139	1,896,963

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	134,712		134,712	115,963
Transaction related contingent items	487,700		243,850	184,229
Short term self liquidating trade related contingencies	79,444		15,889	14,892
Forward asset purchases	125,825		4,500	2,250
Obligations under an on-going underwriting agreement	100,000		-	-
Foreign exchange related contracts	310,584	4,895	9,547	5,934
One year or less	310,584	4,895	9,547	5,934
Equity related contracts	71,363	2,299	5,153	2,577
Over one year to five years	71,363	2,299	5,153	2,577
Other commodity contracts	303,249	3,731	21,140	9,390
One year or less	78,630	-	3,932	786
Over one year to five years	224,619	3,731	17,208	8,604
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	957,923		478,961	385,017
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	3,085,277		617,055	604,934
Unutilised credit card lines	482,204		96,441	72,023
Total	6,138,281	10,925	1,627,248	1,397,209

9.0 Securitisation

The Bank does not have any securitisation exposure in its trading book and banking book nor does it undertake any securitisation activities during the financial year ended 31 March 2013 and 31 March 2012.

10.0 Operational Risk

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

Identification	• Identify and analyse risks in key processes/activities within Line of Business (including new products)
Assessment/ Measurement	• Incident Management and Data Collection • Risk and Control Self Assessment • Key Risk Indicators
Control/ Mitigation	• Policies addressing control and governance requirements to mitigate specific operational risk • Advisory on establishment of internal control • Contingency planning
Monitoring/ Review	• Monitoring and reporting of loss incidents by Event Type, Portfolio and Line of Business • Periodical review of risk profile within Line of Business

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external incidents which includes but is not limited to 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 Bank is anchored on the three lines of defence concept which are as follows:

- The first line of defence is accountable for implementing the operational risk framework and policies, embedding appropriate internal controls into processes and maintaining business resilience for key activities. The responsibility for managing day-to-day operational risk rests with each Line of Business.

- In the second line, Group Operational Risk is responsible for exercising governance over operational risk through the management of the operational risk framework, policy development, quality assurance of internal controls, operational risk measurement and capital allocation, fraud strategy and reporting of operational risk issues to Group Operational and Legal Risk Management Committee ("GOLRC")/Group CEOs Committee, Chief Executive Officer Committee ("CEO Committee") and Risk Management Committee of Directors ("RMCD").

10.0 Operational Risk (Contd.)

- Group Internal Audit acts as the third and final line of defence by providing independent assurance on the internal control effectiveness through periodic audit programme.

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

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

As part of the risk transfer strategy, the Bank obtains third party protection to cover the Bank's major operational risks. 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/Group CEOs Committee an executive committee which comprises senior management members of various business divisions and support units, Group Chief Risk Officer and Head of Operational Risk. The RMCD, CEO Committee and the GOLRC/ Group CEOs Committee 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 Bank adopts Basic Indicator Approach for the operational risk capital charge computation.

10.0 Operational Risk (Contd.)

10.1 Business Continuity Management

The Business Continuity Management ("BCM") process is depicted in the table below:

Identification	• Identify events that potentially theaten the business operations and areas of criticality
Assessment/ Measurement	• Business Impact Analysis • Threat Assessment
Control/ Mitigation	• Policies governing the BCM implementation • BCM methodologies controlling the process flow • Implementing the Business Continuity Plan
Monitoring/ Review	• BCM Plan testing and exercise • Review of BCM Plan • Plan maintenance

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

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

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

10.2 Legal Risk

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

Legal risk is overseen by GOLRC/Group CEOs Committee, upon advice by internal legal counsel 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 profit rates, credit spreads, equity prices and foreign exchange rates. The Bank differentiates between two types of market risk: Traded Market Risk ("TMR") and Rate of Return Risk in the Banking Book ("RORBB"). Assessing, controlling 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

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

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

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

TMR arises from transactions in which the Bank acts as principal with clients or the market. It involves taking positions in fixed income, equity, foreign exchange, commodities and/or derivatives. The objectives of TMR management are to understand, to 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 trade market risk measurement, limit setting, limit monitoring and collaboration and agreement with business units.

VaR, PaR, CaR and other detailed management control 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 (that is, 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 due to more extreme, albeit plausible, market movements. In addition, CaR is used to gauge and ensure that the Bank is able to absorb extreme, unanticipated market movements.

Apart from VaR, PaR and CaR, additional sensitivity controls (that is Greek Limits/PV01) and indicators are used to monitor changes in portfolio value due to changes in risk factors under different market conditions.

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

The Bank adopts the Standardised Approach for market risk capital charge computation. 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 Bank's equity exposures in the banking book are primarily.

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

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. Investments in unlisted securities are measured at cost less impairment loss (if any).

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

12.1 Valuation for and accounting of equity investments in the banking book (Contd.)

Table 12.1: Equity investments and capital requirement

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

Non Traded Equity Investments	**2013 RM'000**	**2012 RM'000**
Value of quoted (publicly traded) equities	-	30,000
Value of unquoted (privately held) equities	-	-
Total	-	30,000
Risk Weighted Assets		
Equity investments subject to a 100% risk weight	-	30,000
Equity investments subject to a 150% risk weight	-	-
Total	-	30,000
Total Minimum Capital Requirement (8%)	-	2,400

13.0 Non-Traded Market Risk

13.1 Rate of Return Risk in the Banking Book

The rate of return risk in banking book ("RORBB") risk management process is depicted in the table below:

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

RORBB arises from changes in market rates of return that impact core net profit income, future cash flows or fair values of financial instruments. This risk arises from mismatches between repricing dates of assets and liabilities, changes in yield curves, volatilities in profit margins and implied volatilities on rate of return options. The provision of retail and wholesale banking products and services (primarily financing and deposit taking activities) creates rate of return sensitive positions in the Bank's statement of financial position.

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

The Board's oversight of RORBB is supported by the GALCO/Group CEOs Committee. GALCO/Group CEOs Committee is responsible for the alignment of Bank-wide risk appetite and funding needs, taking into consideration Bank-wide business strategies. GALCO/Group CEOs Committee consistently oversees the Bank's gapping positions, asset growth and liability mix against the profit rate outlook. It also reviews strategies to ensure a comfortable level of RORBB is maintained. The Bank has successfully engaged long-term borrowings and written profit rate swaps to manage RORBB and maintained an acceptable gapping profile as a result. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are employed to ensure risk exposures are maintained within Board-established limits.

13.1 Rate of Return Risk in the Banking Book ("RORBB") (Contd.)

The Bank measures the risk of losses arising from potential adverse movements in market rate of return and volatilities using VaR. VaR is a quantitative measure of RORBB 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 Bank complements VaR by stress testing RORBB exposures to highlight potential risk that may arise from extreme market events that are rare but plausible.

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

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

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

RORBB is calculated monthly and reported to GALCO/ Group CEOs Committee.

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

The RORBB sensitivity for the Bank is as follows:

MYR	2013 Rate of Return + 100 bps RM'000	2013 Rate of - 100 bps RM'000	2012 Rate of Return + 100 bps RM'000	2012 Rate of - 100 bps RM'000
Impact on profit before zakat and taxation	(10,392)	10,392	(26,768)	26,768
Impact on equity	(307,157)	335,186	(224,396)	243,476

13.3 Liquidity and Funding Risk

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

The liquidity risk management of the Bank is aligned with the New Liquidity Framework issued by Bank Negara Malaysia. The primary objective of the Bank's liquidity risk management is to ensure the availability of sufficient funds at a reasonable cost to honour all financial commitments when they fall due. This objective is partly managed through maintenance of a portfolio of high-quality liquid assets to protect against adverse funding conditions and support day-to-day operations. The secondary objective is to ensure an optimal funding structure and to balance the key liquidity risk management objectives, which includes diversification of funding sources, customer base and maturity period.

13.3 Liquidity and Funding Risk (Contd.)

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

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

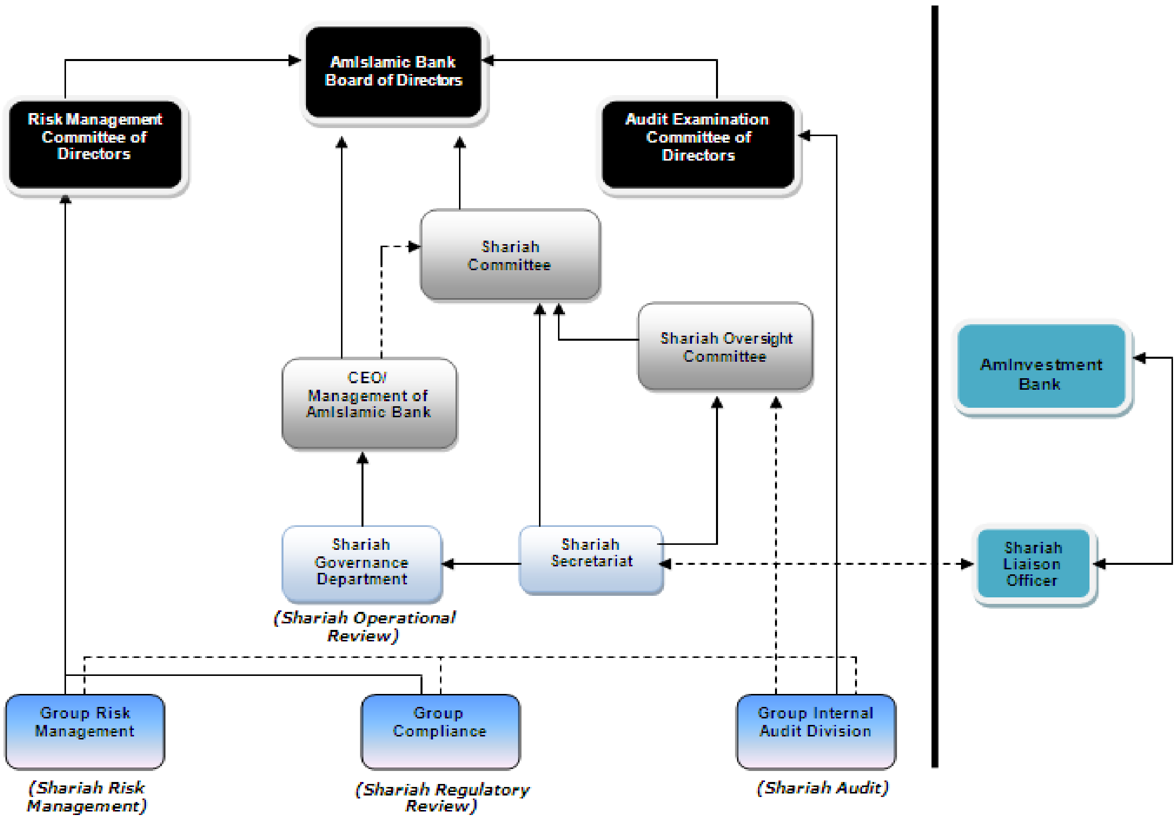
Stress testing is undertaken to assess and plan for the impact for various scenarios which may put the Bank's liquidity at risk. The stress testing output contributes to the development of the liquidity risk limits and the Bank's Contingency Funding Plan.

The Bank stresses the importance of customer deposit accounts as a source of funds to fund financing to customers. They are monitored using the adjusted financing to deposit ratio, which compares financing to customers as a percentage of customer deposit accounts, together with term funding with a remaining term to maturity in excess of three years.

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

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

14.0 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 for the Bank in line with the requirement of Bank Negara Malaysia's "Shariah Governance Framework for Islamic Financial Institutions". The Bank has continued to enhance its overall Shariah governance in line with the regulatory policies as a prudential measure.

AmInvestment Bank Berhad, a related company leverages on the Bank's infrastructure on Shariah governance, including the Shariah Committee / Shariah Oversight Committee and the Shariah Secretariat.

14.0 Shariah Governance Structure (Contd.)

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.

Risk Management Committee of Directors

RMCD is a Board committee responsible for assisting the Board in ensuring risk management and control processes are in place and functioning, including Shariah risk management and Shariah regulatory review.

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 the Bank's Board 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 of Shariah review, Shariah audit, and Shariah risk management. Shariah Oversight Committee shall provide guidance and advice on matters pertaining to Shariah non-compliant incidents as well as treatment of Shariah non-compliant income (if any).

14.0 Shariah Governance Structure (Contd.)

Chief Executive Officer

The Chief Executive Officer (CEO) /Management is responsible to make reference to the Shariah Committee /Shariah Oversight Committee on Shariah issues and to take necessary measures for implementation of Shariah Committee/Shariah Oversight 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 to 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 performs 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

Group Risk Management Department provides the infrastructure and platform to facilitate Shariah risk management function within the Group. This includes identification, measurement, monitoring, and control of Shariah risk to mitigate any occurrence of Shariah non-compliance incidences.

14.1 Shariah non-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 Shariah non-compliant incidents. In the event of any Shariah non-compliant incident, the Shariah Oversight Committee will deliberate and make recommendation for the Shariah Committee's approval. The Shariah Committee is responsible to oversee the management and distribution of the charity fund.